

VALERO ENERGY CORP/TX

Form PRE 14A

March 02, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Valero Energy Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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**VALERO ENERGY CORPORATION
NOTICE OF 2010 ANNUAL MEETING OF STOCKHOLDERS**

The Board of Directors has determined that the 2010 Annual Meeting of Stockholders of Valero Energy Corporation will be held on Thursday, April 29, 2010, at 10:00 a.m., Central Time, at our offices located at One Valero Way, San Antonio, Texas 78249 for the following purposes:

- (1) Elect three Class I directors to serve until the 2013 annual meeting of stockholders or until their respective successors are elected and have been qualified;
- (2) Ratify the appointment of KPMG LLP as our independent registered public accounting firm for 2010;
- (3) Re-approve the 2005 Omnibus Stock Incentive Plan;
- (4) Vote on an advisory resolution to ratify the 2009 compensation of the named executive officers listed in the proxy statement's Summary Compensation Table;
- (5) Vote on a stockholder proposal entitled, *Impact of Valero's Operations on Rainforest Sustainability* ;
- (6) Vote on a stockholder proposal entitled, *Elimination of Classified Board* ;
- (7) Vote on a stockholder proposal entitled, *Disclosure of Political Contributions/Trade Associations* ;
- (8) Vote on a stockholder proposal entitled, *Stock Retention by Executives* ; and
- (9) Transact any other business properly brought before the meeting.

By order of the Board of Directors,

Jay D. Browning
*Senior Vice President-Corporate Law and
Secretary*

Valero Energy Corporation
One Valero Way
San Antonio, Texas 78249
March [19], 2010

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**VALERO ENERGY CORPORATION
PROXY STATEMENT**

**ANNUAL MEETING OF STOCKHOLDERS
GENERAL INFORMATION**

Introduction

Our Board is soliciting proxies to be voted at the 2010 Annual Meeting of Stockholders on April 29, 2010 (the Annual Meeting). The accompanying notice describes the time, place, and purposes of the Annual Meeting. Action may be taken at the Annual Meeting, or on any date to which the meeting may be adjourned. Unless otherwise indicated, the terms Valero, we, our, and us are used in this proxy statement to refer to Valero Energy Corporation, to one or more of our consolidated subsidiaries, or to all of them taken as a whole. The term Board refers to the Board of Directors of Valero Energy Corporation.

We are mailing the Notice of Internet Availability of Proxy Materials (Notice) to stockholders on or about March [19,] 2010. On this date, you will have the ability to access all of our proxy materials on the website referenced in the Notice.

Record Date and Shares Outstanding

Holders of record of our common stock, \$0.01 par value (Common Stock), at the close of business on March 1, 2010 (the record date) are entitled to vote on the matters presented at the Annual Meeting. On the record date, 564,951,138 shares of Common Stock were issued and outstanding and entitled to one vote per share.

Quorum

Stockholders representing a majority of voting power, present in person, or represented by properly executed proxy, will constitute a quorum.

Voting in Person at the Meeting

If you attend the Annual Meeting and plan to vote in person, we will provide you with a ballot at the meeting. If your shares are registered directly in your name, you are considered the stockholder of record and you have the right to vote the shares in person at the meeting. If your shares are held in the name of your broker or other nominee, you are considered the beneficial owner of shares held in street name. As a beneficial owner, if you wish to vote at the meeting, you will need to bring to the meeting a legal proxy from the stockholder of record (e.g., your broker or other nominee) authorizing you to vote the shares.

Revocability of Proxies

You may revoke your proxy at any time before it is voted at the Annual Meeting by (i) submitting a written revocation to Valero, (ii) returning a subsequently dated proxy to Valero, or (iii) attending the Annual Meeting, requesting that your proxy be revoked, and voting in person at the Annual Meeting. If instructions to the contrary are not provided, shares will be voted as indicated on the proxy card.

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Broker Non-Votes

Brokers holding shares must vote according to specific instructions they receive from the beneficial owners of Common Stock. If specific instructions are not received, in some cases brokers may vote these shares in their discretion. However, the New York Stock Exchange (the NYSE) precludes brokers from exercising voting discretion on certain proposals without specific instructions from the beneficial owner. This results in a broker non-vote on such a proposal. A broker non-vote is treated as present for purposes of determining a quorum, has the effect of a negative vote when a majority of the voting power of the issued and outstanding shares is required for approval of a particular proposal, and has no effect when a majority of the voting power of the shares present in person or by proxy and entitled to vote or a plurality or majority of the votes cast is required for approval.

The ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2010 (Proposal No. 2), and the say-on-pay advisory vote on 2009 named executive officer compensation (Proposal No. 4) are matters considered routine under applicable NYSE rules. A broker or other nominee generally may vote on routine matters, and therefore no broker non-votes are expected to exist in connection with Proposals No. 2 and No. 4.

The election of three Class I directors (Proposal No. 1), the re-approval of the 2005 Omnibus Stock Incentive Plan (Proposal No. 3), and the four stockholder proposals (Proposals No. 5, No. 6, No. 7, and No. 8) are matters considered non-routine under applicable rules. A broker or other nominee cannot vote without instructions on non-routine matters, and therefore an undetermined number of broker non-votes may occur on Proposal No. 1, No. 3, and Nos. 5 & 8.

Solicitation of Proxies

Valero pays for the cost of soliciting proxies and the Annual Meeting. In addition to solicitation by mail, proxies may be solicited by personal interview, telephone, and similar means by directors, officers, or employees of Valero, none of whom will be specially compensated for such activities. Valero also intends to request that brokers, banks, and other nominees solicit proxies from their principals and will pay such brokers, banks, and other nominees certain expenses incurred by them for such activities. Valero retained Georgeson Inc., a proxy soliciting firm, to assist in the solicitation of proxies, for an estimated fee of \$15,000, plus reimbursement of certain out-of-pocket expenses.

For participants in our qualified 401(k) plan (Thrift Plan), the proxy card will represent (in addition to any shares held individually of record by the participant) the number of shares allocated to the participant's account in the Thrift Plan. For shares held by the Thrift Plan, the proxy card will constitute an instruction to the trustee of the plan on how those shares should be voted. Shares for which instructions are not received may be voted by the trustee per the terms of the plan.

Our 2005 and 2004 Stock Splits

Our Common Stock split two-for-one on December 15, 2005, and on October 7, 2004. Each split was effected in the form of a Common Stock dividend. All share and per share data in this proxy statement have been adjusted to reflect the effect of these stock splits for all periods presented.

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INFORMATION REGARDING THE BOARD OF DIRECTORS

Valero's business is managed under the direction of our Board. Our Board conducts its business through meetings of its members and its committees. Valero's Restated Certificate of Incorporation requires the Board to be divided into Class I, Class II, and Class III directors, with each class serving a staggered three-year term. During 2009, our Board held seven meetings and the standing Board committees held 24 meetings in the aggregate. No member of the Board attended less than 75% of the meetings of the Board and committees of which he or she was a member. All Board members are expected to attend the Annual Meeting. All Board members attended the 2009 annual stockholders meeting.

INDEPENDENT DIRECTORS

The Board presently has one member from our management, William R. Klesse (Chief Executive Officer, President, and Chairman of the Board), and nine non-management directors. During 2009, 10 non-management directors served on the Board (W.E. Bill Bradford retired from the Board effective January 26, 2010). The Board determined that each of its non-management directors who served at any time during 2009 met the independence requirements of the NYSE listing standards as set forth in the NYSE Listed Company Manual. Those independent directors were W.E. Bill Bradford, Ronald K. Calgaard, Jerry D. Choate, Irl F. Engelhardt, Ruben M. Escobedo, Bob Marbut, Donald L. Nickles, Robert A. Profusek, Susan Kaufman Purcell, and Stephen M. Waters. As a member of management, William R. Klesse is not an independent director under the NYSE's listing standards.

The Board's Audit, Compensation, and Nominating/Governance Committees are composed entirely of directors who meet the independence requirements of the NYSE listing standards. Each member of the Audit Committee also meets the additional independence standards for Audit Committee members set forth in regulations of the SEC.

Independence Determinations

Under the NYSE's listing standards, no director qualifies as independent unless the Board affirmatively determines that he or she has no material relationship with Valero. Based upon information requested from and provided by each director concerning their background, employment, and affiliations, including commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships, the Board has determined that, other than being a director and/or stockholder of Valero, each of the independent directors named above has either no relationship with Valero, either directly or as a partner, stockholder, or officer of an organization that has a relationship with Valero, or has only immaterial relationships with Valero, and is independent under the NYSE's listing standards.

In accordance with NYSE listing standards, the Board has adopted categorical standards or guidelines to assist the Board in making its independence determinations with respect to each director. These standards are published in Article I of Valero's *Corporate Governance Guidelines* and are available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section. Under the NYSE listing standards, immaterial relationships that fall within the guidelines are not required to be disclosed in this proxy statement. An immaterial relationship falls within the guidelines if it:

is not a relationship that would preclude a determination of independence under Section 303A.02(b) of the NYSE Listed Company Manual;

consists of charitable contributions by Valero to an organization where a director is an executive officer and does not exceed the greater of \$1 million or 2% of the organization's gross revenue in any of the last three years;

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consists of charitable contributions to any organization with which a director, or any member of a director's immediate family, is affiliated as an officer, director, or trustee pursuant to a matching gift program of Valero and made on terms applicable to employees and directors; or is in amounts that do not exceed \$1 million per year; and

is not required to be, and it is not otherwise, disclosed in this proxy statement.

COMMITTEES OF THE BOARD

The Board has standing Audit, Compensation, Executive, Finance, and Nominating/Governance Committees. Each committee has a written charter. The charters are available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section. The committees of the Board and the number of meetings held by each committee in 2009 are described below.

Audit Committee

The Audit Committee reviews and reports to the Board on various auditing and accounting matters, including the quality, objectivity, and performance of our internal and external accountants and auditors, the adequacy of our financial controls, and the reliability of financial information reported to the public. Members of the Audit Committee are Ruben M. Escobedo (Chairman), Ronald K. Calgaard, Irl F. Engelhardt, Susan Kaufman Purcell, and Stephen M. Waters. The Audit Committee met seven times in 2009. The Report of the Audit Committee for Fiscal Year 2009 appears below following the disclosures related to Proposal No. 2.

The Board has determined that Ruben M. Escobedo is an audit committee financial expert (as defined by the SEC), and that he is independent as independence for audit committee members is defined in the NYSE Listing Standards. For further information regarding Mr. Escobedo's experience, see Proposal No. 1 Election of Directors Information Concerning Nominees and Other Directors.

Compensation Committee

The Compensation Committee reviews and reports to the Board on matters related to compensation strategies, policies, and programs, including certain personnel policies and policy controls, management development, management succession, and benefit programs. The Compensation Committee also approves and administers our equity compensation plans and incentive bonus plan. The Compensation Committee's duties are described more fully in the Compensation Discussion and Analysis section below. The Compensation Committee has, for administrative convenience, delegated authority to Valero's Chief Executive Officer to make non-material amendments to Valero's benefit plans and to make limited grants of stock options and restricted stock to new hires who are not executive officers.

During 2009, members of the Compensation Committee were Bob Marbut (Chairman), W.E. Bill Bradford, Jerry D. Choate, and Robert A. Profusek. The Compensation Committee met six times and held one joint meeting with the Nominating/Governance Committee in 2009. Donald L. Nickles was appointed to the Compensation Committee effective January 26, 2010, upon Mr. Bradford's retirement from the Board. The Compensation Committee Report for fiscal year 2009 appears below, immediately preceding Compensation Discussion and Analysis.

Compensation Committee Interlocks and Insider Participation

There are no compensation committee interlocks. None of the members of the Compensation Committee listed above has served as an officer or employee of Valero or had any relationship requiring disclosure by Valero under Item 404 of the SEC's Regulation S-K, which addresses related person transactions.

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Executive Committee

The Executive Committee exercises the power and authority of the Board during intervals between meetings of the Board. With limited exceptions specified in Valero's bylaws and under Delaware law, actions taken by the Executive Committee do not require Board ratification. Members of the Executive Committee are William R. Klesse (Chairman), Jerry D. Choate, Irl F. Engelhardt, Ruben M. Escobedo, and Bob Marbut. The Executive Committee met once in 2009.

Finance Committee

The Finance Committee reviews and monitors the investment policies and performance of our Thrift Plan and pension plans, insurance and risk management policies and programs, and finance matters and policies as needed. During 2009, the members of the Finance Committee were Irl F. Engelhardt (Chairman), Ruben M. Escobedo, Bob Marbut, Donald L. Nickles, Susan Kaufman Purcell, and Stephen M. Waters. The Finance Committee met three times in 2009. Donald L. Nickles left the Finance Committee effective January 26, 2010, to join the Compensation Committee.

Nominating/Governance Committee

The Nominating/Governance Committee evaluates policies on the size and composition of the Board and criteria and procedures for director nominations, and considers and recommends candidates for election to the Board. The Committee also evaluates, recommends, and monitors corporate governance guidelines, policies and procedures, including our codes of business conduct and ethics. During 2009, the members of the Nominating/Governance Committee were Jerry D. Choate (Chairman), W.E. Bill Bradford, Ronald K. Calgaard, Donald L. Nickles, and Robert A. Profusek. Mr. Bradford left the Committee effective January 26, 2010, in connection with his retirement from the Board. The Committee met four times, and held one joint meeting with the Compensation Committee, in 2009. The Nominating/Governance Committee recommended Ruben M. Escobedo, Bob Marbut, and Robert A. Profusek to the Board as nominees for election as Class I directors at the Annual Meeting. The Committee also considered and recommended the appointment of a lead director to preside at meetings of the independent directors without management (see Information Regarding the Board of Directors Lead Director and Meetings of Non-Management Directors), and recommended assignments for the committees of the Board. The full Board approved the recommendations of the Nominating/Governance Committee and adopted resolutions approving the slate of director nominees to stand for election at the Annual Meeting, the appointment of a lead director, and assignments for the committees of the Board.

SELECTION OF DIRECTOR NOMINEES

The Nominating/Governance Committee solicits recommendations for potential Board candidates from a number of sources, including members of the Board, Valero's officers, individuals personally known to the members of the Board, and third-party research. In addition, the Committee will consider candidates submitted by stockholders when submitted in accordance with the procedures described in this proxy statement under the caption Miscellaneous Stockholder Nominations and Proposals. The Committee will consider all candidates identified through the processes described above and will evaluate each of them on the same basis. The level of consideration that the Committee will extend to a stockholder's candidate will be commensurate with the quality and quantity of information about the candidate that the nominating stockholder makes available to the Committee.

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Evaluation of Director Candidates

The Nominating/Governance Committee is responsible for assessing the skills and characteristics that candidates for election to the Board should possess, as well as the composition of the Board as a whole. The assessments include qualifications under applicable independence standards and other standards applicable to the Board and its committees, as well as consideration of skills and expertise in the context of the needs of the Board.

Each candidate must meet certain minimum qualifications, including:

independence of thought and judgment;

the ability to dedicate sufficient time, energy and attention to the performance of her or his duties, taking into consideration the candidate's service on other public company boards; and

skills and expertise complementary to those of the existing Board members; in this regard, the Board will consider its need for operational, managerial, financial, governmental affairs, or other relevant expertise.

The Nominating/Governance Committee also considers diversity concepts such as race, gender, and national origin, as well as the ability of a prospective candidate to work with the then-existing interpersonal dynamics of the Board and the candidate's ability to contribute to the collaborative culture among Board members.

Based on this initial evaluation, the Committee will determine whether to interview the candidate, and if warranted, will recommend that one or more of its members, other members of the Board, or senior management, as appropriate, interview the candidate in person or by telephone. After completing this evaluation and interview process, the Committee ultimately determines its list of nominees and submits the list to the full Board for consideration and approval.

LEADERSHIP STRUCTURE OF THE BOARD

As prescribed by our bylaws, the Chairman of the Board has the power to preside at all meetings of the Board. William R. Klesse, our Chief Executive Officer and President, serves as the Chairman of our Board of Directors. For most of Valero's history, the same individual has served as both Chairman of the Board and Chief Executive Officer of Valero. Although the Board believes that the combination of the Chairman and Chief Executive Officer roles is appropriate in the current circumstances, Valero's *Corporate Governance Guidelines* do not establish this approach as a policy, and in fact, the Chairman and Chief Executive Officer roles were separate from 2005-2007.

The Chief Executive Officer is appointed by the Board to manage Valero's daily affairs and operations. We believe that Mr. Klesse's extensive industry experience and direct involvement in Valero's operations make him best suited to serve as Chairman in order to (i) lead the Board in productive, strategic planning, (ii) determine necessary and appropriate agenda items for meetings of the Board with input from the Lead Director and Board committee chairpersons, and (iii) determine and manage the amount of time and information devoted to discussion and analysis of agenda items and other matters that may come before the Board. Our Board structure also fosters strong oversight by independent directors. Mr. Klesse is the only member of management (past or present) who serves on the Board, and all of the other directors are fully independent. Each of the committees of the Board (except for the Executive Committee, which meets infrequently) is chaired by an independent director.

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LEAD DIRECTOR AND MEETINGS OF NON-MANAGEMENT DIRECTORS

Our Board appoints a Lead Director, whose responsibilities include leading the meetings of the non-management members of our Board outside the presence of management. Our Board regularly meets in executive session outside the presence of management, generally at each Board meeting. Following the recommendation of the Nominating/Governance Committee, the Board designated Robert A. Profusek to serve as the Lead Director during 2010. Mr. W.E. Bill Bradford served as Lead Director during 2009. The Lead Director, working with committee chairpersons, sets the agenda and leads the discussion of regular meetings of the board outside the presence of management, provides feedback regarding these meetings to the Chairman, and otherwise serves as liaison between the independent directors and the Chairman. If necessary, the Lead Director is also responsible for receiving, reviewing, and acting upon communications from stockholders or other interested parties when those interests should be addressed by a person independent of management. The Board believes that this approach appropriately and effectively complements Valero's combined Chief Executive Officer/Chairman structure.

RISK OVERSIGHT

The Board considers oversight of Valero's risk management efforts to be a responsibility of the entire board. The Board's role in risk oversight includes receiving regular reports from members of senior management on areas of material risk to Valero, or to the success of a particular project or endeavor under consideration, including operational, financial, legal and regulatory, strategic and reputational risks. The full Board (or the appropriate Committee, in the case of risks that are under the purview of a particular Committee) receives these reports from the appropriate members of management to enable the Board (or Committee) to understand Valero's risk identification, risk management, and risk mitigation strategies. When a report is vetted at the Committee level, the chairperson of that Committee subsequently reports on the matter to the full Board. This enables to the Board and its Committees to coordinate the Board's risk oversight role. The Board also believes that risk management is an integral part of Valero's annual strategic planning process, which addresses, among other things, the risks and opportunities facing Valero. Part of the Audit Committee's responsibilities, as set forth in its charter, is to discuss with management Valero's major financial risk exposures and the steps management has taken to monitor and control those exposures, including Valero's risk assessment and risk management policies. In this regard, Valero's chief audit officer prepares annually a comprehensive risk assessment report and reviews that report with the Audit Committee. This report identifies the material business risks for Valero, and identifies Valero's internal controls that respond to and mitigate those risks. Valero's management regularly evaluates these controls, and the Audit Committee is provided regular updates regarding the effectiveness of the controls. Also, the Finance Committee shares responsibilities with respect to risk oversight. The Finance Committee regularly reviews with management Valero's financial arrangements, capital structure, and its access to capital markets. It also oversees allocation policies with respect to Valero's pension assets, as well as the performance of investments in Valero's pension and other benefit plans. The Audit Committee and the Finance Committee regularly report to the full Board.

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**PROPOSAL NO. 1
ELECTION OF DIRECTORS**

(Item 1 on the Proxy Card)

Our Board is divided into three classes for purposes of election. Three Class I directors will be elected at the Annual Meeting to serve a three-year term expiring at the 2013 annual meeting of stockholders. Nominees for Class I directors are Ruben M. Escobedo, Bob Marbut, and Robert A. Profusek. The persons named on the proxy card intend to vote for the election of each of these nominees unless you direct otherwise on your proxy card.

The Board recommends that stockholders vote FOR all nominees.

In accordance with Valero's bylaws, each director to be elected under this Proposal No. 1 shall be elected by the vote of the majority of the votes cast at the Annual Meeting if a quorum is present. For purposes of this election, a majority of the votes cast shall mean that the number of shares voted for a director's election exceeds 50 percent of the number of votes cast with respect to that director's election. With respect to each nominee, votes cast shall include votes to withhold authority and shall exclude abstentions.

If any nominee is unavailable as a candidate at the time of the Annual Meeting, either the number of directors constituting the full Board will be reduced to eliminate the resulting vacancy, or the persons named as proxies will use their best judgment in voting for any available nominee. The Board has no reason to believe that any current nominee will be unable to serve.

INFORMATION CONCERNING NOMINEES AND OTHER DIRECTORS

The following table describes (i) each nominee for election as a director at the Annual Meeting, and (ii) the other members of the Board whose terms expire in 2011 and 2012. The information provided is based partly on data furnished by the directors and partly on Valero's records. There is no family relationship among any of the executive officers, directors, or nominees for director of Valero.

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| | <i>Executive Officer or Director Since (1)</i> | <i>Age as of 12/31/09</i> | <i>Director Class (2)</i> |
|---|--|-----------------------------------|-----------------------------------|
| <i>Nominees</i> | | | |
| Ruben M. Escobedo, <i>Director</i> | 1994 | 72 | I |
| Bob Marbut, <i>Director</i> | 2001 | 74 | I |
| Robert A. Profusek, <i>Director</i> | 2005 | 59 | I |
| <i>Other Directors</i> | | | |
| Ronald K. Calgaard, <i>Director</i> | 1996 | 72 | II |
| Irl F. Engelhardt, <i>Director</i> | 2006 | 63 | II |
| Stephen M. Waters, <i>Director</i> | 2008 | 63 | II |
| Jerry D. Choate, <i>Director</i> | 1999 | 71 | III |
| William R. Klesse, <i>Chairman of the Board, Chief Executive Officer, and President</i> | 2001 | 63 | III |
| Donald L. Nickles, <i>Director</i> | 2005 | 61 | III |
| Susan Kaufman Purcell, <i>Director</i> | 1994 | 67 | III |

Footnotes:

- (1) Dates reported include service on the Board of Directors of Valero's former parent company prior to Valero's separation from that company in 1997.
- (2) If elected, the terms of office of the Class I directors will expire at the 2013 Annual Meeting. The terms of office of the Class II directors will expire at the 2011 Annual Meeting, and the terms of office of the Class III directors will expire at the

2012 Annual
Meeting.

Nominees

Mr. Escobedo is a Certified Public Accountant. He owned and operated his public accounting firm, Ruben Escobedo & Company, CPAs, in San Antonio, Texas since its formation in 1977 through 2007. Mr. Escobedo also serves as a director of Cullen/Frost Bankers, Inc. He has served as a director of Valero or its former parent company since 1994. Mr. Escobedo's pertinent experience, qualifications, attributes, and skills include: public accounting and financial reporting expertise (including extensive experience as a certified public accountant), managerial experience attained from serving as chief executive of his own accounting firm, the knowledge and experience he has attained from service on another public company board, and the knowledge and experience he has attained from his service on Valero's Board since 1994.

Mr. Marbut is a director of and is Executive Chairman of Electronics Line 3000 Ltd., a provider of wireless security with remote management solutions. He is a director of Tupperware Brands Corporation. Mr. Marbut was previously founder, a director and Chief Executive Officer of SECTecGLOBAL, Inc. from 2002 through 2006. He was also previously a director of Hearst-Argyle Television, Inc. from 1997 until 2009 and a director and Chief Executive Officer of Argyle Security, Inc. from 2005 until January 2010. He served as a director of UDS since 1990, and has served as a director of Valero since Valero's acquisition of Ultramar Diamond Shamrock Corporation (UDS) in 2001. Mr. Marbut's pertinent experience, qualifications, attributes, and skills include: managerial experience he has attained serving as chief executive officer and chairman of other public companies, the experience he has attained from service on other public company boards, and the knowledge and experience he has attained through his service on the UDS or Valero Board since 1990.

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Mr. Profusek is a partner, and heads the mergers and acquisitions department, of the Jones Day law firm. His law practice focuses on mergers, acquisitions, takeovers, restructurings, and corporate governance matters, including compensation. Mr. Profusek is also a director of CTS Corporation. He has served as a director of Valero since 2005. Mr. Profusek's pertinent experience, qualifications, attributes, and skills include: legal expertise in corporate law matters, including governance and compensation; capital markets expertise attained through his extensive experience in mergers and acquisitions; managerial experience attained through his leadership roles with the Jones Day law firm; the knowledge and experience he has attained through his service on another public company board; and the knowledge and experience he has attained through his service on Valero's Board since 2005.

Other Directors

Dr. Calgaard is Chairman of the Ray Ellison Grandchildren Trust in San Antonio, Texas. He was formerly Chairman and Chief Executive Officer of Austin Calvert & Flavin Inc., a San Antonio-based investment management firm, from 2000 to February 2006. Dr. Calgaard served as President of Trinity University, San Antonio, Texas, from 1979 until his retirement in 1999. He is also a director of The Trust Company, N.A. and served as its Chairman from June 1999 until January 2000. Dr. Calgaard has served as a director of Valero or its former parent company since 1996. Dr. Calgaard's pertinent experience, qualifications, attributes, and skills include: a Ph.D in economics, financial literacy and expertise gained through his experience with an investment management firm, managerial experience attained through his service as Chief Executive Officer of an investment management firm and as President of Trinity University, the knowledge and experience he has attained through his service on other public company boards, and the knowledge and experience he has attained through his service on Valero's Board since 1996.

Mr. Choate retired from Allstate Corporation, an insurance company, at the end of 1998 where he had served as Chairman of the Board and Chief Executive Officer since 1995. Mr. Choate also serves as a director of Amgen, Inc. and Van Kampen Mutual Funds. He has served as a director of Valero since 1999. Mr. Choate's pertinent experience, qualifications, attributes, and skills include: financial literacy and managerial experience attained through his service as Chief Executive Officer and Chairman of Allstate Corporation, the knowledge and experience he has attained through service on the board of other public companies, and the knowledge and experience he has attained through his service on Valero's Board since 1999.

Mr. Engelhardt is Chairman of the Board and Executive Advisor of Patriot Coal Corporation. Mr. Engelhardt served as Chief Executive Officer of Peabody Energy Corporation or its predecessor companies from 1990 to December 2005 and as its Chairman of the Board from 1993 to October 2007. He served as Co-Chief Executive Officer of The Energy Group (composed of Eastern Electricity in the United Kingdom, Peabody in the U.S. and Australia, and Citizens power in the U.S.) from 1997 to 1998, Chairman of Suburban Propane Company from 1995 to 1996, Chairman of Cornerstone Construction and Materials from 1994 to 1995, Director and Group Vice President of Hanson Industries from 1995 to 1996, and Chairman of the Federal Reserve Bank of St. Louis from 2007 to 2008. Mr. Engelhardt is also a director of The Williams Companies, Inc. He has served as a director of Valero since 2006. Mr. Engelhardt's pertinent experience, qualifications, attributes, and skills include: financial literacy and managerial experience attained through his service as Chief Executive Officer and Chairman of the Board of Peabody Energy Corporation, the knowledge and experience he has attained through service on the board of other public companies, and the knowledge and experience he has attained through his service on Valero's Board since 2006.

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Mr. Klesse is Valero's Chairman of the Board, Chief Executive Officer, and President. He was elected Chairman of the Board in January 2007, and was elected President in January 2008. He previously served as Valero's Chief Executive Officer and Vice Chairman of the Board since the end of 2005. He served as Valero's Executive Vice President and Chief Operating Officer from 2003 through 2005, and as Executive Vice President-Refining and Commercial Operations since Valero's acquisition of UDS in 2001. Mr. Klesse's pertinent experience, qualifications, attributes, and skills include: his experience in virtually every aspect of the refining industry for over 40 years, including his approximately 23 years of service with UDS and Valero; and the knowledge and experience he has attained through his service on Valero's Board since 2005, and as its Chairman of the Board since 2007.

Senator Nickles retired in January 2005 as U.S. Senator from Oklahoma after serving in the U.S. Senate for 24 years. He had also served in the Oklahoma State Senate for two years. During his tenure as a U.S. Senator, he was Assistant Republican Leader for six years, Chairman of the Republican Senatorial Committee, and Chairman of the Republican Policy Committee. He served as Chairman of the Budget Committee, and as a member of the Finance and Energy and Natural Resources Committees. In 2005, he formed and is the Chairman and Chief Executive Officer of The Nickles Group, a Washington-based consulting and business venture firm. Senator Nickles also serves on the Board of Directors of Chesapeake Energy Corporation; Washington Mutual Investors Fund; JP Morgan Value Opportunities Fund; and American Funds Tax Exempt Series I. He is formerly a director of Fortress International Group, Inc. He has served as a director of Valero since 2005. His pertinent experience, qualifications, attributes, and skills include: the extensive political, legislative and regulatory knowledge and expertise attained through his 24 years of service as a U.S. Senator; the experience attained through his service on the boards of other public companies; the knowledge and experience he has attained from serving as founder and chief executive officer of a consulting and business venture firm; and the knowledge and experience he has attained through his service on Valero's Board since 2005.

Dr. Purcell is Director of the Center for Hemispheric Policy at the University of Miami. The Center examines political, economic, financial, trade, and security issues in Latin America, as well as U.S. Latin America relations. Dr. Purcell previously served as Vice President of the Council of the Americas, a non-profit business organization of mainly Fortune 500 companies with investments in Latin America, and of the Americas Society, a non-profit educational institution, both in New York City. Until 2005, she served on the boards of Scudder Global High Income Fund, Scudder New Asia Fund, The Brazil Fund, and Scudder Global Commodities Stock Fund, Inc. Dr. Purcell has been a director of Valero or its former parent company since 1994. Dr. Purcell's pertinent experience, qualifications, attributes, and skills include: economic, political and international relations expertise attained through her experience with the University of Miami, the Council of Americas, and the Americas Society; a Ph.D in political science; financial literacy and experience attained through her service on the boards and audit committees of several closed-end mutual funds; and the knowledge and experience she has attained through her service on Valero's Board since 1994.

Mr. Waters has been the managing partner of Compass Advisers LLP and its predecessor partnership since 1996 and the Chief Executive of Compass Partners European Equity Fund since 2005. From 1988 to 1996, he served in several capacities at Morgan Stanley, including Co-Head of the Mergers and Acquisitions department from 1990 to 1992, Co-Chief Executive Officer of Morgan Stanley Europe from 1992 to 1996, and as a member of the firm's worldwide Firm Operating Committee from 1992 to 1996. From 1974 to 1988, he was with Lehman Brothers, co-founding the Mergers and Acquisitions department in 1977, becoming a partner in 1980 and serving as Co-Head of the Mergers and Acquisitions department from 1985 to 1988. Mr. Waters is also a director of Boston Private Financial Holdings, Chairman of the Advisory Board of the Boston University School of Public Health, Chairman of the United States Naval Institute, and Co-Chairman of the Harvard College Fund. He has served as a director of Valero since 2008. His pertinent experience, qualifications, attributes, and skills include: financial literacy and expertise, capital markets expertise, and managerial experience gained through his mergers

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and acquisitions experience and leadership roles with investment banking firms, Lehman Brothers, Morgan Stanley, and Compass Advisers LLP; and the knowledge and experience he has attained through his service on other public company boards.

For information regarding the nominees' holdings of Common Stock, compensation, and other arrangements, see Information Regarding the Board of Directors, Beneficial Ownership of Valero Securities, Compensation Discussion and Analysis, Executive Compensation, and Certain Relationships and Related Transactions.

BENEFICIAL OWNERSHIP OF VALERO SECURITIES**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The following table presents information regarding each person, or group of affiliated persons, we know to be a beneficial owner of more than five percent of our Common Stock as of February 1, 2010. The information is based solely upon reports filed by such persons with the SEC.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class |
|---|--|-----------------------------|
| AXA Financial, Inc. 1290 Avenue of the Americas New York, NY 10104 | 32,109,811 (1) | 5.7% |
| (1) AXA Financial, Inc. filed with the SEC (pursuant to a joint filing agreement among AXA Financial, Inc., AXA Assurances I.A.R.D. Mutuelle, AXA Assurances Vie Mutuelle, and AXA) a Schedule 13G on February 12, 2010, reporting that it or certain of its affiliates beneficially owned in the aggregate 32,109,811 shares, that it had sole voting power with respect to 23,877,058 shares and sole | | |

dispositive
power with
respect to
32,109,811
shares.

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The following table presents information as of February 1, 2010 regarding Common Stock beneficially owned (or deemed to be owned) by each nominee for director, each current director, each executive officer named in the Summary Compensation Table, and all current directors and executive officers of Valero as a group. No executive officer, director, or nominee for director owns any class of equity securities of Valero other than Common Stock. None of the shares listed below are pledged as security. The address for each person is One Valero Way, San Antonio, Texas 78249.

| Name of Beneficial Owner | Shares Held (1) | Shares Under | | Total Shares | Percent of Class |
|--|--------------------|--------------|--|-----------------|------------------------|
| | | Options (2) | | | |
| Kimberly S. Bowers | 79,530 | 39,125 | | 118,655 | 0.02% |
| Ronald K. Calgaard | 32,959 | 13,000 | | 45,959 | * |
| Jerry D. Choate | 51,883 | 33,000 | | 84,883 | * |
| Michael S. Ciskowski | 274,153 | 99,392 | | 373,545 | 0.07% |
| Irl F. Engelhardt | 26,708 | 5,000 | | 31,708 | * |
| Ruben M. Escobedo | 21,756 | 0 | | 21,756 | * |
| Joseph W. Gorder | 101,352 | 47,259 | | 148,611 | 0.03% |
| William R. Klesse | 874,860 | 574,741 | | 1,449,601 | 0.26% |
| Bob Marbut | 40,926 | 71,120 | | 112,046 | * |
| Richard J. Marcogliese | 237,821 | 297,209 | | 535,030 | 0.09% |
| Donald L. Nickles | 14,683 | 11,000 | | 25,683 | * |
| Robert A. Profusek | 14,544 | 11,000 | | 25,544 | * |
| Susan Kaufman Purcell | 13,650 | 29,000 | | 42,650 | * |
| Stephen M. Waters | 11,178 | 10,000 | | 21,178 | * |
| Directors and executive officers as a group (15 persons) | 1,870,124 | 1,265,781 | | 3,135,905 | * |

* Indicates that the percentage of beneficial ownership of the directors, nominees, and by all directors and executive officers as a group does not exceed 1% of the class.

(1) Includes shares allocated under the Thrift Plan through January 31, 2010, and shares

of restricted stock. Restricted stock may not be disposed of until vested.

This column does not include shares that could be acquired under options, which are reported in the column captioned Shares Under Options.

- (2) Represents shares of Common Stock that may be acquired under outstanding stock options currently exercisable and that are exercisable within 60 days from February 1, 2010. Shares subject to options may not be voted unless the options are exercised. Options that may become exercisable within such 60-day period only in the event of a change of control of Valero are excluded.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires our executive officers, directors, and greater than 10 percent stockholders to file with the SEC certain reports of ownership and changes in ownership of our Common Stock. Based on a review of the copies of such forms received and written representations

from certain reporting persons, we believe that during the year ended December 31, 2009, all Section 16(a) reports applicable to our executive officers, directors and greater than 10 percent stockholders were timely filed.

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COMPENSATION CONSULTANT DISCLOSURES

In 2009, the Compensation Committee retained Towers Perrin (now doing business as Towers Watson) as an independent compensation consultant. In its role as an advisor to the Compensation Committee, Towers Perrin was retained directly by the Committee, which, in its sole discretion, has the authority to select, retain, and/or terminate its relationship with the consulting firm. In 2009, Towers Perrin provided the Committee with objective and expert analyses, independent advice, and information with respect to executive and director compensation. Towers Perrin received \$589,718 in professional fees for its executive and director compensation services to the Committee during 2009. Towers Perrin did not provide other consulting services to the Committee, to Valero, or to any senior executives of Valero in 2009.

During 2009, Towers Perrin's executive and director compensation consulting services included:

Assistance with the determination of appropriate peer and comparator companies for benchmarking executive pay and monitoring Valero's performance;

Assistance with the determination of Valero's overall executive compensation philosophy in light of Valero's business strategy and market considerations;

Competitive pay assessment of target and actual total direct compensation for executives, with separate analyses of base salary, annual incentive, and long-term incentive compensation;

Competitive pay assessment of director compensation;

Assessment of, and recommendation of enhancements to, Valero's annual incentive program with respect to both financial and operational performance metrics;

Recommendations for Valero's long-term incentive program strategy, including the appropriate mix of equity incentive vehicles and determination of competitive equity grant guidelines consistent with Valero's overall pay philosophy;

Independent assessment of the risk profile of Valero's executive incentive plans to assess whether such plans encourage excessive financial risk on the part of plan participants; and

Updates on trends and developments in executive compensation, new regulatory issues, and best practices.

RISK ASSESSMENT OF COMPENSATION PROGRAMS

During 2009, the Compensation Committee, assisted by Towers Perrin, conducted a risk assessment of Valero's compensation programs. The Committee concluded that, viewed holistically, Valero's incentive compensation programs effectively balance risk and reward. The scope of the risk review included an assessment of both the annual incentive plan for management as well as long-term incentives pursuant to the 2005 Omnibus Stock Incentive Plan, and included an analysis of the mix of award opportunities (*i.e.*, short-vs. long-term), performance targets and metrics, the target-setting process, and the administration and governance associated with the plans. Features of our compensation programs that we believe mitigate excessive risk taking include:

the mix between fixed and variable, annual and long-term, and cash and equity compensation, designed to encourage strategies and actions that are in Valero's long-term best interests,

determination of incentive awards based on a variety of indicators of performance, thus diversifying the risk associated with a single indicator of performance,

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multi-year vesting periods for equity incentive awards, which encourage focus on sustained growth and earnings, and

our compensation-related policies, including the executive compensation clawback policy and stock retention guidelines (discussed below under the caption Compensation Discussion and Analysis Compensation Related Policies).

The following Compensation Committee Report is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference into any of Valero's filings under the Securities Act of 1933, as amended (the Securities Act), or the Exchange Act, respectively, whether made before or after the date of this proxy statement and irrespective of any general incorporation language therein. Donald L. Nickles was appointed to the Compensation Committee in 2010, and is therefore not listed below the Compensation Committee Report pertaining to the fiscal year ended December 31, 2009.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the following Compensation Discussion and Analysis with management. Based on the foregoing review and discussions and such other matters the Compensation Committee deemed relevant and appropriate, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

Members of the Compensation Committee:

Bob Marbut, Chairman
Jerry D. Choate
Robert A. Profusek

COMPENSATION DISCUSSION AND ANALYSIS

OVERVIEW

Our philosophy for compensating our named executive officers (as defined below) is based on the belief that a significant portion of executive compensation should be incentive-based and determined by both company and individual performance. Our executive compensation programs are designed to accomplish the following long-term objectives:

to produce long-term, positive results for our stockholders;

to build stockholder wealth while practicing good corporate governance;

to align executive incentive compensation with Valero's short- and long-term performance results, with discrete measurements of such performance; and

to provide market-competitive compensation and benefits to enable us to recruit, retain, and motivate the executive talent necessary to be successful.

Compensation for our named executive officers includes base salary, an annual incentive bonus opportunity, and long-term equity-based incentives. Our named executive officers also participate in benefit plans generally available to our other employees.

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Named Executive Officers. In accordance with SEC rules, the individuals serving as our principal executive officer (*i.e.*, William R. Klesse, Chief Executive Officer) and our principal financial officer (*i.e.*, Michael S. Ciskowski, Chief Financial Officer) during the last completed fiscal year, and our three other most highly compensated executive officers who were serving as executive officers at the end of the last completed fiscal year (*i.e.*, Richard J. Marcogliese, Kimberly S. Bowers, and Joseph W. Gorder) are referred to collectively in this proxy statement as the named executive officers.

ADMINISTRATION OF EXECUTIVE COMPENSATION PROGRAMS

Our executive compensation programs are administered by our Board's Compensation Committee. The Compensation Committee is composed of four independent directors who are not participants in our executive compensation programs. Policies adopted by the Compensation Committee are implemented by our compensation and benefits staff. The duties and responsibilities of the Compensation Committee are further described in this proxy statement under the caption *Information Regarding the Board of Directors' Committees of the Board's Compensation Committee*. In 2009, the Compensation Committee retained Towers Perrin (now doing business as Towers Watson) as an independent compensation consultant with respect to executive and director compensation matters. The nature and scope of the consultant's assignment are described above under the caption *Compensation Consultant Disclosures*.

Benchmarking Data

When determining executive compensation, the Compensation Committee relies on several sources of compensation data in assessing benchmark rates of base salary, annual incentive compensation, and long-term compensation. The Towers Perrin Compensation Data Bank and Compensation Comparator Group (further described below) are used as references in benchmarking compensation for our named executive officers. These references are sometimes referred to as *compensation survey data* or *competitive survey data* in this proxy statement.

Towers Perrin Compensation Data Bank

The Towers Perrin Compensation Data Bank (*Data Bank*) includes 700 companies operating in several industries. Use of the Data Bank enables Valero to compare its executive base salary compensation to that of other companies from many industries having similar revenues and market capitalization. Valero believes that the Data Bank represents an appropriate benchmark for Valero's executive base salaries because Valero competes across all industry lines for executive talent. Valero believes that many of the skills required for a successful management team (*e.g.*, business acumen, leadership, integrity) transcend the refining industry. Valero believes that to recruit and retain executive talent, Valero must compete with all companies, not just refining and marketing companies. The Data Bank provides a guide for Valero to assess how its executive base salaries compare with the salaries of a wide range of other businesses.

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The Compensation Comparator Group, a subset of the Towers Perrin Compensation Data Bank, consists of compensation information and analyses of Towers Perrin that includes compensation practices and available data for the following 13 companies that significantly participate in the domestic oil and gas industry:

| | |
|------------------------------------|---|
| <i>BP PLC</i> | <i>Marathon Oil Corporation</i> |
| <i>Chevron Corporation</i> | <i>Murphy Oil Corporation</i> |
| <i>CITGO Petroleum Corporation</i> | <i>Occidental Petroleum Corporation</i> |
| <i>ConocoPhillips</i> | <i>Shell Oil Company (USA)</i> |
| <i>Exxon Mobil Corporation</i> | <i>Sunoco, Inc.</i> |
| <i>Hess Corporation</i> | <i>Tesoro Corporation</i> |
| <i>Koch Industries, Inc.</i> | |

Valero uses the Compensation Comparator Group as a reference in benchmarking base salaries, annual incentive bonus targets, and long-term incentive targets for our named executive officers. Selection of the Compensation Comparator Group reflects consideration of each company's relative revenues, asset base, employee population and capitalization, and the scope of managerial responsibility and reporting relationships for the positions under consideration.

Peer Group

We also use a peer group (Peer Group) to measure Valero's (i) return-on-investment (ROI) metric, for purposes of calculating the annual incentive bonus, and (ii) total shareholder return (TSR) metric, for the purpose of calculating the number of shares of Common Stock that may be issued upon the vesting of performance shares. The Peer Group is composed of the following 13 companies engaged in domestic refining operations:

| | |
|---------------------------------|---------------------------------|
| <i>Alon USA Energy Inc.</i> | <i>Holly Corporation</i> |
| <i>Chevron Corporation</i> | <i>Marathon Oil Corporation</i> |
| <i>ConocoPhillips</i> | <i>Murphy Oil Corporation</i> |
| <i>CVR Energy Inc.</i> | <i>Sunoco, Inc.</i> |
| <i>Exxon Mobil Corporation</i> | <i>Tesoro Corporation</i> |
| <i>Frontier Oil Corporation</i> | <i>Western Refining Inc.</i> |
| <i>Hess Corporation</i> | |

The Peer Group represents the group of companies that we use for purposes of the Performance Graph disclosed in Part II, Item 5 of our Form 10-K for the year ended December 31, 2009. The Peer Group is not used in benchmarking base salaries, bonus targets, or long-term incentive targets.

Use of Benchmarking Data

Recommendations for base salary, bonuses, and other compensation arrangements are developed under the supervision of the Compensation Committee by our compensation and benefits staff using the foregoing information and analyses and with assistance from Towers Perrin. Use of the compensation survey data is consistent with our philosophy of providing executive compensation and benefits that are competitive with companies competing with us for executive talent. In addition, the use of competitive compensation survey data and analyses assists the Compensation Committee in gauging our pay levels and targets relative to companies in our Compensation Comparator Group, the domestic oil refining and marketing industry, and general industry.

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In addition to benchmarking competitive pay levels to establish compensation levels and targets, we also consider the relative importance of a particular management position in comparison to other management positions in the organization. In this regard, when setting the compensation level and target for a particular position, we evaluate that position's scope and nature of responsibilities, size of business unit, complexity of duties and responsibilities, as well as that position's relationship to managerial authorities throughout the management ranks of Valero.

Process and Timing of Compensation Decisions

The Compensation Committee reviews and approves all compensation targets and payments for the named executive officers. The Chief Executive Officer evaluates the performance of the other named executive officers and develops individual recommendations based upon the competitive survey data. Both the Chief Executive Officer and the Committee may make adjustments to the recommended compensation based upon an assessment of an individual's performance and contributions to the Company. The compensation for the Chief Executive Officer is reviewed and approved by the Compensation Committee and by the Board, based on the competitive survey data, and adjustments may be made based upon their independent evaluation of the Chief Executive Officer's performance and contributions. In addition, the charter of the Compensation Committee requires the independent directors of the Board to review and approve all compensation for the Chief Executive Officer.

The Compensation Committee establishes the target levels of annual incentive and long-term incentive compensation for the current fiscal year based upon its review of competitive market data provided by Towers Perrin. The Compensation Committee also reviews competitive market data for annual salary rates for executive officer positions for the next fiscal year and recommends new salary rates to become effective the next fiscal year. The Compensation Committee may, however, review salaries or grant long-term incentive awards at other times during the year because of new appointments or promotions during the year.

The following summarizes the approximate timing of some of our more significant compensation events in 2009:

First Quarter:

determined annual incentive bonus for preceding fiscal year

reviewed and certified financial performance for performance shares granted in prior years

Third Quarter:

established financial performance objectives and operational and strategic performance objectives for annual incentive bonus

established target levels of annual incentive and long-term incentive compensation for executive officers for the current fiscal year

Fourth Quarter:

considered base salaries for executive officers for next fiscal year

considered long-term incentive compensation awards for executive officers for current fiscal year

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ELEMENTS OF EXECUTIVE COMPENSATION

General

Our executive compensation programs consist of the following material elements:

base salaries;

annual incentive bonuses;

long-term equity-based incentives, including:
stock options

restricted stock; and

medical and other insurance benefits, retirement benefits, and other perquisites.

We chose these elements in order to remain competitive in attracting and retaining executive talent and to provide strong performance incentives that provide the potential for both current and long-term payouts. We use base salary as the foundation for our executive compensation program. Base salary is designed to provide a fixed level of competitive pay that reflects the executive officer's primary duties and responsibilities as well as a foundation upon which incentive opportunities and benefit levels are established. Our annual incentive bonuses are designed to focus our executive officers on Valero's attainment of key financial performance measures and key operational and strategic measures to generate profitable annual operations and sustaining results in conjunction with operating safely, being environmentally responsible, maintaining reliable operations, and managing costs. Our long-term equity incentive awards are designed to tie the executive officer's financial reward opportunities with the rewards to stockholders as measured by long-term stock price performance, payment of regular dividends, and increasing our stockholders return-on-investment. In this proxy statement, the term "Total Direct Compensation" refers to the sum of an executive officer's base salary, incentive bonus, and long-term incentive awards for a particular fiscal year.

Our Compensation Committee's general philosophy for 2009 was to target base salary compensation for our named executive officers at or near the 50th percentile of competitive survey data. Base salaries are benchmarked on the 50th percentile of competitive survey data using regression analysis based on company size as measured by annual revenues. In 2009, for base salaries, actual compensation for each of our named executive officers was either at or below the 50th percentile benchmark. The 50th percentile has been established as a desired target for our executives base salaries, and through the past several years the Company has been working toward that target. Significant changes in the structure and size of Valero from 2000 to the present, including significant mergers in 2001 and 2005, have resulted in changing landscapes of competitive compensation and benchmarks from year to year.

We established incentive target opportunities (expressed as a percentage of base salary) for each executive position based upon the 65th percentile benchmark of the Compensation Comparator Group for the annual incentive bonus, and the 65th percentile benchmark of the Compensation Comparator Group for long-term incentives.

In 2009, the Compensation Committee directed a change in the Company's strategy with respect to its annual incentive bonus program and long-term incentive compensation. The change was made following a wide-ranging review in mid-2009 by the Committee of substantially all aspects of Valero's compensation philosophy, programs, and metrics. The review included a lengthy special meeting of the Compensation Committee in which it received extensive input from the Committee's compensation consultant and Valero management with respect to these matters, and the Committee modified certain aspects of Valero's compensation programs. Those modifications are explained below under the caption "Annual Incentive Bonus."

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In 2009, the long-term incentive compensation program was also modified to change the weighting applicable to the types of long-term incentive awards that could be granted. In the prior year, an executive's total long-term incentive target was composed of 60% stock options and 40% restricted stock. In 2009, the mix of long-term incentive awards was changed to 50% of the total target in stock options and 50% of the total target in restricted stock.

For 2009, we paid annual incentive bonuses well below the 65th percentile target for our named executive officers (our CEO received no bonus), reflecting Valero's performance in 2009, which was reflective of the difficult and volatile markets for the refining industry in 2009. As described below under the caption Annual Incentive Bonus, Valero's performance for 2009 resulted in a bonus payout of 50% of target. Long-term incentive grants awarded to our named executive officers in 2009 were generally at or near the 65th percentile target. Because the nature of long-term compensation is prospective and forward looking, the Committee desires to make long-term grants at the compensation benchmark of the 65th percentile such that attainment of performance above the median will result in future rewards to management that are above the market median as well.

Relative Size of Major Compensation Elements

In setting executive compensation, the Compensation Committee considers the aggregate amount of compensation payable to an executive officer and the form of the compensation. The Committee seeks to achieve an appropriate balance between immediate cash rewards for the achievement of company and personal objectives and long-term incentives that align the interests of our executive officers with those of our stockholders. The size of each element is based on the assessment of competitive market practices as well as company and individual performance. The Committee believes that making a significant portion of an executive officer's incentive compensation contingent on long-term stock price performance more closely aligns the executive officer's interests with those of our stockholders. We evaluate the total compensation opportunity offered to each executive officer at least once annually and have conducted compensation assessments on several occasions during the course of the year. In this regard, the Compensation Committee analyzes total compensation from a market competitive perspective, and then evaluates each component relative to its market reference. Because we place such a large amount of our total executive compensation opportunity at risk in the form of variable pay (annual and long-term incentives), the Committee generally does not adjust current compensation based upon realized gains or losses from prior incentive awards, prior compensation, or current stock holdings. For example, we normally will not change the size of a target long-term incentive grant in a particular year solely because of the way in which Valero's stock price performed during the immediately preceding years, although we may take this into account in other compensation decisions. The Compensation Committee recognizes that refining and marketing is a volatile industry and strives to maintain a measure of predictability consistent with a substantial reliance on variable compensation structures in furtherance of a fundamental pay-for-performance philosophy.

The following table summarizes the relative size of base salary and target incentive compensation for 2009 for each of our named executive officers:

| Name | Percentage of Total Direct Compensation | | |
|------------------------|---|------------------------|----------------------|
| | Base Salary | Annual Incentive Bonus | Long-Term Incentives |
| William R. Klesse | 13% | 17% | 70% |
| Richard J. Marcogliese | 16% | 20% | 64% |
| Michael S. Ciskowski | 16% | 20% | 64% |
| Kimberly S. Bowers | 24% | 20% | 56% |
| Joseph W. Gorder | 24% | 20% | 56% |

Table of Contents**Individual Performance and Personal Objectives**

The Compensation Committee evaluates the individual performance and performance objectives for the Chief Executive Officer and our other named executive officers. Performance and compensation for our Chief Executive Officer are reviewed and approved by the Compensation Committee and the Board's independent directors. For officers other than the Chief Executive Officer, individual performance and compensation are evaluated by the Compensation Committee with the recommendations of the Chief Executive Officer. Individual performance and objectives are specific to each officer position.

Assessment of individual performance may include objective criteria, but by necessity it is largely subjective.

Generally, we do not use prescribed targets or other quantitative criteria such as an executive's business unit achieving a certain percentage of sales or growth to measure individual performance. We do employ quantitative metrics for the company's performance under our annual incentive bonus program (as described below under the caption Annual Incentive Bonus). The criteria used to measure an individual's performance may include assessment of objective criteria (e.g., execution of projects within budget parameters, improving an operating unit's profitability, or timely completing an acquisition or divestiture) as well as more qualitative factors such as the executive officer's ability to lead, ability to communicate, and successful adherence to Valero's stated core values (i.e., commitment to environment and safety, acting with integrity, showing work commitment, communicating effectively, and respecting others).

There are no specific weights assigned to these various elements of individual performance.

Base Salaries

Base salaries for each executive officer position are determined using data from the Towers Perrin Compensation Data Bank and the Compensation Comparator Group for positions with similar duties and levels of responsibility. Base salaries are reviewed annually and may be adjusted to reflect promotions, the assignment of additional responsibilities, individual performance or the performance of Valero. Salaries are also periodically adjusted to remain competitive with entities within the compensation survey data.

An executive's compensation typically increases in relation to his or her responsibilities within Valero, with the level of compensation for more senior executive officers being higher than that for less senior executive officers. For example, the base salary and overall compensation for Mr. Marcogliese (Executive Vice President and Chief Operating Officer) in 2009 was higher than that of the other named executive officers (except for our Chief Executive Officer) because the Compensation Committee believed that this compensation appropriately reflected the duties and responsibilities assigned to his position as compared to the duties and responsibilities of the other officer positions. The determination of Mr. Marcogliese's compensation in light of these duties and responsibilities was otherwise commensurate with the determination process for other named executive officers.

In 2009, the base salaries of our named executive officers were adjusted to the following levels:

| Name | Base Salary 12/31/2008 | Base Salary 12/31/2009 |
|------------------------|---------------------------|---------------------------|
| William R. Klesse | \$ 1,500,000 | \$ 1,500,000 |
| Richard J. Marcogliese | \$ 855,000 | \$ 955,000 |
| Michael S. Ciskowski | \$ 700,000 | \$ 750,000 |
| Kimberly S. Bowers | \$ 475,000 | \$ 494,000 |
| Joseph W. Gorder | \$ 445,000 | \$ 460,000 |

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The base salaries for our Chief Executive Officer and other executive officers are approved by the Compensation Committee taking into consideration compensation survey data. In addition, the Compensation Committee considers the recommendations of the Chief Executive Officer with regard to officers other than the Chief Executive Officer. The base salary and all other compensation of the Chief Executive Officer are reviewed and approved by the independent directors of the Board.

The base salaries of our named executive officers (other than the Chief Executive Officer) were increased for fiscal year 2009 to remain competitive in our market. Effective January 1, 2010, the annual base salaries of Kimberly S. Bowers and Joseph W. Gorder were increased to \$515,000; and \$469,000; respectively, in recognition of competitive survey data.

Annual Incentive Bonus

Our named executive officers can earn annual incentive bonuses based on the following three factors:

the position of the named executive officer, which is used to determine a targeted percentage of annual base salary that may be awarded as incentive bonus based on the Compensation Comparator Group at the 65th percentile benchmark, with the targets ranging from a low of 80% of base salary to 135% of base salary for our Chief Executive Officer;

Valero's realization of quantitative financial performance goals and operational and strategic performance measures for the year; and

a qualitative evaluation of the individual's performance.

The following table shows the percentages of each named executive officer's annual base salary and Total Direct Compensation that represent his or her annual bonus target for the fiscal year ended December 31, 2009:

| Name | Annual Incentive Bonus Target as a Percentage of Base Salary | Annual Incentive Bonus Target as a Percentage of Total Direct Compensation |
|------------------------|---|---|
| William R. Klesse | 135% | 17% |
| Richard J. Marcogliese | 125% | 20% |
| Michael S. Ciskowski | 125% | 20% |
| Kimberly S. Bowers | 80% | 20% |
| Joseph W. Gorder | 80% | 20% |

A named executive officer's annual incentive bonus is determined by first multiplying the executive officer's bonus target percentage by his or her base salary (*e.g.*, for Mr. Klesse, 135% times \$1,500,000 results in an annual incentive bonus target of \$2,025,000). The amount of the bonus payment ultimately made to a named executive officer can range from 0% of the bonus target amount to 200% of the bonus target amount, depending on Valero's achievement of certain performance objectives.

In 2009, the annual incentive bonus program's performance measures were modified to include two segments:

Financial Performance Measures and Operational and Strategic Measures, with each segment weighted as 50% of the total bonus opportunity. The new measurement system eliminates the 25% discretionary adjustment factor that existed under the previous bonus program.

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The Financial Performance Measures are the same three measures we used in 2008 and prior years (as described below under the caption "Financial Performance Measures"). Targets for the Financial Performance Measures are established by the Committee during the fiscal year. After completion of the fiscal year, each of the three Financial Performance Measures is measured against Valero's actual performance, with each measure being weighted equally as one-third of the final Financial Performance Measures score.

The other half of a named executive officer's bonus is earned according to Valero's achievement with respect to three Operational and Strategic Measures. This segment of performance measures is new for the program. These metrics measure Valero's achievements in the areas of (i) health, safety, and environmental, (ii) mechanical availability, and (iii) cost management and expense control, as more fully described below under the caption "Operational and Strategic Performance Measures." Targets for the Operational and Strategic Measures are also established by the Committee during the fiscal year. After completion of the fiscal year, each of the three Operational and Strategic Measures is measured against Valero's actual performance in these areas.

Each performance segment is weighted equally. Thus, if Valero's performance score under the Financial Performance Measures segment were 68%, and if Valero's performance score under the Operational and Strategic Measures segment were 110%, then the final, total performance score of Valero for that fiscal year's bonus program would be 89% (representing the sum of 68% times 50%, plus 110% times 50%). Continuing with the example of Mr. Klesse above, his bonus payment for the hypothetical year would be equal to \$1,802,250 (representing his annual incentive bonus target of \$2,025,000 times 89%).

Financial Performance Measures

The three Financial Performance Measures for Valero's annual incentive bonus program are the following. These are measured against the target levels pre-established by the Compensation Committee.

Valero's earnings per share, or EPS, compared to threshold, target, and maximum EPS performance levels approved by the Compensation Committee;

Valero's total stockholder return, or TSR, compared to threshold, target, and maximum TSR performance levels approved by the Compensation Committee (TSR measures the growth in the daily average closing price per share of our Common Stock during the month of November, including the reinvestment of dividends, compared with the daily average closing price of our Common Stock during the corresponding period in the prior year); and

Valero's return-on-investment, or ROI, percentile ranking compared to the ROI percentile of the Peer Group for the 12-month period ended September 30, 2009, as approved by the Compensation Committee.

We believe that these Financial Performance Measures appropriately reflect our business planning process and corporate financial philosophy regarding financial performance measurement. We believe that annual incentive bonus plans should measure both the quantity of earnings as well as the quality of earnings, while maintaining an appropriate focus on increasing returns to stockholders. The quantity of earnings is typically measured by some amount of earnings performance, such as earnings per share or net income from operations. The quality of earnings is typically measured by some determination of return-on-investment, such as return-on-equity or return on capital employed, allowing consideration of management's ability to generate a reasonable rate of return on the capital investment in the business. Our current incentive bonus plan considers these financial principles in its overall design.

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For the EPS and TSR performance measures, the target percentage of base salary is subject to adjustment, upward or downward, based upon whether our EPS and TSR exceed or fall short of the target EPS and TSR, respectively. For the ROI financial performance measure, the target percentage of base salary is subject to adjustment, upward or downward, depending upon whether our ROI exceeds, or falls short of, the ROI 50th percentile ranking for our Peer Group.

For the 2009 annual incentive bonus program, the Compensation Committee established the following targets: EPS of \$2.80, TSR stock price of \$25.00, and ROI at the 50th percentile of our ROI Peer Group ranking. For 2009, our performance did not reach payout levels for any of these targets. Accordingly, the three Financial Performance Measures of this segment generated a bonus performance score of 0% of the target bonus amounts.

Operational and Strategic Performance Measures

The three Operational and Strategic Measures for Valero's annual incentive bonus program are the following. These are measured against target levels pre-established by the Compensation Committee.

Valero's achievements in health, safety, and environmental (HS&E); and

Valero's achievements in improving refining competitiveness through improved mechanical availability (MA); and

Valero's achievements in cost management and expense control (CM&EC).

We believe that these Operational and Strategic Measures appropriately reflect key business elements of Valero. We believe that the annual incentive bonus plan should measure both Valero's financial performance as well as management's execution of key operational and strategic measures.

For the 2009 annual incentive bonus program, the Compensation Committee established the following performance targets: MA at 96.9%, and CM&EC of \$156 million. Actual MA performance did not reach any payout level of target. Actual CM&EC performance achieved 184% of target. With respect to HS&E metrics for 2009, the Compensation Committee established the targets detailed in the table below. Valero's actual HS&E performance was 153% of target.

| | Refineries | Renewables | Logistics | Retail |
|-----------------------------------|------------|------------|-----------|--------|
| Recordable Injury Rate | | | | |
| Target | 0.90 | 4.00 | 1.40 | 4.02 |
| Actual | 0.82 | 3.52 | 1.15 | 3.70 |
| Environmental Scorecard Incidents | | | | |
| Target | 430 | 54 | n/a | n/a |
| Actual | 275 | 39 | n/a | n/a |
| Reliability Incident Rate | | | | |
| Target | 1.25 | n/a | n/a | n/a |
| Actual | 1.29 | n/a | n/a | n/a |
| API Process Safety Incidents Rate | | | | |
| Target | 0.20 | 1.20 | n/a | n/a |
| Actual | 0.18 | 0.47 | n/a | n/a |
| HSE Audit Past Due Items | | | | |
| Target | 4.0 | n/a | 3.0 | n/a |
| Actual | 0.0 | n/a | 0.0 | n/a |
| Plant Outages (>1/2 day) | | | | |
| Target | n/a | 28 | n/a | n/a |
| Actual | n/a | 12 | n/a | n/a |
| Reportable Spills | | | | |
| Target | n/a | n/a | 5.0 | n/a |
| Actual | n/a | n/a | 2.0 | n/a |

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| | Refineries | Renewables | Logistics | Retail |
|--------------------------------------|------------|------------|-----------|--------|
| Non-Reportable Spills | | | | |
| Target | n/a | n/a | 20.0 | n/a |
| Actual | n/a | n/a | 11.0 | n/a |
| Lost Time Injury Rate | | | | |
| Target | n/a | n/a | n/a | 0.80 |
| Actual | n/a | n/a | n/a | 0.69 |
| Environ 1 Audits/Training Compliance | | | | |
| Target | n/a | n/a | n/a | 94.2% |
| Actual | n/a | n/a | n/a | 97.0% |
| Pendant Compliance | | | | |
| Target | n/a | n/a | n/a | 89.0% |
| Actual | n/a | n/a | n/a | 93.0% |
| Cash Handling | | | | |
| Target | n/a | n/a | n/a | \$125 |
| Actual | n/a | n/a | n/a | \$108 |

The Compensation Committee weighted the three measures equally, resulting in a 56.2% bonus score (*i.e.*, the sum of 0%, 184%, and 153%, divided by three, and multiplied by 50%), which the Committee finally awarded as 50% for the Operational and Strategic Measures segment.

2009 Annual Incentive Bonus Awards for Named Executive Officers

At the request of Mr. Klesse, the Committee and the Board determined that Mr. Klesse would not be paid a bonus citing, generally, difficult industry conditions and Valero's lack of profitability.

The following table provides a summary of how the 2009 annual incentive bonus amounts paid to our named executive officers were calculated:

| | <i>Klesse</i> | <i>Marcogliese</i> | <i>Ciskowski</i> | <i>Bowers</i> | <i>Gorder</i> |
|------------------------------|---------------|--------------------|------------------|---------------|---------------|
| Base salary (1) | \$1,500,000 | \$ 955,000 | \$750,000 | \$494,000 | \$460,000 |
| Bonus target percentage (2) | 135% | 125% | 125% | 80% | 80% |
| Bonus target amount (3) | \$2,025,000 | \$1,193,750 | \$937,500 | \$395,200 | \$368,000 |
| Valero performance score (4) | 50% | 50% | 50% | 50% | 50% |
| Bonus calculation (5) | \$1,012,500 | \$ 596,875 | \$468,750 | \$197,600 | \$184,000 |
| Actual bonus amount paid (6) | \$ 0 | \$ 450,000 | \$450,000 | \$200,000 | \$200,000 |

Footnotes:

(1) As described in Compensation Discussion and Analysis Elements of Executive Compensation Base Salaries.

(2) As described in Compensation

Discussion and
Analysis
Elements of
Executive
Compensation
Annual
Incentive
Bonus.

(3) Determined by
multiplying base
salary times
bonus target
percentage.

(4) Determined by
adding Valero's
Financial
Performance
Measures score
(times 50%) to
Valero's
Operational and
Strategic
Measures score
(times 50%).
Valero's total
performance
score can range
from 0% to
200%. For
2009, Valero's
bonus
performance
score was 50%
(representing
0% from the
Financial
Performance
Measures
segment plus
50% from the
Operational and
Strategic
Measures
segment).

(5) Determined by
multiplying
bonus target
amount by

Valero
performance
score.

- (6) As disclosed in the Summary Compensation Table. The actual bonus amount paid reflects rounding adjustments, and in certain years (such as 2009) can reflect other adjustments based upon the exercise of discretion of the Chief Executive Officer and the Compensation Committee as described above in this subsection and in Compensation Discussion and Analysis Elements of Executive Compensation Individual Performance and Personal Objectives.

Table of Contents***Long-Term Incentive Awards***

We provide stock-based, long-term compensation for executive officers through our stockholder-approved equity plans. The plans provide for a variety of stock and stock-based awards, including stock options and restricted stock, each of which vest over a period determined by the Compensation Committee. The Committee does not time the grants of long-term incentive awards around Valero's release of undisclosed material information.

For each eligible officer, a target amount of long-term incentives is established based on the 65th percentile of the Compensation Comparator Group and is expressed as a percentage of base salary. An executive officer's targeted award may be adjusted based upon the Compensation Committee's evaluation of the executive officer's individual performance, which (for officers other than the Chief Executive Officer) takes into consideration the recommendation of the Chief Executive Officer. See Compensation Discussion and Analysis Elements of Executive Compensation Individual Performance and Personal Objectives. As with the annual incentive bonus, the Compensation Committee retains discretion to determine whether any award should be made.

The following table shows the percentages of each named executive officer's base salary and Total Direct Compensation that represent his or her long-term compensation target for the fiscal year ended December 31, 2009:

| Name | Long-Term Incentive Awards Target as a Percentage of Base Salary | Long-Term Incentive Awards Target as a Percentage of Total Direct Compensation |
|------------------------|--|--|
| William R. Klesse | 540% | 70% |
| Richard J. Marcogliese | 415% | 64% |
| Michael S. Ciskowski | 415% | 64% |
| Kimberly S. Bowers | 230% | 56% |
| Joseph W. Gorder | 230% | 56% |

Stock Options and Restricted Stock

Our 2009 long-term incentive awards consisted of an allocation of stock options and restricted stock weighted 50% in the form of stock options and 50% in the form of restricted stock, and is based on our determination to provide an appropriate balance of long-term incentives. The Compensation Committee presently expects to make awards of options and restricted stock annually.

Stock options granted in 2009 will vest in equal annual installments over a period of three years and have ten-year terms. Grants and vesting of stock options are not contingent upon the achievement of any specified performance targets. However, because the exercise price of options cannot be less than 100 percent of the fair market value of our Common Stock on the date of grant, options will provide a benefit to the executive only to the extent that there is appreciation in the market price of our Common Stock. Options and restricted stock are subject to forfeiture if an executive terminates employment prior to vesting.

In 2009, the Compensation Committee determined that awards of restricted stock will vest in equal annual installments over a period of five years and contain a performance accelerator feature to provide for the potential early vesting of one-half of the restricted stock grant. The performance accelerator feature requires that the closing market price per share for our Common Stock must be \$40.00 or higher for five consecutive trading days, whereupon the shares then eligible for accelerated vesting will vest.

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The Compensation Committee considers and grants stock options and restricted stock to our executive officers and other employees annually, typically during the third or fourth quarter. The Committee may also grant stock options or restricted stock to new executive officers and employees when they are hired or promoted. During periods between meetings of the Compensation Committee, as an administrative convenience, the Chief Executive Officer has limited authority to make awards to employees other than executive officers when they are hired or promoted.

As required by our equity incentive plans, the exercise price for stock options is equal to the the mean of the highest and lowest sales prices per share of our Common Stock as reported on the NYSE on the grant date. All awards of options described in the Summary Compensation Table and Grants of Plan-Based Awards Table of this proxy statement were reviewed and approved by the Compensation Committee. All of these stock options have a grant date that is equal to or after the date on which the options were approved by the Compensation Committee, except for grants to our Chief Executive Officer, which have a grant date that is equal to the date on which our independent directors approve grants recommended by the Compensation Committee.

The stock option and restricted stock components of our executive officers' 2009 long-term incentive awards were granted in October 2009. The following table shows the percentages of each named executive officer's base salary and Total Direct Compensation that represent his or her stock option and restricted stock targets for the fiscal year ended December 31, 2009.

| Name | Stock Option | | Restricted Stock | |
|------------------------|---------------------------------------|---|---------------------------------------|---|
| | Target as a Percentage of Base Salary | Target as a Percentage of Total Direct Compensation | Target as a Percentage of Base Salary | Target as a Percentage of Total Direct Compensation |
| William R. Klesse | 270% | 35% | 270% | 35% |
| Richard J. Marcogliese | 207.5% | 32% | 207.5% | 32% |
| Michael S. Ciskowski | 207.5% | 32% | 207.5% | 32% |
| Kimberly S. Bowers | 115% | 28% | 115% | 28% |
| Joseph W. Gorder | 115% | 28% | 115% | 28% |

Performance Shares

In prior years, performance shares comprised a portion of the executive officers' long-term incentive targets. Although no performance shares were granted in 2009 or 2008, each of the named executive officers holds performance shares that were granted in 2006 and 2007. These shares have scheduled vesting dates through January 2011. The performance shares are earned (vest) only upon Valero's achievement of an objective performance measure, namely total stockholder return.

Specifically, each award is subject to vesting in three annual increments, based upon our TSR during rolling three-year periods that end on December 31 of each year following the date of grant. At the end of each performance period, our TSR for the prior three years is compared to the TSR of our Peer Group and ranked by quartile. An officer then earns 0%, 50%, 100%, or 150% of that portion of the initial grant amount that is vesting, depending upon whether our TSR is in the last, 3rd, 2nd, or 1st quartile, respectively, and can earn 200% if we rank highest in the group. Amounts not earned in a given performance period can be carried forward for one additional performance period and up to 100% of the carried amount can still be earned, depending upon the quartile performance ranking for that subsequent period. For the performance period ended December 31, 2009, Valero's TSR placed Valero in the third quartile, resulting in a 50% vesting of eligible shares.

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In 2008, the Compensation Committee determined to eliminate performance shares as a component of our long-term incentive program chose to base our long-term incentive program on stock options and restricted stock after considering that most of our peers employ these two long-term incentive vehicles. Additionally, the Committee concluded that the performance shares measure of total shareholder return was somewhat redundant to the annual bonus plan performance metric that was also based on total shareholder return.

Perquisites and Other Benefits*Perquisites*

We provide certain perquisites to our named executive officers. These officers are eligible to receive reimbursement for club dues, personal excess liability insurance, federal income tax preparation, life insurance policy premiums with respect to cash value life insurance, annual health examination, and tickets to sporting and other entertainment events. We do not provide executive officers with automobiles or automobile allowances or supplemental executive medical benefits or coverage. In addition, we generally do not allow executive officers to use company aircraft for personal use, such as travel to and from vacation destinations. However, spouses (or other family members) occasionally accompany executive officers when executive officers are traveling on company aircraft for business purposes, such as attending an industry business conference at which spouses are invited and expected to attend.

Other Benefits

We provide other benefits, including medical, life, dental, and disability insurance in line with competitive market conditions. Our named executive officers are eligible for the same benefit plans provided to our other employees, including our Thrift Plan and insurance and supplemental plans chosen and paid for by employees who desire additional coverage.

Executive officers and other employees whose compensation exceeds certain limits are eligible to participate in non-qualified excess benefit programs whereby those individuals can choose to make larger contributions than allowed under the qualified plan rules and receive correspondingly higher benefits. These plans are described below under Compensation Discussion and Analysis Elements of Executive Compensation Post-Employment Benefits.

Post-Employment Benefits*Pension Plans*

We have a noncontributory defined benefit Pension Plan in which most of our employees, including our named executive officers, are eligible to participate and under which contributions by individual participants are neither required nor permitted. We also have a noncontributory, non-qualified Excess Pension Plan and a non-qualified Supplemental Executive Retirement Plan, or SERP, which provide supplemental pension benefits to certain highly compensated employees, and under which our named executive officers are participants. The Excess Pension Plan and the SERP provide eligible employees with additional retirement savings opportunities that cannot be achieved with tax-qualified plans due to Internal Revenue Code of 1986, as amended (the Internal Revenue Code), limits on (i) annual compensation that can be taken into account under qualified plans, or (ii) annual benefits that can be provided under qualified plans.

The Pension Plan (supplemented, as necessary, by the Excess Pension Plan) provides a monthly pension at normal retirement equal to 1.6% of the participant's average monthly compensation (based upon the participant's earnings during the three consecutive calendar years during the last 10 years of the participant's credited service, including service with our former parent, affording the highest such average) times the

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participant's years of credited service. The SERP provides an additional benefit equal to .35% times the product of the participant's years of credited service (maximum 35 years) multiplied by the excess of the participant's average monthly compensation over the lesser of 1.25 times the monthly average (without indexing) of the social security wage bases for the 35-year period ending with the year the participant attains social security retirement age, or the monthly average of the social security wage base in effect for the year that the participant retires. For purposes of the SERP, the participant's most highly compensated consecutive 36 months of service are considered, including employment with our former parent and its subsidiaries. The SERP benefit payment is made in a lump sum; an annuity form of benefit payment is not available under the SERP. An executive will become a participant in the SERP as of the date he or she is selected and named in the minutes of the Compensation Committee for inclusion as a participant in the SERP. Compensation for purposes of the Pension Plan, Excess Pension Plan, and SERP includes salary and bonus. Pension benefits are not subject to any deduction for social security or other offset amounts. For more information regarding our named executive officers' participation in our pension plans, see the table under the caption "Pension Benefits" and its related disclosures.

Nonqualified Deferred Compensation Plans

Deferred Compensation Plan. Our named executive officers are eligible to participate in our Deferred Compensation Plan ("DC Plan"). The DC Plan permits eligible employees to defer a portion of their salary and/or bonus until separation (*i.e.*, retirement or termination of employment) or at other designated distribution times provided for in the DC Plan. The DC Plan is a non-qualified deferred compensation arrangement designed to be a "top hat" plan within the meaning of the Employee Retirement Income Security Act ("ERISA") and is, therefore, exempt from most of ERISA's requirements relating to pension plans. The DC Plan is not designed to constitute a qualified pension plan under Section 401(a) of the Internal Revenue Code.

Designated eligible employees are intended to constitute a select group of management or highly compensated employees within the meaning of ERISA. Under the DC Plan, each year eligible employees are permitted to elect to defer up to 30% of their salary and/or 50% of their cash bonuses to be earned for services performed during the following year.

Pursuant to the DC Plan, Valero may from time to time make discretionary contributions to participants' accounts in such amounts as shall be determined or determinable under a formula and announced to DC Plan participants. For the Chief Executive Officer or the President, any such discretionary contributions would be made upon recommendation by the Compensation Committee and approval of the Board. For certain other executive officers, any such discretionary contributions would be made upon recommendation of the Chief Executive Officer and approval of the Compensation Committee. For any other participant, any such discretionary contributions would be made upon recommendation of the Chief Executive Officer. We have made no discretionary contributions to participants' accounts, and currently we have no plans to make any discretionary contributions to participants' accounts. We would likely only consider such contributions in the event of a significant, catastrophic economic event (or series of events) that materially impairs the value of participants' accounts.

All amounts credited under the DC Plan (other than discretionary credits) are immediately 100 percent vested. Any discretionary credits will vest in accordance with the vesting schedule determined at the time of the grant of discretionary credits. Participant accounts are credited with earnings (or losses) based on investment fund choices made by the participants among available funds selected by Valero's benefits plans administrative committee from time to time.

At the time of their deferral elections, participants may also elect when and over what period of time their deferrals will be distributed. Specifically, participants may elect to have their accounts distributed in a lump

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sum on a specified date in the future, at least five years from the date of the deferral election. Even if a participant has elected a specified distribution date, the participant's DC Plan account will be distributed upon the participant's death, retirement, or other termination of employment. Participants may, at the time of their deferral elections, choose to have their accounts distributed as soon as reasonably practical following retirement or other termination, or on the January 1st following the date of retirement or termination.

Participants may also elect to have their accounts distributed in one lump sum payment or in five, 10 or 15 year installments upon retirement, and in a lump sum or five annual installments upon other termination. Upon a participant's death, the participant's beneficiary will receive the participant's DC Plan account in one lump-sum payment within 90 days following the participant's death. Participants may also receive a portion of their DC Plan account necessary to satisfy an unforeseeable emergency (as defined in the DC Plan). Upon a change in control (as defined in the DC Plan) of Valero, all DC Plan accounts are immediately vested in full. However, distributions are not accelerated and, instead, are made in accordance with the DC Plan's normal distribution provisions.

As a nonqualified deferred compensation arrangement, the DC Plan is subject to Internal Revenue Code Section 409A and its regulations. We intend to administer and interpret the DC Plan in a manner consistent with such Internal Revenue Code section and regulations.

Excess Thrift Plan. Our Excess Thrift Plan provides benefits to our employees whose annual additions to our Thrift Plan are subject to the limitations on such annual additions as provided under Section 415 of the Internal Revenue Code, and/or who are constrained from making maximum contributions under the Thrift Plan by Section 401(a)(17) of the Internal Revenue Code, which limits the amount of an employee's annual compensation which may be taken into account under that plan. Two separate components comprise the Excess Thrift Plan: (i) an excess benefit plan as defined under Section 3(36) of ERISA; and (ii) a plan that is unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. Each component of the Excess Thrift Plan consists of a separate plan for purposes of Title I of ERISA.

Information regarding contributions by Valero and each of our named executive officers under our non-qualified defined contribution and other deferred compensation plans during the year ended December 31, 2008, is stated in this proxy statement in the table under the caption "Executive Compensation - Nonqualified Deferred Compensation."

Severance Arrangements

We have entered into change of control agreements with each of the named executive officers. These agreements are intended to assure the continued availability of these executive officers in the event of certain transactions culminating in a change of control of Valero. If a change of control (as defined in the agreements) occurs during the term of an agreement, then the agreement becomes operative for a fixed three-year period. The agreements provide generally that the executive officer's terms and conditions of employment (including position, location, compensation and benefits) will not be adversely changed during the three-year period after a change of control.

Following a change of control, particular payments under the agreements are triggered commensurate with the occurrence of any of the following: (i) termination of employment by Valero other than for cause (as defined in the agreement) or disability; (ii) termination by the executive for good reason (as defined in the agreements); (iii) termination by the executive other than for good reason; and (iv) termination of employment because of death or disability. These triggers were designed to ensure the continued availability of the executive officers following a change of control, and to compensate the executive officers at appropriate levels if their employment is unfairly or prematurely terminated during the applicable term following a

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change of control. For more information regarding payments that may be made under our severance arrangements, see our disclosures below under the caption **Executive Compensation – Potential Payments upon Termination or Change of Control**.

IMPACT OF ACCOUNTING AND TAX TREATMENTS***Accounting Treatment***

We recognize in our financial statements the costs of equity awards over the period in which an employee is required to provide service in exchange for the awards. The cost of such awards is measured at fair value on the date of grant and we use the Black-Scholes option pricing model to determine the grant date present value of stock options.

Tax Treatment

Under Section 162(m) of the Internal Revenue Code, publicly held corporations may not take a tax deduction for compensation in excess of \$1 million paid to the Chief Executive Officer or the other four most highly compensated executive officers unless that compensation meets the Internal Revenue Code's definition of performance based compensation. Section 162(m) allows a deduction for compensation to a specified executive that exceeds \$1 million only if it is paid (i) solely upon attainment of one or more performance goals, (ii) pursuant to a qualifying performance-based compensation plan adopted by the Compensation Committee, and (iii) the material terms, including the performance goals, of such plan are approved by the stockholders before payment of the compensation. The Compensation Committee considers deductibility under Section 162(m) with respect to compensation arrangements for executive officers. The Committee believes that it is in our best interests for the Committee to retain its flexibility and discretion to make compensation awards to foster achievement of performance goals established by the Committee and other corporate goals the Committee deems important to our success, such as encouraging employee retention, rewarding achievement of nonquantifiable goals and achieving progress with specific projects. We believe that our outstanding stock options and performance share grants qualify as performance-based compensation and are not subject to any deductibility limitations under Section 162(m). Grants of restricted stock or other equity-based awards that are not subject to specific quantitative performance measures will likely not qualify as performance based compensation and, in such event, would be subject to Section 162(m) deduction restrictions.

COMPENSATION-RELATED POLICIES***Say-On-Pay Policy***

In 2009, our Board considered and approved a say-on-pay policy. The policy provides that at each annual meeting of stockholders, starting with the 2010 meeting, stockholders will be provided the opportunity to vote on an advisory resolution to ratify the compensation of Valero's named executive officers as set forth in the Summary Compensation Table of the proxy statement. The vote will allow stockholders to express their opinions regarding the decisions of the Compensation Committee on the prior year's annual compensation to the named executive officers. The stockholder vote will be advisory in nature, which means that it will not affect any compensation already paid or awarded to any named executive officer and will not be binding on the Compensation Committee, but will be considered by the Compensation Committee in determining annual compensation for the named executive officers in subsequent periods. The full text of the policy is available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section.

Table of Contents***Executive Compensation Clawback Policy***

In 2009, our Board considered and approved an executive compensation policy entitled *Policy on Executive Compensation in Restatement Situations*, a so-called clawback policy. The policy provides that in the event of a material restatement of Valero's financial results, the Board, or the appropriate committee thereof, will review all bonuses and other incentive and equity compensation awarded to Valero's executive officers. If such bonuses and other incentive and equity compensation would have been lower had they been calculated based on such restated results, the Board, or the appropriate committee thereof, will, to the extent permitted by governing law and as appropriate under the circumstances, seek to recover for the benefit of Valero all or a portion of such bonuses and incentive and equity compensation awarded to executive officers whose fraud or misconduct caused or partially caused such restatement, as determined by the Board, or the appropriate committee thereof. In determining whether to seek recovery, the Board, or the appropriate committee thereof, shall take into account such considerations as it deems appropriate, including governing law and whether the assertion of a claim may prejudice the interests of Valero in any related proceeding or investigation. The full text of the policy is available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section.

Compensation Consultant Disclosure Policy

In 2009, our Board considered and approved a compensation consultant disclosure policy. The policy provides that beginning in 2010, we will make additional disclosures pertaining to compensation consultants in our proxy statements for annual meetings of stockholders. For any compensation consultant retained by the Compensation Committee to provide compensation advice with respect to the compensation disclosed in the Summary Compensation Table in the proxy statement, we will disclose (i) the total fees paid annually to the consultant for compensation-related services and non-compensation-related services, (ii) a description of any non-compensation-related services provided by the consultant, and (iii) any services that the consultant has provided to senior executives of Valero and the nature of those services. The full text of the policy is available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section.

Stock Ownership Guidelines

Our Board, the Compensation Committee, and our executive officers recognize that ownership of Common Stock is an effective means by which to align the interests of our directors and executive officers with those of our stockholders. We have long emphasized the importance of stock ownership among our executive officers and directors. Our stock ownership and retention guidelines for our directors and officers, as approved by the Compensation Committee and our Board, are set forth below.

Non-Employee Director Stock Ownership Guidelines. Non-employee directors are expected to acquire and hold during their service shares of our Common Stock equal in value to at least three times the annual cash retainer paid to our directors. Directors have five years from their initial election to the Board to meet the target stock ownership guideline, and they are expected to continuously own sufficient shares to meet the guideline once attained.

Executive Stock Ownership Guidelines. Stock ownership guidelines for our officers are as follows:

| Officer Position | Value of Shares Owned |
|---------------------------|-----------------------|
| Chief Executive Officer | 5x Base Salary |
| President | 3x Base Salary |
| Executive Vice Presidents | 2x Base Salary |
| Senior Vice Presidents | 1x Base Salary |
| Vice Presidents | 1x Base Salary |

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Our officers are expected to meet the applicable guideline within five years and are expected to continuously own sufficient shares to meet the guideline once attained. The full text of our stock ownership and retention guidelines is available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section.

Insider Trading and Speculation in Valero Stock

We have established policies prohibiting our officers, directors, and employees from purchasing or selling Valero securities while in possession of material, nonpublic information, or otherwise using such information for their personal benefit or in any manner that would violate applicable laws and regulations. In addition, our policies prohibit our officers, directors, and employees from speculating in our stock, which includes short selling (profiting if the market price of our stock decreases), buying or selling publicly traded options (including writing covered calls), hedging, or any other type of derivative arrangement that has a similar economic effect.

Table of Contents**EXECUTIVE COMPENSATION**

The tables in the following sections of this proxy statement provide information required by the SEC regarding compensation paid to or earned by our named executive officers for the year ended December 31, 2009. We have used captions and headings in these tables in accordance with the SEC regulations requiring these disclosures. The footnotes to these tables provide important information to explain the values presented in the tables, and are an important part of our disclosures.

SUMMARY COMPENSATION TABLE

The following table provides a summary of compensation paid to our named executive officers for the fiscal years ending December 31, 2009, 2008, and 2007. The table shows amounts earned by such persons for services rendered to Valero in all capacities in which they served. The elements of compensation listed in the table are more fully described in the Compensation Discussion and Analysis section of this proxy statement and in the table's footnotes.

| Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$)(1)(2) | Option Awards (\$)(1)(3) | Change in Pension Value and Nonqualified Deferred Compensation (\$)(4) | All Other Compensation (\$)(5) | Total (\$)(1) |
|--|-------------|------------------|----------------|-------------------------|--------------------------|--|--------------------------------|-------------------|
| William R. Klesse, Chief Executive Officer, President, and Chairman of the Board | 2009 | 1,500,000 | | 4,905,200 | 4,306,896 | 791,410 | 194,725 | 11,698,231 |
| | 2008 | 1,500,000 | 705,510 | 2,058,846 | 2,235,337 | 1,181,461 | 138,494 | 7,819,648 |
| | 2007 | 1,500,000 | 3,720,015 | 5,330,393 | 2,696,100 | 1,122,665 | 117,110 | 14,486,283 |
| Michael S. Ciskowski, Executive Vice President and Chief Financial Officer | 2009 | 750,000 | 450,000 | 1,884,808 | 1,654,928 | 209,862 | 60,508 | 5,010,106 |
| | 2008 | 700,000 | 513,912 | 739,152 | 802,477 | 636,887 | 56,880 | 3,449,308 |
| | 2007 | 580,000 | 870,000 | 1,079,516 | 539,220 | | 47,309 | 3,116,045 |
| Richard J. Marcogliese, Executive Vice President and Chief Operating Officer | 2009 | 955,000 | 450,000 | 1,884,808 | 1,654,928 | 920,851 | 75,099 | 5,940,686 |
| | 2008 | 855,000 | 627,707 | 902,724 | 980,081 | 1,757,183 | 72,049 | 5,194,744 |
| | 2007 | 555,000 | 1,332,000 | 2,158,201 | 1,259,814 | 835,994 | 51,490 | 6,192,499 |
| Kimberly S. Bowers, Executive Vice President and General Counsel (6) | 2009 | 494,000 | 200,000 | 688,068 | 604,208 | 90,175 | 39,305 | 2,115,756 |
| | 2008 | 475,000 | 217,954 | 278,551 | 302,479 | 185,353 | 38,643 | 1,497,980 |
| Joseph W. Gorder, Executive Vice President- Marketing and Supply | 2009 | 460,000 | 200,000 | 640,695 | 562,496 | 92,026 | 43,936 | 1,999,153 |
| | 2008 | 445,000 | 204,188 | 261,099 | 283,441 | 207,099 | 43,141 | 1,443,968 |
| | 2007 | 423,000 | 634,500 | 778,023 | 389,709 | 70,659 | 44,306 | 2,353,122 |

Footnotes to Summary Compensation table:

- (1) In accordance with SEC Release No. 33-9089 (December 16, 2009), which amended the manner in which certain

stock-based awards must be disclosed, the amounts shown represent the grant date fair value of awards for each of the fiscal years shown, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation-Stock Compensation (FASB ASC Topic 718). The values for these columns no longer reflect the dollar amount recognized by Valero as expense in each fiscal year for financial statement reporting purposes. Accordingly, the compensation amounts shown in the columns above for Stock Awards, Option Awards, and Total for fiscal years 2008 and 2007 have been recomputed from the prior years proxy statement disclosures to reflect the grant date fair value of stock-based awards granted in those years.

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- (2) The amounts shown represent the grant date fair value of awards of restricted stock (for 2009, 2008, and 2007) and performance shares (for 2007, performance shares were not granted in 2009 or 2008), and do not correspond to the actual value that will be recognized by the named executive officers. Performance shares are subject to market and performance conditions as described in Compensation Discussion and Analysis Long-Term Incentive Awards Performance Shares. See the Grants of Plan-Based Awards table for additional information regarding shares of restricted stock granted in 2009.
- (3) See the Grants of Plan-Based Awards table for information on stock options granted in 2009. For additional information about valuation assumptions for the 2009, 2008, and

2007 stock option grants, refer to Note 22 (Stock Based Compensation) of Notes to Consolidated Financial Statements in Valero s Form 10-K for the years ended December 31, 2009, 2008, and 2007, respectively.

- (4) This column represents the sum of the change in pension value and non-qualified deferred compensation earnings in 2009, 2008, and 2007 for each of the named executive officers. See the Pension Benefits Table for additional information, including the present value assumptions used for these calculations. The actual change-in-value amount for Mr. Ciskowski for the year ended December 31, 2007, is a negative number, but is computed as a zero amount in the table above in accordance with Instruction 3 to Item 402(c)(2)(viii) of SEC s Regulation S-K, which instructs that negative values may

not be reflected in the sum reported in the table. For each of the named executive officers, the following table identifies the separate amounts attributable to (A) the aggregate change in the actuarial present value of the named executive officer's accumulated benefit under all defined benefit and actuarial pension plans, including supplemental plans (but excluding tax-qualified defined contribution plans and nonqualified defined contribution plans), and (B) above-market or preferential earnings on compensation that is deferred on a basis that is not tax-qualified.

| <i>Name</i> | <i>Year</i> | <i>(A)</i> | <i>(B)</i> | <i>Total</i> |
|------------------------|-------------|------------|------------|--------------|
| William R. Klesse | 2009 | \$791,410 | \$0 | \$791,410 |
| | 2008 | 1,181,461 | \$0 | 1,181,461 |
| | 2007 | 1,122,665 | 0 | 1,122,665 |
| Michael S. Ciskowski | 2009 | \$209,862 | \$0 | \$209,862 |
| | 2008 | 636,887 | \$0 | 636,887 |
| | 2007 | (62,988) | 0 | (62,988) |
| Richard J. Marcogliese | 2009 | \$920,851 | \$0 | \$920,851 |
| | 2008 | 1,757,183 | \$0 | 1,757,183 |
| | 2007 | 835,994 | 0 | 835,994 |
| Kimberly S. Bowers | 2009 | \$90,175 | \$0 | \$90,175 |
| | 2008 | 185,353 | \$0 | 185,353 |

| | | | | |
|------------------|------|----------|-----|----------|
| Joseph W. Gorder | 2009 | \$92,026 | \$0 | \$92,026 |
| | 2008 | 207,099 | \$0 | 207,099 |
| | 2007 | 70,659 | 0 | 70,659 |

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- (5) The amounts listed as All Other Compensation for the year ended December 31, 2009, are composed of the following items:

| <i>Item of income (in dollars)</i> | <i>Klesse</i> | <i>Ciskows</i> | <i>Marcogliese</i> | <i>Bowers</i> | <i>Gorder</i> |
|--|----------------|----------------|--------------------|---------------|---------------|
| Valero contribution to Thrift Plan account | 14,700 | 14,700 | 14,700 | 14,700 | 14,700 |
| Valero contribution to Excess Thrift Plan account | 75,300 | 30,300 | 42,600 | 14,300 | 12,900 |
| Reimbursement of club membership dues * | | 6,747 | 1,268 | 3,428 | 6,747 |
| Imputed income for personal liability insurance | 1,554 | 1,554 | 1,554 | 1,554 | 1,554 |
| Imputed income for tax return preparation | | 850 | 850 | | 850 |
| Executive insurance premiums with respect to cash value life insurance | 91,058 | | | | |
| Long-term disability premium imputed income | 4,549 | 4,549 | 4,549 | 4,549 | 4,549 |
| Imputed income for insurance (life & survivor) over \$50,000 | 7,564 | 1,808 | 9,510 | 774 | 2,636 |
| Imputed income gift award | | | 68 | | |
| Total | 194,725 | 60,508 | 75,099 | 39,305 | 43,936 |

- * amounts stated for Mr. Marcogliese and Ms. Bowers represent reimbursement for only part of 2009; Mr. Marcogliese and Ms. Bowers elected to discontinue participation in our reimbursement program effective March 31, 2009, and September 15, 2009, respectively.
- (6) Ms. Bowers was not a named executive

officer for the
year ended
December 31,
2007.

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**GRANTS OF PLAN-BASED AWARDS
FOR FISCAL YEAR ENDED DECEMBER 31, 2009**

The following table provides information regarding grants of plan-based awards (specifically, shares of restricted stock and stock options) made to our named executive officers in 2009.

| Name | Grant Date | Equity Incentive Plan Awards | | | Exercise or Base Price of Option Awards (\$/sh.) (1) | Closing Market Price on Grant Date (\$/sh.) | Grant Date Fair Value of Stock and Option Awards (\$)(2) |
|------------------------|-------------|------------------------------|------------|-------------|--|---|--|
| | | Threshold (#) | Target (#) | Maximum (#) | | | |
| William R. Klesse | 10/15/09(3) | n/a | 252,650 | n/a | | | 4,905,200 |
| | 10/15/09(4) | n/a | 611,775 | n/a | 19.415 | 20.15 | 4,306,896 |
| Michael S. Ciskowski | 10/15/09(3) | n/a | 97,080 | n/a | | | 1,884,808 |
| | 10/15/09(4) | n/a | 235,075 | n/a | 19.415 | 20.15 | 1,654,928 |
| Richard J. Marcogliese | 10/15/09(3) | n/a | 97,080 | n/a | | | 1,884,808 |
| | 10/15/09(4) | n/a | 235,075 | n/a | 19.415 | 20.15 | 1,654,928 |
| Kimberly S. Bowers | 10/15/09(3) | n/a | 35,440 | n/a | | | 688,068 |
| | 10/15/09(4) | n/a | 85,825 | n/a | 19.415 | 20.15 | 604,208 |
| Joseph W. Gorder | 10/15/09(3) | n/a | 33,000 | n/a | | | 640,695 |
| | 10/15/09(4) | n/a | 79,900 | n/a | 19.415 | 20.15 | 562,496 |

Footnotes:

- (1) Valero's 2005 Omnibus Incentive Plan provides that the exercise price for all options granted under the plan will be equal to the mean of the high and low reported sales price per share on the NYSE of our Common Stock on the date of grant.

- (2) The reported grant date fair value of stock and option awards was determined in compliance with FASB ASC Topic 718.

- (3) Represents a grant of shares of restricted stock. The shares vest (become nonforfeitable) in equal annual installments over a period of five years beginning in 2010. Fifty percent of the shares granted in 2009 are eligible for performance accelerated vesting (Eligible Shares). Therefore, notwithstanding the restricted shares regular five-year vesting schedule, to the extent any Eligible Shares have not yet vested per their regular vesting schedule, and to the extent the Eligible Shares have not been forfeited or otherwise canceled, all unvested Eligible Shares

will vest automatically at the close of business on the last date of the period when the NYSE-reported closing price per share of Common Stock is \$40.00 or higher for five consecutive trading days. Dividends on restricted stock are paid as and when dividends are declared and paid on our outstanding Common Stock. Restricted stock is more fully described in Compensation Discussion and Analysis Elements of Executive Compensation Long-Term Incentive Awards.

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- (4) Represents a grant of options to purchase our Common Stock. The options vest (become nonforfeitable) in equal annual installments over a period of three years beginning in 2010, and will expire in 10 years from their date of grant. For financial reporting purposes, the fair value of stock options must be determined using an option-pricing model such as Black-Scholes or a binomial model taking into consideration the following:
- the exercise price of the option;
 - the expected life of the option;
 - the current price of the underlying stock;
 - the expected volatility of the underlying stock;
 - the expected dividends on the underlying stock; and
 - the risk-free interest rate for the expected life of the option.

The Black-Scholes option pricing model was used

to determine grant date fair value. Options issued under our plans are not freely traded, and the exercise of such options is subject to substantial restrictions. The Black-Scholes model does not give effect to either risk of forfeiture or lack of transferability. The estimated values under the Black-Scholes model are based on assumptions as to variables such as interest rates, stock price volatility, and future dividend yield. The estimated values presented in this table were calculated using an expected average option life of 6.0 years, risk-free rate of return of 2.8%, average volatility rate of 47.8%, and a dividend yield of 3.1%, which is the expected annualized quarterly dividend rate in effect at the date of grant expressed as a

percentage of the market value of our Common Stock on the date of grant.

The actual value of stock options could be zero; realization of any positive value depends upon the actual future market performance of our Common Stock, the continued employment of the option holder throughout the vesting period, and the timing of the exercise of the option.

Accordingly, the values set forth in this table may not be achieved. The actual value, if any, a person will realize upon exercise of an option will depend on the excess of the market value of our Common Stock over the exercise price on the date the option is exercised. The options are also described in

Compensation Discussion and Analysis
Elements of Executive

Compensation
Long-Term
Incentive
Awards.

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**OUTSTANDING EQUITY AWARDS
AT DECEMBER 31, 2009**

The following table provides information regarding our named executive officers' unexercised stock options, unvested shares of restricted stock, and unvested performance shares as of December 31, 2009.

| Name | Option Awards | | | | Stock Awards | | | |
|------------------------|---|---|-------------------------------|------------------------|---|--|---|---|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Inexercisable | Option Exercise Price (\$)(1) | Option Expiration Date | Market Value of Shares or Units of Stock That Have Not Vested (#) | Performance Shares Equity Incentive Awards: Number of Unearned Shares, or Other Rights That Have Not Vested (#)(2) | Performance Shares Equity Incentive Awards: Market or Payout Value of Unearned Shares, or Other Rights That Have Not Vested (\$)(2) | Performance Shares Equity Incentive Awards: Market or Payout Value of Unearned Shares, or Other Rights That Have Not Vested (\$)(2) |
| William R. Klesse | 108,000 | | 9.825 | 10/29/13 | 3,120 (3) | 52,260 | 9,263 (10) | 155,155 |
| | 102,392 | | 11.5525 | 02/06/11 | 11,492 (4) | 192,491 | 15,746 (11) | 263,746 |
| | 40,084 | | 14.755 | 02/06/11 | 27,000 (5) | 452,250 | 38,000 (12) | 636,500 |
| | 50,900 | | 15.65 | 02/06/11 | 96,264 (6) | 1,612,422 | | |
| | 27,476 | | 18.6125 | 02/06/11 | 252,650 (7) | 4,231,888 | | |
| | 26,164 | | 18.0825 | 02/06/11 | | | | |
| | 68,000 | | 21.355 | 10/21/14 | | | | |
| | 148,725 | 297,450 (8) | 17.11 | 10/16/15 | | | | |
| | 611,775 (9) | 19.415 | 10/15/19 | | | | | |
| Michael S. Ciskowski | 46,000 | | 21.355 | 10/21/14 | 1,648 (3) | 27,604 | 1,973 (10) | 33,048 |
| | 53,392 | 106,783 (8) | 17.11 | 10/16/15 | 2,448 (4) | 41,004 | 3,353 (11) | 56,163 |
| | | 235,075 (9) | 19.415 | 10/15/19 | 5,400 (5) | 90,450 | 7,500 (12) | 125,625 |
| | | | | | 34,560 (6) | 578,880 | | |
| | | | | | 97,080 (7) | 1,626,090 | | |
| Richard J. Marcogliese | 40,000 | | 7.00 | 05/04/10 | 800 (3) | 13,400 | 1,676 (10) | 28,073 |
| | 20,000 | | 9.8625 | 06/16/11 | 2,184 (4) | 36,582 | 2,993 (11) | 50,133 |
| | 60,000 | | 8.43625 | 07/18/11 | 12,720 (5) | 213,060 | 17,680 (12) | 296,140 |
| | 60,000 | | 7.515 | 09/18/12 | 42,208 (6) | 706,984 | | |

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| Name | Option Awards | | | | Stock Awards | | | |
|--------------------------------|---|---|-------------------------------|------------------------|------------------|---|---|---|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Inexercisable | Option Exercise Price (\$)(1) | Option Expiration Date | Restricted Stock | Market Value of Shares or Units of Stock That Have Not Vested (\$)(2) | Performance Shares Equity Incentive Plan Awards: Number of Unearned Shares, or Other Rights That Have Not Vested (#)(2) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(2) |
| Richard J. Marcogliese (cont.) | 32,000 | | 9.825 | 10/29/13 | 97,080 (7) | 1,626,090 | | |
| | 20,000 | | 21.355 | 10/21/14 | | | | |
| | 65,209 | 130,416 (8) | 17.11 | 10/16/15 | | | | |
| | | 235,075 (9) | 19.415 | 10/15/19 | | | | |
| Kimberly S. Bowers | 9,600 | | 9.825 | 10/29/13 | 292 (3) | 4,891 | 346 (10) | 5,796 |
| | 9,400 | | 21.355 | 10/21/14 | 824 (4) | 13,802 | 1,126 (11) | 18,861 |
| | 20,125 | 40,250 (8) | 17.11 | 10/16/15 | 2,160 (5) | 36,180 | 3,000 (12) | 50,250 |
| | | 85,825 (9) | 19.415 | 10/15/19 | 13,024 (6) | 218,152 | | |
| | | | | | 35,440 (7) | 593,620 | | |
| Joseph W. Gorder | 14,400 | | 9.825 | 10/29/13 | 640 (3) | 10,720 | 1,273 (10) | 21,323 |
| | 14,000 | | 21.355 | 10/21/14 | 1,842 (4) | 30,854 | 2,523 (11) | 42,260 |
| | 18,859 | 37,716 (8) | 17.11 | 10/16/15 | 3,936 (5) | 65,928 | 5,470 (12) | 91,623 |
| | | 79,900 (9) | 19.415 | 10/15/19 | 12,208 (6) | 204,484 | | |
| | | | | | 33,000 (7) | 552,750 | | |

Footnotes to Outstanding Equity Awards table:

(1) Valero's 2005 Omnibus Incentive Plan provides that the

exercise price for all options granted under the plan will be equal to the mean of the high and low reported sales price per share on the NYSE of our Common Stock on the date of grant.

- (2) The assumed market values were determined using the closing market price of our Common Stock on December 31, 2009 (\$16.75 per share). For a further discussion of the vesting of certain performance share awards (as noted in the following footnotes), see Compensation Discussion and Analysis Elements of Executive Compensation Long-Term Incentive Awards Performance Shares.
- (3) The unvested portion of this award will vest on 10/20/10.

- (4) The unvested portion of this award will vest in equal installments on 10/19/10 and 10/19/11.

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Footnotes to
Outstanding Equity
Awards table (cont.):

- (5) The unvested portion of this award will vest in equal installments on 10/25/10, 10/25/11, and 10/25/12.
- (6) The unvested portion of this award will vest in equal installments on 10/16/10, 10/16/11, 10/16/12, and 10/16/13; 50% of the shares of restricted stock represented by this award are eligible for accelerated vesting as described in the footnotes to the Grants of Plan Based Awards table above (substituting \$60.00 for the \$40.00 stated therein).
- (7) The unvested portion of this award will vest in equal installments on 10/16/10, 10/16/11, 10/16/12, 10/16/13, and

10/16/14; 50% of the shares of restricted stock represented by this award are eligible for accelerated vesting as described in the footnotes to the Grants of Plan Based Awards table above.

- (8) The unvested portion of this award will vest in equal installments on 10/16/10, and 10/16/11.
- (9) The unvested portion of this award will vest in equal installments on 10/15/10, 10/15/11, and 10/15/12.
- (10) These performance shares vested on 01/25/10 at 50%, and shares of Common Stock equal to 50% of the number of vested performance shares were issued on that date. The value shown in the column, Equity Incentive Plan Awards: Market or Payout Value of Unearned

Shares, Units or Other Rights That Have Not Vested, represents the market value of 100% of the performance shares at the closing price of Valero's Common Stock on 12/31/09.

- (11) These performance shares vested on 01/25/10 at 50%, and shares of Common Stock equal to 50% of the number of vested performance shares were issued on that date. Per the terms of the performance share awards, 25% of the performance shares shown as unvested at 12/31/09 will be carried forward and will be eligible for vesting on the next normal vesting date of performance shares (expected to be in January 2011). The value shown in the column, Equity Incentive Plan Awards: Market

or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested, represents the market value of 100% of the performance shares at the closing price of Valero's Common Stock on 12/31/09.

- (12) Of these performance shares disclosed as unvested at 12/31/09, two-thirds of them vested on 01/25/10 at 50%, and shares of Common Stock equal to 50% of the number of vested performance shares were issued on that date. Per the terms of the performance share awards, 16.67% of the performance shares shown as unvested at 12/31/09 will be carried forward and will be eligible for vesting together with the final one-third of performance shares that have not yet vested

on the next
normal vesting
date of
performance
shares (expected
to be in
January 2011).
The value
shown in the
column, Equity
Incentive Plan
Awards: Market
or Payout Value
of Unearned
Shares, Units or
Other Rights
That Have Not
Vested,
represents the
market value of
100% of the
performance
shares at the
closing price of
Valero's
Common Stock
on 12/31/09.

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**OPTION EXERCISES AND STOCK VESTED
DURING THE FISCAL YEAR ENDED DECEMBER 31, 2009**

The following table provides information regarding (i) option exercises by our named executive officers, and (ii) the vesting of restricted stock and performance shares held by our named executive officers during 2009 on an aggregated basis.

| Name | Option Awards | | Stock Awards (1) | |
|------------------------|--|---|---|--|
| | No. of Shares Acquired on Exercise (#)(2) | Value Realized on Exercise (\$)(3) | No. of Shares Acquired on Vesting (#)(2) | Value Realized on Vesting (\$)(4) |
| William R. Klesse | 200,000 | 1,287,388 | 47,532 | 955,992 |
| Michael S. Ciskowski | 27,200 | 180,540 | 16,912 | 339,814 |
| Richard J. Marcogliese | | | 18,284 | 368,161 |
| Kimberly S. Bowers | | | 5,440 | 109,177 |
| Joseph W. Gorder | | | 7,125 | 143,497 |

Footnotes to Option Exercises and Stock Vested table:

(1) Represents vested shares of restricted stock.

(2) Represents the gross number of shares received by the named executive officer before deducting shares withheld from (i) an option s exercise to pay the exercise price and/or tax obligation, or (ii) the vesting of restricted stock to pay the resulting tax obligation.

(3) The reported value is determined by multiplying (i) the number

of option shares,
times (ii) the
difference
between the
market price of
the Common
Stock on the
date of exercise
and the exercise
price of the
stock option.
The value is
stated before
payment of
applicable taxes.

- (4) The reported
value is
determined by
multiplying
number of
vested shares by
the market value
of the shares on
the vesting date.
The value is
stated before
payment of
applicable taxes.

Table of Contents**POST-EMPLOYMENT COMPENSATION****PENSION BENEFITS****FOR FISCAL YEAR ENDED DECEMBER 31, 2009**

The following table provides information regarding the accumulated benefits of our named executive officers under Valero's tax-qualified defined benefit plan and supplemental retirement plans during the year ended December 31, 2009.

| Name | Plan Name | No. of Years Credited Service (#) | Present Value of Accumulated Benefits (\$) | Payments During Last Fiscal Year (\$) |
|----------------------------|---------------------|--|---|---|
| William R. Klesse (1) | Pension Plan | 22.92 | 898,172 | |
| | Excess Pension Plan | 8.00 | 3,805,764 | |
| | SERP | 8.00 | 848,587 | |
| Michael S. Ciskowski | Pension Plan | 24.25 | 531,819 | |
| | Excess Pension Plan | 24.25 | 2,046,685 | |
| | SERP | 24.25 | 482,926 | |
| Richard J. Marcogliese (2) | Pension Plan | 35.58 | 1,034,493 | |
| | Excess Pension Plan | 35.58 | 5,121,267 | |
| | SERP | 35.58 | 1,174,387 | |
| Kimberly S. Bowers | Pension Plan | 12.25 | 186,222 | |
| | Excess Pension Plan | 12.25 | 344,087 | |
| | SERP | 12.25 | 92,809 | |
| Joseph W. Gorder (3) | Pension Plan | 22.25 | 351,208 | |
| | Excess Pension Plan | 7.67 | 378,240 | |
| | SERP | 7.67 | 97,524 | |

Footnotes to Pension Benefits table:

- (1) The 22.92 years of service stated for Mr. Klesse for the Pension Plan represent the sum of Mr. Klesse's participation in (a) the Valero Pension Plan since the date of Valero's acquisition of UDS in 2001 (eight years), and

(b) the qualified pension plan of UDS prior to the date of Valero's acquisition of UDS

(14.92 years). (In addition,

Mr. Klesse has approximately 18 years of service in a pension plan sponsored by an entity unaffiliated with Valero or UDS that was spun-off from a predecessor of UDS.) The eight years of service stated for

Mr. Klesse for the Excess Pension Plan and SERP represent his participation in these plans since the date of Valero's acquisition of UDS in 2001.

- (2) The years of service stated for Mr. Marcogliese represent his combined years of credited service in Valero's plans (approximately 9.7 years) and the plan of Exxon Mobil Corporation (ExxonMobil), his previous employer (approximately 25.8 years). Valero's plans

wrap around the ExxonMobil plan such that Mr. Marcogliese's ultimate pension benefit from Valero will be calculated generally by computing his benefit under the Valero plans using the combined years of service stated in the table above, and then subtracting the amounts accruing to Mr. Marcogliese under the ExxonMobil plan.

- (3) The 22.25 years of service stated for the Pension Plan represent the sum of Mr. Gorder's participation in (a) the Valero Pension Plan since 2002 (7.67 years), (b) the qualified pension plan of UDS (11.5 years), and (c) a pension plan sponsored by an entity unaffiliated with Valero or UDS that was spun-off from a predecessor of UDS (3.08 years). In 2001, Mr. Gorder received a lump sum settlement

relating to prior years of service. The Pension Plan amount stated above reflects the effect of offsetting Mr. Gorder's accrued benefit under the Valero Pension Plan (using 22.25 years of credited service) by the value of his lump sum settlement in 2001. The 7.67 years of service stated for Mr. Gorder for the Excess Pension Plan and SERP represent his participation in these plans since the date of his commencement of employment with Valero.

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Our Pension Plan, Excess Pension Plan, and SERP are described in the Compensation Discussion and Analysis section under the captions Post-Employment Benefits and Pension Plans.

The present values stated in the table above were calculated using the same interest rate and mortality table we use for our financial reporting. The present values as of December 31, 2009 were determined using a 5.80% discount rate and the plans earliest unreduced retirement age (*i.e.*, age 62). The present values reflect postretirement mortality rates based on the RP2000 Combined Healthy Mortality Table Projected by Scale AA to 2015. No decrements were included for pre-retirement termination, mortality, or disability. Where applicable, lump sums were determined based on a 6.30% interest rate and the mortality table prescribed by the IRS in Rev. Ruling 2007-67 and updated by IRS Notice 2008-85 for distributions in the years 2009-2013.

Under our Pension Plan, an eligible employee may elect to retire prior to the normal retirement age of 65, provided the individual is between the ages of 55 and 65 and has completed as least five years of vesting service. Under the plans early retirement provisions, an employee may elect to commence a benefit upon retirement or delay payments to a later date. Pension payments that begin after age 55 and before age 62 are reduced by four percent for each full year between the benefit start date and the individual's 62nd birthday. The four-percent reduction is prorated for a partial year. The formula used to calculate the benefit and the optional forms of payment are otherwise the same as for normal retirement. Mr. Klesse and Mr. Marcogliese are eligible for early retirement benefits under the plans listed in the table above.

Table of Contents**NONQUALIFIED DEFERRED COMPENSATION
FOR YEAR ENDED DECEMBER 31, 2009**

The following table provides information regarding contributions by Valero and each named executive officer under our non-qualified defined contribution and other deferred compensation plans during 2009. The table also presents each named executive officer's earnings, withdrawals, and year-end balances in such plans.

| Name | Plan Name | Executive Contributions in Last FY (\$) | Registrant Contributions in FY (\$)(1) | Aggregate Earnings in Last FY (\$) | Aggregate Withdrawals/Distributions (\$) | Aggregate Balance at Last FYE (\$) |
|------------------------|---|---|--|------------------------------------|--|------------------------------------|
| William R. Klesse | Deferred Compensation Plan | 220,551 | | 322,720 | | 1,346,355 |
| | Excess Thrift Plan | | 75,300 | | | 263,910 |
| | Diamond Shamrock Excess ESOP (2) | | | | | 389,849 |
| | UDS Non-qualified 401(k) Plan (2) | | | (801,961) | | 1,152,556 |
| | Diamond Shamrock Deferred Compensation Plan (2) | | | 32,228 | | 535,954 |
| Michael S. Ciskowski | Deferred Compensation Plan | | | 29,167 | | 143,128 |
| | Excess Thrift Plan | | 30,300 | | | 158,880 |
| Richard J. Marcogliese | Deferred Compensation Plan | 126,400 | | 3,891 | | 449,201 |
| | Excess Thrift Plan | | 42,600 | | | 158,169 |
| Kimberly S. Bowers | Deferred Compensation Plan | 79,189 | | 46,394 | | 237,086 |
| | Excess Thrift Plan | | 14,300 | | | 33,471 |
| Joseph W. Gorder | Deferred Compensation Plan | | | | | |
| | Excess Thrift Plan | | 12,900 | | | 27,243 |

Footnotes to Nonqualified Deferred Compensation table:

- (1) All of the amounts included in this column are included within the amounts reported as All

Other
Compensation
for 2009 in the
Summary
Compensation
Table.

- (2) Valero assumed the Diamond Shamrock Excess ESOP, UDS Non-qualified 401(k) Plan, and Diamond Shamrock Deferred Compensation Plan when we acquired UDS in 2001. These plans are frozen. Only Mr. Klesse has balances in these plans.

Our Deferred Compensation Plan and Excess Thrift Plan are described in Compensation Discussion and Analysis Elements of Executive Compensation Post-Employment Benefits.

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POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

Our named executive officers have change-of-control severance agreements with Valero. The agreements seek to assure the continued availability of the executive officers in the event of a change of control (described below) of Valero. When determining the amounts and benefits payable under the agreements, the Compensation Committee and Valero sought to secure compensation that is competitive in our market to recruit and retain executive talent. Consideration was given to the principal economic terms found in written employment and change of control agreements of other publicly traded companies.

When a change of control occurs, the agreements become operative for a fixed three-year period. The agreements provide generally that the executive officer's terms of employment will not be adversely changed during the three-year period after a change of control. In addition, outstanding stock options held by the executive will automatically vest, restrictions on outstanding restricted stock will lapse, and unvested performance shares will vest and become payable at 200% of target. The executive officers are also entitled to receive a payment in an amount sufficient to make them whole for any excise tax on excess parachute payments imposed under Section 4999 of the Internal Revenue Code. Each agreement subjects the executive to obligations of confidentiality, both during the term and after termination, for secret and confidential information relating to Valero that the executive acquired during his or her employment. For purposes of these agreements, a change of control means any of the following (subject to additional particulars as stated in the agreements):

the acquisition by an individual, entity or group of beneficial ownership of 20 percent or more of our outstanding Common Stock;

the ouster from the Board of a majority of the incumbent directors;

consummation of a business combination (*e.g.*, merger, share exchange);

approval by stockholders of the liquidation or dissolution of Valero.

In the agreements, *cause* is defined to mean, generally, the willful and continued failure of the executive to perform substantially the executive officer's duties, or illegal or gross misconduct by the officer that is materially and demonstrably injurious to Valero. *Good reason* is defined to mean, generally:

a diminution in the executive officer's position, authority, duties and responsibilities;

relocation of the executive;

increased travel requirements;

failure of Valero's successor to assume and perform under the agreement.

SEC regulations require us to disclose potential payments to an executive in connection with his or her termination or a change of control of Valero. We have elected to use the following tables to make the required disclosures. Except as noted, values in the tables assume that a change of control occurred on December 31, 2009, and that the executive officer's employment was terminated on that date.

Under the change of control agreements, if an executive officer's employment is terminated for *cause*, the officer will not receive any benefits or compensation other than any accrued salary or vacation pay that remained unpaid through the date of termination, and, therefore, there is no presentation of termination for *cause* in the tables below.

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PAYMENTS UNDER CHANGE OF CONTROL SEVERANCE AGREEMENTS
Termination of Employment by the Company Other Than for
Cause or Disability, or by the Executive for Good Reason (1) (\$)

| | <i>Klesse</i> | <i>Ciskowski</i> | <i>Marcogliese</i> | <i>Bowers</i> | <i>Gorder</i> |
|--|---------------|------------------|--------------------|---------------|---------------|
| Salary (2) | 4,500,000 | 2,250,000 | 2,865,000 | 988,000 | 1,380,000 |
| Bonus (2) | 11,160,045 | 2,610,000 | 3,996,000 | 960,000 | 1,903,500 |
| Pension, Excess Pension, and SERP | 6,340,509 | 2,402,561 | 6,658,481 | 417,528 | 1,007,915 |
| Contributions under Defined Contribution Plans | 270,000 | 135,000 | 171,900 | 58,000 | 82,800 |
| Health & Welfare Plan Benefits (3) | 51,858 | 28,200 | 45,774 | 30,124 | 45,480 |
| Outplacement Services | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Accelerated Vesting of Stock Options (4) | 0 | 0 | 0 | 0 | 0 |
| Accelerated Vesting of Restricted Stock (5) | 6,541,311 | 2,364,028 | 2,596,116 | 866,645 | 864,736 |
| Accelerated Vesting of Performance Shares (6) | 2,110,802 | 429,671 | 748,692 | 149,812 | 310,411 |
| 280G Tax Gross Up (7) | | | 6,203,006 | | 1,703,245 |

Termination of Employment by the Company because of Death or
Disability (8) and Termination by the Executive Other Than for Good Reason (9) (\$)

| | <i>Klesse</i> | <i>Ciskowski</i> | <i>Marcogliese</i> | <i>Bowers</i> | <i>Gorder</i> |
|---|---------------|------------------|--------------------|---------------|---------------|
| Accelerated Vesting of Stock Options (4) | 0 | 0 | 0 | 0 | 0 |
| Accelerated Vesting of Restricted Stock (5) | 6,541,311 | 2,364,028 | 2,596,116 | 866,645 | 864,736 |
| Accelerated Vesting of Performance Shares (6) | 2,110,802 | 429,671 | 748,692 | 149,812 | 310,411 |

Continued Employment Following Change of Control (10) (\$)

| | <i>Klesse</i> | <i>Ciskowski</i> | <i>Marcogliese</i> | <i>Bowers</i> | <i>Gorder</i> |
|--|---------------|------------------|--------------------|---------------|---------------|
| Salary | (10) | (10) | (10) | (10) | (10) |
| Bonus | (10) | (10) | (10) | (10) | (10) |
| Pension, Excess Pension, and SERP | (10) | (10) | (10) | (10) | (10) |
| Contributions under Defined Contribution Plans | (10) | (10) | (10) | (10) | (10) |
| Health & Welfare Plan Benefits | (10) | (10) | (10) | (10) | (10) |
| Accelerated Vesting of Stock Options (4) | 0 | 0 | 0 | 0 | 0 |
| Accelerated Vesting of Restricted Stock (5) | 6,541,311 | 2,364,028 | 2,596,116 | 866,645 | 864,736 |
| Accelerated Vesting of Performance Shares (6) | 2,110,802 | 429,671 | 748,692 | 149,812 | 310,411 |

Footnotes appear on the following page.

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Footnotes for Payments Under Change Of Control Severance Agreements tables:

- (1) The agreements generally provide that if the company terminates the executive officer's employment (other than for cause, death or disability, as defined in the agreement) or if the executive terminates his or her employment for good reason, as defined in the agreement, the executive is generally entitled to receive the following: (a) a lump sum cash payment equal to the sum of (i) accrued and unpaid compensation through the date of termination, including a pro-rata annual bonus (for this table, we assumed that the executive officers' bonuses for the year of termination were paid at year end), (ii) three times the sum of the executive

officer's annual base salary (two times for Ms. Bowers) plus the executive officer's highest annual bonus from the past three years, (iii) the amount of the actuarial present value of the pension benefits (qualified and nonqualified) the executive would have received for an additional three years of service (two years for Ms. Bowers), and (iv) the equivalent of three years (two years for Ms. Bowers) of employer contributions under Valero's tax-qualified and supplemental defined contribution plans; (b) continued welfare benefits for three years (two years for Ms. Bowers); and (c) up to \$25,000 of outplacement services.

- (2) Per SEC regulation, for purposes of this

analysis we assumed each executive officer's compensation at the time of each triggering event to be as stated below. The listed salary is the executive officer's actual rate of pay as of December 31, 2009. The listed bonus amount represents the highest bonus earned by the executive in any of fiscal years 2007, 2008, or 2009 (the three years prior to the assumed change of control):

| Name | Salary | Bonus |
|------------------------|--------------|--------------|
| William R. Klesse | \$ 1,500,000 | \$ 3,720,015 |
| Michael S. Ciskowski | \$ 750,000 | \$ 870,000 |
| Richard J. Marcogliese | \$ 955,000 | \$ 1,332,000 |
| Kimberly S. Bowers | \$ 494,000 | \$ 480,000 |
| Joseph W. Gorder | \$ 460,000 | \$ 634,500 |

(3) The executive is entitled to coverage under welfare benefit plans (*e.g.*, health, dental, etc.) for three years (two years for Ms. Bowers) following the date of termination.

(4) The amounts stated in the table represent

the assumed cash value of the accelerated options derived by multiplying (x) the difference between \$16.75 (the closing price of Common Stock on the NYSE on December 31, 2009), and the options exercise prices, times (y) the number of option shares. (As of December 31, 2009, all exercise prices for the executives unvested stock options were higher than the closing price of Common Stock.)

(5) The amounts stated in the table represent the product of (x) the number of shares whose restrictions lapsed because of the change of control, and (y) \$16.75 (the closing price of Common Stock on the NYSE on December 31, 2009).

(6) The amounts stated in the table represent

the product of
(x) the number
of performance
shares whose
vesting was
accelerated
because of the
change of
control, times
200%, times (y)
\$16.75 (the
closing price of
Common Stock
on the NYSE on
December 31,
2009).

- (7) If any payment or benefit is determined to be subject to an excise tax under Section 4999 of the Internal Revenue Code, the executive is entitled to receive an additional payment to adjust for the incremental tax cost of the payment or benefit.
- (8) If the executive officer's employment is terminated by reason of death or disability, then his or her estate or beneficiaries will be entitled to receive a lump sum cash payment equal to any accrued and unpaid

salary and vacation pay plus a bonus equal to the highest bonus earned by the executive in the prior three years (prorated to the date of termination; in this example, we assumed that the executive officers' bonuses for the year of termination were paid at year end). In addition, in the case of disability, the executive would be entitled to any disability and related benefits at least as favorable as those provided by Valero under its plans and programs during the 120-days prior to the executive officer's termination of employment.

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- (9) If the executive voluntarily terminates employment other than for good reason, then he or she will be entitled to a lump sum cash payment equal to any accrued and unpaid salary and vacation pay plus a bonus equal to the highest bonus earned by the executive in the prior three years (prorated to the date of termination; in this example, we assumed that the executive officers' bonuses for the year of termination were paid at year end).
- (10) The agreements provide for a three-year term of employment following a change of control. The agreements generally provide that the executive will continue to enjoy compensation and benefits on terms at least as favorable as in

effect prior to the change of control. In addition, all outstanding equity incentive awards will automatically vest on the date of the change of control.

Table of Contents**COMPENSATION OF DIRECTORS**

The following table provides a summary of compensation paid to members of our Board during the year ended December 31, 2009.

**DIRECTOR COMPENSATION
FOR THE YEAR ENDED DECEMBER 31, 2009**

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards (\$)(1) | Option Awards (\$)(1) | All Other Compensa- tion (\$)(2) | Total (\$) |
|-----------------------|--|----------------------------|-----------------------------|--|------------|
| W.E. Bill Bradford | 130,000 | 160,010 | | | 290,010 |
| Ronald K. Calgaard | 113,000 | 160,010 | | | 273,010 |
| Jerry D. Choate | 120,000 | 160,010 | | | 280,010 |
| Irl F. Engelhardt | 115,000 | 160,010 | | | 275,010 |
| Ruben M. Escobedo | 131,000 | 160,010 | | | 291,010 |
| William R. Klesse | | | | | (3) |
| Bob Marbut | 128,000 | 160,010 | | | 288,010 |
| Donald L. Nickles | 105,000 | 160,010 | | | 265,010 |
| Robert A. Profusek | 110,000 | 160,010 | | | 270,010 |
| Susan Kaufman Purcell | 107,000 | 160,010 | | 14,925 | 281,935 |
| Stephen M. Waters | 105,000 | 160,010 | | | 265,010 |

Footnotes to Director Compensation table:

- (1) In accordance with SEC Release No. 33-9089 (December 16, 2009), the amounts shown represent the grant date fair value of awards granted in 2009, computed in accordance with FASB ASC Topic 718. In 2009, each of our non-employee directors received a grant of restricted Common Stock (as described below). Valero did not grant any stock options to any

non-employee
director in 2009.

| Name | Grant Date | Restricted Stock (# of shares) |
|-----------------------|------------|---|
| W.E. Bill Bradford | 04/30/09 | 7,937 |
| Ronald K. Calgaard | 04/30/09 | 7,937 |
| Jerry D. Choate | 04/30/09 | 7,937 |
| Irl F. Engelhardt | 04/30/09 | 7,937 |
| Ruben M. Escobedo | 04/30/09 | 7,937 |
| Bob Marbut | 04/30/09 | 7,937 |
| Donald L. Nickles | 04/30/09 | 7,937 |
| Robert A. Profusek | 04/30/09 | 7,937 |
| Susan Kaufman Purcell | 04/30/09 | 7,937 |
| Stephen M. Waters | 09/23/08 | 7,937 |

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The following table presents for each non-employee director as of December 31, 2009 (i) the shares of Common Stock that were subject to outstanding stock options (vested and unvested), and (ii) the number of unvested restricted shares of Common Stock held. Mr. Klesse's balances are stated in the Outstanding Equity Awards table in this proxy statement.

| Name | Outstanding Stock Options | Unvested Restricted Stock |
|-----------------------|---------------------------------|---------------------------------|
| W.E. Bill Bradford | 49,000 | 8,308 |
| Ronald K. Calgaard | 13,000 | 8,308 |
| Jerry D. Choate | 33,000 | 8,308 |
| Irl F. Engelhardt | 5,000 | 8,308 |
| Ruben M. Escobedo | | 8,308 |
| Bob Marbut | 71,120 | 8,308 |
| Donald L. Nickles | 11,000 | 8,308 |
| Robert A. Profusek | 11,000 | 8,308 |
| Susan Kaufman Purcell | 29,000 | 8,308 |
| Stephen M. Waters | 10,000 | 10,097 |

- (2) The amount stated for Dr. Purcell represents payment made under Valero's

former
retirement plan
for
non-employee
directors.

- (3) In 2009, William R. Klesse served as Valero's Chairman of the Board, Chief Executive Officer, and President. In 2009, he did not receive any compensation for his service as a member of the Board. Mr. Klesse's compensation for service as Chief Executive Officer and President is presented earlier in this proxy statement in the compensation tables for our named executive officers.

In 2009, our non-employee directors received a retainer fee of \$91,000 per year, plus \$2,000 for each committee meeting attended in person, and \$1,000 for each committee meeting attended telephonically. In addition to the retainer, directors who serve as chairpersons of the Audit and Compensation Committees receive an additional \$20,000 annually, and directors who serve as chairpersons of committees other than the Audit or Compensation Committee receive an additional \$10,000 annually. The director who serves as the designated lead director receives an additional retainer fee of \$20,000 per year. Directors are reimbursed for expenses of meeting attendance. Directors who are employees of Valero receive no compensation (other than reimbursement of expenses) for serving as directors.

Grants of restricted shares and stock options supplement the compensation paid to our non-employee directors and serve to increase our directors' identification with the interests of our stockholders through ownership of Common Stock. Each non-employee director receives an annual grant of restricted shares of Common Stock valued at \$160,000, and vesting occurs based on the number of prior grants made to the director as follows: (i) the initial grant to the director will vest (become nonforfeitable) in three equal annual installments; (ii) the second grant will vest one-third on the first anniversary of the grant date and the remaining two-thirds will vest 100% on the second anniversary of the grant date; and (iii) all grants thereafter will vest 100% on the first anniversary of the grant date.

Upon a non-employee director's initial election to the Board, the director receives a one-time grant of stock options to acquire 10,000 shares of Common Stock that will vest and become exercisable on the first anniversary of the date the Options were granted. The stock options have an exercise price equal to the market price of the Common Stock on the date of grant, and expire seven years following the date of grant. The options vest and remain exercisable in accordance with their original terms if a director retires from the Board. In the event of a Change of Control as defined in our equity plans, all unvested restricted shares of Common Stock and stock options previously granted to the non-employee directors will immediately become vested or exercisable.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

REVIEW

We have established a conflict of interest policy to address instances in which an employee or director's private interests may conflict with the interests of Valero. Our conflicts policy is published on our intranet website. We have established a Conflicts of Interest Committee (COI Committee) to help administer our conflicts policy and to render ad hoc, objective determinations regarding whether any employee or director's private interests may interfere with the interests of Valero. The COI Committee is composed of representatives from our legal, internal audit, and Sarbanes-Oxley compliance departments. Conflicts of interest are also addressed in our *Code of Business Conduct and Ethics*, which is published on our internet website. Any waiver of any provision of this code for executive officers or directors may be made only by the Board, and will be promptly disclosed as required by law or NYSE rule. Management also makes it a practice to inform the Board and/or its committees regarding any potential related person transaction (within the meaning of Item 404(a) of the SEC's Regulation S-K) of which management is aware. We also solicit information from our directors and executive officers annually in connection with the preparation of disclosures in our proxy statement. These questionnaires specifically seek information pertaining to any related person transaction.

TRANSACTIONS WITH MANAGEMENT AND OTHERS

David Wiechmann, a Valero employee, is married to the daughter of Ruben M. Escobedo, a member of our Board. As the son-in-law of a director of Valero, Mr. Wiechmann is deemed to be a related person under Item 404(a) of the SEC's Regulation S-K. Mr. Wiechmann is not an officer of Valero, does not attend Board or Audit Committee meetings, and does not prepare reports that are presented to the Board or to the Audit Committee. The aggregate value of salary, bonus, and other benefits paid annually by Valero to Mr. Wiechmann was less than \$200,000 (including the dollar amount recognized for his equity awards for financial statement reporting purposes). There were no material differences in the compensation paid to any other employees who held analogous positions to Mr. Wiechmann and the compensation paid to Mr. Wiechmann.

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**PROPOSAL NO. 2
RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

(Item 2 on the Proxy Card)

The Audit Committee of the Board determined on February 24, 2010, to engage KPMG LLP (KPMG) as Valero s independent registered public accounting firm for the fiscal year ending December 31, 2010. KPMG also served as Valero s independent registered public accounting firm for the fiscal years ended December 31, 2009, 2008, 2007 and 2006.

The Board requests stockholder approval of the following resolution adopted by the Audit Committee and the Board. RESOLVED, that the appointment of the firm of KPMG LLP as Valero s independent registered public accounting firm for the purpose of conducting an audit of the consolidated financial statements and the effectiveness of internal control over financial reporting of Valero and its subsidiaries for the fiscal year ending December 31, 2010 is hereby approved and ratified.

The Board recommends that the stockholders vote FOR the proposal to ratify the appointment of KPMG LLP as Valero s independent registered public accounting firm for 2010.

The affirmative vote of a majority of the voting power of the shares present in person or by proxy and entitled to vote is required for adoption of this proposal. If the appointment is not approved, the adverse vote will be considered as an indication to the Board that it should select another independent registered public accounting firm for the following year. Because of the difficulty and expense of making any substitution of public accountants so long after the beginning of the current year, it is contemplated that the appointment for 2010 will be permitted to stand unless the Audit Committee finds other good reason for making a change.

Representatives of KPMG are expected to be present at the Annual Meeting to respond to appropriate questions raised at the Annual Meeting or submitted to them in writing prior to the Annual Meeting. The representatives may also make a statement if they desire to do so.

KPMG FEES FOR FISCAL YEAR 2009

Audit Fees. The aggregate fees for fiscal year 2009 for professional services rendered by KPMG for the audit of the annual financial statements for the year ended December 31, 2009 included in Valero s Form 10-K, review of Valero s interim financial statements included in Valero s 2009 Forms 10-Q, the audit of the effectiveness of Valero s internal control over financial reporting, and services that are normally provided by the principal auditor (e.g., comfort letters, statutory audits, attest services, consents and assistance with and review of documents filed with the SEC) were \$5,812,059.

Audit-Related Fees. The aggregate fees for fiscal year 2009 for assurance and related services rendered by KPMG that are reasonably related to the performance of the audit or review of Valero s financial statements and not reported under the preceding caption were \$216,500. These fees related to the audit of Valero s benefit plans.

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Tax Fees. The aggregate fees for fiscal year 2009 for professional services rendered by KPMG for tax compliance, tax advice and tax planning were \$70,045. These fees were for consultation services on a state sales tax matter, cost segregation services for a certain property, and attestation services related to a federal grant.

All Other Fees. The aggregate fees for fiscal year 2009 for services provided by KPMG, other than the services reported under the preceding captions, were \$0.

KPMG FEES FOR FISCAL YEAR 2008

Audit Fees. The aggregate fees for fiscal year 2008 for professional services rendered by KPMG for the audit of the annual financial statements for the year ended December 31, 2008 included in Valero's Form 10-K, review of Valero's interim financial statements included in Valero's 2008 Forms 10-Q, the audit of the effectiveness of Valero's internal control over financial reporting, and services that are normally provided by the principal auditor (*e.g.*, comfort letters, statutory audits, attest services, consents and assistance with and review of documents filed with the SEC) were \$7,029,541.

Audit-Related Fees. The aggregate fees for fiscal year 2008 for assurance and related services rendered by KPMG that are reasonably related to the performance of the audit or review of Valero's financial statements and not reported under the preceding caption were \$254,800. These fees related to the audit of Valero's benefit plans.

Tax Fees. The aggregate fees for fiscal year 2008 for professional services rendered by KPMG for tax compliance, tax advice and tax planning were \$0.

All Other Fees. The aggregate fees for fiscal year 2008 for services provided by KPMG, other than the services reported under the preceding captions, were \$0.

AUDIT COMMITTEE PRE-APPROVAL POLICY

The Audit Committee adopted a pre-approval policy to address the approval of services rendered to Valero by its independent auditors. The text of that policy appears in Exhibit 99.01 to Valero's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

None of the services provided by KPMG (as described above) were approved by the Audit Committee under paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

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REPORT OF THE AUDIT COMMITTEE FOR FISCAL YEAR 2009 *

Management is responsible for Valero's internal controls and financial reporting process. KPMG LLP, Valero's independent registered public accounting firm for the fiscal year ended December 31, 2009, is responsible for performing an independent audit of Valero's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB), and an audit of the effectiveness of Valero's internal control over financial reporting in accordance with the standards of the PCAOB, and to issue its reports thereon. The Audit Committee monitors and oversees these processes. The Audit Committee approves the selection and appointment of Valero's independent registered public accounting firm and recommends the ratification of such selection and appointment to our Board.

The Audit Committee has reviewed and discussed Valero's audited financial statements with management and KPMG. The committee has discussed with KPMG the matters required to be discussed by the Statement on Auditing Standards No. 61 (*Communication with Audit Committees*), as amended, and as adopted by the PCAOB in Rule 3200T. The committee has received the written disclosures and the letter from KPMG required by applicable requirements of the PCAOB regarding the independent accountant's communications with the audit committee concerning independence, and has discussed with KPMG that firm's independence.

Based on the foregoing review and discussions and such other matters the Audit Committee deemed relevant and appropriate, the committee recommended to the Board that the audited financial statements of Valero be included in its Annual Report on Form 10-K for the year ended December 31, 2009.

Members of the Audit Committee:

Ruben M. Escobedo, Chairman

Ronald K. Calgaard

Irl F. Engelhardt

Susan Kaufman Purcell

Stephen M. Waters

* *The material in this Report of the Audit Committee is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference in any of Valero's filings under the Securities Act or the Exchange Act, respectively, whether made before or after the date of this proxy statement and irrespective of any general incorporation*

*language
therein.*

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PROPOSAL NO. 3
RE-APPROVAL OF THE 2005 OMNIBUS STOCK INCENTIVE PLAN
(Item 3 on the Proxy Card)

At our 2005 annual meeting, stockholders approved the Valero Energy Corporation 2005 Omnibus Stock Incentive Plan (the Plan). At our 2010 annual meeting, stockholders are being asked to re-approve the terms of the Plan. Regulations under Section 162(m) of the Internal Revenue Code (Section 162(m)) provide that in order for us to continue to fully deduct for federal income tax purposes the compensation paid under the Plan to our five most highly compensated officers, we must seek approval of the terms of the Plan every five years (as well as whenever we increase the number of shares reserved for issuance under the Plan or make certain other material amendments to the Plan, which we are not seeking to do under this proposal). The complete text of the Plan is set forth in Appendix A to this proxy statement. Our summary of the Plan below is qualified in its entirety by reference to Appendix A. The Board requests that stockholders approve the following resolution.

RESOLVED, that the Valero Energy Corporation 2005 Omnibus Stock Incentive Plan is hereby re-approved.

The Board recommends that stockholders vote FOR this proposal.

The affirmative vote of a majority of the voting power of the shares present in person or by proxy and entitled to vote is required for adoption of this proposal. Pursuant to the rules of the NYSE, brokers will not have discretion to vote on this item to be presented at the Annual Meeting.

The Plan is intended to promote our long-term growth and profitability by providing us the tools to remain competitive in attracting, rewarding, retaining, and motivating Valero employees and aligning further their interests with the interests of our stockholders through the granting of stock-based awards.

We believe that Valero has been able to attract and retain highly qualified personnel in part through the use of stock-based awards under our existing employee stock plans. Providing our employees with an opportunity to acquire a proprietary interest in the Company and additional incentive and reward opportunities based on the profitable growth of the Company serve to motivate employees and provide a strong incentive to work for the continued success of the Company.

Summary

In the following summary of the Plan, shares means Valero s \$0.01 par value common stock, and such other securities or property as may become the subject of awards under the plan; and stock unit means a unit or right with a value based on the value of a share.

Administration. The Plan will be administered by the Compensation Committee, composed of directors appointed by the Board who are non-employee directors, as defined by Rule 16b-3 of the Securities Exchange Act of 1934, and outside directors, as defined in Section 162(m). The Compensation Committee has the authority, subject to the terms of the Plan, to determine which participants will receive an award, the time or times when such awards will be made, the types of awards, the number of shares to be issued under the awards or the value or amount of the awards and the terms and conditions of awards. All decisions under or with respect to the Plan are within the sole discretion of the Compensation Committee and are final, except for certain discretion granted to the Chief Executive Officer. Certain of the Compensation Committee s duties and authority are also subject to delegation pursuant to the terms of the Plan.

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Eligibility for Participation. Employees of Valero and its subsidiaries, as designated by the Compensation Committee, and Valero's non-employee directors are eligible for participation under the Plan.

Shares Available Under the Plan. Subject to adjustment as described more fully below, 20,000,000 shares were initially authorized for issuance under the Plan. As of January 31, 2010, 12,075,420 shares remained available for issuance under the Plan.

Awards that are forfeited, expire, or are settled in cash do not count against plan limits. Shares surrendered or withheld to pay the exercise price or taxes on an award may also be used for future grants. Shares issued under the Plan may either be newly issued shares or treasury shares.

Limitations on Awards. The Plan is subject to the following limitations:

The option exercise price of stock options cannot be less than 100% of the fair market value of a share at the time the option is granted.

The grant price of a stock appreciation right (SAR) cannot be less than 100% of the fair market value of a share at the time the SAR is granted.

Repricing of stock options and SARs is not permitted.

Not more than 4,000,000 million shares may be in the form of time-lapse restricted stock.

Restricted stock or restricted stock unit awards that are not subject to a performance award will be subject to a minimum restriction period of three years from the date of grant.

No plan participant may receive during any calendar year awards that are to be settled in shares covering an aggregate of more than 1,000,000 shares.

No plan participant may receive during any calendar year awards that are to be settled in cash covering an aggregate of more than \$20,000,000.

The term of awards will not be longer than 10 years.

The Plan does not contain an evergreen provision.

Types of Awards. The Plan permits the grant of different kinds of stock-based awards. The Plan permits grants of: (i) restricted stock and restricted stock units; (ii) stock options (including incentive and non-qualified stock options); (iii) SARs; (iv) performance awards of cash, stock, or property; and (v) other stock-based awards. Awards may be granted alone, in addition to, in combination with or in substitution for, any other awards under the Plan or any other compensation plan. Awards can be granted for no cash consideration or for cash or other consideration as determined by the Compensation Committee or as required by applicable law. Awards may provide that upon the grant or exercise thereof, the holder will receive cash, shares or other securities, or property, or any combination of these.

Restricted Stock and Restricted Stock Units. Restricted stock is an award of shares subject to a restriction period specified in the award. During the restriction period, the shares may not be transferred and are subject to forfeiture. Potential events of forfeiture include early termination of employment. The holder is otherwise usually treated as a registered stockholder with the right to receive dividends and vote the shares during the restriction period. Restricted stock units are similar to restricted stock except that the award takes the form of stock units instead of shares. During the restriction period, a holder of restricted stock units may be paid cash amounts, or dividend equivalents, that are equal in timing and amount to share dividends, but does not have voting or other shareholder rights. The units may be settled in cash or shares.

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The Compensation Committee determines the employees who are to receive an award of restricted stock or restricted stock units, the number of shares or units to be granted to each participant, the duration of the restriction period, the conditions under which the restricted stock or units may be forfeited to the Company and other terms and conditions of the awards. Restricted stock may not be disposed of by the participant until the restrictions specified in the award expire. The participant will have the right to vote the shares of restricted stock and receive any cash dividends during the restriction period.

Stock Options and Stock Appreciation Rights. Stock options give the holder the right to purchase shares at the exercise price specified in the award. SARs give the holder the right to receive an amount in cash or shares equal to the spread between the exercise price specified in the award and the market price of a share at the time of exercise. SARs may be granted alone or with stock options. Stock options and SARs granted under the Plan are subject to the terms and conditions determined by the Compensation Committee, except that the exercise price cannot be less than 100% of the fair market value of a share at the time of the grant and the maximum term is 10 years. Incentive Stock Options, (ISOs) may be granted, provided that they meet the requirements of the Internal Revenue Code.

The Compensation Committee determines the form in which payment of the exercise price may be made, including cash, shares, other securities, or other property, or any combination thereof, having a fair market value on the exercise date equal to the relevant exercise price.

Performance Awards. Performance awards that may be granted under the Plan may consist of a right payable in cash, shares, other securities or other property upon the achievement of certain performance goals. The Compensation Committee shall determine the performance goals to be achieved during any performance period, the length of any performance period, the amount of any performance award and the amount of any payment or transfer to be made pursuant to any performance award. Performance awards may be paid in a lump sum, installments, on a deferred basis or otherwise in accordance with procedures established by the Compensation Committee.

Performance goals may be particular to a plan participant, may relate to the performance of the Company or one of its subsidiaries or divisions, or a combination thereof. Performance goals may be based on achievement of balance sheet or income statement objectives, or any other objectives established by the Committee. The extent to which such performance goals are met will determine the number and/or value of the performance award to the participant. Performance goals may include the following: (a) increased revenue; (b) net income measures; (c) stock price measures (including growth measures and total stockholder return); (d) market share; (e) earnings per share (actual or targeted growth); (f) earnings before interest, taxes, depreciation, and amortization; (g) economic value added; (h) cash flow measures; (i) return measures (including return on equity, return on assets, return on capital, return on equity); (j) operating measures (including operating income, funds from operations, cash from operations, after-tax operating income, sales volumes, production volumes, and production efficiency); (k) expense measures; (l) margins; (m) total stockholder return; (n) production volumes; (o) refinery runs or refinery utilization; (p) total market value; and (q) corporate values measures (including ethics compliance, environmental, and safety).

Performance awards granted under the Plan to covered employees (as defined in Section 162(m)) are intended to qualify as performance-based compensation within the meaning of Section 162(m). For any performance award that is intended to comply with Section 162(m), specification of the performance goal(s) must be made prior to the beginning of the performance period or not later than the date permitted under Section 162(m) and must otherwise satisfy the parameters of Section 162(m). The Compensation Committee must certify prior to payment that the previously established performance goal has been met. The Committee has discretion to decrease but not increase the value of a performance award during the performance period and prior to certification that the established performance goal has been met.

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Stock Compensation and Other Stock-Based Awards. The Compensation Committee shall have authority to pay in shares all or any portion of the amounts payable under any compensation program of the Company. The number and type of shares to be distributed in lieu of the cash compensation applicable to any award as well as the terms and conditions of any bonus awards shall be determined by the Compensation Committee. The Compensation Committee may grant other forms of awards based on, payable in, or otherwise related in whole or in part to shares under the Plan. Subject to the terms of the Plan, the Compensation Committee shall determine the terms and conditions of any such other stock-based awards.

Adjustments. The Committee may make appropriate adjustments in the number of shares available under the Plan to reflect any stock split, stock dividend, recapitalization, reorganization, consolidation, merger, combination or exchange of shares, distribution to stockholders, liquidation, dissolution or other similar event.

Change of Control. Upon a change of control as defined in the Plan, all unmaturing installments of outstanding awards shall be automatically accelerated and exercisable in full and all restriction periods applicable to awards of restricted stock or restricted stock units shall automatically expire. Upon a change in control, performance cash and/or dividend equivalents previously granted and unpaid, or granted in the year during which the change of control occurs, shall be paid within 60 days of the occurrence of such change of control.

Amendment/Limitations on Amendments. The Committee, or as applicable, the Board, may terminate or amend the Plan without stockholder approval, except that stockholder approval is required for any amendment that would (i) increase the number of shares available for awards, or the limits placed on particular types of awards, (ii) permit stock options or SARs to be granted with a per share exercise price of less than the fair market value of a share on the date of grant; or (iii) otherwise constitute a material amendment requiring stockholder approval under the rules of the New York Stock Exchange. No option or SAR may be canceled and replaced with an option or SAR having a lower exercise price, except in connection with a stock dividend, stock split or similar event as specified in the Plan in order to prevent dilution or enlargement of benefits intended under the Plan.

Effective Date and Termination. The Plan became effective May 1, 2005. The Plan will terminate on April 30, 2015, after which no additional awards may be made. Additionally, the Committee or Board may terminate the Plan at any time. However, unless otherwise expressly provided in the Plan or in an applicable award agreement under the plan, any award made prior to such termination date that is outstanding on such termination date shall remain valid in accordance with its terms and conditions, and the authority of the Board or the Compensation Committee to amend, suspend or terminate any such award, or to waive any conditions or rights under any such award in accordance with the Plan, shall extend beyond such date.

Federal Tax Aspects.

Restricted Stock. When a participant receives an award of restricted stock, the participant generally will realize ordinary income in an amount equal to the fair market value of the shares less any amount paid for such shares at the time when the participant's rights with respect to such shares are no longer subject to a substantial risk of forfeiture. Dividends paid to the participant during the restriction period will be taxable as ordinary income. Subject to Section 162(m), the Company generally will be allowed a tax deduction, subject to certain limitations, equal to the amount of ordinary income that is realized by the participant.

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Stock Options and SARs. When a non-qualified option is exercised, the difference between the option price and any higher fair market value of the underlying shares, generally on the date of exercise, will be ordinary income to the optionee, and Valero will be entitled to claim a tax deduction equal to the amount the optionee recognizes as ordinary income. Any gain or loss realized by an optionee upon disposition of the shares acquired under the option generally will represent a capital gain or loss to the optionee, subject to short-term or long-term characterization depending on the holding period. The optionee's basis in the shares for determining gain or loss on the disposition of the shares generally will be the fair market value of the shares on the date the option is exercised.

In the case of ISOs, upon the disposition of stock received in connection with the exercise of an incentive stock option that has been held for the requisite holding period, the employee will generally recognize capital gain or loss equal to the difference between the amount received in the disposition and the exercise price paid by the employee for the stock. However, if an employee disposes of stock that has not been held for the requisite holding period, the employee will recognize ordinary income in the year of the disqualifying disposition to the extent that the fair market value of the stock at the time of exercise of the incentive stock option (or, if less, the amount realized in the case of an arm's-length disqualifying disposition to an unrelated party) exceeds the exercise price paid by the employee for such stock. The employee would also recognize capital gain (or, depending on the holding period, additional ordinary income) to the extent the amount realized in the disqualifying disposition exceeds the fair market value of the stock on the exercise date. If the exercise price paid for the stock exceeds the amount realized in the disqualifying disposition (in the case of an arm's-length disposition to an unrelated party), such excess would ordinarily constitute a capital loss.

Valero generally will not be entitled to any federal income tax deduction upon the grant or exercise of an incentive stock option unless the employee makes a disqualifying disposition of the stock. If an employee makes such a disqualifying disposition, Valero then will be, subject to certain tax code limitations on deductibility, entitled to a tax deduction that corresponds as to timing and amount with the compensation income recognized by the employee under the rules described above.

In the case of SARs granted either freestanding or in tandem with an option, the plan participant will not realize any compensation income at the time of grant. However, the fair market value of shares or cash delivered to the participant pursuant to the exercise of such SAR will be treated as ordinary income to the participant at the time of exercise.

Performance Awards. When a plan participant receives payment of a performance award, the participant generally will realize ordinary income in an amount equal to the fair market value of such award less any amount paid for the award. It is intended for the Plan to meet the requirements of Section 162(m) so that the Compensation Committee may, in its discretion, make awards of options, SARs and performance awards that constitute performance-based compensation within the meaning Section 162(m). We believe that awards intended and structured as such by the Compensation Committee will meet the requirements for performance-based compensation under Section 162(m), and that the amount of ordinary income to the participant with respect to such awards generally will be allowed as a deduction for federal income tax purposes to Valero. Other awards that may be subject to the attainment of performance measures but that do not meet the requirements of Section 162(m) will not qualify as performance-based compensation and, in such event, would be subject to Section 162(m) deduction restrictions. Section 162(m) limits the annual amount that may be deducted as a compensation expense to \$1 million per covered employee, which is generally the chief executive officer and the top four highest paid officers (other than the chief executive officer) as of the last day of the taxable year.

Stock Compensation and Other Stock-Based Awards. Stock compensation and other stock-based compensation awards generally will result in ordinary income to the participant when paid and, subject to Section 162(m), Valero will be entitled to a corresponding tax deduction.

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Internal Revenue Code Section 409A. The Plan is intended to comply with Internal Revenue Code Section 409A (Section 409A). If any Plan provision or award under the Plan would result in the imposition of an applicable tax under Section 409A and related regulations and Treasury pronouncements, that Plan provision or award may be reformed to avoid imposition of the applicable tax and no action taken to comply with Section 409A shall be deemed to adversely affect the Participant s rights to an award.

Anticipated Awards to Participants

Because awards under the Plan are granted at the discretion of the Compensation Committee, it is not possible for us to determine the amount of awards that may be granted to the named executive officers listed in the Summary Compensation Table of this proxy statement or to any other potential Plan participants. During 2009, 1,522 participants (employees and non-employee directors) received awards under the Plan.

Market Price of Common Stock

On February 26, 2010, the closing price of our Common Stock as quoted on the NYSE was \$17.52.

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**PROPOSAL NO. 4
ADVISORY RESOLUTION TO RATIFY
NAMED EXECUTIVE OFFICER COMPENSATION**

(Item 4 on the Proxy Card)

In 2009, we adopted a say-on-pay policy, which provides that each year we will submit to our stockholders an advisory resolution to ratify the compensation of our named executive officers set forth in the proxy statement's Summary Compensation Table and the accompanying narrative disclosure of material factors provided to understand the Summary Compensation Table (but excluding the Compensation Discussion and Analysis). This policy is available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section. The policy is intended to serve as an additional tool to guide the Board in continuing to improve the alignment of Valero's executive compensation programs with the interests of Valero and its stockholders, and is consistent with our commitment to high standards of corporate governance.

This proposal allows our stockholders to express their opinions regarding the decisions of the Compensation Committee on the prior year's annual compensation to the named executive officers through the following resolution. The Board requests that stockholders approve the following resolution:

RESOLVED, that the stockholders hereby ratify the 2009 compensation of the named executive officers set forth in the Summary Compensation Table and the accompanying narrative disclosure in this proxy statement of material factors provided to understand the Summary Compensation Table (but excluding the Compensation Discussion and Analysis).

Because the vote on this proposal is advisory in nature, it will not affect any compensation already paid or awarded to any named executive officer and will not be binding on the Board or the Compensation Committee. However, the Compensation Committee will review the voting results and take into account the outcome in determining future annual compensation for the named executive officers.

The Board recommends that the stockholders vote FOR this proposal.

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STOCKHOLDER PROPOSALS

We expect the following proposals to be presented by stockholders at the Annual Meeting. Following SEC rules, except for minor formatting changes, we have reprinted each proposal and its supporting statement as it was submitted by the sponsor(s) of the proposal. We assume no responsibility for the statements made by the sponsors in connection with the proposals.

After review, our management and the Board have concluded that they do not support the proposals, and the Board recommends that you vote **AGAINST** the proposals for the reasons explained below.

PROPOSAL NO. 5 STOCKHOLDER PROPOSAL REPORT ON IMPACT OF VALERO S OPERATIONS ON RAINFOREST SUSTAINABILITY

(Item 5 on the Proxy Card)

This proposal was sponsored by The City of New York Office of the Comptroller. Its address and number of voting securities held will be provided to any shareholder promptly upon oral or written request.

WHEREAS, companies face reputational risks if they are linked to destructive sourcing practices. Companies that take action to minimize the risk of deforestation and to support sustainable sourcing are likely to be seen as sector leaders, demonstrating a proactive and responsible approach to overall carbon mitigation, and

WHEREAS, it is estimated that the deforestation of temperate and tropical rainforests accounts for nearly 20% of the world s greenhouse gas emissions. Loss of the ecosystem services provided by forests is estimated to be costing the global economy \$2 \$5 trillion annually, and

WHEREAS, the Forest Disclosure Project, a recent initiative sponsored by the UK government and supported by investors representing over \$1 trillion in assets, has called on global corporations to report on the impact of their operations on the world s rainforest eco-systems,

THEREFORE, be it resolved that the company prepare a report to shareholders on the impact of its global operations on rainforest sustainability. This report should be prepared at reasonable cost and omit proprietary information.

END OF SHAREHOLDER PROPOSAL

* * * * *

BOARD RECOMMENDATION:

The Board recommends that you vote **AGAINST** this proposal for the following reasons:

As a refining and marketing company, Valero does not believe that it has operations that cause rainforest deforestation. Environmental stewardship is one of Valero s core values. Consistent with its commitment to environmental stewardship, Valero has achieved significant emission reductions by installing state-of-the-art scrubbers at refineries on central processing units, and has implemented a low-sulfur gasoline and diesel program, which reduces sulfur emissions from cars and allows new automobile technology to reduce emissions of smog components. Valero has also made major investments in alternative-energy opportunities and green technologies, including being the first traditional refiner to enter ethanol production through its acquisition of seven ethanol plants in 2009, and building a wind farm outside the company s McKee refinery in the Texas Panhandle.

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Coupled with Valero's investment in technology, Valero closely monitors the political, regulatory, and public policy issues related to greenhouse gas emissions. Valero has adopted a formal policy statement on greenhouse gas reduction, which is available on the company's website at www.valero.com. Valero believes that its analysis, assessment and response to environmental-related risks facing the company is a comprehensive and responsible approach that establishes clear goals, grounded in scientific, economic, and technical analysis, that will protect long-term stockholder value as the issues evolve. Of course, Valero is committed to complying with all applicable laws and regulations applicable to its facilities.

Rainforest protection is important for biodiversity and environmental sustainability; however, such protections are largely outside of the sphere of influence of Valero and essentially unrelated to Valero's operations. Valero believes that to focus on this issue in the manner proposed would divert resources and time from Valero's broad-based and balanced approach to environmental stewardship in favor of a speculative analysis which would serve no meaningful purpose, be burdensome, and result in unnecessary expense.

Therefore, the Board recommends you vote AGAINST this proposal.

The affirmative vote of a majority of the voting power of the shares present in person or by proxy and entitled to vote is required for adoption of this proposal.

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PROPOSAL NO. 6 STOCKHOLDER PROPOSAL ELIMINATION OF CLASSIFIED BOARD

(Item 6 on the Proxy Card)

This proposal was sponsored by The State of New York Office of the State Comptroller. Its address and number of voting securities held will be provided to any shareholder promptly upon oral or written request.

RESOLVED, that the shareowners of Valero Energy Corporation ask that the Board of Directors, in compliance with applicable law, take the steps necessary to reorganize the Board of Directors into one class subject to election each year. The implementation of this proposal should not affect the unexpired terms of directors elected to the board at or prior to the 2010 annual meeting.

SUPPORTING STATEMENT

We believe that the ability to elect directors is the single most important use of the shareholder franchise.

Accordingly, directors should be accountable to shareholders on an annual basis. The election of directors by classes, for three-year terms, in our opinion, minimizes accountability and precludes the full exercise of the rights of shareholders to approve or disapprove annually the performance of a director or directors.

In addition, since only one-third of the Board of Directors is elected annually, we believe that classified boards could frustrate, to the detriment of long-term shareholder interest, the efforts of a bidder to acquire control or a challenger to engage successfully in a proxy contest. A staggered board has been found to be one of six entrenching mechanisms that are negatively correlated with company performance. See *What Matters in Corporate Governance?* Lucian Bebchuk, Alma Cohen & Allen Ferrell, *Review of Financial Studies*, Vol. 22, Issue 2, pp. 783-827 (2009).

The New York State Common Retirement Fund urges you to join us in voting to declassify the election of directors, as a powerful tool for management incentive and accountability. We urge your support FOR this proposal.

END OF SHAREHOLDER PROPOSAL

* * * * *

BOARD RECOMMENDATION:

The Board recommends that you vote **AGAINST** this proposal for the following reasons:

The Board believes that electing directors for three-year staggered terms is conducive to good governance and promotes long-term stockholder value.

Valero's business involves managing long-term projects of a technical nature in a complicated international environment, and Valero is subject to an evolving landscape of complex rules and regulations. Electing directors for staggered three-year terms promotes depth of understanding of our business and the regulatory framework in which we operate among continuing directors, and enables new directors to access the knowledge and experience of continuing directors. This, in turn, promotes the continuity and stability of Board-formulated policies as well as Valero's ability to execute its long-term strategies.

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Staggered elections allow directors to make sound strategic decisions for the long term, rather than focusing excessively on the next quarter's results. Three-year service periods offer directors flexibility to make decisions which require upfront investment but which are in the long-term best interests of Valero and its stockholders. To the extent that a staggered board extends the tenure of outside directors (all of Valero's directors, other than the CEO, are outside directors), Valero believes that a longer period of tenure and experience relative to the typical tenure of management employees enhances the ability of outside directors to monitor and supervise senior management. The continuity offered by electing directors for three-year staggered terms may also be attractive to highly qualified director candidates who are likely to be in demand for board positions at other companies.

Staggered elections can also play an important role in protecting stockholders against an unsolicited takeover proposal at an unfair price, encouraging parties who might seek to behave opportunistically to instead negotiate with a board, thereby enabling the board to better protect the interests of all stockholders. Because a takeover attempt involving replacement of classified directors requires the span of at least two annual meetings, staggered elections enhance a board's ability to review a takeover proposal, consider strategic alternatives, and make well-considered recommendations to stockholders. While staggered elections enhance a board's ability to negotiate favorable terms in the face of hostile takeover overtures and to protect long-term stockholders from abusive takeover tactics, they by no means preclude takeover offers.

The Board further believes that directors elected to three-year staggered terms are no less accountable to stockholders than directors elected annually. Standards of performance and responsibility applicable to directors elected annually, including under state law fiduciary standards, New York Stock Exchange rules and the Sarbanes-Oxley Act of 2002, apply equally to classified directors. Valero's stockholders retain ample ability to express their views regarding Board performance and composition.

The Board has carefully considered this proposal and the arguments for and against a classified board structure. For the reasons discussed above, the Board has concluded that our classified board structure continues to promote the best interests of our stockholders and Valero, but recognizes that declassification proposals have been favored by stockholders of many companies. The Board recommends that it remain classified, but if this declassification proposal is approved at Valero's 2010 Annual Meeting, Valero expects that the proposal will be implemented for the 2011 annual meeting of stockholders.

The Board recommends you vote AGAINST this proposal.

The affirmative vote of a majority of the voting power of the shares present in person or by proxy and entitled to vote is required for adoption of this proposal.

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PROPOSAL NO. 7 STOCKHOLDER PROPOSAL DISCLOSURE OF POLITICAL CONTRIBUTIONS/TRADE ASSOCIATIONS

(Item 7 on the Proxy Card)

This proposal was sponsored by The Nathan Cummings Foundation. Its address and number of voting securities held will be provided to any shareholder promptly upon oral or written request.

RESOLVED, the shareholders of Valero Energy Corporation (Valero) hereby request that the Company provide a report, updated semi-annually, disclosing Valero s:

1. Policies and procedures for political contributions and expenditures (both direct and indirect) made with corporate funds.
2. Monetary and non-monetary political contributions and expenditures not deductible under section 162 (e)(1)(B) of the Internal Revenue Code, including but not limited to contributions to or expenditures on behalf of political candidates, political parties, political committees and other political entities organized and operating under 26 USC Sec. 527 of the Internal Revenue Code and any portion of any dues or similar payments made to any tax exempt organization that is used for an expenditure or contribution that if made directly by the corporation would not be deductible under section 162 (e)(1)(B) of the Internal Revenue Code. The report shall include the following:
 - a. An accounting of Valero s funds that are used for political contributions or expenditures as described above;
 - b. Identification of the person or persons in Valero who participated in making the decisions to make the political contribution or expenditure; and
 - c. The internal guidelines or policies, if any, governing Valero s political contributions and expenditures.

The report shall be presented to the board of directors audit committee or other relevant oversight committee and posted on the company s website to reduce costs to shareholders.

SUPPORTING STATEMENT

As long-term shareholders of Valero, we support transparency and accountability in corporate spending on political activities. These activities include direct and indirect political contributions to candidates, political parties or political organizations; independent expenditures; or electioneering communications on behalf of a federal, state or local candidate.

Disclosure is in the best interest of the company and its shareholders and is critical for compliance with recent federal ethics legislation. Absent a system of accountability, company assets can be used for policy objectives that may be inimical to the long-term interests of the company and its shareholders.

Valero Energy Corporation contributed at least \$1.6 million in corporate funds since the 2002 election cycle. (CQ s PoliticalMoneyLine, <http://moneyline.cq.com/pml/home.do> and National Institute on Money in State Politics, <http://www.followthemoney.org/index.phtml>) Publicly available data does not, however, provide a complete picture of the Company s political expenditures. For example, payments to trade associations used for political activities are undisclosed and unknown. In many cases, not even a corporation s management knows how trade associations use their company s money for political purposes.

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The proposal asks the Company to disclose all of its political contributions, including payments to trade associations and other tax exempt organizations. This would bring our Company in line with a growing number of leading companies, including Pfizer, Aetna and eBay, that support political disclosure and accountability and present this information on their websites.

We urge your support for this critical governance reform. The Company's Board and its shareholders need complete disclosure to be able to fully evaluate the political use of corporate assets.

END OF SHAREHOLDER PROPOSAL

* * * * *

BOARD RECOMMENDATION:

The Board recommends that you vote **AGAINST** this proposal for the following reasons:

This proposal, in identical form, was considered by Valero stockholders at last year's Annual Meeting. The proposal failed to receive the support of a majority of stockholders voting on it at last year's Annual Meeting. Nonetheless, in view of the evident desire of some Valero stockholders to receive additional information about our participation in the political process, the Board determined to adopt a political contributions disclosure policy substantially as called for by the proposal. Valero's Political Contributions Disclosures policy, and associated disclosures thereunder, are available on our website at www.valero.com (in the Investor Relations section, under the caption Corporate Governance).

When adopting the Political Contributions Disclosures policy, the Board determined that it would be in the best interest of Valero and its stockholders to refrain from adopting one element of the proposal: a requirement that the company disclose contributions or payments to trade associations and other tax exempt organizations. The Board continues to believe that Valero's membership in trade associations who may engage in political activity is not necessarily representative of the corporate positions of Valero. Valero may join trade associations principally for the business, technical, and industry expertise that these organizations provide, and not necessarily because it endorses some or all of their lobbying or other political activities. Valero monitors the appropriateness and effectiveness of the political activities that the most significant trade associations to which it belongs undertake, and Valero's corporate positions do not align with all positions taken by trade associations. As a result, the additional reporting requirement sought by the proponent, over and beyond the significant initiatives Valero has already put in place regarding disclosure of political contributions, would serve no useful purpose, would be burdensome, could lead to misleading representations of Valero's political positions, and would result in an unnecessary expense.

Therefore, the Board recommends you vote AGAINST this proposal.

The affirmative vote of a majority of the voting power of the shares present in person or by proxy and entitled to vote is required for adoption of this proposal.

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PROPOSAL NO. 8 STOCKHOLDER PROPOSAL STOCK RETENTION BY EXECUTIVES

(Item 8 on the Proxy Card)

This proposal was sponsored by the American Federation of State, County and Municipal Employees, AFL-CIO. Its address and number of voting securities held will be provided to any shareholder promptly upon oral or written request.

RESOLVED, that stockholders of Valero Energy Corporation (Valero) urge the Compensation Committee of the Board of Directors (the Committee) to adopt a policy requiring that senior executives retain a significant percentage of shares acquired through equity compensation programs until two years following the termination of their employment (through retirement or otherwise), and to report to stockholders regarding the policy before Valero s 2011 annual meeting of stockholders. The stockholders recommend that the Committee not adopt a percentage lower than 75% of net after-tax shares. The policy should address the permissibility of transactions such as hedging transactions which are not sales but reduce the risk of loss to the executive.

SUPPORTING STATEMENT

Equity-based compensation is an important component of senior executive compensation at Valero. According to Valero s 2009 proxy statement, equity awards represented 58 to 72% of the total direct compensation value provided to named executive officers in 2008, and these awards align executive interests with those of stockholders. In the last five years, Chairman and CEO William Klesse has realized more than \$41 million in reported through the exercise of 839,628 options and vesting of 204,884 shares. As of February 1, 2009, Mr. Klesse held 772,704 shares outright, less than the number of options he has exercised, and held another 687,976 options. We believe that the alignment benefits touted by Valero are not being fully realized.

We believe there is a link between stockholder wealth and executive wealth that correlates to direct stock ownership by executives. According to an analysis conducted by Watson Wyatt Worldwide, companies whose CFOs held more shares generally showed higher stock returns and better operating performance. (Alix Stuart, Skin in the Game, CFO Magazine (March 1, 2008))

Requiring senior executives to hold a significant portion of shares obtained through compensation plans after the termination of employment would focus them on Valero s long-term success and would better align their interests with those of Valero stockholders. In the context of the current financial crisis, we believe it is imperative that companies reshape their compensation policies and practices to discourage excessive risk-taking and promote long-term, sustainable value creation. A 2009 report by the Conference Board Task Force on Executive Compensation stated that hold-to-retirement requirements give executives an evergrowing incentive to focus on long-term stock price performance.

(http://www.conference-board.org/pdf_free/ExecCompensation2009.pdf)

Valero has a minimum stock ownership guideline requiring executives to own a number of shares of Valero stock as a multiple of salary. The executives covered by the policy have five years in which to comply. We believe this policy does not go far enough to ensure that equity compensation builds executive ownership, especially given the extended time period for compliance. We also view a retention requirement approach as superior to a stock ownership guideline because a guideline loses effectiveness once it has been satisfied.

We urge stockholders to vote for this proposal.

END OF SHAREHOLDER PROPOSAL

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BOARD RECOMMENDATION:

The Board recommends that you vote **AGAINST** this proposal for the following reasons:

The Board believes that the proposed restriction on the disposition by senior executives of shares of stock obtained through equity awards until two years following the termination of their employment would significantly impair Valero's ability to compete in the competitive marketplace for senior executive talent, which is essential for the Company's long-term success.

Valero's executive compensation programs are carefully designed by the Board's Compensation Committee to align the interests of Valero's senior executives and its stockholders. The creation of stockholder value is a core purpose of our compensation programs, and we believe that our compensation programs already appropriately incentivize our senior executive officers to focus on Valero's long-term success. Furthermore, our Board recognizes that ownership of Common Stock is an effective means of aligning the interests of our senior executive officers with those of our stockholders. Accordingly, Valero has already adopted stock ownership and retention guidelines. See our discussion of these guidelines above in Compensation Discussion and Analysis Compensation-Related Policies Stock Ownership Guidelines. Under these guidelines, our Chief Executive Officer is required to own common stock having a value equal to five times base salary, our President is required to own common stock having a value equal to three times base salary, and each Executive Vice President is required to own common stock having a value equal to two times base salary. In addition, under these guidelines an officer desiring to sell 20 percent or more of his or her shares of Common Stock must receive the prior approval of the Chief Executive Officer (or, in the case of the Chief Executive Officer, prior approval of the Compensation Committee).

The Board believes that while it is essential that our senior executive officers have a meaningful equity stake in Valero's future, it is also important that our senior executive officers and retirees be able to prudently manage their personal financial affairs. Our stock ownership and retention guidelines have been designed to balance these imperatives. Mandating that senior executives hold 75 percent of the shares of stock obtained through equity awards until two years following the termination of their employment would upset this equilibrium and would encourage turnover among senior executives who wish retain the ability to diversify their portfolios, to make charitable gifts, or to liquidate a portion of their holdings in order to meet expenses.

The Board believes that most of Valero's peer companies do not impose limitations similar to those set forth in the proposal. Imposing these limitations could require Valero to substitute costly benefits, such as substantially higher executive salaries, in order to compete as effectively in attracting and retaining executive talent. The Board believes that it is in our stockholders' best interests for the Board to retain the flexibility to formulate programs that it determines are most conducive to the cost-effective attraction and retention of the most talented executive officers. Our stockholders already considered and rejected this proposal, in identical form, at last year's Annual Meeting.

Therefore, the Board recommends you vote AGAINST this proposal.

The affirmative vote of a majority of the voting power of the shares present in person or by proxy and entitled to vote is required for adoption of this proposal.

Table of Contents**EQUITY COMPENSATION PLAN INFORMATION**

The following table presents certain information regarding our compensation plans as of December 31, 2009.

| | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (#) | Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights (\$) | Number of Securities Remaining Avail- able for Future Issuance Under Equity Compen- sation Plans (1) |
|--|--|--|--|
| <i>Approved by stockholders:</i> | | | |
| 2005 Omnibus Stock Incentive Plan | 5,616,224 | 19.80 | 12,002,043 |
| 2001 Executive Stock Incentive Plan | 2,021,620 | 10.82 | |
| Non-employee director stock option plan | 253,000 | 18.36 | |
| Non-employee director restricted stock plan | | | 139,247 |
| UDS non-qualified stock option plans (2) | 760,814 | 10.36 | |
| Premcor non-qualified stock option plans (2) | 767,315 | 24.79 | |
| <i>Not approved by stockholders:</i> | | | |
| 1997 non-qualified stock option plans | 3,732,309 | 7.70 | |
| 2003 All-Employee Stock Incentive Plan (3) | 13,474,594 | 32.58 | 148,229 |
| Total | 26,625,876 | 23.75 | 12,289,519 |

Footnotes:

(1) Securities available for future issuance under these plans can be issued in various forms, including without limitation restricted stock and stock options.

(2) These plans were assumed by Valero, as applicable (i) on

December 31,
2001, upon
Valero's
acquisition of
UDS, and (ii) on
September 1,
2005, upon
Valero's
acquisition of
Premcor Inc.

- (3) Officers and
directors of
Valero are not
eligible to
receive grants
under this plan.

For additional information on these plans, see Note 22 of Notes to Consolidated Financial Statements for the fiscal year ended December 31, 2009, included in Valero's Annual Report on Form 10-K.

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MISCELLANEOUS

GOVERNANCE DOCUMENTS AND CODES OF ETHICS

We adopted a *Code of Ethics for Senior Financial Officers* that applies to our principal executive officer, principal financial officer, and controller. The code charges these officers with responsibilities regarding honest and ethical conduct, the preparation and quality of the disclosures in documents and reports we file with the SEC, and compliance with applicable laws, rules and regulations. We also adopted a *Code of Business Conduct and Ethics* which applies to all of our employees and directors.

We post the following documents on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section. A print copy of any of these documents is available to any stockholder upon request. Requests for documents must be in writing and directed to Valero's Secretary at the address indicated on the cover page of this proxy statement.

| | |
|--|--|
| Restated Certificate of Incorporation | Finance Committee Charter |
| Bylaws | Nominating/Governance Committee Charter |
| Code of Business Conduct and Ethics | Say on Pay Policy |
| Code of Ethics for Senior Financial Officers | Compensation Consultant Disclosures Policy |
| Corporate Governance Guidelines | Policy on Executive Compensation in Restatement Situations |
| Audit Committee Charter | Political Contributions Disclosures |
| Compensation Committee Charter | |
| Executive Committee Charter | |

STOCKHOLDER COMMUNICATIONS

Stockholders and other interested parties may communicate with the Board, its non-management directors, or the Lead Director by sending a written communication addressed to Board of Directors, Non-Management Directors, or Lead Director in care of Valero's Secretary at the address indicated on the cover page of this proxy statement. Additional requirements for certain types of communications are stated under the caption Stockholder Nominations and Proposals below.

STOCKHOLDER NOMINATIONS AND PROPOSALS

If you wish to submit a stockholder proposal to be included in our proxy statement for the 2011 annual meeting of stockholders pursuant to Rule 14a-8 of the Exchange Act, we must receive your written proposal on or before November 19, 2010. Please address your proposal to Valero's Secretary at the address shown on the cover page of this proxy statement. The proposal must comply with Rule 14a-8 of the Exchange Act, which lists the requirements for the inclusion of stockholder proposals in company-sponsored proxy materials.

If you wish to present a stockholder proposal at the 2011 annual meeting of stockholders that is not the subject of a proposal pursuant to Rule 14a-8 of the Exchange Act, or if you wish to recommend to the Board's Nominating/Governance Committee the nomination of a person for election to the Board, you must follow the procedures outlined in Article I, Section 9 (or Section 10, as applicable) of our bylaws. These procedures include the requirement that your proposal must be delivered to Valero's Secretary at the address shown on the cover page of this proxy statement not later than the close of business on the 60th day or earlier than the close of business on the 90th day prior to the first anniversary of the preceding year's annual meeting. If the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, your notice must be so delivered not earlier than the close of business on the 90th day prior to such annual meeting and not later than the close of business on the later of the

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60th day prior to such annual meeting or the 10th day following the day we publicly announce the date of the 2011 annual meeting of stockholders.

A copy of our bylaws is available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section. Stockholders are urged to review all applicable rules and consult legal counsel before submitting a nomination or proposal to Valero.

OTHER BUSINESS

If any matters not referred to in this proxy statement properly come before the Annual Meeting or any adjournments or postponements thereof, the enclosed proxies will be deemed to confer discretionary authority on the individuals named as proxies to vote the shares represented by proxy in accordance with their best judgments. The Board is not currently aware of any other matters that may be presented for action at the Annual Meeting.

FINANCIAL STATEMENTS

Consolidated financial statements and related information for Valero, including audited financial statements for the fiscal year ended December 31, 2009, are contained in Valero's Annual Report on Form 10-K. We have filed our Annual Report on Form 10-K with the SEC. You may review this report on the internet as indicated in the Notice and through our website at www.valero.com (in the Investor Relations section under Financial Reports & SEC Filings).

HOUSEHOLDING

The SEC's rules allow companies to send a single Notice or single copy of annual reports, proxy statements, prospectuses and other disclosure documents to two or more stockholders sharing the same address, subject to certain conditions. These householding rules are intended to provide greater convenience for stockholders, and cost savings for companies, by reducing the number of duplicate documents that stockholders receive. If your shares are held by an intermediary broker, dealer or bank in street name, your consent to householding may be sought, or may already have been sought, by or on behalf of the intermediary. If you wish to revoke a consent to householding obtained by a broker, dealer or bank which holds shares for your account, you may do so by calling (800) 542-1061, or you may contact your broker.

TRANSFER AGENT

Computershare Investor Services serves as our transfer agent, registrar, and dividend paying agent with respect to our Common Stock. Correspondence relating to any stock accounts, dividends, or transfers of stock certificates should be addressed to:

Computershare Investor Services
Stockholder Communications
250 Royall Street
Canton, Massachusetts 02021
(888) 470-2938
(312) 360-5261
www.computershare.com

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APPENDIX A
VALERO ENERGY CORPORATION
2005 OMNIBUS STOCK INCENTIVE PLAN
Amended and Restated as of October 1, 2005

The Valero Energy Corporation 2005 Omnibus Stock Incentive Plan (hereinafter called the Plan) was adopted by the Board of Directors of Valero Energy Corporation, a Delaware corporation (hereinafter called the Company) on March 10, 2005. The Plan was approved by the Company s stockholders on April 28, 2005, and the Plan became effective on May 1, 2005.

ARTICLE 1. PURPOSE

The purpose of the Plan is to attract and retain the services of able persons as employees and non-employee directors of the Company and its Subsidiaries, to provide such persons with a proprietary interest in the Company through the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, or other forms of incentive awards, and to motivate such persons using performance-related incentives linked to longer-range performance goals and the interests of the Company s stockholders, whether granted singly, or in combination, or in tandem, that will (a) increase the interest of such persons in the Company s welfare, and (b) furnish an incentive to such persons to continue their services for the Company.

ARTICLE 2. DEFINITIONS

For the purpose of the Plan, unless the context requires otherwise, the following terms shall have the meanings indicated:

- 2.1 Annual Incentive Plan means the annual bonus program or successor plans of the Company, its subsidiaries or its successors.
- 2.2 Award means the grant of any Incentive Stock Option, Non-qualified Stock Option, SAR, Restricted Stock, Restricted Stock Unit, Stock Unit, Performance Share, Performance Unit, Performance Cash, or Dividend Equivalent whether granted singly, in combination or in tandem (each individually referred to herein as an Incentive). Award also means any Incentive to which an award under the Annual Incentive Plan is converted into an Award made pursuant to the Plan.
- 2.3 Award Agreement means a written agreement between a Participant and the Company, which sets out the terms of the grant of an Award.
- 2.4 Award Period means the period during which one or more Incentives granted under an Award may be exercised or earned.
- 2.5 Board means the Board of Directors of the Company.
- 2.6 Cause shall mean the (i) conviction of the Participant by a state or federal court of a felony involving moral turpitude, (ii) conviction of the Participant by a state or federal court of embezzlement or misappropriation of funds of the Company, (iii) the Company s (or applicable Affiliate s) reasonable determination that the Participant has committed an act of fraud, embezzlement, theft, or misappropriation of funds in connection with such Participant s duties in the course of his or her employment with the Company (or applicable Affiliate), (iv) the Company s (or its applicable Affiliate s) reasonable determination that the Participant has engaged in gross mismanagement, negligence or misconduct which causes or could potentially cause material loss, damage or injury to the Company, any of its Affiliates or their respective employees, or (v) the Company s (or applicable Affiliate s) reasonable determination that (a) the Participant has violated any policy of the Company (or applicable Affiliate), including but not limited to, policies regarding sexual harassment, insider trading, confidentiality,

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substance abuse and/or conflicts of interest, which violation could result in the termination of the Participant's employment or service as a non-employee Director of the Company (or applicable Affiliate), or (b) the Participant has failed to satisfactorily perform the material duties of Participant's position with the Company or any of its Affiliates.

2.7 Change of Control. A Change of Control shall be deemed to occur when:

- (a) the stockholders of the Company approve any agreement or transaction pursuant to which: (i) the Company will merge or consolidate with any other Person (other than a wholly owned subsidiary of the Company) and will not be the surviving entity (or in which the Company survives only as the subsidiary of another entity); (ii) the Company will sell all or substantially all of its assets to any other Person (other than a wholly owned subsidiary of the Company); or (iii) the Company will be liquidated or dissolved; or
- (b) any person or group (as these terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934) other than the Company, any subsidiary of the Company, any employee benefit plan of the Company or its subsidiaries, or any entity holding Shares for or pursuant to the terms of such employee benefit plans, is or becomes an Acquiring Person as defined in the Rights Agreement (or any successor rights agreement) (or, if no Rights Agreement is then in effect, such person or group acquires or holds such number of shares as, under the terms and conditions of the most recent such rights agreement to be in force and effect, would have caused such person or group to be an Acquiring Person thereunder); or
- (c) any person or group shall commence a tender offer or exchange offer for 15% or more of the Shares then outstanding, or for any number or amount of Shares which, if the tender or exchange offer were to be fully subscribed and all Shares for which the tender or exchange offer is made were to be purchased or exchanged pursuant to the offer, would result in the acquiring person or group directly or indirectly beneficially owning 50% or more of the Shares then outstanding; or
- (d) individuals who, as of any date, constitute the Board (the Incumbent Board) thereafter cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person or group other than the Board; or
- (e) the Distribution Date (as defined in the Rights Agreement) occurs; or
- (f) any other event occurs that is or has been determined by the Board or the Committee to constitute a Change of Control hereunder.

2.8 Code means the Internal Revenue Code of 1986, as amended, together with the published rulings, regulations, and interpretations duly promulgated thereunder.

2.9 Committee means the Compensation Committee of the Board or such other Committee appointed or designated by the Board to administer the Plan in accordance with Article 3 of this Plan.

2.10 Common Stock means the Company's \$0.01 par value common stock, which the Company is currently authorized to issue or may in the future be authorized to issue.

2.11 Company means Valero Energy Corporation, a Delaware corporation, and any successor entity and any affiliate companies or subsidiaries thereto.

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2.12 **Covered Participant** means a Participant who is a covered employee as defined in Section 162(m)(3) of the Code, and the regulations promulgated thereunder, and any individual the Committee determines should be treated as such a covered employee.

2.13 **Date of Grant** means the effective date on which an Award is made to a Participant as set forth in the applicable Award Agreement.

2.14 **Dividend Equivalent** means an Award, designated as a Dividend Equivalent, granted to Participants pursuant to Section 6.8 hereof, or in conjunction with other Awards, the value of which is determined, in whole or in part, by the value of payments tied to or based on the payment of dividends to holders of the Company's Common Stock and may be conditioned on the attainment of Performance Goals in a manner deemed appropriate by the Committee and described in the Agreement.

2.15 **Employee** means common law employee (as defined in accordance with the Regulations and Revenue Rulings then applicable under Section 3401(c) of the Code) of the Company or any Subsidiary of the Company, or an individual who has agreed to become an employee of the Company or any Subsidiary of the Company and actually becomes such an employee within the following six months.

2.16 **Executive Stock Incentive Plan** means the 2001 Executive Stock Incentive Plan, which is a stockholder approved stock incentive plan from which the Company has granted equity or equity-based incentive awards to its employees. Because the Plan was approved by stockholders, no future awards will be made from the Executive Stock Incentive Plan and it will be terminated.

2.17 **Fair Market Value** of a share of Common Stock is the mean of the highest and lowest prices per share on the New York Stock Exchange Consolidated Tape, or such reporting service as the Board may select, on the appropriate date, or in the absence of reported sales on such day, then on the next following day for which sales were reported.

2.18 **Incentive** means an Award under the Plan as defined by Section 2.2 of Article 2.

2.19 **Incentive Stock Option** or **ISO** means an incentive stock option within the meaning of Section 422 of the Code, granted pursuant to this Plan.

2.20 **Limited SAR** or **Limited Stock Appreciation Right** means an Award designated as an SAR as defined by Section 2.37 of Article 2, which is granted with certain limiting features as determined by the Committee and as set forth in the Award Agreement at the time of grant.

2.21 **Non-Employee Director** means a member of the Board who is not an Employee.

2.22 **Non-qualified Stock Option** or **NQSO** means a stock option, granted pursuant to this Plan that is not intended to comply with the requirements set forth in Section 422 of the Code.

2.23 **Option Price** means the price which must be paid by a Participant upon exercise of a Stock Option to purchase a share of Common Stock.

2.24 **Participant** shall mean an Employee or Non-Employee Director to whom an Award is granted under this Plan.

2.25 **Performance Award** means an Award made pursuant to this Plan to a Participant which Award is subject to the attainment of one or more Performance Goals. Performance Awards may be in the form of either Performance Shares, Performance Units, Performance Cash, or Dividend Equivalents.

2.26 **Performance Cash** means an Award, designated as Performance Cash and denominated in cash, granted to a Participant pursuant to Section 6.7 hereof, the value of which is conditioned, in whole or in part, by the attainment of Performance Goals in a manner deemed appropriate by the Committee and described in the Agreement.

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- 2.27 Performance Criteria or Performance Goals or Performance Measures mean the objectives established by the Committee for a Performance Period, for the purpose of determining when an Award subject to such objectives is earned.
- 2.28 Performance Period means the time period designated by the Committee during which performance goals must be met.
- 2.29 Performance Share means an Award, designated as a Performance Share in the form of shares of Common Stock or other securities of the Company, granted to a Participant pursuant to Section 6.7 hereof, the value of which is determined, in whole or in part, by the value of Common Stock and/or conditioned on the attainment of Performance Goals in a manner deemed appropriate by the Committee and described in the Agreement.
- 2.30 Performance Unit means an Award, designated as a Performance Unit, granted to a Participant pursuant to Section 6.7 hereof, the value of which is determined, in whole or in part, by the attainment of Performance Goals in a manner deemed appropriate by the Committee and described in the Agreement.
- 2.31 Person shall mean any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, government or political subdivision thereof or other entity.
- 2.32 Plan means the Valero Energy Corporation 2005 Omnibus Stock Incentive Plan, as amended from time to time.
- 2.33 Restricted Stock means shares of Common Stock issued or transferred to a Participant pursuant to Section 6.4 of this Plan which are subject to restrictions or limitations set forth in this Plan and in the related Award Agreement.
- 2.34 Restricted Stock Unit means a fixed or variable dollar denominated right to acquire Common Stock, which may or may not be subject to restrictions, contingently awarded under Section 6.4 of the Plan.
- 2.35 Retirement means any Termination of Service solely due to retirement upon attainment of certain age and/or service requirements as specified by the Company's qualified retirement program(s) or successor programs or as determined by the Committee in the event of early retirement.
- 2.36 Rights Agreement shall mean the Rights Agreement, dated as of June 18, 1997, between the Company and Computershare Investor Services, L.L.C., as Rights Agent (successor Rights Agent to Harris Trust and Savings Bank), as amended. [now expired]
- 2.37 SAR or Stock Appreciation Right means the right to receive a payment, in cash and/or Common Stock, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock on the date the SAR is exercised over the SAR Price for such shares, and may be granted as a Limited SAR.
- 2.38 SAR Price means the Fair Market Value of each share of Common Stock covered by a SAR, determined by the Committee on the Date of Grant of the SAR.
- 2.39 SEC shall mean the Securities and Exchange Commission.
- 2.40 Stock Option means a Non-qualified Stock Option or an Incentive Stock Option.
- 2.41 Stock Unit Award means awards of Common Stock or other awards pursuant to Section 6.8 hereof that are valued in whole or in part by reference to, or are otherwise based on, shares of Common Stock or other securities of the Company.
- 2.42 Subsidiary means (i) any corporation in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a

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majority of the total combined voting power of all classes of stock in one of the other corporations in the chain, (ii) any limited partnership, if the Company or any corporation described in item (i) above owns a majority of the general partnership interest and a majority of the limited partnership interests entitled to vote on the removal and replacement of the general partner, and (iii) any partnership or limited liability company, if the partners or members thereof are composed only of the Company, any corporation listed in item (i) above or any limited partnership listed in item (ii) above. Subsidiaries means more than one of any such corporations, limited partnerships, partnerships or limited liability companies.

ARTICLE 3. ADMINISTRATION

3.1 The Committee shall administer the Plan unless otherwise determined by the Board. If said Committee does not so serve, the Committee shall consist of not fewer than two persons; any member of the Committee may be removed at any time, with or without cause, by resolution of the Board; and any vacancy occurring in the membership of the Committee may be filled by appointment by the Board.

3.2 The Committee shall select one of its members to act as its Chairman. A majority of the Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee.

3.3 The Committee shall determine and designate from time to time the eligible persons to whom Awards will be granted and shall set forth in each related Award Agreement the Award Period, the Date of Grant, and such other terms, provisions, limitations, and performance requirements, as are approved by the Committee, but not inconsistent with the Plan, including, but not limited to, any rights of the Committee to cancel or rescind any such Award. The Committee shall determine whether an Award shall include one type of Incentive, two or more Incentives granted in combination, or two or more Incentives granted in tandem (that is, a joint grant where exercise of one Incentive results in cancellation of all or a portion of the other Incentive).

3.4 The Committee, in its discretion, shall (i) interpret the Plan, (ii) prescribe, amend, and rescind any rules and regulations necessary or appropriate for the administration of the Plan, and (iii) make such other determinations and take such other action as it deems necessary or advisable in the administration of the Plan. Any interpretation, determination, or other action made or taken by the Committee shall be final, binding, and conclusive on all interested parties.

3.5 With respect to restrictions in the Plan that are based on the requirements of Rule 16b-3 promulgated under the 1934 Act, Section 422 of the Code, Section 162(m) of the Code, the rules of any exchange or inter-dealer quotation system upon which the Company's securities are listed or quoted, or any other applicable law, rule or restriction (collectively, applicable law), to the extent that any such restrictions are no longer required by applicable law, the Committee shall have the sole discretion and authority to grant Awards that are not subject to such mandated restrictions and/or to waive any such mandated restrictions with respect to outstanding Awards.

ARTICLE 4. ELIGIBILITY

Any Employee (including an Employee who is also a director or an officer) or Non-Employee Director is eligible to participate in the Plan. The Committee, upon its own action, may grant, but shall not be required to grant, an Award to any Employee or Non-Employee Director. Awards may be granted by the Committee at any time and from time to time to new Participants, or to then Participants, or to a greater or lesser number of Participants, and may include or exclude previous Participants, as the Committee shall determine. Except as required by this Plan, different Awards need not contain similar provisions. The Committee's determinations under the Plan (including without limitation determinations of which Employees, if any, are to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the agreements evidencing same) need not be uniform and may be made by it selectively among Employees or Non-Employee Directors who receive, or are eligible to receive, Awards under the Plan.

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ARTICLE 5. SHARES SUBJECT TO PLAN

5.1 Total Shares Available. Subject to adjustment as provided in Articles 14 and 15, the maximum number of shares of Common Stock that may be delivered pursuant to Awards granted under the Plan is (a) 20,000,000¹ shares of Common Stock, plus (b) shares of Common Stock previously subject to Awards that are forfeited, terminated, cancelled or rescinded, settled in cash in lieu of Common Stock, or exchanged for Awards that do not involve Common Stock, or expired unexercised.

5.2 Source of Shares. Shares to be issued may be made available from authorized but unissued Common Stock, Common Stock held by the Company in its treasury, or Common Stock purchased by the Company on the open market or otherwise. During the term of this Plan, the Company will at all times reserve and keep available a number of shares of Common Stock that shall be sufficient to satisfy the requirements of this Plan.

5.3 Restoration and Retention of Shares. If any shares of Common Stock subject to an Award shall not be issued or transferred to a Participant and shall cease to be issuable or transferable to a Participant because of the forfeiture, termination, expiration or cancellation, in whole or in part, of such Award or for any other reason, or if any such shares shall, after issuance or transfer, be reacquired by the Company because of the Participant's failure to comply with the terms and conditions of an Award or for any other reason, the shares not so issued or transferred, or the shares so reacquired by the Company, as the case may be, shall no longer be charged against the limitation provided for in Section 5.1 and may be used thereafter for additional Awards under the Plan. To the extent an Award under the Plan is settled or paid in cash, shares subject to such Award will not be considered to have been issued and will not be applied against the maximum number of shares of Common Stock provided for in Section 5.1. If an Award may be settled in shares of Common Stock or cash, such shares shall be deemed issued only when and to the extent that settlement or payment is actually made in shares of Common Stock. To the extent an Award is settled or paid in cash, and not shares of Common Stock, any shares previously reserved for issuance or transfer pursuant to such Award will again be deemed available for issuance or transfer under the Plan, and the maximum number of shares of Common Stock that may be issued or transferred under the Plan shall be reduced only by the number of shares actually issued and transferred to the Participant. If a Participant pays the purchase price of shares subject to a Stock Option or applicable taxes by surrendering shares of Common Stock in accordance with the provisions of Article 10, the number of shares surrendered shall be added back to the number of shares available for issuance or transfer under the Plan so that the maximum number of shares that may be issued or transferred under the Plan pursuant to Section 5.1 shall have been charged only for the net number of shares issued or transferred pursuant to the Stock Option exercise. The Committee may from time to time adopt and observe such procedures concerning the counting of shares against the Plan maximum as it may deem appropriate.

5.4 Uncertificated Shares. The Company's transfer agent will deliver the shares of Common Stock each holder of Common Stock under the Plan is entitled to as a result of having received an Award under the Plan. Shares issued under the Plan will be registered in uncertificated book-entry form (unless a holder of Common Stock requests a certificate representing such holder's shares of Common Stock). As a result, instead of receiving Common Stock certificates, holders of Common Stock will receive account statements reflecting their ownership interest in shares of Common Stock. The book-entry shares will be held with the Company's transfer agent, which will serve as the record keeper for all shares of Common Stock being issued in connection with the Plan. Any stockholder who wants to receive a physical certificate evidencing shares of Common Stock issued under the Plan will be able to obtain a certificate at no charge by contacting the Company's transfer agent. Computershare Investor Services, Chicago, Illinois, currently serves as transfer agent, registrar and dividend paying agent for Valero's Common Stock. Correspondence relating to any stock accounts, dividends or transfers of stock certificates should be addressed to: Computershare Investor Services Shareholder Communications, 250 Royall Street, Canton, Massachusetts 02021, (888) 470-2938/(312) 360-5261, www.computershare.com.

¹ Reflects the 2-for-1 stock split of Valero's common stock

on
December 15,
2005.

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ARTICLE 6. GRANT OF AWARDS

6.1 In General.

- (a) The grant of an Award shall be authorized by the Committee and may be evidenced by an Award Agreement setting forth the Incentive or Incentives being granted, the total number of shares of Common Stock subject to the Incentive(s) or the value of the Performance Award (if applicable), the Option Price (if applicable), the Award Period, the Date of Grant, and such other terms, provisions, limitations, and performance objectives, as are approved by the Committee, but not inconsistent with the Plan. The Company may execute an Award Agreement with a Participant after the Committee approves the issuance of an Award. Any Award granted pursuant to this Plan must be granted within 10 years of the date of adoption of this Plan. The grant of an Award to a Participant shall not be deemed either to entitle the Participant to, or to disqualify the Participant from, receipt of any other Award under the Plan.
- (b) If the Committee establishes a purchase price for an Award, the Participant must accept such Award within a period of 30 days (or such shorter period as the Committee may specify) after the Date of Grant by executing the applicable Award Agreement and paying such purchase price.

6.2 Limitations on Awards.

- (a) The Plan is subject to the following limitations:
 - (i) The Option Price of Stock Options cannot be less than 100% of the Fair Market Value of a share of Common Stock on the Date of Grant of the Stock Option.
 - (ii) The SAR Price of a SAR cannot be less than 100% of the Fair Market Value of a share of Common Stock on the Date of Grant of the SAR.
 - (iii) Repricing of Stock Options and SARs or other downward adjustments in the Option Price or SAR Price of previously granted Stock Options or SARs, respectively, are prohibited, except in connection with certain capital adjustments as described in Article 14 or 15.
 - (iv) No more than 40% (4,000,000), of the available shares pursuant to Awards under the Plan may be in the form of time-lapse Restricted Stock.
 - (v) No Participant may receive during any calendar year Awards that are to be settled in Shares of Common Stock covering an aggregate of more than 1,000,000 Shares.
 - (vi) No Participant may receive during any calendar year Awards that are to be settled in cash covering an aggregate of more than \$20,000,000.
 - (vii) The term of Awards may not exceed 10 years.
- (b) Limited SARs granted in tandem with Stock Options or other Awards shall not be counted towards the maximum individual grant limitation set forth in this Section, as the Limited SAR will expire based on conditions described in Section 6.5(b), below.

6.3 Rights as Stockholder. Except as provided in Section 6.4 of this Plan, until the issuance of the Shares of Common Stock (as evidenced by the appropriate entry on the books of the Company or any authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder of the Company shall exist with respect to such Shares, notwithstanding the exercise of any Incentive or Award. No adjustment will be made for a dividend or other rights for which the record date is prior to the date Shares are issued, except as otherwise provided in this Plan.

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6.4 **Restricted Stock/Restricted Stock Units**. If Restricted Stock and/or Restricted Stock Units are granted to a Participant under an Award, the Committee shall establish: (i) the number of shares of Restricted Stock and/or the number of Restricted Stock Units awarded, (ii) the price, if any, to be paid by the Participant for such Restricted Stock and/or Restricted Stock Units, (iii) the time or times within which such Award may be subject to forfeiture, (iv) specified Performance Goals of the Company, a Subsidiary, any division thereof or any group of Employees of the Company, or other criteria, if any, which the Committee determines must be met in order to remove any restrictions (including vesting) on such Award, and (v) all other terms, limitations, restrictions, and conditions of the Restricted Stock and/or Restricted Stock Units, which shall be consistent with this Plan. The provisions of Restricted Stock and/or Restricted Stock Units need not be the same with respect to each Participant.

- (a) **Legend on Shares**. Each Participant who is awarded Restricted Stock shall be issued the number of shares of Common Stock specified in the Award Agreement for such Restricted Stock, and such shares shall be recorded in the share transfer records of the Company and ownership of such shares shall be evidenced by a certificate or book entry notation in the share transfer records of the Company. Such shares shall be registered in the name of the Participant, and shall bear or be subject to an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, substantially as provided in Section 19.18 of the Plan. The Committee may require that the stock certificates or other evidence of ownership of the shares of Restricted Stock be held in custody by the Company until the restrictions thereon shall have lapsed, and that the Participant deliver to the Committee a stock power or stock powers, endorsed in blank, relating to the shares of Restricted Stock.
- (b) **Restrictions and Conditions**. Shares of Restricted Stock and Restricted Stock Units shall be subject to the following restrictions and conditions:
- (i) Subject to the other provisions of this Plan and the terms of the particular Award Agreements, during such period as may be determined by the Committee commencing on the Date of Grant (the Restriction Period), the Participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock and/or Restricted Stock Units. Any Restricted Stock or Restricted Stock Units not granted pursuant to a Performance Award, shall have a minimum Restriction Period of three years from the Date of Grant, provided that the Committee may provide for earlier vesting following a Change in Control or upon an Employee s termination of employment by reason of death, disability or Retirement. Except for these limitations, the Committee may in its sole discretion, remove any or all of the restrictions on such Restricted Stock and/or Restricted Stock Units whenever it may determine that, by reason of changes in applicable laws or other changes in circumstances arising after the date of the Award, such action is appropriate.
- (ii) Except as provided in subparagraph (i) above and subject to the terms of a Participant s Award Agreement, the Participant shall have, with respect to his or her Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the shares, and the right to receive any dividends thereon. Certificates or evidence of ownership of shares of Common Stock free of restriction under this Plan shall be delivered to the Participant promptly after, and only after, the Restriction Period shall expire without forfeiture in respect of such shares of Common Stock. Certificates for the shares of Common Stock forfeited under the provisions of the Plan shall be promptly returned to the Company by the forfeiting Participant. Each Participant, by his or her acceptance of Restricted Stock, shall irrevocably grant to the Company a power of attorney to transfer any shares so forfeited to the Company and agrees to execute any documents requested by the Company in connection with such forfeiture and transfer.

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(iii) The Restriction Period of Restricted Stock and/or Restricted Stock Units shall commence on the Date of Grant and, subject to Article 15 of the Plan, unless otherwise established by the Committee in the Award Agreement setting forth the terms of the Restricted Stock and/or Restricted Stock Units, shall expire upon satisfaction of the conditions set forth in the Award Agreement; such conditions may provide for vesting based on (i) length of continuous service, (ii) achievement of specific business objectives, (iii) increases in specified indices, (iv) attainment of specified growth rates, or (v) other comparable Performance Measurements, as may be determined by the Committee in its sole discretion.

(c) Forfeiture. Except as otherwise determined by the Committee or the Chief Executive Officer, the provisions of Article 9 shall apply with respect to Restricted Stock granted hereunder.

6.5 SARs and Limited SARs.

(a) An SAR shall entitle the Participant at his election to surrender to the Company the SAR, or portion thereof, as the Participant shall choose, and to receive from the Company in exchange therefore cash in an amount equal to the excess (if any) of the Fair Market Value (as of the date of the exercise of the SAR) per share over the SAR Price per share specified in such SAR, multiplied by the total number of shares of the SAR being surrendered. In the discretion of the Committee, the Company may satisfy its obligation upon exercise of an SAR by the distribution of that number of shares of Common Stock having an aggregate Fair Market Value (as of the date of the exercise of the SAR) equal to the amount of cash otherwise payable to the Participant, with a cash settlement to be made for any fractional share interests, or the Company may settle such obligation in part with shares of Common Stock and in part with cash.

(b) A Limited SAR shall allow the Participant to receive from the Company cash in an amount equal to the excess (if any) of the Fair Market Value (as of the date of the exercise of the Limited SAR) per share over the Limited SAR Price per share specified in such Limited SAR, multiplied by the total number of shares of the Limited SAR being surrendered. The Company will satisfy its obligation with a cash settlement to be made for any fractional Limited SAR. Limited SARs will expire without consideration upon the vesting, exercise, or settlement, in shares and/or in cash, of Awards for which the Limited SAR was granted in tandem.

6.6 Tandem Awards. The Committee may grant two or more Incentives in one Award in the form of a tandem award, so that the right of the Participant to exercise one Incentive shall be canceled if, and to the extent, the other Incentive is exercised. For example, if a Stock Option and an SAR are issued in a tandem Award, and the Participant exercises the SAR with respect to 100 shares of Common Stock, the right of the Participant to exercise the related Stock Option shall be canceled to the extent of 100 shares of Common Stock.

6.7 Performance Based Awards.

(a) *Grant of Performance Awards.* The Committee may issue Performance Awards in the form of Performance Units, Performance Shares, Performance Cash, or Dividend Equivalents to Participants subject to the Performance Goals and Performance Period as it shall determine. The terms and conditions of each Performance Award will be set forth in the related Award Agreement. The Committee shall have complete discretion in determining the number and/or value of Performance Awards granted to each Participant. Any Performance Units or Performance Shares granted under the Plan shall have a minimum Restriction Period of one year from the Date of Grant, provided that the Committee may provide for earlier vesting following a Change in Control or upon an Employee's termination of employment by reason of death, disability or Retirement. Participants receiving Performance Awards are not required to pay the Company therefor (except for applicable tax withholding) other than the rendering of services.

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- (b) *Value of Performance Awards.* The Committee shall set Performance Goals in its discretion for each Participant who is granted a Performance Award. Such Performance Goals may be particular to a Participant, may relate to the performance of the Subsidiary which employs him or her, may be based on the division which employs him or her, may be based on the performance of the Company generally, or a combination of the foregoing. The Performance Goals may be based on achievement of balance sheet or income statement objectives, or any other objectives established by the Committee. The Performance Goals may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated. The extent to which such Performance Goals are met will determine the number and/or value of the Performance Award to the Participant.
- (c) *Form of Payment.* Payment of the amount to which a Participant shall be entitled upon the settlement of a Performance Award shall be made in a lump sum or installments in cash, shares of Common Stock, or a combination thereof as determined by the Committee.

6.8 Other Stock Based Awards.

- (a) *Grant of Other Stock Based Awards.* The Committee may issue to Participants, either alone or in addition to other Awards made under the Plan, Stock Unit Awards which may be in the form of Common Stock or other securities. The value of each such Award shall be based, in whole or in part, on the value of the underlying Common Stock or other securities. The Committee, in its sole and complete discretion, may determine that an Award, either in the form of a Stock Unit Award under this Section or as an Award granted pursuant to the other provisions of this Article, may provide to the Participant (i) dividends or Dividend Equivalents (payable on a current or deferred basis) and (ii) cash payments in lieu of or in addition to an Award. The Committee shall determine the terms, restrictions, conditions, vesting requirements, and payment rules (all of which are sometimes hereinafter collectively referred to as rules) of the Award and shall set forth those rules in the related Award Agreement.
- (b) *Rules.* The Committee, in its sole and complete discretion, may grant a Stock Unit Award subject to the following rules:
 - (i) All rights with respect to such Stock Unit Awards granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant or his or her guardian or legal representative.
 - (ii) Stock Unit Awards may require the payment of cash consideration by the Participant in receipt of the Award or provide that the Award, and any Common Stock or other securities issued in conjunction with the Award be delivered without the payment of cash consideration.
 - (iii) The Committee, in its sole and complete discretion, may establish certain Performance Criteria that may relate in whole or in part to receipt of the Stock Unit Awards.
 - (iv) Stock Unit Awards may be subject to a deferred payment schedule and/or vesting over a specified employment period.
 - (v) The Committee as a result of certain circumstances may waive or otherwise remove, in whole or in part, any restriction or condition imposed on a Stock Unit Award at the time of Award.

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ARTICLE 7. OPTION PRICE; SAR/LIMITED SAR PRICE

7.1 Option/SAR Price. The Plan limitations stated in Section 6.2(a)(i) & -(ii) shall apply.

7.2 Repricing. The Plan limitations stated in Section 6.2(a)(iii) shall apply.

ARTICLE 8. AWARD PERIOD; VESTING

8.1 Award Period. Subject to the other provisions of this Plan, the Committee may, in its discretion, provide that an Incentive may not be exercised in whole or in part for any period or periods of time or beyond any date specified in the Award Agreement. Except as provided in the Award Agreement, an Incentive may be exercised in whole or in part at any time during its term.

No Incentive granted under the Plan may be exercised at any time after the end of its Award Period. The Plan limitations stated in Section 6.2(a)(vii) shall apply.

8.2 Vesting. The Committee, in its sole discretion, may determine that an Incentive will be immediately exercisable, in whole or in part, or that all or any portion may not be exercised until a date, or dates, subsequent to its Date of Grant, or until the occurrence of one or more specified events, subject in any case to the terms of the Plan. If the Committee imposes conditions upon exercise, then subsequent to the Date of Grant, the Committee may, in its sole discretion, accelerate the date on which all or any portion of the Incentive may be exercised.

ARTICLE 9. TERMINATION OF SERVICE

9.1 Termination of Employment.

- (a) *Vesting and Exercise*. Except as otherwise provided in the Plan, or otherwise determined by the Committee and included in the applicable Award Agreement, a Stock Option, SAR or other Award having an exercise provision (each, an *Exercisable Award*) vests in and may be exercised by a Participant only while the Participant is and has continually been since the date of the grant of the Exercisable Award an Employee or Non-Employee Director.
- (b) *Voluntary Termination by Participant (Exercisable Awards)*. If a Participant's employment or service as a Non-Employee Director with the Company is voluntarily terminated by the Participant (other than through retirement, death or disability; see Section 9.3 below), then: (i) that portion of any Exercisable Award that has not vested on or prior to such date of termination shall automatically lapse and be forfeited, and (ii) all vested but unexercised Exercisable Awards previously granted to that Participant under the Plan shall automatically lapse and be forfeited at the close of business on the 30th day following that date of such Participant's termination, unless an Exercisable Award expires earlier according to its original terms.
- (c) *Involuntary Termination for Cause (Exercisable Awards)*. If a Participant's employment or service as a Non-Employee director is involuntarily terminated by the Company for Cause: (i) that portion of any Exercisable Award that has not vested on or prior to such date of termination shall automatically lapse and be forfeited, and (ii) all vested but unexercised Exercisable Awards previously granted to that Participant under the Plan shall automatically lapse and be forfeited at the close of business on the 30th day following that date of such Participant's termination, unless an Exercisable Award expires earlier according to its original terms.

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- (d) *Involuntary Termination Other Than For Cause (Exercisable Awards)*. If a Participant's employment or service as a Non-Employee Director is involuntarily terminated by the Company other than for Cause: (i) that portion of any Exercisable Award that has not vested on or prior to such date of termination shall automatically lapse and be forfeited, and (ii) all vested but unexercised Exercisable Awards previously granted to that Participant under the Plan shall automatically lapse and be forfeited at the close of business on the last business day of the twelfth month following the date of the Participant's termination, unless an Exercisable Award expires earlier according to its original terms.

9.2 Awards Other Than Exercisable Awards. Except as otherwise provided in the Plan, or otherwise determined by the Committee and included in the applicable Award Agreement, if a Participant's employment or service as a Non-Employee Director with the Company is voluntarily terminated by the Participant (other than through retirement, death or disability; see Section 9.3 below), or is terminated by the Company with or without Cause, then any Award *other than* an Exercisable Award previously granted to that Participant under the Plan which remains unvested shall automatically lapse and be forfeited at the close of business on the date of such Participant's termination of employment or service.

9.3 Retirement, Death, Disability. Except as otherwise provided in the Plan, or otherwise determined by the Committee and included in the applicable Award Agreement, if a Participant's employment or service as a Non-Employee Director is terminated because of retirement, death or disability (with the determination of disability to be made within the sole discretion of the Committee), any Award held by the Participant shall remain outstanding and vest or become exercisable according to the Award's original terms; provided, however, that any Restricted Stock or Restricted Stock Units held by the Participant that remain unvested as of the date of retirement, death or disability shall immediately vest and become non-forfeitable as of such date.

9.4 Amendment. The Committee or the Chief Executive Officer may prescribe new or additional terms for the vesting, exercise or realization of any Award; provided, however, that no such action shall deprive a Participant or beneficiary, without his or her consent, of the right to any benefit accrued to his or her credit at the time of such action.

ARTICLE 10. EXERCISE OF INCENTIVE

10.1 In General. (a) A vested Incentive may be exercised during its Award Period, subject to limitations and restrictions set forth therein and in Article 9. A vested Incentive may be exercised at such times and in such amounts as provided in this Plan and the applicable Award Agreement, subject to the terms, conditions, and restrictions of the Plan.

(b) In no event may an Incentive be exercised or shares of Common Stock be issued pursuant to an Award if a necessary listing or quotation of the shares of Common Stock on a stock exchange or inter-dealer quotation system or any registration under state or federal securities laws required under the circumstances has not been accomplished. No Incentive may be exercised for a fractional share of Common Stock.

10.2 Stock Options. (a) Subject to such administrative regulations as the Committee may from time to time adopt, a Stock Option may be exercised by the delivery of written notice to the Company setting forth the number of shares of Common Stock with respect to which the Stock Option is to be exercised (the "Exercise Notice") and the date of exercise thereof (the "Exercise Date") in accordance with procedures established by the Company. On the Exercise Date, the Participant shall deliver to the Company consideration with a value equal to the total Option Price of the shares to be purchased, payable as follows: (a) cash, check, bank draft, or money order payable to the order of the Company, (b) Common Stock (including Restricted Stock) owned by the Participant on the Exercise Date, valued at its Fair Market Value on the Exercise Date, (c) by delivery (including by fax) to the Company or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions from the Participant to a broker or dealer, reasonably acceptable to the Company, to sell certain of the shares of Common Stock purchased upon exercise of the Stock Option and promptly deliver to the Company the amount of sale proceeds necessary to pay such purchase price, and/or (d) in any other form of valid consideration that is acceptable to the Company in its sole discretion. In the event that shares of Restricted Stock are tendered as consideration for the exercise of a Stock Option, a number of shares of Common Stock issued upon the exercise of

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the Stock Option equal to the number of shares of Restricted Stock used as consideration therefor shall be subject to the same restrictions and provisions as the Restricted Stock so submitted, as well as any additional restrictions that may be imposed by the Committee.

(b) Upon payment of all amounts due from the Participant, the Company shall cause shares of the Common Stock then being purchased to be delivered as directed by the Participant (or the person exercising the Participant's Stock Option in the event of his death) at its principal business office promptly after the Exercise Date; provided that if the Participant has exercised an Incentive Stock Option, the Company may at its option retain possession of the shares acquired upon exercise until the expiration of the holding periods described in Section 422(a)(1) of the Code. The obligation of the Company to deliver shares of Common Stock shall, however, be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration, or qualification of the Stock Option or the Common Stock upon any securities exchange or inter-dealer quotation system or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the Stock Option or the issuance or purchase of shares of Common Stock thereunder, the Stock Option may not be exercised in whole or in part unless such listing, registration, qualification, consent, or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(c) If the Participant fails to pay for any of the Common Stock specified in such notice or fails to accept delivery thereof, the Participant's right to purchase such Common Stock may be terminated by the Company.

10.3 SARs. Subject to the conditions of this Section and such administrative regulations as the Committee may from time to time adopt, an SAR may be exercised by the delivery (including by fax) of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the SAR is to be exercised (the Exercise Notice) and the date of exercise thereof (the Exercise Date) in accordance with procedures established by the Company. On the Exercise Date, the Participant shall receive from the Company in exchange therefore cash in an amount equal to the excess (if any) of the Fair Market Value (as of the date of the exercise of the SAR) per share of Common Stock over the SAR Price per share specified in such SAR, multiplied by the total number of shares of Common Stock of the SAR being surrendered. In the discretion of the Committee, the Company may satisfy its obligation upon exercise of an SAR by the distribution of that number of shares of Common Stock having an aggregate Fair Market Value (as of the date of the exercise of the SAR) equal to the amount of cash otherwise payable to the Participant, with a cash settlement to be made for any fractional share interests, or the Company may settle such obligation in part with shares of Common Stock and in part with cash.

10.4 Tax Payment Election. Subject to the approval of the Committee, and to any rules and limitations as the Committee may adopt, a person exercising an Incentive may make the payment of the amount of any taxes required to be collected or withheld by the Company in connection with such exercise in whole or in part by electing, at or before the time of exercise, either (i) to have the Company withhold from the number of Shares otherwise deliverable a number of Shares whose value equals the amount of the applicable supplemental wage withholding required plus any required state, local or employment tax withholdings, or (ii) to deliver certificates for other Shares owned by the person exercising the Award, endorsed in blank with appropriate signature guarantee, having a value equal to the amount otherwise to be collected or withheld.

10.5 Valuation. Any calculation with respect to a Participant's income, required tax withholding or other matters required to be made by the Company upon the exercise of an Incentive shall be made using the Fair Market Value of the shares of Common Stock on the Exercise Date, whether or not the Exercise Notice is delivered to the Company before or after the close of trading on that date, unless otherwise specified by the Committee. Notwithstanding the foregoing, for Stock Option exercises using the Company's same-day-sale for cash method or broker sale for stock method, a Participant's taxable gain and related tax withholding on the exercise will be calculated using the actual market price at which Shares were sold in the transaction.

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**ARTICLE 11. SPECIAL PROVISIONS
APPLICABLE TO COVERED PARTICIPANTS**

Awards subject to Performance Criteria paid to Covered Participants under this Plan shall be governed by the conditions of this Article 11 in addition to the requirements of Article 6, above. Should conditions set forth under this Article 11 conflict with the requirements of Article 6, the conditions of this Article 11 shall prevail.

11.1 Establishment of Performance Measures, Goals or Criteria. All Performance Measures, Goals, or Criteria relating to Covered Participants for a relevant Performance Period shall be established by the Committee in writing prior to the beginning of the Performance Period, or by such other later date for the Performance Period as may be permitted under Section 162(m) of the Code. The Performance Goals may be identical for all Participants or, at the discretion of the Committee, may be different to reflect more appropriate measures of individual performance.

11.2 Performance Goals. The Committee shall establish the Performance Goals relating to Covered Participants for a Performance Period in writing. Performance Goals may include alternative and multiple Performance Goals and may be based on one or more business and/or financial criteria. In establishing the Performance Goals for the Performance Period, the Committee in its discretion may include one or any combination of the following criteria in either absolute or relative terms, for the Company or any Subsidiary:

- (a) Increased revenue;
- (b) Net income measures (including but not limited to income after capital costs and income before or after taxes);
- (c) Stock price measures (including but not limited to growth measures and total stockholder return);
- (d) Market share;
- (e) Earnings per share (actual or targeted growth);
- (f) Earnings before interest, taxes, depreciation, and amortization (EBITDA);
- (g) Economic value added (EV[®]);
- (h) Cash flow measures (including but not limited to net cash flow and net cash flow before financing activities);
- (i) Return measures (including but not limited to return on equity, return on average assets, return on capital, risk-adjusted return on capital, return on investors' capital and return on average equity);
- (j) Operating measures (including operating income, funds from operations, cash from operations, after-tax operating income, sales volumes, production volumes, and production efficiency);
- (k) Expense measures (including but not limited to cost-per-barrel, overhead cost and general and administrative expense);
- (l) Margins;
- (m) Stockholder value;
- (n) Total stockholder return;
- (o) Proceeds from dispositions;

(p) Production volumes;

(q) Refinery runs or refinery utilization;

(r) Total market value; and

(s) Corporate values measures (including ethics compliance, environmental, and safety).

11.3 Compliance with Section 162(m). The Performance Goals must be objective and must satisfy third party objectivity standards under Section 162(m) of the Code, and the regulations promulgated thereunder. In interpreting Plan provisions relating to Awards subject to Performance Goals paid to Covered Participants, it is the intent of the Plan to conform with the standards of Section 162(m) of the Code and Treasury Regulation §1.162-27(e)(2)(i), and the Committee in establishing such goals and interpreting the Plan shall be guided by such provisions.

11.4 Adjustments. The Committee is authorized to make adjustments in the method of calculating attainment of Performance Goals in recognition of: (i) extraordinary or non-recurring items, (ii) changes in tax laws,

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(iii) changes in generally accepted accounting principles or changes in accounting principles, (iv) charges related to restructured or discontinued operations, (v) restatement of prior period financial results, and (vi) any other unusual, non-recurring gain or loss that is separately identified and quantified in the Company's financial statements.

Notwithstanding the foregoing, the Committee may, at its sole discretion, reduce the performance results upon which Awards are based under the Plan, to offset any unintended result(s) arising from events not anticipated when the Performance Goals were established, or for any other purpose, provided that such adjustment is permitted by Section 162(m) of the Code.

11.5 Discretionary Adjustments. The Performance Goals shall not allow for any discretion by the Committee as to an increase in any Award, but discretion to lower an Award is permissible.

11.6 Certification. The Award and payment of any Award under this Plan to a Covered Participant with respect to a relevant Performance Period shall be contingent upon the attainment of the Performance Goals that are applicable to such Covered Participant. The Committee shall certify in writing prior to payment of any such Award that such applicable Performance Goals relating to the Award are satisfied. Approved minutes of the Committee may be used for this purpose.

11.7 Other Considerations. All Awards to Covered Participants under this Plan shall be further subject to such other conditions, restrictions, and requirements as the Committee may determine to be necessary to carry out the purpose of this Article 11.

ARTICLE 12. AMENDMENT OR DISCONTINUANCE

12.1 In General. Subject to the limitations set forth in this Article 12, the Committee may at any time and from time to time, without the consent of the Participants, alter, amend, revise, suspend, or discontinue the Plan in whole or in part; provided, however, that no amendment which requires stockholder approval under the rules of the national exchange on which the shares of Common Stock are listed (or in order for the Plan and Incentives awarded under the Plan to continue to comply with Section 162(m) of the Code, including any successors to such Section), shall be effective unless such amendment shall be approved by the requisite vote of the stockholders of the Company entitled to vote thereon. Any such amendment shall, to the extent deemed necessary or advisable by the Committee, be applicable to any outstanding Incentives theretofore granted under the Plan, notwithstanding any contrary provisions contained in any Award Agreement. In the event of any such amendment to the Plan, the holder of any Incentive outstanding under the Plan shall, upon request of the Committee and as a condition to the exercisability thereof, execute a conforming amendment in the form prescribed by the Committee to any Award Agreement relating thereto.

12.2 Amendments to Awards. The Committee may waive any conditions or rights under, amend any terms of, or alter any Award theretofore granted; provided that, unless required by law, no action contemplated or permitted by this Article 12 shall adversely affect any rights of Participants or obligations of the Company to Participants with respect to any Incentive theretofore granted under the Plan without the consent of the affected Participant.

12.3 Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms, conditions, and criteria of Awards in recognition of unusual or nonrecurring events (including the events described in Section 14 of the Plan) affecting the Company, any Affiliate, or the financial statements of the Company or any Affiliate, or in recognition of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

ARTICLE 13. EFFECTIVE DATE AND TERM

The Plan shall be effective as of May 1, 2005. Subject to earlier termination pursuant to Article 12, the Plan shall have a term of 10 years from its effective date and will terminate on April 30, 2015. After termination of the Plan, no future Awards may be made. However, any Incentives granted before that date will continue to be effective in accordance with their terms and conditions.

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ARTICLE 14. CAPITAL ADJUSTMENTS

14.1 In General. If at any time while the Plan is in effect, or Incentives are outstanding, there shall be any increase or decrease in the number of issued and outstanding shares of Common Stock resulting from (1) the declaration or payment of a stock dividend, (2) any recapitalization resulting in a stock split-up, combination, or exchange of shares of Common Stock, or (3) other increase or decrease in such shares of Common Stock effected without receipt of consideration by the Company, then:

- (a) An appropriate adjustment shall be made in the maximum number of shares of Common Stock then subject to being awarded under the Plan and in the maximum number of shares of Common Stock that may be awarded to a Participant to the end that the same proportion of the Company's issued and outstanding shares of Common Stock shall continue to be subject to being so awarded.
- (b) Appropriate adjustments shall be made in the number of shares of Common Stock and the Option Price thereof then subject to purchase pursuant to each such Stock Option previously granted and unexercised, to the end that the same proportion of the Company's issued and outstanding shares of Common Stock in each such instance shall remain subject to purchase at the same aggregate Option Price.
- (c) Appropriate adjustments shall be made in the number of SARs and the SAR Price thereof then subject to exercise pursuant to each such SAR previously granted and unexercised, to the end that the same proportion of the Company's issued and outstanding shares of Common Stock in each instance shall remain subject to exercise at the same aggregate SAR Price.
- (d) Appropriate adjustments shall be made in the number of outstanding shares of Restricted Stock with respect to which restrictions have not yet lapsed prior to any such change.
- (e) Appropriate adjustments shall be made with respect to shares of Common Stock applicable to any other Incentives previously awarded under the Plan as the Committee, in its sole discretion, deems appropriate, consistent with the event.

14.2 Issuance of Stock or Other Convertible Securities. Except as otherwise expressly provided herein, the issuance by the Company of shares of its capital stock of any class, or securities convertible into shares of capital stock of any class, either in connection with direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to (i) the number of or Option Price of shares of Common Stock then subject to outstanding Stock Options granted under the Plan, (ii) the number of or SAR Price or SARs then subject to outstanding SARs granted under the Plan, (iii) the number of outstanding shares of Restricted Stock, or (iv) the number of shares of Common Stock otherwise payable under any other Incentive.

14.3 Notification. Upon the occurrence of each event requiring an adjustment with respect to any Incentive, the Company shall notify each affected Participant its computation of such adjustment, which shall be conclusive and shall be binding upon each such Participant.

**ARTICLE 15. RECAPITALIZATION, MERGER AND CONSOLIDATION;
CHANGE OF CONTROL**

15.1 Adjustments, Recapitalizations, Reorganizations, or Other Adjustments. The existence of this Plan and Incentives granted hereunder shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure and its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or preference stocks ranking prior to or otherwise affecting the Common Stock or the rights thereof (or any rights, options, or warrants to purchase same), or the dissolution or liquidation of the Company, or

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any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

15.2 Acquiring Entity. Subject to any required action by the stockholders, if the Company shall be the surviving or resulting corporation in any merger, consolidation or share exchange, any Incentive granted hereunder shall pertain to and apply to the securities or rights (including cash, property, or assets) to which a Participant would have been entitled.

15.3 Acquired Entity. In the event of any merger, consolidation or share exchange pursuant to which the Company is not the surviving or resulting corporation, there shall be substituted for each share of Common Stock subject to the unexercised portions of such outstanding Incentives, that number of shares of each class of stock or other securities or that amount of cash, property, or assets of the surviving, resulting or consolidated company which were distributed or distributable to the stockholders of the Company in respect to each share of Common Stock held by them, such outstanding Incentives to be thereafter exercisable for such stock, securities, cash, or property in accordance with their terms. Notwithstanding the foregoing, however, all Stock Options and SARs may be canceled by the Company immediately prior to the effective date of any such reorganization, merger, consolidation, share exchange or any dissolution or liquidation of the Company by giving notice to each holder thereof or his personal representative of its intention to do so and by permitting the purchase during the 30 day period next preceding such effective date of all or any portion of all of the shares of Common Stock subject to such outstanding Incentives whether or not such Incentives are then vested or exercisable.

15.4 Change of Control.

- (a) In the event of a Change of Control, notwithstanding any other provision in this Plan to the contrary all unmatured installments of Incentives outstanding and not otherwise canceled in accordance with Section 15.3 above, shall thereupon automatically be accelerated and exercisable in full and all Restriction Periods applicable to Awards of Restricted Stock and/or Restricted Stock Units shall automatically expire. The determination of the Committee that any of the foregoing conditions has been met shall be binding and conclusive on all parties.
- (b) In the event of a Change of Control, notwithstanding any other provision in this Plan and not otherwise canceled in accordance with Section 15.3 above, previously granted and unpaid Performance Cash and/or Dividend Equivalents or Performance Cash and/or Dividend Equivalents granted in the year during which the Change of Control occurs will be paid no later than 60 days from the date of the occurrence of such Change of Control. The amount of the Performance Cash and/or Dividend Equivalent payable shall be:
 - (i) One-half of the maximum value of Performance Cash and/or Dividend Equivalent payable pursuant to the terms and provisions of the Award (reduced by the application of the Committee's negative discretion, if applicable) to such person if the Change of Control occurs before 50 percent of the Performance Period has elapsed; or
 - (ii) The full maximum value of the Performance Cash and/or Dividend Equivalent payable pursuant to the terms and provisions of the Award (reduced by the application of the Committee's negative discretion, if applicable) to such person if the Change of Control occurs on or after 50 percent of the Performance Period has elapsed.

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ARTICLE 16. LIQUIDATION OR DISSOLUTION

In case the Company shall, at any time while any Incentive under this Plan shall be in force and remain unexpired, sell all or substantially all of its property, or dissolve, liquidate, or wind up its affairs (each, a Dissolution Event), then each Participant shall be thereafter entitled to receive, in lieu of each share of Common Stock of the Company which such Participant would have been entitled to receive under the Incentive, the same kind and amount of any securities or assets as may be issuable, distributable, or payable upon any such sale, dissolution, liquidation, or winding up with respect to each share of Common Stock of the Company. If the Company shall, at any time prior to the expiration of any Incentive, make any partial distribution of its assets, in the nature of a partial liquidation, whether payable in cash or in kind (but excluding the distribution of a cash dividend payable out of earned surplus and designated as such) then in such event the Option Prices or SAR Prices then in effect with respect to each Stock Option or SAR shall be reduced, on the payment date of such distribution, in proportion to the percentage reduction in the tangible book value of the shares of the Company's Common Stock (determined in accordance with generally accepted accounting principles) resulting by reason of such distribution.

ARTICLE 17. ADDITIONAL AUTHORITY OF COMMITTEE

In addition to the Committee's authority set forth elsewhere, in order to maintain a Participant's rights in the event of any Change of Control or Dissolution Event described under Articles 15 and 16, the Committee, as constituted before the Change of Control or Dissolution Event, is hereby authorized, and has sole discretion, as to any Incentive, either at the time the Award is made hereunder or any time thereafter, to take any one or more of the following actions:

- (a) provide for the acceleration of any time periods relating to the vesting, exercise or realization of the Incentive so that the Incentive may be exercised or realized in full on or before a date fixed by the Committee;
- (b) provide for the purchase of any Incentive, upon the Participant's request, for an amount of cash equal to the amount that could have been attained upon the exercise of the Incentive or realization of the Participant's rights in the Incentive had the Incentive been currently exercisable or payable;
- (c) adjust any outstanding Incentive as the Committee deems appropriate to reflect the Change of Control or Dissolution Event; or
- (d) cause any outstanding Incentive to be assumed, or new rights substituted therefor, by the acquiring or surviving corporation after a Change of Control or successor following a Dissolution Event.
- (e) The Committee may in its discretion include other provisions and limitations in any Award Agreement as it may deem equitable and in the best interests of the Company.

**ARTICLE 18. INCENTIVES IN SUBSTITUTION FOR
INCENTIVES GRANTED BY OTHER CORPORATIONS**

Incentives may be granted under the Plan from time to time in substitution for similar instruments held by employees of a corporation who become or are about to become Employees of the Company or any Subsidiary as a result of a merger or consolidation of the employing corporation with the Company or the acquisition by the Company of stock of the employing corporation. The terms and conditions of the substitute Incentives so granted may vary from the terms and conditions set forth in this Plan to such extent as the Board at the time of grant may deem appropriate to conform, in whole or in part, to the provisions of the Incentives in substitution for which they are granted.

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ARTICLE 19. MISCELLANEOUS PROVISIONS

19.1 Code Section 409A. Notwithstanding anything in this Plan to the contrary, if any Plan provision or Award under the Plan would result in the imposition of an applicable tax under Code Section 409A and related regulations and Treasury pronouncements (Section 409A), that Plan provision or Award may be reformed to avoid imposition of the applicable tax and no action taken to comply with Section 409A shall be deemed to adversely affect the Participant s rights to an Award.

19.2 Investment Intent. The Company may require that there be presented to and filed with it by any Participant under the Plan, such evidence as it may deem necessary to establish that the Incentives granted or the shares of Common Stock to be purchased or transferred are being acquired for investment and not with a view to their distribution.

19.3 No Right to Continued Employment. Neither the Plan nor any Incentive granted under the Plan shall confer upon any Participant any right with respect to continuance of employment by the Company or any Subsidiary.

19.4 Delegation. Subject to the terms of the Plan and applicable law, the Committee may delegate to one or more officers or managers of the Company or any Affiliate, or to a committee of such officers or managers, the authority, subject to the terms and limitations the Committee shall determine, to grant Awards or to cancel, modify or waive rights with respect to, or to amend, suspend, or terminate Awards.

19.5 Indemnification of Board and Committee. No member of the Board or the Committee, nor any officer or employee of the Company acting on behalf of the Board or the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Committee and each and any officer or employee of the Company acting on their behalf shall, to the fullest extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination, or interpretation.

19.6 Effect of the Plan. Neither the adoption of this Plan nor any action of the Board or the Committee shall be deemed to give any person any right to be granted an Award or any other rights except as may be evidenced by an Award Agreement, or any amendment thereto, duly authorized by the Committee and executed on behalf of the Company, and then only to the extent and upon the terms and conditions expressly set forth therein.

19.7 Compliance with Laws and Regulations. Notwithstanding anything contained herein to the contrary, the Company shall not be required to sell or issue shares of Common Stock under any Incentive if the issuance thereof would constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority or any national securities exchange or inter-dealer quotation system or other forum in which shares of Common Stock are quoted or traded (including without limitation Section 16 of the Securities Exchange Act of 1934 and 162(m) of the Code), and, as a condition of any sale or issuance of shares of Common Stock under an Incentive, the Committee may require such agreements or undertakings, if any, as the Committee may deem necessary or advisable to assure compliance with any such law or regulation. The Plan, the grant and exercise of Incentives hereunder, and the obligation of the Company to sell and deliver shares of Common Stock, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required; and the grant or making of any Award shall be conditional and shall be granted or awarded subject to acceptance of the Shares deliverable pursuant to the Award for listing on the NYSE.

19.8 Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

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19.9 Tax Requirements, Withholding. The Company or any Affiliate is hereby authorized to withhold from any Award, from any payment due or transfer made under any Award or under the Plan or from any compensation or other amount owing to a Participant the amount (in cash, Shares, other securities, other Awards or other property) of any applicable withholding taxes with respect to an Award, its exercise, the lapse of restrictions thereon, payment or transfer under an Award or under the Plan, and to take any other action necessary in the opinion of the Company to satisfy all obligations for the payment of the taxes. Notwithstanding the foregoing, in the event of an assignment of a Non-qualified Stock Option or SAR, the Participant who assigns the Non-qualified Stock Option or SAR shall remain subject to withholding taxes upon exercise of the Non-qualified Stock Option or SAR by the transferee to the extent required by the Code or the rules and regulations promulgated thereunder. Such payments shall be required to be made prior to the delivery of any shares of Common Stock. Such payment may be made in cash, by check, or through the delivery of shares of Common Stock owned by the Participant (which may be effected by the actual delivery of shares of Common Stock by the Participant or by the Company's withholding a number of shares to be issued upon the exercise of a Stock Option, if applicable), which shares have an aggregate Fair Market Value equal to the required minimum withholding payment, or any combination thereof.

19.10 Assignability. (a) Incentive Stock Options may not be transferred or assigned other than by will or the laws of descent and distribution and may be exercised during the lifetime of the Participant only by the Participant or the Participant's legally authorized representative, and each Award Agreement in respect of an Incentive Stock Option shall so provide. The designation by a Participant of a beneficiary will not constitute a transfer of the Stock Option. The Committee may waive or modify any limitation contained in the preceding sentences of this Section 19.10 that is not required for compliance with Section 422 of the Code.

(b) The Committee may, in its discretion, authorize all or a portion of a Non-qualified Stock Option or SAR to be granted to a Participant to be on terms which permit transfer by such Participant to (i) the spouse, children or grandchildren of the Participant (Immediate Family Members), (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members, or (iii) a partnership in which such Immediate Family Members are the only partners, (iv) an entity exempt from federal income tax pursuant to Section 501(c)(3) of the Code or any successor provision, or (v) a split interest trust or pooled income fund described in Section 2522(c)(2) of the Code or any successor provision, provided that (a) there shall be no consideration for any such transfer, (b) the Award Agreement pursuant to which such Non-qualified Stock Option or SAR is granted must be approved by the Committee and must expressly provide for transferability in a manner consistent with this Section, and (c) subsequent transfers of transferred Non-qualified Stock Options or SARs shall be prohibited except those by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended. Following transfer, any such Non-qualified Stock Option and SAR shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of Articles 10, 12, 14, 16 and 18 hereof the term Participant shall be deemed to include the transferee. The events of Termination of Service shall continue to be applied with respect to the original Participant, following which the Non-qualified Stock Options and SARs shall be exercisable by the transferee only to the extent and for the periods specified in the Award Agreement. The Committee and the Company shall have no obligation to inform any transferee of a Non-qualified Stock Option or SAR of any expiration, termination, lapse or acceleration of such Option. The Company shall have no obligation to register with any federal or state securities commission or agency any Common Stock issuable or issued under a Non-qualified Stock Option or SAR that has been transferred by a Participant under this Section 19.10.

19.11 No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or any fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

19.12 Use of Proceeds. Proceeds from the sale of shares of Common Stock pursuant to Incentives granted under this Plan shall constitute general funds of the Company.

19.13 Governing Law. The validity, construction and effect of the Plan and any actions taken or relating to the Plan shall be determined in accordance with the laws of the State of Texas and applicable Federal law.

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19.14 Successors and Assigns. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly to assume and agree to perform the Company's obligations under this Plan in the same manner and to the same extent that the Company would be required to perform them if no such succession had taken place. As used herein, the

Company shall mean the Company as herein before defined and any aforesaid successor to its business and/or assets.

19.15 No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Shares or whether fractional Shares or any rights thereto shall be canceled, terminated, or otherwise eliminated.

19.16 Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. The headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

19.17 Construction. Use of the term including in this Plan shall be construed to mean including but not limited to.

19.18 Legend. Each certificate or evidence of ownership representing shares of Restricted Stock issued to a Participant shall bear or be subject to the following legend, or a similar legend deemed by the Company to constitute an appropriate notice of the provisions hereof (any such certificate not having such legend shall be surrendered upon demand by the Company and so endorsed):

On the face of the certificate:

Transfer of this stock is restricted in accordance with conditions printed on the reverse of this certificate.

On the reverse:

The shares of stock evidenced hereby are subject to and transferable only in accordance with the 2005 Valero Energy Corporation Omnibus Stock Incentive Plan, a copy of which is on file at the principal office of the Company in San Antonio, Texas. No transfer or pledge of the shares evidenced hereby may be made except in accordance with and subject to the provisions of said Plan. By acceptance of shares represented hereby, any holder, transferee or pledge beneficiary hereof agrees to be bound by all of the provisions of said Plan.

The following legend shall be inserted on a certificate or evidence of ownership of Common Stock issued under the Plan if the shares were not issued in a transaction registered under the applicable federal and state securities laws:

Shares of stock represented hereby have been acquired by the holder for investment and not for resale, transfer or distribution, have been issued pursuant to exemptions from the registration requirements of applicable state and federal securities laws, and may not be offered for sale, sold or transferred other than pursuant to effective registration under such laws, or in transactions otherwise in compliance with such laws, and upon evidence satisfactory to the Company of compliance with such laws, as to which the Company may rely upon an opinion of counsel satisfactory to the Company.

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VOTE BY INTERNET www.proxyvote.com

Use the Internet to transmit your voting instructions and to request electronic delivery of information until 11:59 p.m., Eastern Time, the day before the cutoff date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions until 11:59 p.m., Eastern Time, the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Valero Energy Corporation c/o Broadridge, 51 Mercedes Way, Edgewood, New York 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK
INK AS FOLLOWS:

VALER1
KEEP THIS PORTION FOR YOUR
RECORDS

DETACH AND RETURN THIS
PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

VALERO ENERGY CORPORATION

**Vote on
Directors**

The Board of Directors recommends that you vote FOR all nominees.

1. Elect three Class I directors to serve until the 2013 Annual Meeting of Stockholders or until their respective successors are elected and have been qualified:

| Nominees: | For | Against | Abstain |
|------------------------|-----|---------|---------|
| 1a. Ruben M. Escobedo | o | o | o |
| 1b. Bob Marbut | o | o | o |
| 1c. Robert A. Profusek | o | o | o |

**Vote on
Proposals**

The Board of Directors recommends that you vote FOR proposals 2, 3 and 4. For Against Abstain

- | | | | |
|---|---|---|---|
| 2. Ratify the appointment of KPMG LLP as Valero's independent registered public accounting firm for 2010. | o | o | o |
| 3. Re-approve the 2005 Omnibus Stock Incentive Plan. | o | o | o |

4. Ratify the 2009 compensation of the named executive officers. o o o

The Board of Directors recommends that you vote AGAINST proposals 5, 6, 7 For Against Abstain and 8.

5. Vote on a stockholder proposal entitled, Impact of Valero's Operations on Rainforest Sustainability. o o o

6. Vote on a stockholder proposal entitled, Elimination of Classified Board. o o o

7. Vote on a stockholder proposal entitled, Disclosure of Political Contributions/Trade Associations. o o o

8. Vote on a stockholder proposal entitled, Stock Retention by Executives. o o o

The above proposals are in addition to any other business properly brought before the meeting.

Signature [PLEASE SIGN WITHIN BOX]

Date

Signature (Joint Owners)

Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and Annual Report on Form 10-K are available at www.proxyvote.com.

**VALERO ENERGY CORPORATION
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
ANNUAL MEETING OF STOCKHOLDERS
April 29, 2010**

The stockholder(s) hereby revoke(s) all previous proxies and appoint(s) William R. Klesse and Jay D. Browning, or either of them, as proxies, each with the power to appoint his substitute, and hereby authorize(s) them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of Common Stock of Valero Energy Corporation that the stockholder(s) is/are entitled to vote at the Annual Meeting of Stockholders to be held on Thursday, April 29, 2010 at 10:00 a.m., Central Time, at the Valero Energy Corporation offices located at One Valero Way, San Antonio, Texas 78249, and any adjournment or postponement thereof.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS SPECIFIED ON THE REVERSE SIDE. IF NO SPECIFICATION IS MADE, THIS PROXY WILL BE VOTED FOR ALL NOMINEES FOR DIRECTOR, FOR PROPOSALS 2, 3 AND 4, AND AGAINST PROPOSALS 5, 6, 7 AND 8. IF ANY OTHER MATTERS ARE VOTED ON AT THE MEETING, THIS PROXY WILL BE VOTED BY THE NAMED PROXIES ON SUCH MATTERS IN THEIR SOLE DISCRETION.

YOUR TELEPHONE OR INTERNET VOTE AUTHORIZES THE NAMED PROXIES TO VOTE THE SHARES IN THE SAME MANNER AS IF YOU MARKED, SIGNED AND RETURNED YOUR PROXY CARD.