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PRINCIPLES • SOLUTIONS • RESILIENCE • VISION • COLLABORATION
EXPERIENCE • CAPITAL • TECHNOLOGY • COMMITMENT • INTEGRITY

2016 Summary Annual Report

VALERO

Valero Energy Corporation

2016 Summary Annual Report

Contents

Financial Highlights

[Millions of dollars, except per-share amounts]

	2016	2015
Operating Revenues	$ 76,659	$ 87,804
Operating Income	$ 3,572	$ 6,358
Net Income Attributable to Valero Stockholders	$ 2,289	$ 3,990
Earnings Per Common Share – Assuming Dilution	$ 4.94	$ 7.99
Total Assets	$ 46,173	$ 44,227
Valero Stockholders' Equity	$ 20,024	$ 20,527
Capital Expenditures and Deferred Turnaround and Catalyst Costs	$ 1,996	$ 2,291

Please visit www.valero.com to learn more about our company. The terms "Valero," "we," "our" and "us," when used herein, may refer to Valero Energy Corporation, to one or more of our consolidated subsidiaries, or to all of them taken as a whole.

This is only a financial summary. The company's full, audited financial statements are contained in its Annual Report on Form 10-K for the year ended December 31, 2016, which has been filed with the U.S. Securities and Exchange Commission and made available to all stockholders. This information is also available at www.valero.com.

A Letter to Our Stockholders

I am pleased to report that 2016 was a good year for Valero as we achieved our best performance ever in personnel and process safety, plant reliability and environmental stewardship.

We are very proud of our team's exceptional execution, as we believe that the key to achieving positive financial results is a commitment to safety and operational excellence. This was imperative in capturing the most from a low-margin environment while still delivering industry-leading returns, including the highest total stockholder return in our peer group over the last two years.

For the year, net income attributable to stockholders was $4.94 per share, compared with $7.99 per share in 2015, amid narrower discounts for most sweet and sour crude oils, weaker gasoline margins in some areas and higher costs of Renewable Fuel Standard (RFS) credits.

We maintained a strong balance sheet, with an investment-grade credit rating and a low debt-to-capital ratio of 23 percent. We led our peer group with the lowest net debt to earnings before interest, taxes, depreciation and amortization (EBITDA) for the year.

Importantly, we delivered a peer-leading payout ratio to stockholders of 142 percent of our 2016 adjusted net income, which was well above our target. In all, we returned $2.4 billion to shareholders in 2016 through dividends and repurchases of more than 23 million shares.

Further demonstrating our belief in Valero's earnings power, our board of directors in January 2017 approved a 17 percent increase in the regular quarterly dividend to 70 cents per share, or $2.80 annually.

I am particularly proud of our focus on operational excellence, as we achieved our lowest-ever refinery employee injury incidence rate that once again was far lower than the industry average. Our combined employee and contractor incidence rate also was a record low.

We achieved our best performance ever in personnel and process safety, plant reliability and environmental stewardship.

Safe processes mean reliable operations, and we achieved our lowest rate of refinery process safety incidents and highest "mechanical availability" – meaning, the percentage of time our units are available to run. And we accomplished this while maintaining the lowest cash operating costs per barrel among our peers.

In 2016, Valero refineries achieved a 96.9 percent mechanical availability. Excluding scheduled turnarounds, availability topped 99 percent, which is simply outstanding. And our ethanol plants had no process safety events in 2015 and 2016.

We achieved excellent environmental performance as well, as we recorded our lowest-ever number of environmental incidents.

Also key to Valero's performance is our focus on developing and maintaining an industry-leading portfolio of highly efficient and complex assets. This gives us exceptional flexibility to process the most cost-advantaged feedstocks and adjust supply and distribution to adapt to conditions in the marketplace.


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We continued to optimize our business by investing in projects that are expected to create long-term value and drive our future growth. In 2016, we achieved the best return on invested capital and among the highest EBITDA per barrel of throughput in our peer group.

Among our 2016 projects:

- We invested approximately $2 billion in our business to ensure safe and reliable operations and to advance our growth strategy.
- Construction continued on the Diamond Pipeline project, to which we're contributing approximately $450 million in partnership with Plains All-American. The project, expected to be complete at the end of 2017, would provide our refinery in Memphis with more crude-oil supply options by connecting with the important crude oil hub of Cushing, Oklahoma.
- We continued to work on our $300 million Houston alkylation unit, which we expect to be mechanically complete in the first half of 2019. The unit would upgrade low-cost natural gas liquids into premium-priced alkylate, a high-octane blending component in gasoline.
- We approved a new cogeneration facility for our Wilmington refinery, which is projected for startup in fourth-quarter 2017, and is expected to reduce power purchases and improve efficiency.
- A 6,000 barrel-per-day expansion of Diamond Green Diesel, our highly successful partnership with Darling Ingredients Inc., was approved in fourth-quarter 2016, with completion expected in first-half 2018.

We are developing other growth investment opportunities in octane enhancement, cogeneration and feedstock flexibility.

Valero Energy Partners LP (NYSE: VLP), the midstream master limited partnership of which Valero owns the 2 percent general partner interest and a majority limited partner interest, performed well. We expect to continue to grow VLP through drop-downs of assets from Valero, as well as organic growth and midstream acquisitions that are strategic to Valero's core business or that provide third-party revenue.

Our ethanol segment recorded solid operating income of $340 million in 2016, up from $142 million the year before.

On the public policy front, a persistent headwind to our profitability in 2016 was the exorbitant price of RFS credits, known as Renewable Identification Numbers, or RINs. We spent $749 million to meet our biofuel blending obligations. At this level, this is a significant issue for us, so we continue to work it aggressively with regulators.

In summary, we remain committed to being the best operator in the business – demonstrating operational excellence while delivering industry-leading returns. We will continue to invest in our business while pursuing returns to our stockholders at the high end of our peer group.

Thank you for your continued support and trust.

Joe Gorder
Chairman, President and
Chief Executive Officer

Valero Vision and Guiding Principles

Vision Statement

Valero will be the premier manufacturer, distributor and marketer of quality transportation fuels and petrochemical feedstocks, while serving the needs of our employees, communities and stakeholders.

Guiding Principles:

Safety
Safety is our foundation for success.

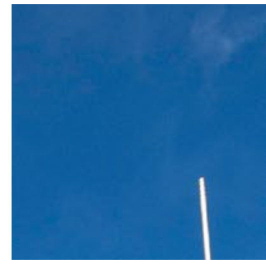
Environment
We produce environmentally clean products and are committed stewards of the environment.

Community
We share our success with the communities where we live and work through volunteerism, charitable giving and the economic support of being a good employer.

Employees
We consider our employees a competitive advantage and our greatest asset. As such, we provide them with a safe and rewarding work environment with opportunities for growth and personal development.

Stakeholders
Our stakeholders are our partners to whom we pledge to deliver operational excellence, disciplined management of capital and long-term value.

Company Summary



Valero Energy Corporation (NYSE: VLO), through its subsidiaries, is an international manufacturer and marketer of transportation fuels and other petrochemical products.

Valero is a Fortune 50 company based in San Antonio, Texas, with approximately 10,000 employees, and it operates 15 petroleum refineries with a combined throughput capacity of approximately 3.1 million barrels per day and 11 ethanol plants with a combined production capacity of approximately 1.4 billion gallons per year. In addition, Valero owns the 2 percent general partner interest and a majority limited partner interest in Valero Energy Partners LP (NYSE: VLP), formed by Valero to own, operate, develop and acquire crude oil and refined petroleum products pipelines, terminals and other transportation and logistics assets.

Valero's refining segment includes its refining operations, associated marketing activities and logistics assets that support its refining operations. Valero, through its subsidiaries, is the world's largest independent petroleum refiner, with refineries in Ardmore, Oklahoma; Benicia and Wilmington, California; Corpus Christi (Bill Greehey refineries East and West), Houston, McKee (Sunray), Port Arthur, Texas City and Three Rivers, Texas; Memphis, Tennessee; and Meraux and St. Charles (Norco), Louisiana. Valero also owns the Jean Gaulin refinery in Canada at Lévis, Québec, and the Pembroke refinery in the United Kingdom, in Wales.

The company sells its refined petroleum products in both the wholesale rack and bulk markets, and approximately 7,400 outlets carry the Valero®, Beacon®, Diamond Shamrock® and Shamrock® brands in the United States; the Ultramar® brand in Canada; and the Texaco® brand in the U.K. and Ireland.

Valero also owns 50 percent of a joint venture, Diamond Green Diesel Holdings LLC (DGD), which operates a 12,000-barrel-per-day renewable diesel plant in Norco, Louisiana, that processes used cooking oil, recycled animal fat and corn oil into renewable diesel fuel.

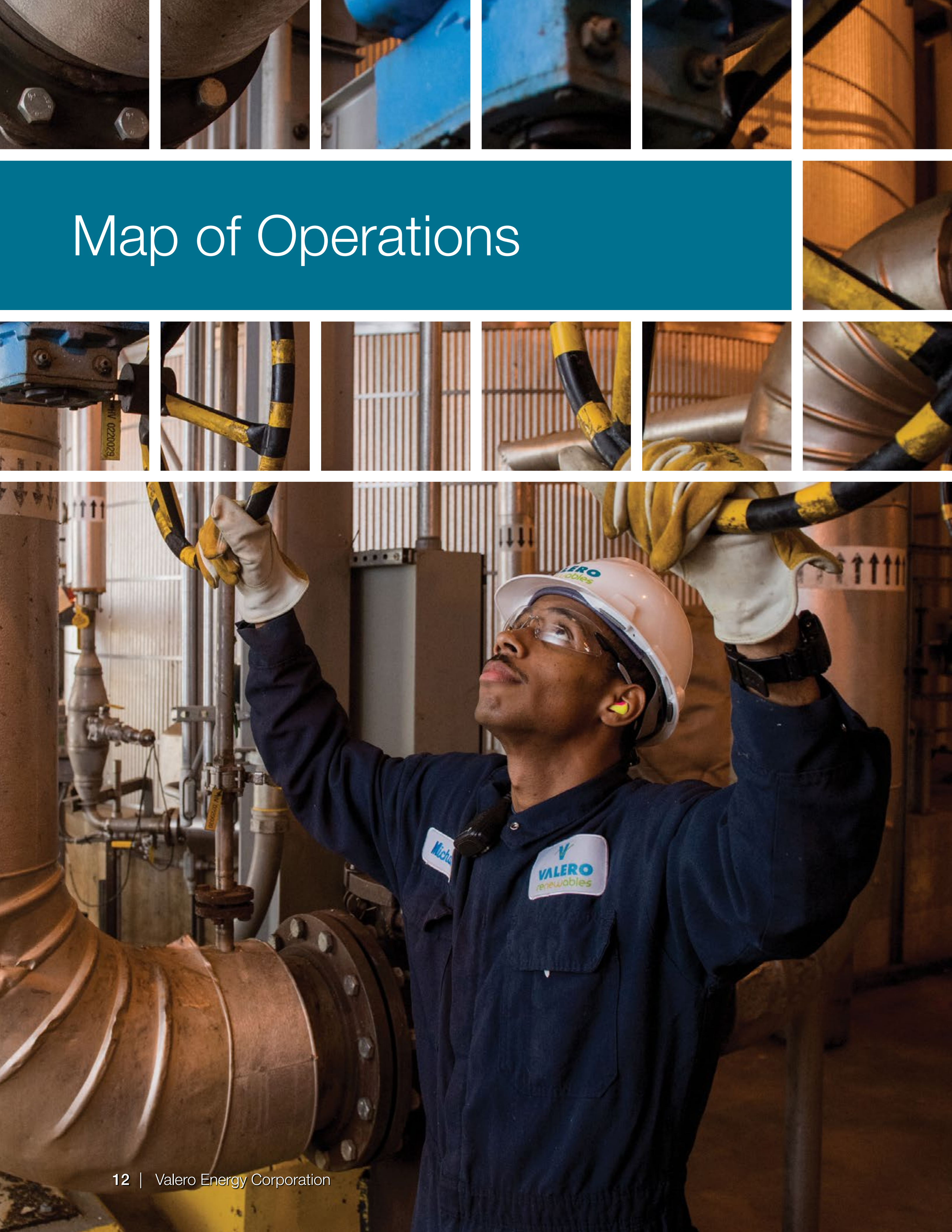
Valero, through its subsidiaries, is the world's largest independent petroleum refiner.

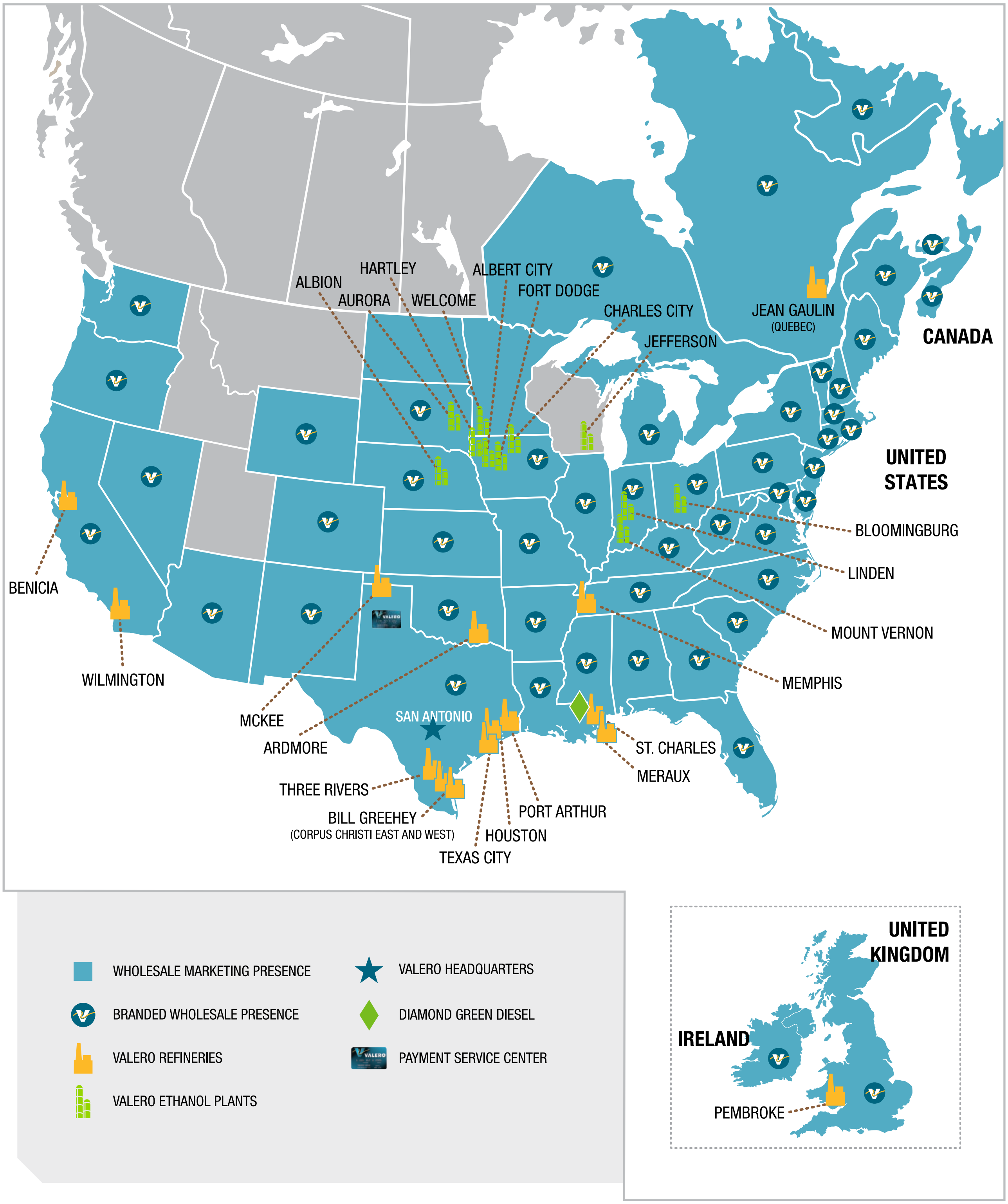
Most of Valero's logistics assets, which include crude oil pipelines, refined petroleum product pipelines, terminals, tanks, marine docks, truck rack bays and other assets, support its refining operations.

Valero's ethanol segment includes its ethanol operations, associated marketing activities and logistics assets that support its ethanol operations. Through subsidiaries, Valero owns plants in Albert City, Charles City, Fort Dodge and Hartley, Iowa; Albion, Nebraska; Aurora, South Dakota; Bloomingburg, Ohio; Jefferson, Wisconsin; Linden and Mount Vernon, Indiana; and Welcome, Minnesota.

Valero sells its ethanol primarily to refiners and gasoline blenders under term and spot contracts in the wholesale bulk markets. The ethanol is distributed through logistics assets, which include railcars owned by Valero.

Map of Operations





CANADA
UNITED STATES
ALBION
HARTLEY
AURORA
WELCOME
ALBERT CITY
FORT DODGE
CHARLES CITY
JEFFERSON
JEAN GAULIN
(QUEBEC)
BLOOMINGBURG
LINDEN
MOUNT VERNON
MEMPHIS
BENICIA
WILMINGTON
MCKEE
ARDMORE
SAN ANTONIO
ST. CHARLES
MERAUX
THREE RIVERS
BILL GREEHEY
(CORPUS CHRISTI EAST AND WEST)
PORT ARTHUR
HOUSTON
TEXAS CITY
WHOLESALE MARKETING PRESENCE
BRANDED WHOLESALE PRESENCE
VALERO REFINERIES
VALERO ETHANOL PLANTS
VALERO HEADQUARTERS
DIAMOND GREEN DIESEL
PAYMENT SERVICE CENTER
UNITED KINGDOM
IRELAND
PEMBROKE

Valero Benicia Refinery, California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Operate Safely and Reliably and Demonstrate Environmental Responsibility

The “Safety board” at the main gate to the Valero Benicia Refinery was a visible reminder to employees every day in 2016 that they would make history.

Day by day, the number displayed on the board would climb – to more than 1,700 by the end of the year, corresponding to days without a lost-time recordable injury, a span of more than four and a half years. The more than 4 million work hours without an employee recordable injury set a new company record.

“You go through the gate every day and you see that number on the big board, and you’re proud to come to work at Valero,” recalled David Frank, Supervisor-Safety, about 2016. “It’s such an honor.”

The feat underscored a record year for Valero companywide – and not just in occupational safety, but also in process safety, reliability and environmental performance.

Safety and reliability are imperative for profitability, because even when the market has not provided the best of margins, Valero has been successful by controlling what it can, to make the most of what the market gives.

Benicia wasn’t alone in doing that. In fact, four refineries – Ardmore, St. Charles and Meraux, in addition to Benicia – had no employee recordable injuries in 2016, and went more than 10 years combined without a safety incident.

> **“You go through the gate every day and you see that number on the big board, and you’re proud to come to work at Valero. It’s such an honor.”**
>
> **David Frank**
> Supervisor-Safety, Benicia Refinery

For the year, Valero recorded its lowest-ever refinery employee Total Recordable Incidence Rate (TRIR), or total incidents per 200,000 working hours, of 0.35 – compared to an industry average of about 0.6. Refinery contractors continued their strong safety performance at 0.30.

Valero's combined refinery employee and contractor TRIR of 0.32 represented a 53 percent drop since 2010, and an 80 percent reduction over the past decade. The results reflected Valero's solid safety and health indicators program, as well as job audits and observations that improve communication.

Progress has been continual. It marked the third consecutive year of record-low employee TRIR. Also, there were no employee injuries at any Valero refinery during the month of November in each of the past two years; Valero contractors posted no refinery injuries in December 2016.

In all, eight U.S. Valero refineries are Voluntary Protection Program (VPP) Star Sites, OSHA's highest plant-safety designation. That is the most of any refiner.

Under the program, Valero voluntarily submits to rigorous safety audits, and facilities must be re-approved every three years to hold onto the designation. Benicia and Texas City were re-approved in 2016.

Three Valero asphalt terminals also hold VPP Stars – with the approval of the St. James Terminal in Louisiana in 2016 – as does the company's Aviation Department. The Pembroke refinery in Wales earned an internal VPP Star, after passing an audit that is nearly identical to audits in the U.S. and performed by an independent team of OSHA-trained inspectors, while the Jean Gaulin refinery in Quebec was re-approved.

Meanwhile, as a result of thorough reliability assessments, Valero recorded its lowest-ever process safety rate – a three-year rolling average of 0.066 Tier 1 events per 200,000 work hours. That represents a 65 percent drop since the industry began tracking the metric in 2010.

The Benicia refinery recorded no Tier 1 process safety events in 2015 and 2016, and Valero's entire fleet of 11 ethanol plants also had no process safety events both years.

And in 2016, Valero refineries achieved their highest-ever mechanical availability, referring to the percentage of time units are available to run, of 96.9 percent. Excluding scheduled outages for maintenance, availability topped 99 percent.

The Houston refinery won the Valero Chairman's Award for Refinery Reliability, completing 2016 with no "stewardable" unit outages, the highest reliability outside of turnarounds and U.S. industrywide first-quartile performance for turnaround-related downtime.

Overall, Valero consistently has performed in the first- or second-quartile versus industry benchmarks in mechanical availability, personnel index, maintenance index, non-energy cash operating expense and energy intensity index.

Additionally, Valero refineries earned 15 safety awards from American Fuel & Petrochemical Manufacturers (AFPM), the industry's major trade association, recognizing superior occupational and process safety performance. Ardmore and Houston refineries earned prestigious Elite Silver Safety Awards, for performing in the top 5 percent of member refineries.

In achieving its best-ever environmental performance, Valero reduced its number of incidents by one-third from the previous year. Six refineries either set or tied environmental performance records.


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Katie
Kim


TIMKEN
VALERO
VALERO
Justin

Valero accomplished this by focusing on enhanced incident investigations and taking corrective actions to prevent recurrence of environmental events.

Valero's Charles City ethanol plant, winner of the Valero Chairman's Award for Renewables Plant Excellence, recorded no environmental events for three years through the end of 2016 – as well as no process safety events and no lost-time injuries, during that time.

By maintaining its emphasis on reliability, operational excellence and enhanced incident investigations, Valero continues to target best-in-class environmental performance.

Back at Benicia, Ray Castro Jr., Manager-Refinery Safety, attributes his team's performance in 2016 to, simply, "doing things right."

"And the result of doing that every day and recognizing potential hazards was the record that was on the board," Castro said. "That's what it was all about. That was our plan. Strive for perfection."

Maintain Manufacturing Excellence and Grow Commercial and Operational Flexibility

Operations excellence and reliability drive success, but location and flexibility also matter.

Key to maintaining manufacturing excellence and flexibility is Valero's advantaged locations along the U.S. Gulf Coast, where more than 55 percent of its refining throughput capacity is situated. Valero has the most crude-unit capacity there of any company in its peer group, at 1.4 million barrels per day.

The combination of high complexity and low-cost operations makes Valero particularly competitive.

This is important because of the region's access to low-cost natural gas and abundant North American and foreign crude-oil supplies, as well as a deep pool of skilled labor. Also, pipeline capacity additions have increased crude-oil options and improved pricing.

The Gulf Coast also provides proximity to growing product export markets in Mexico and Latin America, and helps make Valero a highly competitive refined-products supplier to Eastern Canada and Northwest Europe.

And Valero's refineries there have a high weighted-average regional Nelson Complexity Index, meaning they have the flexibility to process a wide range of crude oil and other feedstocks.

From 2012 through 2016, those feedstocks ranged from 22 to 34 percent heavy-sour, 17 to 34 percent medium/light-sour, 16 to 34 percent sweet, 12 to 23 percent residuals and 4 to 10 percent other feedstocks.

The combination of high complexity and low-cost operations makes Valero particularly competitive. In fact, Valero is the lowest-cost operator in its peer group, with 2016 refining cash operating expense per barrel of throughput at $3.63, excluding turnaround and depreciation and amortization expense. That compares with a peer range as high as $5.30, and a median of $4.75.

In addition, Valero's portfolio of refineries optimizes product exports, which in 2016 averaged 251,000 barrels per day of diesel fuel and 124,000 barrels per day of gasoline.

The company's potential future export capacity could be substantially higher, with expansion opportunities identified at St. Charles, Port Arthur and Texas City – all Gulf Coast refineries.


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Demonstrate Disciplined Capital Management and Deliver Peer-Leading Returns

Valero's disciplined management team has placed the company in a strong financial position and delivered industry-leading returns.

That discipline starts with responsible capital allocation that drives earnings growth, framed by a strong balance sheet. Key to that is maintaining an investment-grade credit rating and a debt-to-capital ratio targeted at 20 to 30 percent. At the close of 2016, that ratio stood at 23 percent.

The company has outperformed its peers in total stockholder return for two years ended Dec. 31, 2016.

Valero's non-discretionary spending includes approximately $1.5 billion annually in sustaining capital, which is critical to safe and reliable operations that drive profitability. Dividends, though at the discretion of the board of directors, are considered a commitment to Valero's stockholders, with a targeted payout at the high end of its peer group.

Other spending includes growth capital, acquisitions and cash returns. Valero's capital management team requires refining growth projects to have a higher investment-return hurdle than midstream projects. As always, possible acquisitions are evaluated against alternative uses of cash.

Cash returns to stockholders, consisting of dividends and stock buybacks, are targeted at 75 percent or more of adjusted net income for 2017 – and for 2016 actually reached 142 percent.

Valero's capital management strategy has paid off. The company has outperformed its peers in total stockholder return for two years ended Dec. 31, 2016 – 48 percent, compared with a peer average of 21 percent.

The company has demonstrated discipline in capital allocation, with steady investments to maintain its asset base and enhance the margin capability of its portfolio. In 2016, sustaining capital expenditures were $1.4 billion, growth capital expenditures stood at $0.6 billion, dividends reached $1.1 billion and buybacks totaled $1.3 billion.

For 2017, Valero expects to spend $2.7 billion on capital, with approximately $1.6 billion to sustain the business and $1.1 billion for growth. Valero's expected growth investments include:

- Completion of the Diamond Pipeline, expected in fourth-quarter 2017, connecting Cushing, Oklahoma, with Valero's refinery at Memphis
- A 13,000-barrel-per-day alkylation unit at the Houston refinery, projected for startup in first-half 2019
- A cogeneration facility for the Wilmington refinery, projected for startup in fourth-quarter 2017
- A 6,000 barrel-per-day production capacity expansion of the Diamond Green Diesel plant – a joint venture between Valero and Darling Ingredients Inc. – approved in fourth-quarter 2016, with completion projected in first-half 2018

Other projects under development include octane enhancement in the U.S. Gulf Coast, cogeneration in the North Atlantic, and additional feedstock and product flexibility at refineries in the U.S. Gulf Coast and North Atlantic.

Valero Energy Partners LP

Valero's sponsored master limited partnership – Valero Energy Partners LP (VLP) – remains its primary vehicle to grow logistics holdings and unlock value, primarily through "drop-downs" of Valero-owned assets. Currently, VLP terminals and pipelines directly serve 10 U.S. Valero refineries.

The partnership is targeting organic growth opportunities and midstream deals strategic to Valero's core business, or that provide third-party revenue. VLP's objective is to grow annual distributions by 25 percent for 2017, and at least 20 percent for 2018, while maintaining an investment-grade credit rating.

So far, since VLP's initial public offering in December 2013, quarterly cash distributions have increased 91 percent over the minimum quarterly distribution. And annualized earnings before interest, taxes, depreciation and amortization (EBITDA) attributable to the partnership have grown to approximately $300 million.

Still, Valero has logistics and other inventory representing approximately $1 billion of EBITDA that could be dropped into the partnership.

Ethanol

Valero's ethanol business continues to benefit from its scale and low capital investment. The company owns 11 ethanol plants located in the Midwest, with 1.4 billion gallons of annual production capacity.

The plants use a dry-mill production process, in which corn is ground into flour and mixed with water before fermentation. Valero has been able to transfer operational best practices from its petroleum refining to ethanol production.

Ethanol demand is expected to be strong globally, driven by increasing usage mandates, low absolute finished gasoline prices, increased vehicle miles traveled and attractive economics for corn-based ethanol exports.


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Board of Directors

Joe Gorder
Chairman of the Board, President and CEO, Valero Energy Corporation

H. Paulett Eberhart
Chair and CEO, HMS Ventures

Kimberly S. Greene
Executive Vice President and Chief Operating Officer, Southern Company

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Retired Director, Center for Hemispheric Policy, University of Miami

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Rayford Wilkins Jr.
Former CEO-Diversified Businesses, AT&T

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Chairman, President and CEO

Jay Browning
Executive Vice President and General Counsel

Mike Ciskowski
Executive Vice President and Chief Financial Officer

Lane Riggs
Executive Vice President-Refining Operations and Engineering

Mark Schmeltekopf
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Gary Simmons
Senior Vice President-Supply, International Operations and Systems Optimization

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Ken Applegate
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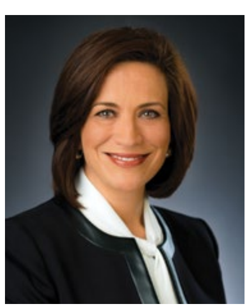
Jason Fraser
Vice President-Public Policy & Strategic Planning

Rich Lashway
Vice President-Logistics Operations

Martin Parrish
Vice President-Alternative Fuels

Chris Quinn
Vice President and Assistant Treasurer



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Vice President-Human Resources

Cheryl Thomas
Vice President and Chief Information Officer

Rich Walsh
Vice President and Deputy General Counsel

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