

VALERO ENERGY CORP/TX

Form 10-K

February 26, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 1-13175
VALERO ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

74-1828067
(I.R.S. Employer
Identification No.)

One Valero Way
San Antonio, Texas
(Address of principal executive offices)

78249
(Zip Code)

Registrant's telephone number, including area code: (210) 345-2000

Securities registered pursuant to Section 12(b) of the Act: Common stock, \$0.01 par value per share listed on the New York Stock Exchange.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☐
The aggregate market value of the voting and non-voting common stock held by non-affiliates was approximately \$9.5 billion based on the last sales price quoted as of June 30, 2009 on the New York Stock Exchange, the last business day of the registrant's most recently completed second fiscal quarter.
As of January 31, 2010, 564,808,668 shares of the registrant's common stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

We intend to file with the Securities and Exchange Commission a definitive Proxy Statement for our Annual Meeting of Stockholders scheduled for April 29, 2010, at which directors will be elected. Portions of the 2010 Proxy Statement are incorporated by reference in Part III of this Form 10-K and are deemed to be a part of this report.

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CROSS-REFERENCE SHEET

The following table indicates the headings in the 2010 Proxy Statement where certain information required in Part III of Form 10-K may be found.

Form 10-K Item No. and Caption	Heading in 2010 Proxy Statement
10. Directors, Executive Officers and Corporate Governance	<i>Information Regarding the Board of Directors, Independent Directors, Audit Committee, Governance Documents and Codes of Ethics, Proposal No. 1 Election of Directors, Information Concerning Nominees and Other Directors, and Section 16(a) Beneficial Ownership Reporting Compliance</i>
11. Executive Compensation	<i>Compensation Committee, Compensation Discussion and Analysis, Director Compensation, Executive Compensation, and Certain Relationships and Related Transactions</i>
12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<i>Beneficial Ownership of Valero Securities and Equity Compensation Plan Information</i>
13. Certain Relationships and Related Transactions, and Director Independence	<i>Certain Relationships and Related Transactions and Independent Directors</i>
14. Principal Accountant Fees and Services	<i>KPMG Fees for Fiscal Year 2009, KPMG Fees for Fiscal Year 2008, and Audit Committee Pre-Approval Policy</i>

Copies of all documents incorporated by reference, other than exhibits to such documents, will be provided without charge to each person who receives a copy of this Form 10-K upon written request to Jay D. Browning, Senior Vice President Corporate Law and Secretary, Valero Energy Corporation, P.O. Box 696000, San Antonio, Texas 78269-6000.

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PART I

The terms Valero, we, our, and us, as used in this report, may refer to Valero Energy Corporation, to one or more of our consolidated subsidiaries, or to all of them taken as a whole. In this Form 10-K, we make certain forward-looking statements, including statements regarding our plans, strategies, objectives, expectations, intentions, and resources, under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You should read our forward-looking statements together with our disclosures beginning on page 26 of this report under the heading:

CAUTIONARY STATEMENT FOR THE PURPOSE OF SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

ITEMS 1., 1A. and 2. BUSINESS, RISK FACTORS AND PROPERTIES

Overview. We are a Fortune 500 company based in San Antonio, Texas. Our corporate offices are at One Valero Way, San Antonio, Texas, 78249, and our telephone number is (210) 345-2000. Our common stock trades on the New York Stock Exchange under the symbol VLO. We were incorporated in Delaware in 1981 under the name Valero Refining and Marketing Company, and our name was changed to Valero Energy Corporation on August 1, 1997. On January 31, 2010, we had 20,920 employees.

We own 15 refineries located in the United States, Canada, and Aruba. Our refineries can produce conventional gasolines, distillates, jet fuel, asphalt, petrochemicals, lubricants, and other refined products as well as a slate of premium products including CBOB and RBOB¹, gasoline meeting the specifications of the California Air Resources Board (CARB), CARB diesel fuel, low-sulfur and ultra-low-sulfur diesel fuel, and oxygenates (liquid hydrocarbon compounds containing oxygen).

We market branded and unbranded refined products on a wholesale basis in the United States and Canada through an extensive bulk and rack marketing network. We also sell refined products through a network of about 5,800 retail and wholesale branded outlets in the United States, Canada, and Aruba.

We also own ten ethanol plants located in the Midwest with a combined ethanol production capacity of about 1.1 billion gallons per year. Three of these facilities were acquired after December 31, 2009.

Available Information. Our internet website address is www.valero.com. Information contained on our website is not part of this annual report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K filed with (or furnished to) the Securities and Exchange Commission (SEC) are available on our internet website (in the Investor Relations section), free of charge, soon after we file or furnish such material. We also post our corporate governance guidelines, code of business conduct and ethics, code of ethics for senior financial officers, and the charters of the committees of our board of directors in the same website location. Our governance documents are available in print to any stockholder that makes a written request to Jay D. Browning, Senior Vice President - Corporate Law and Secretary, Valero Energy Corporation, P.O. Box 696000, San Antonio, Texas 78269-6000.

¹ **CBOB**, or conventional blendstock for oxygenate blending, is conventional gasoline blendstock intended for blending with oxygenates downstream of the refinery where it was produced.

CBOB becomes conventional gasoline after blending with oxygenates.

RBOB is a base unfinished reformulated gasoline mixture known as reformulated gasoline blendstock for oxygenate blending. It is a specially produced reformulated gasoline blendstock intended for blending with oxygenates downstream of the refinery where it was produced to produce finished gasoline that meets or exceeds U.S. emissions performance requirements for federal reformulated gasoline.

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SEGMENTS

Our business is organized into three reportable segments: refining, ethanol, and retail. Prior to the second quarter of 2009, we had two reportable segments: refining and retail. As a result of our acquisition of several ethanol plants during the second quarter of 2009 (as discussed in Note 2 of Notes to Consolidated Financial Statements), we now present ethanol as a third reportable segment. The financial information about our segments in Note 20 of Notes to Consolidated Financial Statements is incorporated herein by reference.

Our refining segment includes refining operations, wholesale marketing, product supply and distribution, and transportation operations. The refining segment is segregated geographically into the Gulf Coast, Mid-Continent, West Coast, and Northeast regions.

Our ethanol segment includes sales of internally produced ethanol and distillers grains. Our ethanol operations are geographically located in the central plains region of the United States.

Our retail segment includes company-operated convenience stores, Canadian dealers/jobbers, truckstop facilities, cardlock facilities, and home heating oil operations. The retail segment is segregated into two geographic regions. Our retail operations in eastern Canada are referred to as Retail Canada. Our retail operations in the United States are referred to as Retail U.S.

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On December 31, 2009, our refining operations included 15 refineries in the United States, Canada, and Aruba with a combined total throughput capacity of approximately 2.8 million barrels per day (BPD). The following table presents the locations of these refineries and their approximate feedstock throughput capacities as of December 31, 2009.

Refinery	Location	Throughput Capacity ^(a) (barrels per day)
Gulf Coast:		
Corpus Christi ^(b)	Texas	315,000
Port Arthur	Texas	310,000
St. Charles	Louisiana	250,000
Texas City	Texas	245,000
Aruba ^(c)	Aruba	235,000
Houston	Texas	145,000
Three Rivers	Texas	100,000
		1,600,000
West Coast:		
Benicia	California	170,000
Wilmington	California	135,000
		305,000
Mid-Continent:		
Memphis	Tennessee	195,000
McKee	Texas	170,000
Ardmore	Oklahoma	90,000
		455,000
Northeast ^(d):		
Quebec City	Quebec, Canada	235,000
Paulsboro	New Jersey	185,000
		420,000
Total		2,780,000

(a) Throughput capacity represents estimated capacity for

processing
crude oil,
intermediates,
and other
feedstocks.
Total estimated
crude oil
capacity is
approximately
2.4 million
BPD.

- (b) Represents the combined capacities of two refineries the Corpus Christi East and Corpus Christi West Refineries.
- (c) The Aruba Refinery has been idle since July 2009.
- (d) We permanently shut down our Delaware City, Delaware refinery in the fourth quarter of 2009, as described in Note 2 of Notes to Consolidated Financial Statements. Throughput capacity of this refinery was 210,000 BPD.

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The following table presents the percentages of principal charges and yields (on a combined basis) for all of our refineries for the year ended December 31, 2009. Our total combined throughput volumes averaged 2,272,400 BPD for the 12 months ended December 31, 2009. (The information presented excludes the charges and yields of the Delaware City Refinery, which we permanently shut down in the fourth quarter of 2009, as more fully described in Note 2 of Notes to Consolidated Financial Statements.)

Combined Refining Charges and Yields

	Percentage
Charges:	
sour crude oil	43%
acidic sweet crude oil	3%
sweet crude oil	28%
residual fuel oil	7%
other feedstocks	7%
blendstocks	12%
Yields:	
gasolines and blendstocks	48%
distillates	33%
petrochemicals	3%
other products (includes vacuum gas oil, No. 6 fuel oil, petroleum coke, asphalt, and other)	16%

Gulf Coast

The following table presents the percentages of principal charges and yields (on a combined basis) for the eight refineries in this region for the year ended December 31, 2009. Total throughput volumes for the Gulf Coast refining region averaged 1,273,600 BPD for the 12 months ended December 31, 2009.

Combined Gulf Coast Region Charges and Yields

	Percentage
Charges:	
sour crude oil	53%
acidic sweet crude oil	1%
sweet crude oil	11%
residual fuel oil	13%
other feedstocks	8%
blendstocks	14%
Yields:	
gasolines and blendstocks	44%
distillates	33%
petrochemicals	4%
other products (includes vacuum gas oil, No. 6 fuel oil, petroleum coke, asphalt, and other)	19%

Corpus Christi East and West Refineries. Our Corpus Christi East and West Refineries are located on the Texas Gulf Coast along the Corpus Christi Ship Channel. The West Refinery specializes in processing primarily sour crude oil and resid into premium products such as RBOB. The East Refinery processes heavy, high-sulfur crude oil into conventional gasoline, diesel, jet fuel, asphalt, aromatics, and other light products. The East and West Refineries are substantially integrated allowing for the transfer of various feedstocks and blending components between the two refineries and the sharing of resources. The refineries typically receive and deliver feedstocks and products by tanker

and barge via deepwater docking facilities along the Corpus Christi Ship Channel. Three truck racks with a total of 16 bays

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service local markets for gasoline, diesel, jet fuels, liquefied petroleum gases, and asphalt. Finished products are distributed across the refinery docks into ships or barges, and are transported via third-party pipelines to the Colonial, Explorer, Valley, and other major pipelines.

Port Arthur Refinery. Our Port Arthur Refinery is located on the Texas Gulf Coast approximately 90 miles east of Houston. The refinery processes primarily heavy sour crude oils and other feedstocks into conventional and premium gasoline and RBOB, as well as diesel, jet fuel, petrochemicals, petroleum coke, and sulfur. The refinery receives crude oil over marine docks and through crude oil pipelines, and has access to the Sunoco and Oiltanking terminals at Nederland, Texas. Finished products are distributed into the Colonial, Explorer, and TEPPCO pipelines, across the refinery docks into ships or barges, and through a local truck rack.

St. Charles Refinery. Our St. Charles Refinery is located approximately 15 miles from New Orleans along the Mississippi River. The refinery processes sour crude oils and other feedstocks into gasoline, distillates, and other light products. The refinery receives crude oil over five marine docks and has access to the Louisiana Offshore Oil Port where it can receive crude oil through a 24-inch pipeline. Finished products can be shipped over these docks or through the Colonial pipeline network for distribution to the eastern United States.

Texas City Refinery. Our Texas City Refinery is located southeast of Houston on the Texas City Ship Channel. The refinery processes primarily heavy sour crude oils into a wide slate of products. The refinery receives and delivers its feedstocks and products by tanker and barge via deepwater docking facilities along the Texas City Ship Channel and uses the Colonial, Explorer, and TEPPCO pipelines for distribution of its products.

Houston Refinery. Our Houston Refinery is located on the Houston Ship Channel. It processes a mix of crude oils and low-sulfur resid into reformulated gasoline and distillates. The refinery receives its feedstocks via tanker at deepwater docking facilities along the Houston Ship Channel and interconnecting pipelines with the Texas City Refinery. It delivers its products through major refined-product pipelines, including the Colonial, Explorer, Orion, and TEPPCO pipelines.

Three Rivers Refinery. Our Three Rivers Refinery is located in South Texas between Corpus Christi and San Antonio. It processes primarily heavy sweet and medium sour crude oils into gasoline, distillates, and aromatics. The refinery has access to crude oil from foreign sources delivered to the Texas Gulf Coast at Corpus Christi as well as crude oil from domestic sources through third-party pipelines. A 70-mile pipeline with capacity of 120,000 BPD transports crude oil via connections to the Three Rivers Refinery from Corpus Christi. The refinery distributes its refined products primarily through pipelines owned by NuStar Energy L.P.

Aruba Refinery. Our Aruba Refinery is located on the island of Aruba in the Caribbean Sea. The refinery has been idle since July 2009. When in operation, it processes primarily heavy sour crude oil and produces primarily intermediate feedstocks and finished distillate products. Significant amounts of the refinery's intermediate feedstock production are transported and further processed in our other refineries in the Gulf Coast, West Coast, and Northeast regions. The refinery receives crude oil by ship at its two deepwater marine docks, which can berth ultra-large crude carriers. The refinery's products are delivered by ship primarily into markets in the United States, the Caribbean, Europe, and South America.

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The following table presents the percentages of principal charges and yields (on a combined basis) for the two refineries in this region for the year ended December 31, 2009. Total throughput volumes for the West Coast refining region averaged approximately 266,700 BPD for the 12 months ended December 31, 2009.

Combined West Coast Region Charges and Yields

	Percentage
Charges:	
sour crude oil	63%
acidic sweet crude oil	6%
sweet crude oil	3%
other feedstocks	11%
blendstocks	17%
Yields:	
gasolines and blendstocks	64%
distillates	22%
other products (includes vacuum gas oil, No. 6 fuel oil, petroleum coke, asphalt, and other)	14%

Benicia Refinery. Our Benicia Refinery is located northeast of San Francisco on the Carquinez Straits of San Francisco Bay. It processes sour crude oils into premium products, primarily CARBOB gasoline. (CARBOB is a reformulated gasoline mixture that meets the specifications of the California Air Resources Board when blended with ethanol.) The refinery receives crude oil supplies via a deepwater dock that can berth large crude oil carriers and a 20-inch crude oil pipeline connected to a southern California crude oil delivery system. Most of the refinery's products are distributed via the Kinder Morgan pipeline system in California.

Wilmington Refinery. Our Wilmington Refinery is located near Los Angeles, California. The refinery processes a blend of lower-cost heavy and high-sulfur crude oils. The refinery can produce all of its gasoline as CARBOB gasoline and produces both ultra-low-sulfur diesel and CARB diesel. The refinery is connected by pipeline to marine terminals and associated dock facilities that can move and store crude oil and other feedstocks. Refined products are distributed via the Kinder Morgan pipeline system and various third-party terminals in southern California, Nevada, and Arizona.

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The following table presents the percentages of principal charges and yields (on a combined basis) for the three refineries in this region for the year ended December 31, 2009. Total throughput volumes for the Mid-Continent refining region averaged 387,500 BPD for the 12 months ended December 31, 2009.

Combined Mid-Continent Region Charges and Yields

	Percentage
Charges:	
sour crude oil	9%
sweet crude oil	80%
residual fuel oil	1%
other feedstocks	1%
blendstocks	9%
Yields:	
gasolines and blendstocks	54%
distillates	35%
petrochemicals	3%
other products (includes vacuum gas oil, No. 6 fuel oil, asphalt, and other)	8%

Memphis Refinery. Our Memphis Refinery is located in Tennessee along the Mississippi River's Lake McKellar. It processes primarily light sweet crude oils. Almost all of its production is light products, including regular and premium gasoline, diesel, jet fuels, and petrochemicals. Crude oil is supplied to the refinery via the Capline pipeline and can also be received, along with other feedstocks, via barge. The refinery's products are distributed via truck racks at our three product terminals, barges, and a pipeline network, including one pipeline directly to the Memphis airport.

McKee Refinery. Our McKee Refinery is located in the Texas Panhandle. It processes primarily sweet crude oils and produces conventional gasoline, RBOB, low-sulfur diesel, jet fuels, and asphalt. The refinery has access to crude oil from Texas, Oklahoma, Kansas, and Colorado through third-party pipelines. The refinery also has access at Wichita Falls, Texas to third-party pipelines that transport crude oil from the Texas Gulf Coast and West Texas to the Mid-Continent region. The refinery distributes its products primarily via NuStar Energy L.P.'s pipelines to markets in Texas, New Mexico, Arizona, Colorado, and Oklahoma.

Ardmore Refinery. Our Ardmore Refinery is located in Ardmore, Oklahoma, approximately 100 miles south of Oklahoma City. It processes medium sour and light sweet crude oils into conventional gasoline, ultra-low-sulfur diesel, liquefied petroleum gas products, and asphalt. Local crude oil is gathered by TEPPCO's crude oil gathering/trunkline systems and trucking operations, and then transported to the refinery through NuStar Energy L.P.'s crude oil pipeline systems. Foreign, mid-continent, and other domestic crude oils are received via third-party pipelines. Refined products are transported to market via railcars, trucks, and the Magellan pipeline system.

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The following table presents the percentages of principal charges and yields (on a combined basis) for the two refineries in this region for the year ended December 31, 2009. Total throughput volumes for the Northeast refining region averaged 344,600 BPD for the 12 months ended December 31, 2009. (The information presented excludes the charges and yields of the Delaware City Refinery, which we shut down in the fourth quarter of 2009, as more fully described in Note 2 of Notes to Consolidated Financial Statements.)

Combined Northeast Region Charges and Yields

	Percentage
Charges:	
sour crude oil	29%
acidic sweet crude oil	8%
sweet crude oil	51%
residual fuel oil	1%
other feedstocks	6%
blendstocks	5%
Yields:	
gasolines and blendstocks	44%
distillates	41%
petrochemicals	1%
other products (includes vacuum gas oil, No. 6 fuel oil, petroleum coke, asphalt, and other)	14%

Quebec City Refinery. Our Quebec City Refinery is located in Lévis, Canada (near Quebec City). It processes sweet crude oils and lower-quality, sweet acidic crude oils into conventional gasoline, low-sulfur diesel, jet fuels, heating oil, and propane. The refinery receives crude oil by ship at its deepwater dock on the St. Lawrence River. We charter large ice-strengthened, double-hulled crude oil tankers that can navigate the St. Lawrence River year-round. The refinery transports its products to its primary terminals in Quebec and Ontario primarily by train, and also uses ships and trucks extensively throughout eastern Canada.

Paulsboro Refinery. Our Paulsboro Refinery is located in Paulsboro, New Jersey, approximately 15 miles south of Philadelphia on the Delaware River. The refinery processes primarily sour crude oils into a wide slate of products including gasoline, distillates, lube oil basestocks, asphalt, lube extracts, petroleum coke, sulfur, fuel oil, propane, and butane. Feedstocks and refined products are typically transported by tanker and barge via refinery-owned dock facilities along the Delaware River, Buckeye's product distribution system (into western Pennsylvania and Ohio), a local truck rack owned by NuStar Energy L.P., railcars, and the Colonial pipeline, which allows products to be sold into the New York Harbor market.

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Feedstock Supply

Approximately 55 percent of our current crude oil feedstock requirements are purchased through term contracts while the remaining requirements are generally purchased on the spot market. Our term supply agreements include arrangements to purchase feedstocks at market-related prices directly or indirectly from various foreign national oil companies (including feedstocks originating in the Middle East, Africa, Asia, Mexico, and South America) as well as international and domestic oil companies. The term contracts generally permit the parties to amend the contracts (or terminate them), effective as of the next scheduled renewal date, by giving the other party proper notice within a prescribed period of time (*e.g.*, 60 days, 6 months) before expiration of the current term. The majority of the crude oil purchased under Valero's term contracts is purchased at the producer's official stated price (*i.e.*, the market price established by the seller for all purchasers) and not at a negotiated price specific to Valero. About 75 percent of our crude oil feedstocks under term supply agreements are imported from foreign sources and about 25 percent are domestic. In the event we become unable to purchase crude oil from any one of these sources, we believe that adequate alternative supplies of crude oil would be available.

The U.S. network of crude oil pipelines and terminals allows us to acquire crude oil from producing leases, domestic crude oil trading centers, and ships delivering cargoes of foreign and domestic crude oil. Our Quebec City and Aruba Refineries rely on foreign crude oil that is delivered to the refineries' dock facilities by ship. We use the futures market to manage a portion of the price risk inherent in purchasing crude oil in advance of the delivery date and holding inventories of crude oils and refined products.

Refining Segment Sales

Our refining segment includes sales of refined products in both the wholesale rack and bulk markets. These sales include refined products that are manufactured in our refining operations as well as refined products purchased or received on exchange from third parties. Most of our refineries have access to deepwater transportation facilities and interconnect with common-carrier pipeline systems, allowing us to sell products in most major geographic regions of the United States and eastern Canada. No customer accounted for more than 10 percent of our total operating revenues in 2009.

Wholesale Marketing

We market branded and unbranded transportation fuels on a wholesale basis in 44 states through an extensive rack marketing network. The principal purchasers of our transportation fuels from terminal truck racks are wholesalers, distributors, retailers, and truck-delivered end users throughout the United States.

The majority of our rack volume is sold through unbranded channels. The remainder is sold to distributors and dealers that are members of the Valero-brand family that operate approximately 4,000 branded sites. These sites are independently owned and are supplied by us under multi-year contracts. For wholesale branded sites, we promote our Valero® brand throughout the United States. In addition, we offer the Beacon® brand in California and the Shamrock® brand elsewhere in the United States.

Bulk Sales and Trading

We sell a significant portion of our gasoline and distillate production through bulk sales channels in domestic and international markets. Our bulk sales are made to various oil companies and traders as well as certain bulk end-users such as railroads, airlines, and utilities. Our bulk sales are transported primarily by pipeline, barges, and tankers to major tank farms and trading hubs.

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We also enter into refined product exchange and purchase agreements. These agreements help to minimize transportation costs, optimize refinery utilization, balance refined product availability, broaden geographic distribution, and provide access to markets not connected to our refined product pipeline systems. Exchange agreements provide for the delivery of refined products by us to unaffiliated companies at our and third parties terminals in exchange for delivery of a similar amount of refined products to us by these unaffiliated companies at specified locations. Purchase agreements involve our purchase of refined products from third parties with delivery occurring at specified locations.

Specialty Products

We also sell a variety of other products produced at our refineries, which we refer to collectively as Specialty Products. Our Specialty Products include asphalt, lube oils, natural gas liquids (NGLs), petroleum coke, petrochemicals, and sulfur.

We produce asphalt at six of our refineries. Our asphalt products are sold for use in road construction, road repair, and roofing applications through a network of refinery and terminal loading racks.

We produce lube oils at two of our refineries. We produce and market paraffinic, naphthenic, and aromatic oils suitable for use in a wide variety of lubricant and process applications.

NGLs produced at our refineries include butane, isobutane, and propane. These products can be used for gasoline blending, home heating, and petrochemical plant feedstocks.

We are a significant producer of petroleum coke, supplying primarily power generation customers and cement manufacturers. Petroleum coke is used largely as a substitute for coal.

We produce and market a number of commodity petrochemicals including aromatic solvents (benzene, toluene, and xylene) and two grades of propylene. Aromatic solvents and propylenes are sold to customers in the chemical industry for further processing into such products as paints, plastics, and adhesives.

We are a large producer of sulfur with sales primarily to customers in the agricultural sector. Sulfur is used in manufacturing fertilizer.

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We own ten ethanol plants in the Midwest with a combined ethanol production capacity of about 1.1 billion gallons per year. Our ethanol plants are dry mill facilities¹ that process corn to produce ethanol and distillers grains.² We source our corn supply from local farmers and commercial elevators. Our facilities receive corn by rail and by truck. We publish a corn bid on our website that local farmers and cooperative dealers can use to facilitate corn supply transactions.

After processing, the ethanol is held in storage tanks at our plant sites pending loading to truck and rail car transportation. We sell our ethanol (i) to large customers primarily refiners and gasoline blenders under term and spot contracts, and (ii) in bulk markets such as New York, Chicago, Dallas, and the West Coast. We also use our ethanol for our own needs in blending gasoline. We ship our dry distillers grains (DDG) by truck or rail primarily to animal feed customers in the U.S. and Mexico, with some sales into the Far East. We also sell modified distillers grains locally at our plant sites.

The following table presents the locations of our ethanol plants, their approximate ethanol and dry distillers grains production capacities, and their approximate corn processing capacities.

State	City	Ethanol Production (in gallons per year)	Production of DDG (in tons per year)	Corn Processed (in bushels per year)
Indiana	Linden	110 million	350,000	40 million
Iowa	Albert City	110 million	350,000	40 million
	Charles City	110 million	350,000	40 million
	Fort Dodge	110 million	350,000	40 million
	Hartley	110 million	350,000	40 million
Minnesota	Welcome	110 million	350,000	40 million
Nebraska	Albion	110 million	350,000	40 million
Ohio	Bloomington	110 million	350,000	40 million
South Dakota	Aurora	120 million	390,000	43 million
Wisconsin	Jefferson	110 million	350,000	40 million
Total		1,110 million	3,540,000	403 million

We acquired our Iowa, Minnesota, Nebraska, and South Dakota ethanol plants in the second quarter of 2009. Ethanol production from these seven plants in the fourth quarter of 2009 averaged 2.2 million gallons per day. We acquired our Indiana and Ohio plants in January 2010. The Indiana and Ohio plants were idle when acquired; however, we expect production at these plants to begin by the end of the first quarter of 2010. We acquired our Wisconsin plant in early February 2010. This plant was producing ethanol at the time of our acquisition, and ethanol production has continued under our ownership.

For additional information regarding these acquisitions, see Note 2 of Notes to Consolidated Financial Statements.

¹ Ethanol is commercially produced using either the wet mill or dry mill process. Wet milling involves

separating the grain kernel into its component parts (germ, fiber, protein, and starch) prior to fermentation. Our ethanol plants utilize the dry mill process, in which the entire grain kernel is ground into flour. The starch in the flour is converted to ethanol during the fermentation process, creating carbon dioxide and distillers grains.

- 2 In the fermentation process, nearly all of the starch in the grain is converted into ethanol and carbon dioxide, while the remaining nutrients (proteins, fats, minerals, and vitamins) undergo a concentration to yield modified distillers grains, or, after further drying, dried distillers grains. Distillers grains generally are an economical partial replacement for corn, soybean,

and dicalcium
phosphate in
livestock, swine,
and poultry
feeds.

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RETAIL

Our retail segment operations include the following:

sales of transportation fuels at retail stores and unattended self-service cardlocks,

sales of convenience store merchandise and services in retail stores, and

sales of home heating oil to residential customers.

We are one of the largest independent retailers of refined products in the central and southwest United States and eastern Canada. Our retail operations are segregated geographically into two groups: Retail U.S. and Retail Canada.

Retail U.S.

Sales in Retail U.S. represent sales of transportation fuels and convenience store merchandise and services through our company-operated retail sites. For the year ended December 31, 2009, total sales of refined products through Retail U.S.'s retail sites averaged approximately 118,600 BPD. In addition to transportation fuels, our company-operated convenience stores sell snacks, candy, beer, fast foods, cigarettes, and fountain drinks. Our stores also offer services such as ATM access, car wash facilities, money orders, lottery tickets, and video rentals. On December 31, 2009, we had 991 company-operated sites in Retail U.S. (of which 79% were owned and 21% were leased). Our company-operated stores are operated primarily under the brand name Corner Store®. Transportation fuels sold in our Retail U.S. stores are sold primarily under the Valero® brand.

Retail Canada

Sales in Retail Canada include the following:

sales of refined products and convenience store merchandise through our company-operated retail sites and cardlocks,

sales of refined products through sites owned by independent dealers and jobbers, and

sales of home heating oil to residential customers.

Retail Canada includes retail operations in eastern Canada where we are a major supplier of refined products serving Quebec, Ontario, and the Atlantic Provinces of Newfoundland, Nova Scotia, New Brunswick, and Prince Edward Island. For the year ended December 31, 2009, total retail sales of refined products through Retail Canada averaged approximately 75,200 BPD. Transportation fuels are sold under the Ultramar® brand through a network of 824 outlets throughout eastern Canada. On December 31, 2009, we owned or leased 396 retail stores in Retail Canada and distributed gasoline to 428 dealers and independent jobbers. In addition, Retail Canada operates 83 cardlocks, which are card- or key-activated, self-service, unattended stations that allow commercial, trucking, and governmental fleets to buy transportation fuel 24 hours a day. Retail Canada operations also include a large home heating oil business that provides home heating oil to approximately 142,000 households in eastern Canada. Our home heating oil business tends to be seasonal to the extent of increased demand for home heating oil during the winter.

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RISK FACTORS

Our financial results are affected by volatile refining margins and global economic activity.

Our financial results are primarily affected by the relationship, or margin, between refined product prices and the prices for crude oil and other feedstocks. Our cost to acquire feedstocks and the price at which we can ultimately sell refined products depend upon several factors beyond our control, including regional and global supply of and demand for crude oil, gasoline, diesel, and other feedstocks and refined products. These in turn depend on, among other things, the availability and quantity of imports, the production levels of domestic and foreign suppliers, levels of refined product inventories, productivity and growth (or the lack thereof) of U.S. and global economies, U.S. relationships with foreign governments, political affairs, and the extent of governmental regulation. Historically, refining margins have been volatile, and we believe they will continue to be volatile in the future.

Continued economic turmoil and hostilities, including the threat of future terrorist attacks, could affect the economies of the United States and other countries. Lower levels of economic activity during periods of recession could result in declines in energy consumption, including declines in the demand for and consumption of our refined products, which could cause our revenues and margins to decline and limit our future growth prospects.

Refining margins are also significantly impacted by additional refinery conversion capacity through the expansion of existing refineries or the construction of new refineries. Worldwide refining capacity expansions may result in refining production capability far exceeding refined product demand, which would have a significant adverse effect on refining margins.

A significant portion of our profitability is derived from the ability to purchase and process crude oil feedstocks that historically have been cheaper than benchmark crude oils, such as West Texas Intermediate crude oil. These crude oil feedstock differentials vary significantly depending on overall economic conditions and trends and conditions within the markets for crude oil and refined products, and they could decline in the future, which would have a negative impact on our earnings.

Uncertainty and illiquidity in credit and capital markets can impair our ability to obtain credit and financing on acceptable terms, and can adversely affect the financial strength of our business partners.

Our ability to obtain credit and capital depends in large measure on capital markets and liquidity factors over which we exert no control. Our ability to access credit and capital markets may be restricted at a time when we would like, or need, to access those markets, which could have an impact on our flexibility to react to changing economic and business conditions. In addition, the cost and availability of debt and equity financing may be adversely impacted by unstable or illiquid market conditions. Protracted uncertainty and illiquidity in these markets also could have an adverse impact on our lenders, commodity hedging counterparties, or our customers, causing them to fail to meet their obligations to us. In addition, decreased returns on pension fund assets may also materially increase our pension funding requirements.

We currently maintain investment-grade ratings by Standard & Poor's Ratings Services (S&P), Moody's Investors Service (Moody's), and Fitch Ratings (Fitch) on our senior unsecured debt. (Ratings from credit agencies are not recommendations to buy, sell, or hold our securities. Each rating should be evaluated independently of any other rating.) We cannot provide assurance that any of our current ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant. Specifically, if S&P, Moody's, or Fitch were to downgrade our long-term rating, particularly below investment grade, our borrowing costs would increase, which could adversely affect our ability to attract potential investors and our

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funding sources could decrease. In addition, we may not be able to obtain favorable credit terms from our suppliers or they may require us to provide collateral, letters of credit, or other forms of security which would increase our operating costs. As a result, a downgrade in our credit ratings could have a material adverse impact on our future operations and financial position.

From time to time, our cash needs may exceed our internally generated cash flow, and our business could be materially and adversely affected if we were unable to obtain necessary funds from financing activities. From time to time, we may need to supplement our cash generation with proceeds from financing activities. We have existing revolving credit facilities, committed letter of credit facilities, and an accounts receivable sales facility to provide us with available financing to meet our ongoing cash needs. Uncertainty and illiquidity continues to exist in the financial markets that may materially impact the ability of the participating financial institutions to fund their commitments to us under our various financing facilities. In light of these uncertainties and the volatile current market environment, we can make no assurances that we will be able to obtain the full amount of the funds available under our financing facilities to satisfy our cash requirements. Our failure to do so could have a material adverse effect on our operations and financial position.

Compliance with and changes in environmental laws, including proposed climate change laws and regulations, could adversely affect our performance.

The principal environmental risks associated with our operations are emissions into the air and releases into the soil, surface water, or groundwater. Our operations are subject to extensive federal, state, and local environmental laws and regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention measures, greenhouse gas emissions, and characteristics and composition of gasoline and diesel fuels. If we violate or fail to comply with these laws and regulations, we could be fined or otherwise sanctioned. Because environmental laws and regulations are becoming more stringent and new environmental laws and regulations are continuously being enacted or proposed, such as those relating to greenhouse gas emissions and climate change (*e.g.*, California's AB-32 Global Warming Solutions Act, the U.S. House of Representatives' American Clean Energy and Security Act of 2009, the U.S. Senate Committee on Environment and Public Works' Clean Energy Jobs and American Power Act of 2009, initiatives and rulemaking following the EPA's 2009 Endangerment and Cause or Contribute Findings for Greenhouse Gases Under Section 202(a) of the Clean Air Act), the level of expenditures required for environmental matters could increase in the future. Future legislative action and regulatory initiatives could result in changes to operating permits, additional remedial actions, material changes in operations, increased capital expenditures and operating costs, increased costs of the goods we sell, and decreased demand for our products that cannot be assessed with certainty at this time.

Some of the proposed federal cap-and-trade legislation would require businesses that emit greenhouse gases to buy emission credits from the government, other businesses, or through an auction process. In addition, refiners would be obligated to purchase emission credits associated with the transportation fuels (gasoline, diesel, and jet fuel) sold and consumed in the United States. As a result of such a program, we would be required to purchase emission credits for greenhouse gas emissions resulting from our own operations as well as from the fuels we sell. Although it is not possible at this time to predict the final form of a cap-and-trade bill (or whether such a bill will be passed by Congress), any new federal restrictions on greenhouse gas emissions including a cap-and-trade program could result in material increased compliance costs, additional operating restrictions for our business, and an increase in the cost of the products we produce, which could have a material adverse effect on our financial position, results of operations, and liquidity.

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Disruption of our ability to obtain crude oil could adversely affect our operations.

A significant portion of our feedstock requirements is satisfied through supplies originating in the Middle East, Africa, Asia, North America, and South America. We are, therefore, subject to the political, geographic, and economic risks attendant to doing business with suppliers located in, and supplies originating from, those areas. If one or more of our supply contracts were terminated, or if political events disrupt our traditional crude oil supply, we believe that adequate alternative supplies of crude oil would be available, but it is possible that we would be unable to find alternative sources of supply. If we are unable to obtain adequate crude oil volumes or are able to obtain such volumes only at unfavorable prices, our results of operations could be materially adversely affected, including reduced sales volumes of refined products or reduced margins as a result of higher crude oil costs.

In addition, the U.S. government can prevent or restrict us from doing business in or with foreign countries. These restrictions, and those of foreign governments, could limit our ability to gain access to business opportunities in various countries. Actions by both the United States and foreign countries have affected our operations in the past and will continue to do so in the future.

Competitors that produce their own supply of feedstocks, have more extensive retail outlets, or have greater financial resources may have a competitive advantage.

The refining and marketing industry is highly competitive with respect to both feedstock supply and refined product markets. We compete with many companies for available supplies of crude oil and other feedstocks and for outlets for our refined products. We do not produce any of our crude oil feedstocks. Many of our competitors, however, obtain a significant portion of their feedstocks from company-owned production and some have more extensive retail outlets than we have. Competitors that have their own production or extensive retail outlets (and greater brand-name recognition) are at times able to offset losses from refining operations with profits from producing or retailing operations, and may be better positioned to withstand periods of depressed refining margins or feedstock shortages.

Some of our competitors also have materially greater financial and other resources than we have. Such competitors have a greater ability to bear the economic risks inherent in all phases of our industry. In addition, we compete with other industries that provide alternative means to satisfy the energy and fuel requirements of our industrial, commercial, and individual consumers.

A significant interruption in one or more of our refineries could adversely affect our business.

Our refineries are our principal operating assets. As a result, our operations could be subject to significant interruption if one or more of our refineries were to experience a major accident or mechanical failure, encounter work stoppages relating to organized labor issues, be damaged by severe weather or other natural or man-made disaster, such as an act of terrorism, or otherwise be forced to shut down. If any refinery were to experience an interruption in operations, earnings from the refinery could be materially adversely affected (to the extent not recoverable through insurance) because of lost production and repair costs. A significant interruption in one or more of our refineries could also lead to increased volatility in prices for crude oil feedstocks and refined products, and could increase instability in the financial and insurance markets, making it more difficult for us to access capital and to obtain insurance coverage that we consider adequate.

We maintain insurance against many, but not all, potential losses arising from operating hazards. Failure by one or more insurers to honor its coverage commitments for an insured event could materially and adversely affect our future cash flows, operating results, and financial condition.

Our refining and marketing operations are subject to various hazards common to the industry, including explosions, fires, toxic emissions, maritime hazards, and natural catastrophes. As protection against these

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hazards, we maintain insurance coverage against some, but not all, such potential losses and liabilities. We may not be able to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of market conditions, premiums and deductibles for certain of our insurance policies have increased substantially, and could escalate further. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. For example, coverage for hurricane damage is very limited, and coverage for terrorism risks includes very broad exclusions. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our financial position.

Our insurance program includes a number of insurance carriers. Disruptions in the U.S. financial markets have resulted in the deterioration in the financial condition of many financial institutions, including insurance companies. We are not currently aware of any information that would indicate that any of our insurers is unlikely to perform in the event of a covered incident. However, in light of this uncertainty and the volatile current market environment, we can make no assurances that we will be able to obtain the full amount of our insurance coverage for insured events.

Compliance with and changes in tax laws could adversely affect our performance.

We are subject to extensive tax liabilities, including United States, state, and foreign income taxes and transactional taxes such as excise, sales/use, payroll, franchise, withholding, and ad valorem taxes. New tax laws and regulations and changes in existing tax laws and regulations are continuously being enacted or proposed that could result in increased expenditures for tax liabilities in the future. Many of these liabilities are subject to periodic audits by the respective taxing authority. Subsequent changes to our tax liabilities as a result of these audits may subject us to interest and penalties.

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ENVIRONMENTAL MATTERS

We incorporate by reference into this Item the environmental disclosures contained in the following sections of this report:

Item 1 under the caption Risk Factors Compliance with and changes in environmental laws, including proposed climate change laws and regulations, could adversely affect our performance,

Item 3 Legal Proceedings under the caption Environmental Enforcement Matters, and

Item 8 Financial Statements and Supplementary Data in Note 24 of Notes to Consolidated Financial Statements under the caption Environmental Matters.

Capital Expenditures Attributable to Compliance with Environmental Regulations. In 2009, our capital expenditures attributable to compliance with environmental regulations were approximately \$390 million, and are currently estimated to be approximately \$795 million for 2010 and approximately \$225 million for 2011. The estimates for 2010 and 2011 do not include amounts related to capital investments at our facilities that management has deemed to be strategic investments rather than expenditures relating to environmental regulatory compliance.

PROPERTIES

Our principal properties are described above under the caption Valero's Operations, and that information is incorporated herein by reference. We also own feedstock and refined product storage facilities in various locations. We believe that our properties and facilities are generally adequate for our operations and that our facilities are maintained in a good state of repair. As of December 31, 2009, we were the lessee under a number of cancelable and non-cancelable leases for certain properties. Our leases are discussed more fully in Note 23 of Notes to Consolidated Financial Statements.

Our patents relating to our refining operations are not material to us as a whole. The trademarks and tradenames under which we conduct our retail and branded wholesale business including Valer®, Diamond Shamrock®, Shamrock®, Ultramar®, Beacon®, Corner Store®, and Stop N Go® and other trademarks employed in the marketing of petroleum products are integral to our wholesale and retail marketing operations.

Table of Contents**EXECUTIVE OFFICERS OF THE REGISTRANT**

Name	Age*	Positions Held with Valero	Officer Since
William R. Klesse	63	Chief Executive Officer, President, and Chairman of the Board	2001
Kimberly S. Bowers	45	Executive Vice President and General Counsel	2003
Michael S. Ciskowski	52	Executive Vice President and Chief Financial Officer	1998
S. Eugene Edwards	53	Executive Vice President Corporate Development and Strategic Planning	1998
Joseph W. Gordier	52	Executive Vice President Marketing and Supply	2003
Richard J. Marcogliese	57	Executive Vice President and Chief Operating Officer	2001

* on

January 31,
2010

Mr. Klesse was elected as Valero's Chairman of the Board in January 2007, and as Chief Executive Officer on December 31, 2005. He added the title of President in January 2008. He was Valero's Vice-Chairman of the Board from October 31, 2005 to January 18, 2007. He previously served as Executive Vice President and Chief Operating Officer since January 2003. He served as an Executive Vice President of Valero since the date of our acquisition of Ultramar Diamond Shamrock Corporation (UDS) on December 31, 2001.

Ms. Bowers was elected Executive Vice President and General Counsel in October 2008. She previously served as Senior Vice President and General Counsel of the Company since April 2006. Before that, she was Valero's Vice President Legal Services from 2003 to 2006. Ms. Bowers joined Valero's legal department in 1997.

Mr. Ciskowski was elected Executive Vice President and Chief Financial Officer in August 2003. Before that, he served as Executive Vice President Corporate Development since April 2003, and Senior Vice President in charge of business and corporate development since 2001.

Mr. Edwards was elected Executive Vice President Corporate Development and Strategic Planning in December 2005. He previously served as Senior Vice President since December 2001 with responsibilities for product supply, trading, and wholesale marketing. He has held several positions in the company with responsibility for planning and economics, business development, risk management, and marketing.

Mr. Gordier was elected Executive Vice President Marketing and Supply in December 2005. He previously served as Senior Vice President Corporate Development since August 2003. Prior to that he held several positions with Valero and UDS with responsibilities for corporate development and marketing.

Mr. Marcogliese was elected Executive Vice President and Chief Operating Officer in October 2007. He previously held the title Executive Vice President Operations since December 2005. Prior to that he served as Senior Vice President overseeing refining operations since July 2001.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 3. LEGAL PROCEEDINGS

Litigation

For the legal proceedings listed below, we incorporate by reference into this Item our disclosures made in Part II, Item 8 of this report included in Note 25 of Notes to Consolidated Financial Statements under the caption Litigation Matters.

MTBE Litigation

Retail Fuel Temperature Litigation

Rosolowski

Other Litigation

Environmental Enforcement Matters

While it is not possible to predict the outcome of the following environmental proceedings, if any one or more of them were decided against us, we believe that there would be no material effect on our consolidated financial position or results of operations. We are reporting these proceedings to comply with SEC regulations, which require us to disclose certain information about proceedings arising under federal, state, or local provisions regulating the discharge of materials into the environment or protecting the environment if we reasonably believe that such proceedings will result in monetary sanctions of \$100,000 or more.

United States Environmental Protection Agency (EPA) (Paulsboro Refinery). In September 2009, the EPA issued a proposed penalty of \$211,000 in connection with an alleged unit leak of chlorinated fluorocarbons at our Paulsboro Refinery. The EPA recently agreed to reduce the proposed penalty to an amount less than \$100,000.

Bay Area Air Quality Management District (BAAQMD) (Benicia Refinery). We have 78 violation notices (VNs) issued by the BAAQMD from 2007 to 2009 for various alleged air regulation and air permit violations at our Benicia Refinery and asphalt plant. No penalties have been specified in these VNs. We are pursuing settlement of all VNs.

Delaware Department of Natural Resources and Environmental Control (DDNREC) (Delaware City Refinery). Our Delaware City Refinery is subject to 20 outstanding notices of violation (NOVs) issued by the DDNREC. Sixteen of the NOVs allege unauthorized air emission events at the refinery. Three NOVs allege solid waste violations. One NOV alleges violation of a wastewater permit. We are pursuing settlement of these NOVs.

DDNREC (Delaware City Refinery). Our Delaware City Refinery received a stipulated penalty demand from the DDNREC in August 2009 for \$200,000, and another in October 2009 for \$100,000, for our alleged failure to complete construction of a coke storage and handling system on a timely basis. We have filed dispute resolutions at the DDNREC in connection with each of these stipulated penalty demands, and we are negotiating with the DDNREC to resolve these matters. The refinery received a stipulated penalty demand in October 2009 for \$250,000 for our alleged failure to timely complete construction on certain FCCU NOx controls. This penalty was paid in the fourth quarter of 2009. In January 2010, the DDNREC demanded a quarterly stipulated penalty of \$250,000 for alleged excess NOx emissions during the three months from August to October of 2009 and an additional stipulated penalty demand of \$250,000 for alleged excess NOx emissions from November 2009 to January 2010. Settlement discussions with the DDNREC continue on these matters.

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New Jersey Department of Environmental Protection (NJDEP) (Paulsboro Refinery). In 2008, the NJDEP issued three air-related Administrative Order and Notice of Civil Administrative Penalty Assessments (Notices) to our Paulsboro Refinery that we reasonably believe may result in monetary sanctions of \$100,000 or more. The Notices allege the refinery's failure to comply with a number of air permit and regulatory requirements. The Notices propose penalties of approximately \$780,000 in the aggregate. We are pursuing settlement of these Notices with the NJDEP.

NJDEP (Paulsboro Refinery). In the first quarter of 2009, the NJDEP issued two Notices to our Paulsboro Refinery. The first alleges excess air emissions at the refinery for the third quarter of 2008, and assesses a penalty of \$338,800. The other assesses a penalty of \$278,800 relating to alleged Title V permit deviations. We are pursuing settlement of these Notices.

NJDEP (Paulsboro Refinery). In March 2009 and August 2009, the NJDEP issued Notices to our Paulsboro Refinery. The first Notice relates to an FCC stack test conducted in 2007. The second Notice relates to an FCC stack test conducted in February 2009. The Notices assess penalties of \$40,000 and \$285,000, respectively, and direct the refinery to either perform a new stack test or submit an application to modify the permit limits. We have commenced discussions with the NJDEP to resolve this matter, and we continue to work with the NJDEP on additional stack testing. Appeals and requests for a stay on both Notices have been filed. The stay on the first Notice has been granted, and the request for stay on the second Notice has yet to be ruled on.

People of the State of Illinois, ex rel. v. The Premcor Refining Group Inc., et al., Third Judicial Circuit Court, Madison County (Case No. 03-CH-00459, filed May 29, 2003) (Hartford Refinery and terminal). The Illinois Environmental Protection Agency has issued several NOV's alleging violations of air and waste regulations at Premcor's Hartford, Illinois terminal and closed refinery. We are negotiating the terms of a consent order for corrective action.

South Coast Air Quality Management District (SCAQMD) (Wilmington Refinery). We have 29 outstanding NOV's issued by the SCAQMD from 2008 to 2009 for various alleged air regulation and air permit violations at our Wilmington Refinery and asphalt plant. No penalties have been specified in these NOV's. We are pursuing settlement of all NOV's.

State of Ohio, Office of the Attorney General, Environmental Enforcement (The Premcor Refining Group Inc. former Clark Retail Enterprises, Inc. retail sites). In June 2008, the Attorney General's office of the State of Ohio issued a penalty demand of \$11,133,000 to our wholly owned subsidiary, The Premcor Refining Group Inc., for alleged environmental violations arising from a predecessor's operation or ownership of underground storage tanks at several sites. We are in settlement discussions with the Ohio Attorney General to resolve this matter. Negotiations continue to finalize a consent order.

Texas Commission on Environmental Quality (TCEQ) (Corpus Christi West Refinery). In the second quarter of 2009, the TCEQ issued a notice of enforcement (NOE) to our Corpus Christi West Refinery. The NOE alleges excess air emissions relating to two cooling tower leaks that occurred in 2008. The penalty demanded in the TCEQ's Preliminary Report and Petition was \$1,100,424. On July 27, 2009, we filed a response and request for hearing on this matter. Settlement discussions continue on this matter.

TCEQ (Corpus Christi West Refinery). We are also negotiating with the TCEQ regarding a collection of enforcement actions pertaining to our Corpus Christi West Refinery having a potential total penalty of \$337,809. These actions collectively allege excess air emissions, reporting errors, unauthorized tank emissions, and waste violations. Settlement discussions continue for these matters.

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TCEQ (McKee Refinery). In August 2009, our McKee Refinery received an agreed order from the TCEQ with a proposed administrative penalty of \$469,251 for a number of self-reported Title V permit deviations that occurred in 2008 and several emission events that occurred in 2009. We have commenced discussions with the TCEQ to resolve this matter.

TCEQ (Port Arthur Refinery). In October 2009, our Port Arthur Refinery received a proposed Agreed Order from the TCEQ for \$155,825 relating to alleged multiple emissions events in 2008 and early 2009. We are reviewing the proposed order and evaluating our options for response.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock trades on the New York Stock Exchange under the symbol VLO.

As of January 29, 2010, there were 6,728 holders of record of our common stock.

The following table shows the high and low sales prices of and dividends declared on our common stock for each quarter of 2009 and 2008.

Quarter Ended	Sales Prices of the Common Stock		Dividends Per Common Share
	High	Low	
2009:			
December 31	\$ 20.67	\$ 15.89	\$ 0.15
September 30	20.50	15.57	0.15
June 30	23.30	16.03	0.15
March 31	25.85	16.24	0.15
2008:			
December 31	\$ 30.36	\$ 13.94	\$ 0.15
September 30	40.74	28.20	0.15
June 30	55.00	39.20	0.15
March 31	71.12	44.94	0.12

On January 26, 2010, our board of directors declared a quarterly cash dividend of \$0.05 per common share payable March 17, 2010 to holders of record at the close of business on February 17, 2010.

Dividends are considered quarterly by the board of directors and may be paid only when approved by the board.

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The following table discloses purchases of shares of Valero's common stock made by us or on our behalf during the fourth quarter of 2009.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Not Purchased as Part of Publicly Announced Plans or Programs (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
October 2009	147,075	\$ 20.12	147,075		\$ 3.46 billion
November 2009	8,147	\$ 19.45	8,147		\$ 3.46 billion
December 2009	3,723	\$ 16.67	3,723		\$ 3.46 billion
Total	158,945	\$ 20.00	158,945		\$ 3.46 billion

- (1) The shares reported in this column represent purchases settled in the fourth quarter of 2009 relating to (a) our purchases of shares in open-market transactions to meet our obligations under employee benefit plans, and (b) our purchases of shares from our employees and non-employee directors in connection with the exercise of stock options, the vesting of restricted stock,

and other stock compensation transactions in accordance with the terms of our incentive compensation plans.

- (2) On April 26, 2007, we publicly announced an increase in our common stock purchase program from \$2 billion to \$6 billion, as authorized by our board of directors on April 25, 2007. The \$6 billion common stock purchase program has no expiration date. On February 28, 2008, we announced that our board of directors approved a \$3 billion common stock purchase program, which is in addition to the \$6 billion program. This \$3 billion program has no expiration date. Our stock purchase programs are more fully described in Note 14 of

Notes to
Consolidated
Financial
Statements, and
we hereby
incorporate by
reference into
this Item our
disclosures
made in Note
14.

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The following Performance Graph 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 or the Securities Exchange Act of 1934, as amended, respectively.

This Performance Graph and the related textual information are based on historical data and are not indicative of future performance.

The following line graph compares the cumulative total return* on an investment in our common stock against the cumulative total return of the S&P 500 Composite Index and an index of peer companies (selected by us) for the five-year period commencing December 31, 2004 and ending December 31, 2009. Our Peer Group consists of the following 13 companies that are engaged in domestic refining operations: Alon USA Energy, Inc., Chevron Corporation, ConocoPhillips, CVR Energy, Inc., Exxon Mobil Corporation, Frontier Oil Corporation, Hess Corporation, Holly Corporation, Marathon Oil Corporation, Murphy Oil Corporation, Sunoco, Inc., Tesoro Corporation, and Western Refining, Inc.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Valero Energy Corporation, The S&P 500 Index
And A Peer Group

	12/2004	12/2005	12/2006	12/2007	12/2008	12/2009
Valero Common Stock	\$ 100	\$ 228.46	\$ 227.72	\$ 314.03	\$ 98.77	\$ 78.79
S&P 500	100	104.91	121.48	128.16	80.74	102.11
Peer Group	100	118.39	159.53	204.20	157.45	150.50

* Assumes that an investment in Valero common stock and each index was \$100 on December 31, 2004. Cumulative total return is based on share price appreciation plus reinvestment of dividends from December 31, 2004 through December 31, 2009.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The selected financial data for the five-year period ended December 31, 2009 was derived from our audited consolidated financial statements. The following table should be read together with the historical consolidated financial statements and accompanying notes included in Item 8, Financial Statements and Supplementary Data, and with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following summaries are in millions of dollars except for per share amounts:

	Year Ended December 31,				2005 (a) (c)
	2009 (a) (b)	2008 (a)	2007 (a) (c)	2006 (a) (c)	(d)
Operating revenues (e)	\$ 68,144	\$ 113,136	\$ 89,987	\$ 82,556	\$ 78,856
Operating income (loss)	(58)	761	6,630	7,347	5,207
Income (loss) from continuing operations	(352)	(1,012)	4,377	5,029	3,429
Earnings (loss) per common share from continuing operations - assuming dilution (f)	(0.65)	(1.93)	7.40	7.95	5.83
Dividends per common share	0.60	0.57	0.48	0.30	0.19
Property, plant and equipment, net	23,012	21,421	19,920	18,389	16,090
Goodwill			3,965	4,039	4,777
Total assets	35,629	34,417	42,722	37,753	32,798
Debt and capital lease obligations (less current portion)	7,163	6,264	6,470	4,619	5,156
Stockholders' equity	14,725	15,620	18,507	18,605	15,050

(a) The information presented in this table for all years excludes the results of operations related to the Delaware City Refinery, which have been reclassified as discontinued operations due to the shutdown

of that facility
on
November 20,
2009. In
addition, the
assets related to
the Delaware
City Refinery
have been
reclassified as
assets related to
discontinued
operations for
all years
presented
herein, and as a
result, the
property, plant
and equipment
and goodwill
amounts
reflected herein
have changed
from the
amounts
presented in our
annual report on
Form 10-K for
the year ended
December 31,
2008.

- (b) The information
presented for
2009 includes
the operations
related to
certain ethanol
plants acquired
from VeraSun
Energy
Corporation
(VeraSun, with
the acquisition
referred to as
the VeraSun
Acquisition)
during 2009. On
April 1, 2009,
we closed on the
acquisition of

ethanol plants located in Charles City, Fort Dodge, and Hartley, Iowa; Aurora, South Dakota; and Welcome, Minnesota; and through subsequent closings on April 9, 2009 and May 8, 2009, we acquired ethanol plants in Albert City, Iowa and Albion, Nebraska.

- (c) Effective July 1, 2007, we sold our Lima Refinery to Husky Refining Company. The results of operations of the Lima Refinery are reported as discontinued operations in the consolidated statements of income for the years ended December 31, 2007, 2006, and 2005 and therefore are not included in the statement of income information presented in this table, and the property, plant and equipment and goodwill

amounts as of
December 31,
2006 and 2005
do not include
amounts
applicable to the
Lima Refinery.

- (d) Includes the
operations
related to the
acquisition of
Premcor Inc.
beginning
September 1,
2005.
- (e) Operating
revenues
reported for
2005 include
approximately
\$7.8 billion
related to crude
oil buy/sell
arrangements.

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- (f) For the years ended December 31, 2009 and 2008, the loss per common share amounts were calculated using basic weighted average shares outstanding as the effect of including common stock equivalents would have been anti-dilutive.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following review of our results of operations and financial condition should be read in conjunction with Items 1, 1A and 2, Business, Risk Factors and Properties, and Item 8, Financial Statements and Supplementary Data, included in this report. In the discussions that follow, per-share amounts include the effect of common equivalent shares for periods reflecting income from continuing operations and exclude the effect of common equivalent shares for periods reflecting a loss from continuing operations.

CAUTIONARY STATEMENT FOR THE PURPOSE OF SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report, including without limitation our disclosures below under the heading *Results of Operations Outlook*, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify our forward-looking statements by the words anticipate, believe, expect, plan, intend, estimate, project, projection, predict, budget, forecast, goal, should, may, and similar expressions.

These forward-looking statements include, among other things, statements regarding:

- future refining margins, including gasoline and distillate margins;
- future retail margins, including gasoline, diesel, home heating oil, and convenience store merchandise margins;
- future ethanol margins and the effect of the acquisition of certain ethanol plants on our results of operations;
- expectations regarding feedstock costs, including crude oil differentials, and operating expenses;
- anticipated levels of crude oil and refined product inventories;
- our anticipated level of capital investments, including deferred refinery turnaround and catalyst costs and capital expenditures for environmental and other purposes, and the effect of those capital investments on our results of operations;
- anticipated trends in the supply of and demand for crude oil and other feedstocks and refined products in the United States, Canada, and elsewhere;

expectations regarding environmental, tax, and other regulatory initiatives; and

the effect of general economic and other conditions on refining industry fundamentals.

We based our forward-looking statements on our current expectations, estimates, and projections about ourselves and our industry. We caution that these statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual results may differ materially from the future performance that we have expressed or forecast in the forward-looking statements. Differences between actual results and any future performance suggested in these forward-looking statements could result from a variety of factors, including the following:

- acts of terrorism aimed at either our facilities or other facilities that could impair our ability to produce or transport refined products or receive feedstocks;

- political and economic conditions in nations that consume refined products, including the United States, and in crude oil producing regions, including the Middle East and South America;

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domestic and foreign demand for, and supplies of, refined products such as gasoline, diesel fuel, jet fuel, home heating oil, and petrochemicals;

domestic and foreign demand for, and supplies of, crude oil and other feedstocks;

the ability of the members of the Organization of Petroleum Exporting Countries (OPEC) to agree on and to maintain crude oil price and production controls;

the level of consumer demand, including seasonal fluctuations;

refinery overcapacity or undercapacity;

the actions taken by competitors, including both pricing and adjustments to refining capacity in response to market conditions;

environmental, tax, and other regulations at the municipal, state, and federal levels and in foreign countries;

the level of foreign imports of refined products;

accidents or other unscheduled shutdowns affecting our refineries, machinery, pipelines, or equipment, or those of our suppliers or customers;

changes in the cost or availability of transportation for feedstocks and refined products;

the price, availability, and acceptance of alternative fuels and alternative-fuel vehicles;

delay of, cancellation of, or failure to implement planned capital projects and realize the various assumptions and benefits projected for such projects or cost overruns in constructing such planned capital projects;

ethanol margins may be lower than expected;

earthquakes, hurricanes, tornadoes, and irregular weather, which can unforeseeably affect the price or availability of natural gas, crude oil and other feedstocks, and refined products;

rulings, judgments, or settlements in litigation or other legal or regulatory matters, including unexpected environmental remediation costs, in excess of any reserves or insurance coverage;

legislative or regulatory action, including the introduction or enactment of federal, state, municipal, or foreign legislation or rulemakings, which may adversely affect our business or operations;

changes in the credit ratings assigned to our debt securities and trade credit;

changes in currency exchange rates, including the value of the Canadian dollar relative to the U.S. dollar;

overall economic conditions, including the stability and liquidity of financial markets; and

other factors generally described in the Risk Factors section included in Items 1, 1A and 2, Business, Risk Factors and Properties in this report.

Any one of these factors, or a combination of these factors, could materially affect our future results of operations and whether any forward-looking statements ultimately prove to be accurate. Our forward-looking statements are not guarantees of future performance, and actual results and future performance may differ materially from those suggested in any forward-looking statements. We do not intend to update these statements unless we are required by the securities laws to do so.

All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing. We undertake no obligation to publicly release the results of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

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OVERVIEW

In this overview, we describe some of the primary factors that we believe affected our results of operations during the year ended December 31, 2009. We reported a loss from continuing operations of \$352 million, or \$0.65 per share, for the year ended December 31, 2009 compared to a loss from continuing operations of \$1.0 billion, or \$1.93 per share, for the year ended December 31, 2008. The results of continuing operations for 2009 were unfavorably impacted by asset impairment losses of \$230 million (\$150 million after tax), which are discussed further below, as well as a \$140 million loss contingency accrual (including interest) related to our dispute of a turnover tax on export sales and other tax matters involving the Government of Aruba. The 2008 results included a before-tax and after-tax loss of \$4.0 billion resulting from the impairment of goodwill, which is further discussed in Note 3 of Notes to Consolidated Financial Statements. In addition, 2008 results included \$86 million of pre-tax asset impairment losses (\$56 million after tax) and a \$305 million pre-tax gain (\$170 million after tax) on the sale of our Krotz Springs Refinery.

In November 2009, we announced the permanent shutdown of our Delaware City Refinery due to financial losses caused by poor economic conditions, significant capital spending requirements, and high operating costs. As a result of the shutdown, we recorded a pre-tax loss of \$1.9 billion, which is discussed in Note 2 of Notes to Consolidated Financial Statements. The results of operations of the Delaware City Refinery, which include this loss and other asset impairment losses, are reflected as discontinued operations in the consolidated statements of income for all periods presented.

Due to the impact of the continuing economic slowdown on refining industry fundamentals during 2009, we continued to assess our refining segment assets for potential impairment. This evaluation included an assessment of our operating assets as well as an evaluation of our capital projects classified as construction in progress. As a result of this analysis, certain capital projects were permanently cancelled, resulting in pre-tax write-offs of \$230 million of project costs relating to continuing operations for the year ended December 31, 2009. Additionally during 2009, we wrote off pre-tax project costs of \$178 million related to our Delaware City Refinery, which are reported in discontinued operations as discussed above.

Also due to these poor industry conditions, in June 2009, we announced our plan to shut down the Aruba Refinery temporarily as narrow heavy sour crude oil differentials made the refinery uneconomical to operate. The Aruba Refinery was shut down in July 2009 and is expected to continue to be shut down until market conditions improve.

Our profitability from our operations is substantially determined by the spread between the price of refined products and the price of crude oil, referred to as the refined product margin. The economic slowdown that existed throughout 2009 caused a continuing weakness in demand for refined products, which put pressure on refined product margins during 2009. This reduced demand, combined with increased inventory levels, caused a significant decline in diesel and jet fuel margins during 2009 compared to 2008. However, gasoline margins improved in 2009 compared to 2008. In addition, lower costs of crude oil and other feedstocks significantly improved margins on certain secondary products, such as asphalt, fuel oils, and petroleum coke, during 2009 compared to 2008.

Because more than 60% of our total crude oil throughput generally consists of sour crude oil and acidic sweet crude oil feedstocks that historically have been purchased at prices less than sweet crude oil, our profitability is also significantly affected by the spread between sweet crude oil and sour crude oil prices, referred to as the sour crude oil differential. Sour crude oil differentials for the year ended December 31, 2009 were substantially lower than the 2008 differentials. We believe that this decline in sour crude oil differentials was partially caused by a reduction in sour crude oil production by OPEC and

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other producers, which reduced the supply of sour crude oil and increased the price of sour crude oils relative to sweet crude oils. In addition, high prices of residual fuel oil relative to sweet crude oil prices caused a significant reduction in discounts realized on residual fuel oil that we processed during 2009. These higher residual fuel oil prices also contributed to the decrease in sour crude oil differentials because sour crude oil competes with residual fuel oil as a refinery feedstock.

In March 2009, we issued \$750 million of 10-year notes and \$250 million of 30-year notes. Proceeds from these notes were used to make \$209 million of scheduled debt payments in April 2009, fund our acquisition of certain ethanol plants from VeraSun, and maintain our capital investment program.

In April and May of 2009, we acquired seven ethanol plants and a site under development from VeraSun for \$477 million, plus \$79 million primarily for inventory and certain other working capital. The new ethanol business reported \$165 million of operating income for the year ended December 31, 2009.

In June 2009, we sold in a public offering 46 million shares of our common stock at a price of \$18.00 per share and received proceeds, net of underwriting discounts and commissions and other issuance costs, of \$799 million.

Table of Contents**RESULTS OF OPERATIONS**
2009 Compared to 2008**Financial Highlights**
(millions of dollars, except per share amounts)

	Year Ended December 31,		
	2009 (a)	2008 (b) (c)	Change
	(b)		
Operating revenues	\$ 68,144	\$ 113,136	\$ (44,992)
Costs and expenses:			
Cost of sales	61,959	101,830	(39,871)
Operating expenses	3,311	4,046	(735)
Retail selling expenses	702	768	(66)
General and administrative expenses	572	559	13
Depreciation and amortization expense:			
Refining	1,261	1,214	47
Retail	101	105	(4)
Ethanol	18		18
Corporate	48	44	4
Asset impairment loss (d)	230	86	144
Gain on sale of Krotz Springs Refinery (c)		(305)	305
Goodwill impairment loss (e)		4,028	(4,028)
Total costs and expenses	68,202	112,375	(44,173)
Operating income (loss)	(58)	761	(819)
Other income, net	17	113	(96)
Interest and debt expense:			
Incurred	(520)	(451)	(69)
Capitalized	112	104	8
Income (loss) from continuing operations before income tax expense (benefit)	(449)	527	(976)
Income tax expense (benefit)	(97)	1,539	(1,636)
Loss from continuing operations	(352)	(1,012)	660
Loss from discontinued operations, net of income taxes (b)	(1,630)	(119)	(1,511)
Net loss	\$ (1,982)	\$ (1,131)	\$ (851)

Loss per common share assuming dilution:

Continuing operations	\$ (0.65)	\$ (1.93)	\$ 1.28
Discontinued operations	(3.02)	(0.23)	(2.79)
Total	\$ (3.67)	\$ (2.16)	\$ (1.51)

See the footnote
references on pages
34 and 35.

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Operating Highlights
(millions of dollars, except per barrel and per gallon amounts)

	Year Ended December 31,		
	2009	2008	Change
Refining (b) (c):			
Operating income (d) (e) (i)	\$ 105	\$ 995	\$ (890)
Throughput margin per barrel (e) (f) (i)	\$ 5.85	\$ 11.10	\$ (5.25)
Operating costs per barrel (d):			
Refining operating expenses	\$ 3.79	\$ 4.46	\$ (0.67)
Depreciation and amortization	1.52	1.34	0.18
Total operating costs per barrel	\$ 5.31	\$ 5.80	\$ (0.49)
Throughput volumes (thousand barrels per day):			
Feedstocks:			
Heavy sour crude	458	588	(130)
Medium/light sour crude	516	586	(70)
Acidic sweet crude	65	79	(14)
Sweet crude	632	604	28
Residuals	171	197	(26)
Other feedstocks	153	140	13
Total feedstocks	1,995	2,194	(199)
Blendstocks and other	277	283	(6)
Total throughput volumes	2,272	2,477	(205)
Yields (thousand barrels per day):			
Gasolines and blendstocks	1,101	1,102	(1)
Distillates	748	871	(123)
Petrochemicals	68	70	(2)
Other products (g)	364	436	(72)
Total yields	2,281	2,479	(198)
Retail U.S.:			
Operating income	\$ 170	\$ 260	\$ (90)
Company-operated fuel sites (average)	999	973	26
Fuel volumes (gallons per day per site)	4,983	5,000	(17)
Fuel margin per gallon	\$ 0.154	\$ 0.229	\$ (0.075)
Merchandise sales	\$ 1,171	\$ 1,097	\$ 74
Merchandise margin (percentage of sales)	28.9%	29.9%	(1.0%)
Margin on miscellaneous sales	\$ 87	\$ 99	\$ (12)
Retail selling expenses	\$ 464	\$ 505	\$ (41)

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Depreciation and amortization expense	\$ 70	\$ 70	\$
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Retail Canada:

Operating income	\$ 123	\$ 109	\$ 14
Fuel volumes (thousand gallons per day)	3,159	3,193	(34)
Fuel margin per gallon	\$ 0.260	\$ 0.268	\$ (0.008)
Merchandise sales	\$ 201	\$ 200	\$ 1
Merchandise margin (percentage of sales)	29.0%	28.5%	0.5%
Margin on miscellaneous sales	\$ 33	\$ 36	\$ (3)
Retail selling expenses	\$ 238	\$ 263	\$ (25)
Depreciation and amortization expense	\$ 31	\$ 35	\$ (4)

See the footnote
references on pages
34 and 35.

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Operating Highlights (continued)
(millions of dollars, except per gallon amounts)

	Year Ended December 31,		
	2009	2008	Change
Ethanol (a):			
Operating income	\$ 165	N/A	\$ 165
Ethanol production (thousand gallons per day)	1,479	N/A	1,479
Gross margin per gallon of ethanol production	\$ 0.65	N/A	\$ 0.65
Operating costs per gallon of ethanol production:			
Ethanol operating expenses	\$ 0.31	N/A	\$ 0.31
Depreciation and amortization	0.03	N/A	0.03
Total operating costs per gallon of ethanol production	\$ 0.34	N/A	\$ 0.34

See the footnote
 references on pages
 34 and 35.

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Refining Operating Highlights by Region (h)
(millions of dollars, except per barrel amounts)

	Year Ended December 31,		
	2009	2008	Change
Gulf Coast (c):			
Operating income (loss)	\$ (56)	\$ 3,267	\$ (3,323)
Throughput volumes (thousand barrels per day)	1,274	1,404	(130)
Throughput margin per barrel (f) (i)	\$ 5.13	\$ 11.57	\$ (6.44)
Operating costs per barrel (d):			
Refining operating expenses	\$ 3.71	\$ 4.50	\$ (0.79)
Depreciation and amortization	1.54	1.30	0.24
Total operating costs per barrel	\$ 5.25	\$ 5.80	\$ (0.55)
Mid-Continent:			
Operating income	\$ 189	\$ 580	\$ (391)
Throughput volumes (thousand barrels per day)	387	423	(36)
Throughput margin per barrel (f)	\$ 6.52	\$ 9.27	\$ (2.75)
Operating costs per barrel (d):			
Refining operating expenses	\$ 3.66	\$ 4.24	\$ (0.58)
Depreciation and amortization	1.53	1.29	0.24
Total operating costs per barrel	\$ 5.19	\$ 5.53	\$ (0.34)
Northeast (b):			
Operating income	\$ 63	\$ 887	\$ (824)
Throughput volumes (thousand barrels per day)	344	374	(30)
Throughput margin per barrel (f)	\$ 5.18	\$ 11.60	\$ (6.42)
Operating costs per barrel (d):			
Refining operating expenses	\$ 3.40	\$ 3.91	\$ (0.51)
Depreciation and amortization	1.28	1.21	0.07
Total operating costs per barrel	\$ 4.68	\$ 5.12	\$ (0.44)
West Coast:			
Operating income	\$ 252	\$ 375	\$ (123)
Throughput volumes (thousand barrels per day)	267	276	(9)
Throughput margin per barrel (f)	\$ 9.16	\$ 10.84	\$ (1.68)
Operating costs per barrel (d):			
Refining operating expenses	\$ 4.83	\$ 5.36	\$ (0.53)
Depreciation and amortization	1.74	1.77	(0.03)
Total operating costs per barrel	\$ 6.57	\$ 7.13	\$ (0.56)

Operating income for regions above	\$ 448	\$ 5,109	\$ (4,661)
Asset impairment loss applicable to refining (d)	(229)	(86)	(143)
Loss contingency accrual related to Aruban tax matter (i)	(114)		(114)
Goodwill impairment loss (e)		(4,028)	4,028
Total refining operating income	\$ 105	\$ 995	\$ (890)

See the footnote
references on pages
34 and 35.

Table of Contents***Average Market Reference Prices and Differentials (j)
(dollars per barrel, except as noted)***

	Year Ended December 31,		
	2009	2008	Change
Feedstocks:			
West Texas Intermediate (WTI) crude oil	\$ 61.69	\$ 99.56	\$ (37.87)
WTI less sour crude oil at U.S. Gulf Coast (k)	1.69	5.20	(3.51)
WTI less Mars crude oil	1.36	6.13	(4.77)
WTI less Maya crude oil	5.19	15.71	(10.52)
Products:			
U.S. Gulf Coast:			
Conventional 87 gasoline less WTI	7.61	4.85	2.76
No. 2 fuel oil less WTI	6.22	18.35	(12.13)
Ultra-low-sulfur diesel less WTI	8.02	22.96	(14.94)
Propylene less WTI	(1.31)	(3.69)	2.38
U.S. Mid-Continent:			
Conventional 87 gasoline less WTI	8.01	4.46	3.55
Low-sulfur diesel less WTI	8.26	24.12	(15.86)
U.S. Northeast:			
Conventional 87 gasoline less WTI	7.99	3.22	4.77
No. 2 fuel oil less WTI	7.37	20.23	(12.86)
Lube oils less WTI	37.30	68.79	(31.49)
U.S. West Coast:			
CARBOB 87 gasoline less WTI	15.75	9.93	5.82
CARB diesel less WTI	9.86	22.59	(12.73)
New York Harbor corn crush (dollars per gallon)	0.47	0.42	0.05

The following notes
relate to references
on pages 30 through
34.

- (a) The information presented for 2009 includes the operations related to certain ethanol plants acquired from VeraSun during 2009. On April 1, 2009, we closed on the acquisition of ethanol plants located in

Charles City, Fort Dodge, and Hartley, Iowa; Aurora, South Dakota; and Welcome, Minnesota; and through subsequent closings on April 9, 2009 and May 8, 2009, we acquired ethanol plants in Albert City, Iowa and Albion, Nebraska. The ethanol production volumes reflected for the year ended December 31, 2009 are based on 365 calendar days rather than the actual daily production, which varied by facility.

- (b) Due to the permanent shutdown of our Delaware City Refinery during the fourth quarter of 2009, the results of operations of the Delaware City Refinery, as well as costs associated with the shutdown, are reported as discontinued operations for 2009 and 2008, and all refining

operating
highlights, both
consolidated
and for the
Northeast
Region, exclude
the Delaware
City Refinery
for both years.

- (c) Effective July 1, 2008, we sold our Krotz Springs Refinery to Alon Refining Krotz Springs, Inc. (Alon). The nature and significance of our post-closing participation in an offtake agreement with Alon represents a continuation of activities with the Krotz Springs Refinery for accounting purposes, and as such the results of operations related to the Krotz Springs Refinery have not been presented as discontinued operations, and all refining operating highlights, both consolidated and for the Gulf Coast region, include the Krotz Springs Refinery for the year ended

December 31, 2008. The pre-tax gain of \$305 million on the sale of the Krotz Springs Refinery is included in the Gulf Coast operating income for the year ended December 31, 2008 but is excluded from the per-barrel operating highlights.

- (d) The asset impairment loss for 2009 relates primarily to the permanent cancellation of certain capital projects classified as construction in progress as a result of the unfavorable impact of the continuing economic slowdown on refining industry fundamentals. Losses resulting from the permanent cancellation of certain capital projects in 2008 have been reclassified from operating expenses and presented separately for comparability

with the 2009 presentation. The asset impairment loss amounts are included in the refining segment operating income but are excluded from the regional operating income amounts and the consolidated and regional operating costs per barrel, resulting in an adjustment to the operating costs per barrel previously reported in 2008.

- (e) Upon applying the goodwill impairment testing criteria under existing accounting rules during the fourth quarter of 2008, we determined that the goodwill in all four of our refining segment reporting units was impaired, which resulted in a pre-tax and

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after-tax
goodwill
impairment loss
of \$4.0 billion
related to
continuing
operations. This
goodwill
impairment loss
is included in
the refining
segment
operating
income but is
excluded from
the consolidated
and regional
throughput
margins per
barrel and the
regional
operating
income amounts
presented for
the year ended
December 31,
2008 in order to
make that
information
comparable
between
periods.

- (f) Throughput
margin per
barrel represents
operating
revenues less
cost of sales
divided by
throughput
volumes.
- (g) Other products
primarily
include gas oils,
No. 6 fuel oil,
petroleum coke,
and asphalt.

- (h) The regions reflected herein contain the following refineries: the Gulf Coast refining region includes the Corpus Christi East, Corpus Christi West, Texas City, Houston, Three Rivers, Krotz Springs (for periods prior to its sale effective July 1, 2008), St. Charles, Aruba, and Port Arthur Refineries; the Mid-Continent refining region includes the McKee, Ardmore, and Memphis Refineries; the Northeast refining region includes the Quebec City and Paulsboro Refineries; and the West Coast refining region includes the Benicia and Wilmington Refineries.
- (i) A loss contingency accrual of \$140 million, including interest, was recorded in the third quarter of

2009 related to our dispute with the Government of Aruba regarding a turnover tax on export sales as well as other tax matters. The portion of the loss contingency accrual that relates to the turnover tax of \$114 million was recorded in cost of sales for the year ended December 31, 2009, and therefore is included in refining operating income (loss) but has been excluded in determining throughput margin per barrel.

- (j) The average market reference prices and differentials, with the exception of the propylene and lube oil differentials and the corn crush, are based on posted prices from Platts Oilgram. The propylene differential is based on posted propylene prices

in Chemical
Market
Associates, Inc.
and the lube oil
differential is
based on Exxon
Mobil
Corporation
postings
provided by
Independent
Commodity
Information
Services
London Oil
Reports. The
corn crush
represents the
posted New
York Harbor
ethanol price
from Oil Price
Information
Services less the
posted corn
price from the
Chicago Board
of Trade and
assumes a yield
of 2.75 gallons
of ethanol per
bushel of corn.
The average
market
reference prices
and differentials
are presented to
provide users of
the consolidated
financial
statements with
economic
indicators that
significantly
affect our
operations and
profitability.

- (k) The market
reference
differential for

sour crude oil is
based on 50%
Arab Medium
and 50% Arab
Light posted
prices.

General

Operating revenues decreased 40% for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily as a result of lower average refined product prices between the two periods. Operating income declined \$819 million for the year ended December 31, 2009 compared to the amount for the year ended December 31, 2008 primarily due to an \$890 million decrease in refining segment operating income discussed below. Despite the decline in operating income, our income from continuing operations increased from 2008 to 2009 due to a \$1.6 billion reduction in income tax expense, largely attributable to the nondeductibility of almost all of the goodwill impairment loss that is included in the 2008 operating income, as discussed further below.

Refining

Operating income for our refining segment decreased from \$995 million for the year ended December 31, 2008 to \$105 million for the year ended December 31, 2009. The decrease in operating income was attributable primarily to a \$305 million gain on the sale of the Krotz Springs Refinery in the third quarter of 2008 (as further discussed in Note 2 of Notes to Consolidated Financial Statements), a \$143 million increase in asset impairment losses (as further discussed in Note 3 of Notes to Consolidated Financial Statements), a \$114 million loss contingency accrual in 2009 related to our dispute of a turnover tax on export sales in Aruba (as further discussed in Note 23 of Notes to Consolidated Financial Statements), a 47% decrease in throughput margin per barrel, and an 8% decline in throughput volumes. These decreases were partially offset by a \$4.0 billion goodwill impairment loss recorded in the fourth quarter of 2008 (as further discussed in Note 3 of Notes to Consolidated Financial Statements) and a 16% decrease in refining operating expenses (including depreciation and amortization expense).

Total refining throughput margins for 2009 compared to 2008 were impacted by the following factors:

Distillate margins in 2009 decreased significantly in all of our refining regions from the margins in 2008. The decrease in distillate margins was primarily due to increased inventory levels and reduced demand attributable to the global slowdown in economic activity.

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Sour crude oil and residual fuel oil feedstock differentials to WTI crude oil during 2009 declined significantly compared to the differentials in 2008. The unfavorable sour crude oil differentials were attributable mainly to reduced production of sour crude oil by OPEC and other producers as well as high relative prices for residual fuel oil with which sour crude oil competes as a refinery feedstock.

Gasoline margins increased in all of our refining regions in 2009 compared to 2008 primarily due to a better balance of supply and demand.

Margins on various secondary refined products such as asphalt, fuel oils, and petroleum coke improved significantly from 2008 to 2009 as prices for these products did not decrease in proportion to the large decrease in the costs of the feedstocks used to produce them. The price of WTI crude oil declined by approximately \$38 per barrel, or 38%, from the year ended December 31, 2008 to the year ended December 31, 2009.

Throughput margin for 2008 included approximately \$100 million related to the McKee Refinery business interruption insurance settlement discussed in Note 23 of Notes to Consolidated Financial Statements.

Throughput volumes decreased 205,000 barrels per day during 2009 compared to 2008 primarily due to (i) the temporary shutdown of our Aruba Refinery commencing in July 2009, (ii) the sale of our Krotz Springs Refinery in July 2008, (iii) unplanned downtime at our St. Charles Refinery, (iv) planned downtime for maintenance at our Corpus Christi West, Texas City, Paulsboro, and Three Rivers Refineries, and (v) economic decisions to reduce throughput at certain of our refineries as a result of unfavorable market conditions.

Refining operating expenses, excluding depreciation and amortization expense, were 22% lower for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily due to a decrease in energy costs, lower maintenance expenses, a reduction in sales and use taxes, and \$43 million of operating expenses related to the Krotz Springs Refinery prior to its sale effective July 1, 2008. Refining depreciation and amortization expense increased 4% from the year ended December 31, 2008 to the year ended December 31, 2009 primarily due to the completion of new capital projects and increased turnaround and catalyst amortization.

Retail

Retail operating income was \$293 million for the year ended December 31, 2009 compared to \$369 million for the year ended December 31, 2008. This 21% decrease was primarily due to decreased retail fuel margins, partially offset by lower selling expenses, in our U.S. retail operations.

Ethanol

Ethanol operating income was \$165 million for the year ended December 31, 2009, which represents the operations of the seven ethanol plants acquired in the VeraSun Acquisition subsequent to their acquisition in the second quarter of 2009, as described in Note 2 of Notes to Consolidated Financial Statements.

Corporate Expenses and Other

General and administrative expenses, including depreciation and amortization expense, increased \$17 million for the year ended December 31, 2009 compared to the year ended December 31, 2008 mainly due to increases in litigation costs, severance expenses, and acquisition costs, partially offset by reductions in environmental costs and professional fees.

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Other income for the year ended December 31, 2009 decreased from the year ended December 31, 2008 primarily due to a \$128 million unfavorable change in fair value adjustments related to the Alon earn-out agreement and associated derivative instruments (as discussed in Notes 2, 17, and 18 of Notes to Consolidated Financial Statements), reduced interest income resulting from lower cash balances and interest rates, and the nonrecurrence of a \$14 million gain recognized in 2008 on the redemption of our 9.5% senior notes as discussed in Note 12 of Notes to Consolidated Financial Statements. These decreases were partially offset by a \$55 million increase in the fair value of certain nonqualified benefit plan assets and \$27 million of income in 2009 resulting from the reversal of an accrual for potential payments related to the UDS Acquisition due to the expiration of the statute of limitations.

Interest and debt expense increased mainly due to interest incurred on \$1 billion of debt issued in March 2009.

Income tax expense decreased \$1.6 billion from \$1.5 billion of expense in 2008 to a \$97 million benefit in 2009 mainly as a result of lower operating income in 2009 and the nondeductibility of almost all of the \$4.0 billion goodwill impairment loss included in the 2008 results of operations, as discussed above. Excluding the effect of the goodwill impairment loss on the effective tax rate for 2008, our 2009 effective tax rate was lower than 2008 primarily due to a higher percentage of the pre-tax loss being attributable to the Aruba Refinery in 2009, the profits or losses of which are not taxed through December 31, 2010.

Loss from discontinued operations, net of income taxes increased \$1.5 billion from the year ended December 31, 2008 to the year ended December 31, 2009 primarily due to the after-tax effect of the following changes in the results of operations related to the Delaware City Refinery: (i) a \$1.9 billion loss related to the permanent shutdown of the Delaware City Refinery in the fourth quarter of 2009, (ii) a \$360 million increase in asset impairment losses, and (iii) a \$260 million increase in operating losses. The shutdown of the Delaware City Refinery is discussed in Note 2 of Notes to Consolidated Financial Statements.

Table of Contents**2008 Compared to 2007**

Financial Highlights
(millions of dollars, except per share amounts)

		Year Ended December 31,	
	2008 (a) (b)	2007 (a) (b)	
		(c)	Change
Operating revenues	\$ 113,136	\$ 89,987	\$ 23,149
Costs and expenses:			
Cost of sales	101,830	77,059	24,771
Operating expenses	4,046	3,666	380
Retail selling expenses	768	750	18
General and administrative expenses	559	638	(79)
Depreciation and amortization expense:			
Refining	1,214	1,106	108
Retail	105	90	15
Corporate	44	48	(4)
Asset impairment loss (d)	86		86
Gain on sale of Krotz Springs Refinery (b)	(305)		(305)
Goodwill impairment loss (e)	4,028		4,028
Total costs and expenses	112,375	83,357	29,018
Operating income	761	6,630	(5,869)
Other income, net	113	167	(54)
Interest and debt expense:			
Incurred	(451)	(466)	15
Capitalized	104	105	(1)
Income from continuing operations before income tax expense	527	6,436	(5,909)
Income tax expense	1,539	2,059	(520)
Income (loss) from continuing operations	(1,012)	4,377	(5,389)
Income (loss) from discontinued operations, net of income taxes (a) (c)	(119)	857	(976)
Net income (loss)	\$ (1,131)	\$ 5,234	\$ (6,365)
Earnings (loss) per common share assuming dilution:			

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Continuing operations	\$ (1.93)	\$ 7.40	\$ (9.33)
Discontinued operations	(0.23)	1.48	(1.71)
Total	\$ (2.16)	\$ 8.88	\$ (11.04)

See the footnote
references on pages
41 and 42.

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Operating Highlights
(millions of dollars, except per barrel and per gallon amounts)

	Year Ended December 31,		
	2008	2007	Change
Refining (a) (b) (c):			
Operating income (d) (e)	\$ 995	\$ 7,067	\$ (6,072)
Throughput margin per barrel (e) (f)	\$ 11.10	\$ 12.44	\$ (1.34)
Operating costs per barrel (d):			
Refining operating expenses	\$ 4.46	\$ 3.85	\$ 0.61
Depreciation and amortization	1.34	1.17	0.17
Total operating costs per barrel	\$ 5.80	\$ 5.02	\$ 0.78
Throughput volumes (thousand barrels per day):			
Feedstocks:			
Heavy sour crude	588	627	(39)
Medium/light sour crude	586	525	61
Acidic sweet crude	79	79	
Sweet crude	604	719	(115)
Residuals	197	211	(14)
Other feedstocks	140	170	(30)
Total feedstocks	2,194	2,331	(137)
Blendstocks and other	283	276	7
Total throughput volumes	2,477	2,607	(130)
Yields (thousand barrels per day):			
Gasolines and blendstocks	1,102	1,191	(89)
Distillates	871	859	12
Petrochemicals	70	80	(10)
Other products (g)	436	482	(46)
Total yields	2,479	2,612	(133)
Retail U.S.:			
Operating income	\$ 260	\$ 154	\$ 106
Company-operated fuel sites (average)	973	957	16
Fuel volumes (gallons per day per site)	5,000	4,979	21
Fuel margin per gallon	\$ 0.229	\$ 0.174	\$ 0.055
Merchandise sales	\$ 1,097	\$ 1,024	\$ 73
Merchandise margin (percentage of sales)	29.9%	29.7%	0.2%
Margin on miscellaneous sales	\$ 99	\$ 101	\$ (2)
Retail selling expenses	\$ 505	\$ 494	\$ 11

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Depreciation and amortization expense	\$ 70	\$ 59	\$ 11
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Retail Canada:

Operating income	\$ 109	\$ 95	\$ 14
Fuel volumes (thousand gallons per day)	3,193	3,234	(41)
Fuel margin per gallon	\$ 0.268	\$ 0.248	\$ 0.020
Merchandise sales	\$ 200	\$ 187	\$ 13
Merchandise margin (percentage of sales)	28.5%	27.8%	0.7%
Margin on miscellaneous sales	\$ 36	\$ 37	\$ (1)
Retail selling expenses	\$ 263	\$ 256	\$ 7
Depreciation and amortization expense	\$ 35	\$ 31	\$ 4

See the footnote
references on pages
41 and 42.

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Refining Operating Highlights by Region (h)
(millions of dollars, except per barrel amounts)

	Year Ended December 31,		
	2008	2007	Change
Gulf Coast (b):			
Operating income	\$ 3,267	\$ 4,505	\$ (1,238)
Throughput volumes (thousand barrels per day)	1,404	1,537	(133)
Throughput margin per barrel (f)	\$ 11.57	\$ 12.81	\$ (1.24)
Operating costs per barrel (d):			
Refining operating expenses	\$ 4.50	\$ 3.70	\$ 0.80
Depreciation and amortization	1.30	1.08	0.22
Total operating costs per barrel	\$ 5.80	\$ 4.78	\$ 1.02
Mid-Continent (c):			
Operating income	\$ 580	\$ 910	\$ (330)
Throughput volumes (thousand barrels per day)	423	402	21
Throughput margin per barrel (f)	\$ 9.27	\$ 11.66	\$ (2.39)
Operating costs per barrel (d):			
Refining operating expenses	\$ 4.24	\$ 4.13	\$ 0.11
Depreciation and amortization	1.29	1.33	(0.04)
Total operating costs per barrel	\$ 5.53	\$ 5.46	\$ 0.07
Northeast (a):			
Operating income	\$ 887	\$ 796	\$ 91
Throughput volumes (thousand barrels per day)	374	379	(5)
Throughput margin per barrel (f)	\$ 11.60	\$ 10.29	\$ 1.31
Operating costs per barrel (d):			
Refining operating expenses	\$ 3.91	\$ 3.45	\$ 0.46
Depreciation and amortization	1.21	1.08	0.13
Total operating costs per barrel	\$ 5.12	\$ 4.53	\$ 0.59
West Coast:			
Operating income	\$ 375	\$ 856	\$ (481)
Throughput volumes (thousand barrels per day)	276	289	(13)
Throughput margin per barrel (f)	\$ 10.84	\$ 14.41	\$ (3.57)
Operating costs per barrel (d):			
Refining operating expenses	\$ 5.36	\$ 4.82	\$ 0.54
Depreciation and amortization	1.77	1.49	0.28
Total operating costs per barrel	\$ 7.13	\$ 6.31	\$ 0.82

Operating income for regions above	\$ 5,109	\$ 7,067	\$ (1,958)
Asset impairment loss applicable to refining (d)	(86)		(86)
Goodwill impairment loss (e)	(4,028)		(4,028)
Total refining operating income	\$ 995	\$ 7,067	\$ (6,072)

See the footnote
references on pages
41 and 42.

Table of Contents***Average Market Reference Prices and Differentials (i)
(dollars per barrel)***

	Year Ended December 31,		
	2008	2007	Change
Feedstocks:			
WTI crude oil	\$ 99.56	\$ 72.27	\$ 27.29
WTI less sour crude oil at U.S. Gulf Coast (j)	5.20	4.95	0.25
WTI less Mars crude oil	6.13	5.61	0.52
WTI less Maya crude oil	15.71	12.41	3.30
Products:			
U.S. Gulf Coast:			
Conventional 87 gasoline less WTI	4.85	13.78	(8.93)
No. 2 fuel oil less WTI	18.35	11.94	6.41
Ultra-low-sulfur diesel less WTI	22.96	17.76	5.20
Propylene less WTI	(3.69)	11.05	(14.74)
U.S. Mid-Continent:			
Conventional 87 gasoline less WTI	4.46	18.02	(13.56)
Low-sulfur diesel less WTI	24.12	21.30	2.82
U.S. Northeast:			
Conventional 87 gasoline less WTI	3.22	13.98	(10.76)
No. 2 fuel oil less WTI	20.23	12.96	7.27
Lube oils less WTI	68.79	48.29	20.50
U.S. West Coast:			
CARBOB 87 gasoline less WTI	9.93	23.20	(13.27)
CARB diesel less WTI	22.59	22.07	0.52

The following notes
relate to references
on pages 38 through
41.

- (a) Due to the permanent shutdown of our Delaware City Refinery during the fourth quarter of 2009, the results of operations of the Delaware City Refinery are reported as discontinued operations for 2008 and 2007,

and all refining
operating
highlights, both
consolidated
and for the
Northeast
Region, exclude
the Delaware
City Refinery
for both years.

- (b) Effective July 1, 2008, we sold our Krotz Springs Refinery to Alon. The nature and significance of our post-closing participation in an offtake agreement with Alon represents a continuation of activities with the Krotz Springs Refinery for accounting purposes, and as such the results of operations related to the Krotz Springs Refinery have not been presented as discontinued operations, and all refining operating highlights, both consolidated and for the Gulf Coast region, include the Krotz Springs Refinery for the years ended December 31,

2008 and 2007.
The pre-tax gain
of \$305 million
on the sale of
the Krotz
Springs
Refinery is
included in the
Gulf Coast
operating
income for the
year ended
December 31,
2008 but is
excluded from
the per-barrel
operating
highlights.

- (c) Effective July 1,
2007, we sold
our Lima
Refinery to
Husky Refining
Company
(Husky).
Therefore, the
results of
operations of
the Lima
Refinery for the
six months of
2007 prior to its
sale, as well as
the gain on the
sale of the
refinery, are
reported as
discontinued
operations, and
all refining
operating
highlights, both
consolidated
and for the
Mid-Continent
region, exclude
the Lima
Refinery. The
sale resulted in a
pre-tax gain of

\$827 million
(\$426 million
after tax), which
is included in
Income from
discontinued
operations, net
of income taxes
for the year
ended
December 31,
2007.

- (d) Losses resulting from the permanent cancellation of certain capital projects in 2008 have been reclassified from operating expenses and presented separately for comparability with the 2009 presentation. The asset impairment loss amounts are included in the refining segment operating income but are excluded from the regional operating income amounts and the consolidated and regional operating costs per barrel, resulting in an adjustment to the operating costs per barrel previously reported in

2008.

- (e) Upon applying the goodwill impairment testing criteria under existing accounting rules during the fourth quarter of 2008, we determined that the goodwill in all four of our refining segment reporting units was impaired, which resulted in a pre-tax and after-tax goodwill impairment loss of \$4.0 billion related to continuing operations. This goodwill impairment loss is included in the refining segment operating income but is excluded from the consolidated and regional throughput margins per barrel and the regional operating income amounts presented for the year ended December 31, 2008 in order to make that information comparable between

periods.

- (f) Throughput
margin per
barrel represents
operating
revenues less
cost of sales
divided by
throughput
volumes.

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- (g) Other products primarily include gas oils, No. 6 fuel oil, petroleum coke, and asphalt.
- (h) The regions reflected herein contain the following refineries: the Gulf Coast refining region includes the Corpus Christi East, Corpus Christi West, Texas City, Houston, Three Rivers, Krotz Springs (for periods prior to its sale effective July 1, 2008), St. Charles, Aruba, and Port Arthur Refineries; the Mid-Continent refining region includes the McKee, Ardmore, and Memphis Refineries; the Northeast refining region includes the Quebec City and Paulsboro Refineries; and the West Coast refining region includes the Benicia and Wilmington Refineries.

- (i) The average market reference prices and differentials, with the exception of the propylene and lube oil differentials, are based on posted prices from Platts Oilgram. The propylene differential is based on posted propylene prices in Chemical Market Associates, Inc. and the lube oil differential is based on Exxon Mobil Corporation postings provided by Independent Commodity Information Services London Oil Reports. The average market reference prices and differentials are presented to provide users of the consolidated financial statements with economic indicators that significantly affect our operations and profitability.
- (j) The market reference differential for

sour crude oil is
based on 50%
Arab Medium
and 50% Arab
Light posted
prices.

General

Operating revenues increased 26% for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily as a result of higher average refined product prices. Offsetting the higher revenues were substantially higher average feedstock costs.

Operating income decreased \$5.9 billion, or 89%, and income from continuing operations decreased \$5.4 billion for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to a \$6.1 billion decrease in refining segment operating income. The decrease was primarily due to a goodwill impairment loss of \$4.0 billion related to continuing operations that was recorded in the fourth quarter of 2008 as discussed in Note 3 of Notes to Consolidated Financial Statements. The goodwill impairment loss is included in the refining segment operating income but is excluded from the consolidated and regional throughput margins per barrel and regional operating income amounts for the year ended December 31, 2008 for comparability purposes. The refining segment operating income and income from continuing operations for the year ended December 31, 2007 exclude (i) the operations of the Lima Refinery and the gain on its sale effective July 1, 2007 and (ii) the operations of the Delaware City Refinery due to its permanent shutdown in November 2009, which are both classified as discontinued operations as discussed in Note 2 of Notes to Consolidated Financial Statements.

Refining

Operating income for our refining segment decreased from \$7.1 billion for the year ended December 31, 2007 to \$995 million for the year ended December 31, 2008, resulting mainly from the \$4.0 billion goodwill impairment loss discussed above, an 11% decrease in throughput margin per barrel, a 10% increase in refining operating expenses (including depreciation and amortization expense), and a 5% decline in throughput volumes. These decreases were partially offset by a \$305 million gain on the sale of our Krotz Springs Refinery effective July 1, 2008, which is discussed in Note 2 of Notes to Consolidated Financial Statements.

Total refining throughput margins for 2008 compared to 2007 were impacted by the following factors:

Distillate margins in 2008 increased in all of our refining regions from the margins in 2007. The increase in distillate margins was primarily due to strong global demand.

Gasoline margins decreased significantly in all of our refining regions in 2008 compared to the margins in 2007. The decline in gasoline margins was primarily due to a decrease in gasoline demand and an increase in ethanol production.

Margins on various secondary refined products such as asphalt, fuel oils, propylene, and petroleum coke declined from 2007 to 2008 as prices for these products did not increase in proportion to the large increase in the costs of the feedstocks used to produce them.

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Sour crude oil feedstock differentials to WTI crude oil in 2008 remained favorable and were wider than the differentials in 2007. These favorable differentials were attributable to continued ample supplies of sour crude oils and heavy sour residual fuel oils on the world market. Differentials on sour crude oil feedstocks also continued to benefit from increased demand for sweet crude oil resulting from lower sulfur specifications for gasoline and diesel.

Throughput volumes decreased 130,000 barrels per day during 2008 compared to 2007 primarily due to a fire in the vacuum unit at our Aruba Refinery in January of 2008, downtime for maintenance at our Port Arthur Refinery, unplanned downtime at our Port Arthur, Texas City, St. Charles, and Houston Refineries related to Hurricanes Ike and Gustav, the sale of our Krotz Springs Refinery, and economic decisions to reduce throughputs in certain of our refineries as a result of unfavorable market fundamentals, partially offset by the 2007 shutdown of our McKee Refinery discussed in Note 23 of Notes to Consolidated Financial Statements.

Throughput margin in 2008 included approximately \$100 million related to the McKee Refinery business interruption insurance settlement discussed in Note 23 of Notes to Consolidated Financial Statements.

Refining operating expenses, excluding depreciation and amortization expense, increased \$0.61 per barrel, or 16%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. Operating expenses increased mainly due to an increase in energy costs. Refining depreciation and amortization expense increased 10% from 2007 to 2008 primarily due to the implementation of new capital projects and increased turnaround and catalyst amortization.

Retail

Retail operating income was \$369 million for the year ended December 31, 2008 compared to \$249 million for the year ended December 31, 2007. This 48% increase in operating income was primarily attributable to a \$0.055 per gallon increase in retail fuel margins and increased in-store sales in our U.S. retail operations. The significant improvement in fuel margins was largely the result of rapidly declining crude oil prices in the second half of 2008.

Corporate Expenses and Other

General and administrative expenses, including corporate depreciation and amortization expense, decreased \$83 million for the year ended December 31, 2008 compared to the year ended December 31, 2007. This decrease was primarily due to lower variable incentive compensation expenses combined with the nonrecurrence of 2007 expenses related to executive retirement costs and a \$13 million termination fee paid for the cancellation of our services agreement with NuStar Energy L.P.

Other income decreased for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to a \$91 million foreign currency exchange rate gain in 2007 resulting from the repayment of a loan by a foreign subsidiary, reduced interest income resulting from lower cash balances and interest rates, and a reduction in the fair value of certain nonqualified benefit plan assets. These decreases were partially offset by income related to the Alon earn-out agreement discussed in Notes 2, 17, and 18 of Notes to Consolidated Financial Statements, lower costs incurred under our accounts receivable sales program, an increase in earnings from our equity investment in Cameron Highway Oil Pipeline Company, and a \$14 million gain in 2008 on the redemption of our 9.5% senior notes as discussed in Note 12 of Notes to Consolidated Financial Statements.

Interest and debt expense decreased primarily due to reduced interest on tax liabilities, partially offset by higher average debt balances.

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Income tax expense decreased \$520 million from 2007 to 2008 mainly as a result of lower operating income, excluding the effect on operating income of the \$4.0 billion goodwill impairment loss discussed above that has an insignificant tax effect. Excluding this goodwill impairment loss, our effective tax rate for the year ended December 31, 2008 was comparable to the effective tax rate for the year ended December 31, 2007.

Loss from discontinued operations, net of income taxes for the year ended December 31, 2008 represents a \$119 million net loss on the operations of the Delaware City Refinery, which was reclassified to discontinued operations as a result of the permanent shutdown of the refinery effective November 20, 2009. Income from discontinued operations, net of income taxes for the year ended December 31, 2007 represents a \$426 million after-tax gain on the sale of the Lima Refinery effective July 1, 2007, \$243 million of net income from the Lima Refinery operations prior to its sale, and \$188 million of net income from the operations of the Delaware City Refinery.

OUTLOOK

High crude oil prices in 2008 and a severe economic recession in 2008 and 2009 caused a large reduction in demand for refined products over the past two years. This demand reduction plus the addition of new refining capacity around the world have resulted in a significant amount of excess global refining capacity, which led to an increase in global refined product inventories and lower refined product margins. In addition, the decrease in demand for refined products contributed to lower production of sour crude oil versus sweet crude oil, which narrowed the differentials between sour and sweet crude oil prices.

As 2010 progresses, we expect the United States and worldwide economies to begin to recover, and we expect refined product demand to begin to grow accordingly. The increase in anticipated refined product demand is expected to result in an increase in crude oil production, which we believe will result in the production of more sour crude oils. These expected increases in refined product demand and sour crude oil production should result in improved refined product margins and sour crude oil differentials. However, improvements in refined product margins and sour crude oil differentials are expected to be significantly constrained during 2010 by the start-up of new worldwide refining capacity that will mitigate the reduction in spare capacity that would otherwise result from the improved demand.

Until the economy recovers and demand improves, we expect that the current low refined product margins and sour crude oil differentials will result in production constraints or refinery shutdowns in the refining industry. In July, we temporarily shut down our Aruba Refinery due to poor economics resulting from the current unfavorable industry fundamentals. The Aruba Refinery continues to be shut down temporarily, and it is expected to remain shut down until industry conditions improve. In addition, in the fourth quarter of 2009, we permanently shut down our Delaware City Refinery. We are currently monitoring, and will continue to monitor, all of our other refineries to assess whether complete or partial shutdown of certain of those facilities is appropriate until conditions improve. We expect that refinery production cutbacks and shutdowns of less profitable refineries will occur throughout the refining industry during 2010 until industry conditions improve.

LIQUIDITY AND CAPITAL RESOURCES***Cash Flows for the Year Ended December 31, 2009***

Net cash provided by operating activities for the year ended December 31, 2009 was \$1.8 billion compared to \$3.1 billion for the year ended December 31, 2008. The decrease in cash generated from operating activities was due primarily to the \$4.4 billion decrease in operating income discussed above under *Results of Operations*, after excluding the effect of the goodwill impairment loss, asset

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impairment losses, and gain on the sale of the Krotz Springs Refinery, all of which had no effect on cash flows from operating activities. This decrease was partially offset by a \$1.6 billion favorable change in the amount of income tax payments and refunds in 2008 and 2009 and a net \$1.4 billion favorable effect from changes in receivables, inventories, and accounts payable in the two years. Changes in cash provided by or used for working capital during the years ended December 31, 2009 and 2008 are shown in Note 16 of Notes to Consolidated Financial Statements. Both receivables and accounts payable increased in 2009 due to a significant increase in gasoline, distillate, and crude oil prices at December 31, 2009 compared to such prices at the end of 2008.

The net cash generated from operating activities during the year ended December 31, 2009, combined with \$998 million of proceeds from the issuance of \$1 billion of notes in March 2009 as discussed in Note 12 of Notes to Consolidated Financial Statements, \$799 million of net proceeds from the issuance of 46 million shares of common stock in June 2009 as discussed in Note 14 of Notes to Consolidated Financial Statements, \$100 million of additional proceeds from the sale of receivables, and \$115 million of available cash on hand were used mainly to:

fund \$2.7 billion of capital expenditures and deferred turnaround and catalyst costs;

fund the VeraSun Acquisition for \$556 million;

make long-term note repayments of \$285 million; and

pay common stock dividends of \$324 million.

Cash Flows for the Year Ended December 31, 2008

Net cash provided by operating activities for the year ended December 31, 2008 was \$3.1 billion compared to \$5.3 billion for the year ended December 31, 2007. The decrease in cash generated from operating activities was due primarily to the decrease in operating income discussed above under *Results of Operations*, after excluding the effect of the goodwill impairment loss included in the 2008 operating income that had no effect on cash. Changes in cash provided by or used for working capital during the years ended December 31, 2008 and 2007 are shown in Note 16 of Notes to Consolidated Financial Statements. Both receivables and accounts payable decreased in 2008 due to a significant decrease in crude oil and refined product prices at December 31, 2008 compared to such prices at the end of 2007. Receivables for 2008 also decreased due to the termination in the first quarter of 2008 of certain agreements related to the sale of the Lima Refinery to Husky and the timing of receivable collections at year-end 2007. The change in working capital for 2007 includes a \$900 million decrease in the eligible trade receivables sold under our accounts receivable sales facility.

The net cash generated from operating activities during the year ended December 31, 2008, combined with \$1.5 billion of available cash on hand and \$463 million of proceeds from the sale of our Krotz Springs Refinery, were used mainly to:

fund \$3.3 billion of capital expenditures and deferred turnaround and catalyst costs;

make an early redemption of our 9.5% senior notes for \$367 million and scheduled debt repayments of \$7 million;

purchase 23.0 million shares of our common stock at a cost of \$955 million;

fund a \$25 million contingent earn-out payment in connection with the acquisition of the St. Charles Refinery, an \$87 million acquisition of retail fuel sites, and a \$57 million acquisition primarily of an interest in a refined product pipeline; and

pay common stock dividends of \$299 million.

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Cash flows related to the discontinued operations of the Delaware City Refinery and the Lima Refinery have been combined with the cash flows from continuing operations within each category in the consolidated statements of cash flows for all years presented and are summarized as follows (in millions):

	Year Ended December 31,		
	2009	2008	2007
Cash provided by (used in) operating activities:			
Delaware City Refinery	\$ (126)	\$ 81	\$ 348
Lima Refinery			260
Cash used in investing activities:			
Delaware City Refinery	(153)	(268)	(130)
Lima Refinery			(14)

Capital Investments

During the year ended December 31, 2009, we expended \$2.3 billion for capital expenditures and \$415 million for deferred turnaround and catalyst costs. Capital expenditures for the year ended December 31, 2009 included \$390 million of costs related to environmental projects.

For 2010, we expect to incur approximately \$2.0 billion for capital investments, including approximately \$1.5 billion for capital expenditures (approximately \$795 million of which is for environmental projects) and approximately \$510 million for deferred turnaround and catalyst costs. The capital expenditure estimate excludes anticipated expenditures related to strategic acquisitions. We continuously evaluate our capital budget and make changes as conditions warrant.

In January 2010, we acquired two ethanol plants from ASA Ethanol Holdings, LLC for a total purchase price of approximately \$200 million. The plants are located in Linden, Indiana and Bloomingburg, Ohio. In February 2010, we acquired an additional ethanol plant located near Jefferson, Wisconsin from Renew Energy LLC for \$72 million plus certain receivables and inventories.

Contractual Obligations

Our contractual obligations as of December 31, 2009 are summarized below (in millions).

	Payments Due by Period						
	2010	2011	2012	2013	2014	Thereafter	Total
Debt and capital lease obligations	\$ 240	\$ 424	\$ 765	\$ 495	\$ 400	\$ 5,143	\$ 7,467
Operating lease obligations	348	222	121	81	61	287	1,120
Purchase obligations	23,356	2,541	1,899	732	200	1,090	29,818
Other long-term liabilities		162	153	152	131	1,271	1,869
Total	\$ 23,944	\$ 3,349	\$ 2,938	\$ 1,460	\$ 792	\$ 7,791	\$ 40,274

Debt and Capital Lease Obligations

Payments for debt and capital lease obligations in the table above reflect stated values and minimum rental payments, respectively.

In March 2009, we issued \$750 million of 9.375% notes due March 15, 2019 and \$250 million of 10.5% notes due March 15, 2039. Proceeds from the issuance of these notes totaled \$998 million, before deducting underwriting

discounts and other issuance costs of \$8 million.

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On April 1, 2009, we made scheduled debt repayments of \$200 million related to our 3.5% notes and \$9 million related to our 5.125% Series 1997D industrial revenue bonds.

On October 15, 2009, we redeemed \$76 million of our \$100 million of 6.75% senior notes with a maturity date of October 15, 2037 as further discussed in Note 12 of Notes to Consolidated Financial Statements.

We have an accounts receivable sales facility with a group of third-party entities and financial institutions to sell on a revolving basis up to \$1 billion of eligible trade receivables. We amended our agreement in June 2009 to extend the maturity date to June 2010. As of December 31, 2008, the amount of eligible receivables sold to the third-party entities and financial institutions was \$100 million. During the year ended December 31, 2009, we sold additional eligible receivables under this program of \$950 million and repaid \$850 million. As of December 31, 2009, the amount of eligible receivables sold to the third-party entities and financial institutions was \$200 million. Subsequent to December 31, 2009, we have reduced the net eligible receivables sold under this program by \$100 million, resulting in a current balance of \$100 million of eligible receivables sold to the third-party entities and financial institutions. Proceeds from the sale of receivables under this facility are reflected as debt in our consolidated balance sheets.

In February 2010, we issued \$400 million of 4.50% notes due in February 2015 and \$850 million of 6.125% notes due in February 2020. Proceeds from the issuance of these notes totaled approximately \$1.24 billion, before deducting underwriting discounts of \$8 million, and will be used for general corporate purposes, including the refinancing of debt.

Also in February 2010, we called for redemption our 7.50% senior notes with a maturity date of June 15, 2015 for \$294 million, or 102.5% of stated value. The redemption date will be March 15, 2010. These notes will have a carrying amount of \$296 million as of the redemption date, resulting in a small gain on the redemption.

Our agreements do not have rating agency triggers that would automatically require us to post additional collateral. However, in the event of certain downgrades of our senior unsecured debt to below investment grade ratings by Moody's Investors Service and Standard & Poor's Ratings Services, the cost of borrowings under some of our bank credit facilities and other arrangements would increase. All of our ratings on our senior unsecured debt are at or above investment grade level as follows:

Rating Agency	Rating
Standard & Poor's Ratings Services	BBB (negative outlook)
Moody's Investors Service	Baa2 (negative outlook)
Fitch Ratings	BBB (negative outlook)

We cannot provide assurance that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell, or hold our securities and may be revised or withdrawn at any time by the rating agency. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to obtain short- and long-term financing and the cost of such financings.

Operating Lease Obligations

Our operating lease obligations include leases for land, office facilities and equipment, retail facilities and equipment, dock facilities, transportation equipment, and various facilities and equipment used in the storage, transportation, production, and sale of refinery feedstocks and refined products. Operating lease obligations include all operating leases that have initial or remaining noncancelable terms in excess of one year, and are not reduced by minimum rentals to be received by us under subleases. The operating lease

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obligations reflected in the table above have been reduced by related obligations that are included in other long-term liabilities.

Purchase Obligations

A purchase obligation is an enforceable and legally binding agreement to purchase goods or services that specifies significant terms, including (i) fixed or minimum quantities to be purchased, (ii) fixed, minimum, or variable price provisions, and (iii) the approximate timing of the transaction. We have various purchase obligations including industrial gas and chemical supply arrangements (such as hydrogen supply arrangements), crude oil and other feedstock supply arrangements, and various throughput and terminalling agreements. We enter into these contracts to ensure an adequate supply of utilities and feedstock and adequate storage capacity to operate our refineries. Substantially all of our purchase obligations are based on market prices or adjustments based on market indices. Certain of these purchase obligations include fixed or minimum volume requirements, while others are based on our usage requirements. The purchase obligation amounts included in the table above include both short-term and long-term obligations and are based on (a) fixed or minimum quantities to be purchased and (b) fixed or estimated prices to be paid based on current market conditions. As of December 31, 2009, our short-term and long-term purchase obligations increased by \$9.3 billion from the amount reported as of December 31, 2008. The increase is primarily attributable to higher crude oil and other feedstock prices at December 31, 2009 compared to December 31, 2008.

Other Long-term Liabilities

Our other long-term liabilities are described in Note 13 of Notes to Consolidated Financial Statements. For purposes of reflecting amounts for other long-term liabilities in the table above, we have made our best estimate of expected payments for each type of liability based on information available as of December 31, 2009.

Other Commercial Commitments

As of December 31, 2009, our committed lines of credit were as follows:

	Borrowing Capacity	Expiration
Letter of credit facility	\$300 million	June 2010
Revolving credit facility	\$2.4 billion	November 2012
Canadian revolving credit facility	Cdn. \$115 million	December 2012

In October 2009, Aurora Bank FSB (Aurora, formerly Lehman Brothers Bank, FSB), one of the participating banks under our \$2.5 billion revolving credit facility, failed to fund its loan commitment related to our borrowing under this facility. Aurora's aggregate commitment under the revolving credit facility was \$84 million. As a result, our borrowing capacity under that revolving credit facility was effectively reduced to \$2.4 billion.

In June 2008, we entered into a one-year committed revolving letter of credit facility under which we may obtain letters of credit of up to \$300 million to support certain of our crude oil purchases. In June 2009, we amended this agreement to extend the maturity date to June 2010. We are being charged letter of credit issuance fees in connection with this letter of credit facility.

As of December 31, 2009, we had no amounts borrowed under our revolving credit facilities. However, we had \$259 million of letters of credit outstanding under uncommitted short-term bank credit facilities, \$299 million of letters of credit outstanding under our two U.S. committed revolving credit facilities, and Cdn. \$22 million of letters of credit outstanding under our Canadian committed revolving credit facility. These letters of credit expire during 2010 and 2011.

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Common Stock Offering

On June 3, 2009, we sold in a public offering 46 million shares of our common stock, which included 6 million shares related to an overallotment option exercised by the underwriters, at a price of \$18.00 per share and received proceeds, net of underwriting discounts and commissions and other issuance costs, of \$799 million.

Stock Purchase Programs

As of December 31, 2009, we have approvals under common stock purchase programs previously approved by our board of directors to purchase approximately \$3.5 billion of our common stock.

Pension Plan Funded Status

During 2009, we contributed \$72 million to our qualified pension plans. Based on a 5.80% discount rate and fair values of plan assets as of December 31, 2009, the fair value of the assets in our qualified pension plans was equal to approximately 97% of the projected benefit obligation under those plans as of the end of 2009.

We have less than \$1 million of minimum required contributions to our Qualified Plans during 2010 under the Employee Retirement Income Security Act; however, we plan to contribute approximately \$50 million to our Qualified Plans during 2010, of which \$30 million was contributed during February 2010.

Environmental Matters

As discussed in Note 24 of Notes to Consolidated Financial Statements, we are subject to extensive federal, state, and local environmental laws and regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention measures, greenhouse gas emissions, and characteristics and composition of gasolines and distillates. Because environmental laws and regulations are becoming more complex and stringent and new environmental laws and regulations are continuously being enacted or proposed, the level of future expenditures required for environmental matters could increase in the future. In addition, any major upgrades in any of our refineries could require material additional expenditures to comply with environmental laws and regulations.

Currently, some of the proposed federal cap-and-trade legislation would require businesses that emit greenhouse gases to buy emission credits from the government, other businesses, or through an auction process. In addition, refiners would be obligated to purchase emission credits associated with the transportation fuels (gasoline, diesel, and jet fuel) sold and consumed in the United States. As a result of such a program, we would be required to purchase emission credits for greenhouse gas emissions resulting from our own operations as well as from the fuels we sell. Although it is not possible at this time to predict the final form of a cap-and-trade bill (or whether such a bill will be passed by Congress), any new federal restrictions on greenhouse gas emissions including a cap-and-trade program could result in material increased compliance costs, additional operating restrictions for our business, and an increase in the cost of the products we produce, which could have a material adverse effect on our financial position, results of operations, and liquidity.

Tax Matters

As discussed in Note 23 of Notes to Consolidated Financial Statements, we are subject to extensive tax liabilities. New tax laws and regulations and changes in existing tax laws and regulations are continuously being enacted or proposed that could result in increased expenditures for tax liabilities in the future. Many of these liabilities are subject to periodic audits by the respective taxing authority. Subsequent changes to our tax liabilities as a result of these audits may subject us to interest and penalties.

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Effective January 1, 2007, the Government of Aruba (GOA) enacted a turnover tax on revenues from the sale of goods produced and services rendered in Aruba. The turnover tax, which initially was 3% for on-island sales and services (but has subsequently been reduced to 1.5%) and 1% on export sales, is being assessed by the GOA on sales by our Aruba Refinery. We disputed the GOA's assessment of the turnover tax in arbitration proceedings with the Netherlands Arbitration Institute (NAI) pursuant to which we sought to enforce our rights under a tax holiday agreement related to the refinery and other agreements. The arbitration hearing was held on February 3-4, 2009. We also filed protests of these assessments through proceedings in Aruba.

In April 2008, we entered into an escrow agreement with the GOA and Caribbean Mercantile Bank NV (CMB), pursuant to which we agreed to deposit an amount equal to the disputed turnover tax on exports into an escrow account with CMB, pending resolution of the tax protest proceedings in Aruba. Under this escrow agreement, we are required to continue to deposit an amount equal to the disputed tax on a monthly basis until the tax dispute is resolved through the Aruba proceedings. On April 20, 2009, we were notified that the Aruban tax court overruled our protests with respect to the turnover tax assessed in January and February 2007, totaling \$8 million. Under the escrow agreement, we expensed and paid \$8 million, plus \$1 million of interest, to the GOA in the second quarter of 2009. Amounts deposited under the escrow agreement, which totaled \$115 million and \$102 million as of December 31, 2009 and December 31, 2008, respectively, are reflected as restricted cash in our consolidated balance sheets. In addition to the turnover tax described above, the GOA has asserted other tax amounts including approximately \$35 million related to various dividends. We also challenged approximately \$35 million in foreign exchange payments made to the Central Bank of Aruba as payments exempted under our tax holiday, as well as other reasons. Both the dividend tax and the foreign exchange payment matters were also addressed in the arbitration proceedings discussed above.

On November 3, 2009, we received an interim First Partial Award from the NAI arbitral panel. The panel's ruling validated our tax holiday agreement, but the panel also ruled in favor of the GOA on our dispute of the \$35 million in foreign exchange payments previously made to the Central Bank of Aruba. The panel's decision did not, however, fully resolve the remaining two items in the arbitration, the applicable dividend tax rate and the turnover tax. With respect to the dividend tax, the panel ruled that the dividend tax was not a profit tax covered by the tax holiday agreement, but the panel did not address the fact that Aruban companies with tax holidays are subject to a 0% dividend withholding rate rather than the 5% rate alleged by the GOA. With respect to the turnover tax, the panel did reject our contractual claims but it decided that our non-contractual claims against the turnover tax merited further discussion with and review by the panel before a final decision could be rendered. Prior to this interim decision, no expense or liability had been recognized in our consolidated financial statements with respect to unfunded amounts. In light of the uncertain timing of any final resolution of these claims as a result of the First Partial Award from the panel, we recorded a loss contingency accrual of approximately \$140 million, including interest, with respect to both the dividend and turnover taxes.

Following the November ruling, we entered into settlement discussions with the GOA. On February 24, 2010, we signed a settlement agreement that details the parties' proposed terms for settlement of these disputes and provides a framework for taxation of our operations in Aruba on a go-forward basis as our tax holiday was set to expire on December 31, 2010. Under the proposed settlement, we will make a payment to the GOA of \$118 million in consideration of a full release of all tax claims prior to the effective date of the settlement, including the turnover tax disputed in the Netherlands Arbitration. The GOA will eliminate the turnover tax on exports as of the effective date of the settlement. In addition, we will agree to exit the Tax Holiday regime following the effective date of the settlement agreement and will enter into a new tax regime under which we will be subject to a net profit tax of less than 10% on an overall basis. Beginning on the second anniversary of the settlement agreement's effective date, we will also begin to make an annual prepayment of taxes of \$10 million, with the ability to carry forward any

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excess tax prepayments to future tax years. The proposed settlement will not be effective until the settlement agreement is approved by the Aruban Parliament and certain laws and regulations are modified and/or established to provide for the terms of the settlement. The parties anticipate that this will occur on or before June 1, 2010. If the settlement is not effective as of June 1, 2010, we both have the right to terminate the settlement agreement and return to arbitration and the on-island proceedings to continue litigation.

Other

Our refining and marketing operations have a concentration of customers in the refining industry and customers who are refined product wholesalers and retailers. These concentrations of customers may impact our overall exposure to credit risk, either positively or negatively, in that these customers may be similarly affected by changes in economic or other conditions. However, we believe that our portfolio of accounts receivable is sufficiently diversified to the extent necessary to minimize potential credit risk. Historically, we have not had any significant problems collecting our accounts receivable.

We believe that we have sufficient funds from operations and, to the extent necessary, from borrowings under our credit facilities, to fund our ongoing operating requirements. We expect that, to the extent necessary, we can raise additional funds from time to time through equity or debt financings in the public and private capital markets or the arrangement of additional credit facilities. However, there can be no assurances regarding the availability of any future financings or additional credit facilities or whether such financings or additional credit facilities can be made available on terms that are acceptable to us.

NEW ACCOUNTING PRONOUNCEMENTS

As discussed in Note 1 of Notes to Consolidated Financial Statements, certain new financial accounting pronouncements have been issued that either have already been reflected in the accompanying consolidated financial statements, or will become effective for our financial statements at various dates in the future. The adoption of these pronouncements has not had, and is not expected to have, a material effect on our consolidated financial statements.

CRITICAL ACCOUNTING POLICIES INVOLVING CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The following summary provides further information about our critical accounting policies that involve critical accounting estimates, and should be read in conjunction with Note 1 of Notes to Consolidated Financial Statements, which summarizes our significant accounting policies. The following accounting policies involve estimates that are considered critical due to the level of sensitivity and judgment involved, as well as the impact on our consolidated financial position and results of operations. We believe that all of our estimates are reasonable.

Impairment of Assets

Long-lived assets (excluding goodwill, intangible assets with indefinite lives, equity method investments, and deferred tax assets) are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss should be recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. Goodwill and intangible assets that have indefinite useful lives must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment loss should be recognized if the carrying amount of the asset exceeds its fair value. We evaluate our equity method investments for impairment when there is evidence that we may not be able to recover the

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carrying amount of our investments or the investee is unable to sustain an earnings capacity that justifies the carrying amount. A loss in the value of an investment that is other than a temporary decline is recognized currently in earnings, and is based on the difference between the estimated current fair value of the investment and its carrying amount.

In order to test for recoverability, management must make estimates of projected cash flows related to the asset being evaluated, which include, but are not limited to, assumptions about the use or disposition of the asset, its estimated remaining life, and future expenditures necessary to maintain its existing service potential. In order to determine fair value, management must make certain estimates and assumptions including, among other things, an assessment of market conditions, projected cash flows, investment rates, interest/equity rates, and growth rates, that could significantly impact the fair value of the asset being tested for impairment. See Note 3 of Notes to Consolidated Financial Statements for a further discussion of our asset impairment evaluations and certain losses resulting from those evaluations.

Due to the effect of the current unfavorable economic conditions on the refining industry, and our expectations of a continuation of such conditions for the near term, we will continue to monitor both our operating assets and our capital projects for additional potential asset impairments until conditions improve. Due to the significant subjectivity of the assumptions used to test for recoverability and to determine fair value, changes in market conditions, as well as changes in assumptions used to test for recoverability and to determine fair values and changes in potential asset sales proceeds, could result in significant impairment charges in the future, thus affecting our earnings. Our impairment evaluations are based on assumptions that management deems to be reasonable. Providing sensitivity analysis if other assumptions were used in performing the impairment evaluations is not practicable due to the significant number of assumptions involved in the estimates.

Environmental Liabilities

Our operations are subject to extensive environmental regulation by federal, state, and local authorities relating primarily to discharge of materials into the environment, waste management, and pollution prevention measures. Future legislative action and regulatory initiatives, such as potential cap-and-trade legislation as discussed in *Liquidity and Capital Resources* *Environmental Matters*, could result in changes to required operating permits, additional remedial actions, or increased capital expenditures and operating costs that cannot be assessed with certainty at this time.

Accruals for environmental liabilities are based on best estimates of probable undiscounted future costs assuming currently available remediation technology and applying current regulations, as well as our own internal environmental policies. However, environmental liabilities are difficult to assess and estimate due to uncertainties related to the magnitude of possible remediation, the timing of such remediation, and the determination of our obligation in proportion to other parties. Such estimates are subject to change due to many factors, including the identification of new sites requiring remediation, changes in environmental laws and regulations and their interpretation, additional information related to the extent and nature of remediation efforts, and potential improvements in remediation technologies. An estimate of the sensitivity to earnings for changes in those factors is not practicable due to the number of contingencies that must be assessed, the number of underlying assumptions, and the wide range of possible outcomes.

The balance of and changes in our accruals for environmental matters as of and for the years ended December 31, 2009, 2008, and 2007 is included in Note 24 of Notes to Consolidated Financial Statements.

Table of Contents***Pension and Other Postretirement Benefit Obligations***

We have significant pension and other postretirement benefit liabilities and costs that are developed from actuarial valuations. Inherent in these valuations are key assumptions including discount rates, expected return on plan assets, future compensation increases, and health care cost trend rates. Changes in these assumptions are primarily influenced by factors outside our control. For example, the discount rate assumption represents a yield curve comprised of various long-term bonds that each receive one of the two highest ratings given by the recognized rating agencies as of the end of each year, while the expected return on plan assets is based on a compounded return calculated assuming an asset allocation that is representative of the asset mix in our qualified pension plans. These assumptions can have a significant effect on the amounts reported in our consolidated financial statements. For example, a 0.25% decrease in the assumptions related to the discount rate or expected return on plan assets or a 0.25% increase in the assumptions related to the health care cost trend rate or rate of compensation increase would have the following effects on the projected benefit obligation as of December 31, 2009 and net periodic benefit cost for the year ending December 31, 2010 (in millions):

	Pension Benefits	Other Postretirement Benefits
Increase in projected benefit obligation resulting from:		
Discount rate decrease	\$ 61	\$ 14
Compensation rate increase	27	
Health care cost trend rate increase		10
Increase in expense resulting from:		
Discount rate decrease	8	1
Expected return on plan assets decrease	4	
Compensation rate increase	6	
Health care cost trend rate increase		1

See Note 21 of Notes to Consolidated Financial Statements for a further discussion of our pension and other postretirement benefit obligations.

Tax Liabilities

Our operations are subject to extensive tax liabilities, including federal, state, and foreign income taxes. We are also subject to various transactional taxes such as excise, sales/use, payroll, franchise, withholding, and ad valorem taxes. New tax laws and regulations and changes in existing tax laws and regulations are continuously being enacted or proposed, and the implementation of future legislative and regulatory tax initiatives could result in increased tax liabilities that cannot be predicted at this time. In addition, we have received claims from various jurisdictions related to certain tax matters. Tax liabilities include potential assessments of penalty and interest amounts.

We record tax liabilities based on our assessment of existing tax laws and regulations. A contingent loss related to a transactional tax claim is recorded if the loss is both probable and estimable. The recording of our tax liabilities requires significant judgments and estimates. Actual tax liabilities can vary from our estimates for a variety of reasons, including different interpretations of tax laws and regulations and different assessments of the amount of tax due. In addition, in determining our income tax provision, we must assess the likelihood that our deferred tax assets, primarily consisting of net operating loss and tax credit carryforwards, will be recovered through future taxable income. Significant judgment is required in estimating the amount of valuation allowance, if any, that should be recorded against those deferred income tax assets. If our actual results of operations differ from such estimates or our estimates of future taxable income change, the valuation allowance may need to be revised. However, an estimate of the

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sensitivity to earnings that would result from changes in the assumptions and estimates used in determining our tax liabilities is not practicable due to the number of assumptions and tax laws involved, the various potential interpretations of the tax laws, and the wide range of possible outcomes. See Note 23 of Notes to Consolidated Financial Statements for a further discussion of our tax liabilities.

Legal Liabilities

A variety of claims have been made against us in various lawsuits. We record a liability related to a loss contingency attributable to such legal matters if we determine the loss to be both probable and estimable. The recording of such liabilities requires judgments and estimates, the results of which can vary significantly from actual litigation results due to differing interpretations of relevant law and differing opinions regarding the degree of potential liability and the assessment of reasonable damages. However, an estimate of the sensitivity to earnings if other assumptions were used in recording our legal liabilities is not practicable due to the number of contingencies that must be assessed and the wide range of reasonably possible outcomes, both in terms of the probability of loss and the estimates of such loss. See Note 25 of Notes to Consolidated Financial Statements for a further discussion of our litigation matters.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
COMMODITY PRICE RISK

We are exposed to market risks related to the volatility of crude oil, refined product, and grain prices, as well as volatility in the price of natural gas used in our refining operations. In order to reduce the risks of these price fluctuations, we use commodity derivative instruments to hedge a portion of our refinery feedstock and refined product inventories and a portion of our unrecognized firm commitments to purchase these inventories (fair value hedges). From time to time, we use commodity derivative instruments to hedge the price risk of forecasted transactions such as forecasted feedstock and product purchases, refined product sales, and natural gas purchases (cash flow hedges). We also use commodity derivative instruments that do not receive hedge accounting treatment to manage our exposure to price volatility on a portion of our refinery feedstock and refined product inventories and on certain forecasted feedstock and product purchases, refined product sales, and natural gas purchases. These derivative instruments are considered economic hedges for which changes in their fair value are recorded currently in income. Finally, we enter into commodity derivative instruments based on our fundamental and technical analysis of market conditions that we mark to market for accounting purposes. See *Derivatives and Hedging* in Note 1 of Notes to Consolidated Financial Statements for a discussion of our accounting for the various types of derivative transactions. The types of instruments used in our hedging and trading activities described above include swaps, futures, and options. Our positions in commodity derivative instruments are monitored and managed on a daily basis by a risk control group to ensure compliance with our stated risk management policy that has been approved by our board of directors.

The following tables provide information about our commodity derivative instruments as of December 31, 2009 and 2008 (dollars in millions, except for the weighted-average pay and receive prices as described below), including:

Fair Value Hedges Fair value hedges are used to hedge certain refining inventories (which had a carrying amount of \$4.4 billion as of both December 31, 2009 and 2008, and a fair value of \$8.9 billion and \$5.1 billion as of December 31, 2009 and 2008, respectively) and our unrecognized firm commitments (*i.e.*, binding agreements to purchase inventories in the future). The gain or loss on a derivative instrument designated and qualifying as a fair value hedge and the offsetting loss or gain on the hedged item are recognized currently in income in the same period.

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Cash Flow Hedges Cash flow hedges are used to hedge certain forecasted feedstock and product purchases, refined product sales, and natural gas purchases. The effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedge is initially reported as a component of other comprehensive income and is then recorded in income in the period or periods during which the hedged forecasted transaction affects income. The ineffective portion of the gain or loss on the cash flow derivative instrument, if any, is recognized in income as incurred.

Economic Hedges Economic hedges are hedges not designated as fair value or cash flow hedges that are used to: manage price volatility in refinery feedstock, refined product, and grain inventories; and

manage price volatility in forecasted refinery feedstock, product, and grain purchases, refined product sales, and natural gas purchases.

In addition, through August 2009, we used economic hedges to manage price volatility in the referenced product margins associated with the three-year earn-out agreement with Alon that was entered into in connection with the sale of our Krotz Springs Refinery, but which was settled in the third quarter of 2009 as discussed in Note 2 of Notes to Consolidated Financial Statements. The derivative instruments related to economic hedges are recorded at fair value and changes in the fair value of the derivative instruments are recognized currently in income.

Trading Activities These represent commodity derivative instruments held or issued for trading purposes. The derivative instruments entered into by us for trading activities are recorded at fair value and changes in the fair value of the derivative instruments are recognized currently in income.

The following tables include only open positions at the end of the reporting period. Contract volumes are presented in thousands of barrels (for crude oil and refined products), in billions of British thermal units (for natural gas), or in thousands of bushels (for grain). The weighted-average pay and receive prices represent amounts per barrel (for crude oil and refined products), amounts per million British thermal units (for natural gas), or amounts per bushel (for grain). Volumes shown for swaps represent notional volumes, which are used to calculate amounts due under the agreements. For futures, the contract value represents the contract price of either the long or short position multiplied by the derivative contract volume, while the market value amount represents the period-end market price of the commodity being hedged multiplied by the derivative contract volume. The pre-tax fair value for futures, swaps, and options represents the fair value of the derivative contract. The pre-tax fair value for swaps represents the excess of the receive price over the pay price multiplied by the notional contract volumes. For futures and options, the pre-tax fair value represents (i) the excess of the market value amount over the contract amount for long positions, or (ii) the excess of the contract amount over the market value amount for short positions. Additionally, for futures and options, the weighted-average pay price represents the contract price for long positions and the weighted-average receive price represents the contract price for short positions. The weighted-average pay price and weighted-average receive price for options represents their strike price.

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			December 31, 2009			
	Contract Volumes	Wtd Avg Pay Price	Wtd Avg Receive Price	Contract Value	Market Value	Pre-tax Fair Value
<i>Fair Value Hedges:</i>						
Futures short:						
2010 (crude oil and refined products)	4,880	N/A	\$ 75.65	\$ 369	\$ 405	\$ (36)
<i>Cash Flow Hedges:</i>						
Swaps long:						
2010 (crude oil and refined products)	42,600	\$ 72.58	88.12	N/A	662	662
Swaps short:						
2010 (crude oil and refined products)	42,600	88.12	76.81	N/A	(482)	(482)
<i>Economic Hedges:</i>						
Swaps long:						
2010 (crude oil and refined products)	139,901	34.81	33.76	N/A	(147)	(147)
2011 (crude oil and refined products)	27,250	20.77	15.00	N/A	(157)	(157)
Swaps short:						
2010 (crude oil and refined products)	88,244	56.41	58.47	N/A	182	182
2011 (crude oil and refined products)	23,875	17.10	24.05	N/A	166	166
Futures long:						
2010 (crude oil and refined products)	204,810	78.06	N/A	15,987	17,491	1,504
2010 (grain)	7,155	4.07	N/A	29	30	1
2011 (grain)	150	4.21	N/A	1	1	
Futures short:						
2010 (crude oil and refined products)	199,566	N/A	77.37	15,440	16,905	(1,465)
2010 (grain)	23,250	N/A	4.13	96	97	(1)
2011 (grain)	160	N/A	4.28	1	1	
Options long:						
2010 (crude oil and refined products)	522	40.12	N/A	2	1	(1)
Options short:						
2010 (crude oil and refined products)	500	N/A	42.50	2		2
<i>Trading Activities:</i>						
Swaps long:						
2010 (crude oil and refined products)	27,201	19.94	24.54	N/A	125	125
2011 (crude oil and refined products)	3,000	53.70	62.93	N/A	28	28
Swaps short:						
2010 (crude oil and refined products)	31,201	21.60	19.33	N/A	(71)	(71)
2011 (crude oil and refined products)	3,900	48.41	43.29	N/A	(20)	(20)
Futures long:						
2010 (crude oil and refined products)	40,188	83.09	N/A	3,339	3,458	119
2011 (crude oil and refined products)	10	95.91	N/A	1	1	
2010 (natural gas)	100	6.10	N/A	1	1	
Futures short:						

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2010 (crude oil and refined products)	40,164	N/A	82.93	3,331	3,454	(123)
2011 (crude oil and refined products)	10	N/A	95.91	1	1	
2010 (natural gas)	100	N/A	5.46	1	1	

Options long:

2010 (crude oil and refined products)	250	45.00	N/A			
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Options short:

2010 (crude oil and refined products)	1,250	N/A	41.67	5	2	3
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Total pre-tax fair value of open positions \$ 289

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			December 31, 2008			
	Contract Volumes	Wtd Avg Pay Price	Wtd Avg Receive Price	Contract Value	Market Value	Pre-tax Fair Value
<i>Fair Value Hedges:</i>						
Futures short:						
2009 (crude oil and refined products)	6,904	N/A	\$ 48.28	\$ 333	\$ 320	\$ 13
<i>Cash Flow Hedges:</i>						
Swaps long:						
2009 (crude oil and refined products)	60,162	\$ 121.69	58.44	N/A	(3,805)	(3,805)
2010 (crude oil and refined products)	4,680	63.72	64.03	N/A	1	1
Swaps short:						
2009 (crude oil and refined products)	60,162	62.38	129.80	N/A	4,056	4,056
2010 (crude oil and refined products)	4,680	76.32	78.69	N/A	11	11
Futures long:						
2009 (crude oil and refined products)	780	38.62	N/A	30	27	(3)
<i>Economic Hedges:</i>						
Swaps long:						
2009 (crude oil and refined products)	25,987	96.88	55.25	N/A	(1,082)	(1,082)
2010 (crude oil and refined products)	19,734	105.96	63.94	N/A	(829)	(829)
2011 (crude oil and refined products)	3,900	124.78	67.99	N/A	(221)	(221)
Swaps short:						
2009 (crude oil and refined products)	25,931	59.65	106.81	N/A	1,223	1,223
2010 (crude oil and refined products)	19,734	72.18	121.96	N/A	982	982
2011 (crude oil and refined products)	3,900	74.08	136.66	N/A	244	244
Futures long:						
2009 (crude oil and refined products)	135,882	59.17	N/A	8,040	7,319	(721)
2010 (crude oil and refined products)	3,466	78.33	N/A	271	240	(31)
2009 (natural gas)	4,310	8.46	N/A	36	24	(12)
Futures short:						
	135,091	N/A	62.74	8,475	7,510	965

2009 (crude oil and refined products)						
2010 (crude oil and refined products)	3,692	N/A	84.66	313	276	37
2009 (natural gas)	4,310	N/A	5.68	24	24	
Options long:						
2009 (crude oil and refined products)	57	60.64	N/A	1		(1)
Trading Activities:						
Swaps long:						
2009 (crude oil and refined products)	19,887	77.56	45.09	N/A	(646)	(646)
2010 (crude oil and refined products)	10,050	40.66	35.35	N/A	(53)	(53)
2011 (crude oil and refined products)	1,950	78.36	65.80	N/A	(24)	(24)
Swaps short:						
2009 (crude oil and refined products)	16,084	56.44	97.17	N/A	655	655
2010 (crude oil and refined products)	5,850	64.19	73.12	N/A	52	52
2011 (crude oil and refined products)	1,950	68.06	80.59	N/A	24	24

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			December 31, 2008			
	Contract Volumes	Wtd Avg Pay Price	Wtd Avg Receive Price	Contract Value	Market Value	Pre-tax Fair Value
Futures long:						
2009 (crude oil and refined products)	24,039	\$ 71.70	N/A	\$ 1,724	\$ 1,300	\$ (424)
2010 (crude oil and refined products)	956	84.12	N/A	80	70	(10)
2009 (natural gas)	200	5.79	N/A	1	1	
Futures short:						
2009 (crude oil and refined products)	21,999	N/A	\$ 73.38	1,614	1,209	405
2010 (crude oil and refined products)	956	N/A	83.63	80	70	10
2009 (natural gas)	200	N/A	5.82	1	1	
Options long:						
2009 (crude oil and refined products)	100	30.00	N/A			
Total pre-tax fair value of open positions						\$ 816

Table of Contents**INTEREST RATE RISK**

In general, our primary market risk exposure for changes in interest rates relates to our debt obligations. We manage our exposure to changing interest rates through the use of a combination of fixed-rate and floating-rate debt. In addition, we sometimes utilize interest rate swap agreements to manage a portion of our exposure to changing interest rates by converting certain fixed-rate debt to floating rate. These interest rate swap agreements are generally accounted for as fair value hedges. The gain or loss on the derivative instrument and the gain or loss on the debt that is being hedged are recorded in interest expense. The recorded amounts of the derivative instrument and debt balances are adjusted accordingly. We had no interest rate derivative instruments outstanding as of December 31, 2009 and 2008.

The following table provides information about our debt instruments (dollars in millions), the fair value of which is sensitive to changes in interest rates. Principal cash flows and related weighted-average interest rates by expected maturity dates are presented.

December 31, 2009								
Expected Maturity Dates								
	2010	2011	2012	2013	2014	There- after	Total	Fair Value
Debt:								
Fixed rate	\$ 33	\$ 418	\$ 759	\$ 489	\$ 395	\$ 5,126	\$ 7,220	\$ 8,028
Average interest rate	6.8%	6.4%	6.9%	5.5%	5.7%	7.5%	7.1%	
Floating rate	\$ 200	\$	\$	\$	\$	\$	\$ 200	\$ 200
Average interest rate	0.9%	%	%	%	%	%	0.9%	

December 31, 2008								
Expected Maturity Dates								
	2009	2010	2011	2012	2013	There- after	Total	Fair Value
Debt:								
Fixed rate	\$ 209	\$ 33	\$ 418	\$ 759	\$ 489	\$ 4,597	\$ 6,505	\$ 6,362
Average interest rate	3.6%	6.8%	6.4%	6.9%	5.5%	6.8%	6.6%	
Floating rate	\$ 100	\$	\$	\$	\$	\$	\$ 100	\$ 100
Average interest rate	3.9%	%	%	%	%	%	3.9%	

FOREIGN CURRENCY RISK

We enter into foreign currency exchange and purchase contracts to manage our exposure to exchange rate fluctuations on transactions related to our Canadian operations. Changes in the fair value of these contracts are recognized currently in income and are intended to offset the income effect of translating the foreign currency denominated transactions that they are intended to hedge.

As of December 31, 2009, we had commitments to purchase \$456 million of U.S. dollars and commitments to sell \$604 million of U.S. dollars. These commitments matured on or before February 1, 2010, resulting in a \$3 million loss in the first quarter of 2010.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) for Valero. Our management evaluated the effectiveness of Valero's internal control over financial reporting as of December 31, 2009. In its evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Management believes that as of December 31, 2009, our internal control over financial reporting was effective based on those criteria.

Our independent registered public accounting firm has issued an attestation report on the effectiveness of our internal control over financial reporting, which begins on page 62 of this report.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
of Valero Energy Corporation and subsidiaries:

We have audited the accompanying consolidated balance sheets of Valero Energy Corporation and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, cash flows and comprehensive income for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the PCAOB). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Valero Energy Corporation and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the PCAOB, the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2010, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

San Antonio, Texas

February 26, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
of Valero Energy Corporation and subsidiaries:

We have audited Valero Energy Corporation and subsidiaries (the Company's) internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the PCAOB). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Valero Energy Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by COSO.

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We also have audited, in accordance with the standards of the PCAOB, the consolidated balance sheets of Valero Energy Corporation and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, cash flows and comprehensive income for each of the years in the three-year period ended December 31, 2009, and our report dated February 26, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Antonio, Texas

February 26, 2010

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Millions of Dollars, Except Par Value)

	December 31,	
	2009	2008
ASSETS		
Current assets:		
Cash and temporary cash investments	\$ 825	\$ 940
Restricted cash	122	131
Receivables, net	3,773	2,895
Inventories	4,863	4,620
Income taxes receivable	888	197
Deferred income taxes	180	98
Prepaid expenses and other	261	550
Assets related to discontinued operations	11	19
Total current assets	10,923	9,450
Property, plant and equipment, at cost	28,606	26,119
Accumulated depreciation	(5,594)	(4,698)
Property, plant and equipment, net	23,012	21,421
Intangible assets, net	227	224
Deferred charges and other assets, net	1,395	1,436
Long-term assets related to discontinued operations	72	1,886
Total assets	\$ 35,629	\$ 34,417
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt and capital lease obligations	\$ 237	\$ 312
Accounts payable	5,760	4,323
Accrued expenses	514	370
Taxes other than income taxes	725	592
Income taxes payable	95	
Deferred income taxes	253	485
Liabilities related to discontinued operations	214	127
Total current liabilities	7,798	6,209
Debt and capital lease obligations, less current portion	7,163	6,264
Deferred income taxes	4,063	3,829
Other long-term liabilities	1,869	2,158

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Long-term liabilities related to discontinued operations	11	337
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; 1,200,000,000 shares authorized; 673,501,593 and 627,501,593 shares issued	7	6
Additional paid-in capital	7,896	7,190
Treasury stock, at cost; 108,798,847 and 111,290,436 common shares	(6,721)	(6,884)
Retained earnings	13,178	15,484
Accumulated other comprehensive income (loss)	365	(176)
Total stockholders' equity	14,725	15,620
Total liabilities and stockholders' equity	\$ 35,629	\$ 34,417

See Notes to Consolidated Financial Statements.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Millions of Dollars, Except per Share Amounts)

	Year Ended December 31,		
	2009	2008	2007
Operating revenues (1)	\$ 68,144	\$ 113,136	\$ 89,987
Costs and expenses:			
Cost of sales	61,959	101,830	77,059
Operating expenses	3,311	4,046	3,666
Retail selling expenses	702	768	750
General and administrative expenses	572	559	638
Depreciation and amortization expense	1,428	1,363	1,244
Asset impairment loss	230	86	
Gain on sale of Krotz Springs Refinery		(305)	
Goodwill impairment loss		4,028	
Total costs and expenses	68,202	112,375	83,357
Operating income (loss)	(58)	761	6,630
Other income, net	17	113	167
Interest and debt expense:			
Incurred	(520)	(451)	(466)
Capitalized	112	104	105
Income (loss) from continuing operations before income tax expense (benefit)	(449)	527	6,436
Income tax expense (benefit)	(97)	1,539	2,059
Income (loss) from continuing operations	(352)	(1,012)	4,377
Income (loss) from discontinued operations, net of income taxes	(1,630)	(119)	857
Net income (loss)	\$ (1,982)	\$ (1,131)	\$ 5,234
Earnings (loss) per common share:			
Continuing operations	\$ (0.65)	\$ (1.93)	\$ 7.73
Discontinued operations	(3.02)	(0.23)	1.51
Total	\$ (3.67)	\$ (2.16)	\$ 9.24
Weighted-average common shares outstanding (in millions)	541	524	565
Earnings (loss) per common share assuming dilution:			
Continuing operations	\$ (0.65)	\$ (1.93)	\$ 7.40
Discontinued operations	(3.02)	(0.23)	1.48
Total	\$ (3.67)	\$ (2.16)	\$ 8.88
Weighted-average common shares outstanding assuming dilution (in millions)	541	524	579

Dividends per common share	\$	0.60	\$	0.57	\$	0.48
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Supplemental information:

(1) Includes excise taxes on sales by our U.S. retail system	\$	873	\$	816	\$	801
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See Notes to Consolidated Financial Statements.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Millions of Dollars)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2006	\$ 6	\$ 7,779	\$ (1,396)	\$ 11,951	\$ 265
Net income				5,234	
Dividends on common stock				(271)	
Stock-based compensation expense		89			
Shares repurchased under \$6 billion common stock purchase program			(4,873)		
Shares issued, net of shares repurchased, in connection with employee stock plans and other		(757)	172		
Other comprehensive income					308
Balance as of December 31, 2007	6	7,111	(6,097)	16,914	573
Net loss				(1,131)	
Dividends on common stock				(299)	
Stock-based compensation expense		62			
Shares repurchased under \$6 billion common stock purchase program			(667)		
Shares repurchased, net of shares issued, in connection with employee stock plans and other		17	(120)		
Other comprehensive loss					(749)
Balance as of December 31, 2008	6	7,190	(6,884)	15,484	(176)
Net loss				(1,982)	
Dividends on common stock				(324)	
Sale of common stock	1	798			
Stock-based compensation expense		68			
Shares issued, net of shares repurchased, in connection with		(160)	163		

employee stock plans and other	
Other comprehensive income	541

Balance as of December 31,					
2009	\$ 7	\$ 7,896	\$ (6,721)	\$ 13,178	\$ 365

See Notes to Consolidated Financial Statements.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of Dollars)

	Year Ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net income (loss)	\$ (1,982)	\$ (1,131)	\$ 5,234
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	1,527	1,476	1,376
Asset impairment loss	607	103	
Goodwill impairment loss		4,069	
Gain on sale of Krotz Springs Refinery and Lima Refinery		(305)	(827)
Loss on shutdown of Delaware City Refinery	1,868		
Noncash interest expense and other income, net	(2)	(76)	(10)
Stock-based compensation expense	66	59	100
Deferred income tax expense (benefit)	(343)	675	(131)
Changes in current assets and current liabilities	255	(1,630)	(469)
Changes in deferred charges and credits and other operating activities, net	(173)	(145)	(15)
Net cash provided by operating activities	1,823	3,095	5,258
Cash flows from investing activities:			
Capital expenditures	(2,306)	(2,893)	(2,260)
Deferred turnaround and catalyst costs	(415)	(408)	(518)
Purchase of certain VeraSun Energy Corporation facilities	(556)		
Advance payments related to purchase of ethanol facilities	(21)		
Proceeds from sale of Krotz Springs Refinery		463	
Proceeds from sale of Lima Refinery			2,428
Contingent payments in connection with acquisitions		(25)	(75)
(Investment) return of investment in Cameron Highway Oil Pipeline Company, net	27	24	(209)
Proceeds from minor dispositions of property, plant and equipment	16	25	63
Minor acquisitions	(29)	(144)	
Other investing activities, net	(8)	(7)	(11)
Net cash used in investing activities	(3,292)	(2,965)	(582)
Cash flows from financing activities:			
Proceeds from the sale of common stock, net of issuance costs	799		
Non-bank debt:			
Borrowings	998		2,245
Repayments	(285)	(374)	(463)
Bank credit agreements:			
Borrowings	39	296	3,000

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Repayments	(39)	(296)	(3,000)
Accounts receivable sales program:			
Proceeds from sale of receivables	950		
Repayments	(850)		
Purchase of common stock for treasury	(4)	(955)	(5,788)
Issuance of common stock in connection with employee benefit plans	11	16	159
Benefit from tax deduction in excess of recognized stock-based compensation cost	5	9	311
Common stock dividends	(324)	(299)	(271)
Other financing activities	(11)	(4)	(24)
Net cash provided by (used in) financing activities	1,289	(1,607)	(3,831)
Effect of foreign exchange rate changes on cash	65	(47)	29
Net increase (decrease) in cash and temporary cash investments	(115)	(1,524)	874
Cash and temporary cash investments at beginning of year	940	2,464	1,590
Cash and temporary cash investments at end of year	\$ 825	\$ 940	\$ 2,464

See Notes to Consolidated Financial Statements.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Millions of Dollars)

	Year Ended December 31,		
	2009	2008	2007
Net income (loss)	\$ (1,982)	\$ (1,131)	\$ 5,234
Other comprehensive income (loss):			
Foreign currency translation adjustment, net of income tax expense of \$-, \$-, and \$31	375	(490)	250
Pension and other postretirement benefits:			
Net gain (loss) arising during the year, net of income tax (expense) benefit of \$(132), \$227, and \$(56)	219	(410)	80
Net (gain) loss reclassified into income, net of income tax expense (benefit) of \$(2), \$-, and \$(3)	(1)	(1)	6
Net gain (loss) on pension and other postretirement benefits	218	(411)	86
Net gain (loss) on derivative instruments designated and qualifying as cash flow hedges:			
Net gain (loss) arising during the year, net of income tax (expense) benefit of \$(44), \$(46), and \$6	81	85	(11)
Net (gain) loss reclassified into income, net of income tax expense (benefit) of \$72, \$(36), and \$9	(133)	67	(17)
Net gain (loss) on cash flow hedges	(52)	152	(28)
Other comprehensive income (loss)	541	(749)	308
Comprehensive income (loss)	\$ (1,441)	\$ (1,880)	\$ 5,542

See Notes to Consolidated Financial Statements.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

As used in this report, the terms Valero, we, us, or our may refer to Valero Energy Corporation, one or more of our consolidated subsidiaries, or all of them taken as a whole. We are an independent petroleum refining and marketing company and own 15 refineries with a combined total throughput capacity as of December 31, 2009 of approximately 2.8 million barrels per day. We market our refined products through an extensive bulk and rack marketing network and approximately 5,800 retail and wholesale branded outlets in the United States and eastern Canada under various brand names including Valero®, Diamond Shamrock®, Shamrock®, Ultramar®, and Beacon®. We also produce ethanol, and as of December 31, 2009, we operated seven ethanol plants in the Midwest with a combined capacity of approximately 780 million gallons per year. Our operations are affected by:

- company-specific factors, primarily refinery utilization rates and refinery maintenance turnarounds;
- seasonal factors, such as the demand for refined products during the summer driving season and heating oil during the winter season; and
- industry factors, such as movements in and the level of crude oil prices including the effect of quality differential between grades of crude oil, the demand for and prices of refined products, industry supply capacity, and competitor refinery maintenance turnarounds.

These consolidated financial statements include the accounts of Valero and subsidiaries in which Valero has a controlling interest. Intercompany balances and transactions have been eliminated in consolidation. Investments in significant noncontrolled entities are accounted for using the equity method.

As discussed in Note 2, we permanently shut down our Delaware City Refinery in the fourth quarter of 2009. As a result, the results of operations of the Delaware City Refinery have been presented as discontinued operations in the consolidated statements of income for all periods presented. Also see Note 2 for a discussion of the presentation in the consolidated statements of income of the results of operations of the Krotz Springs Refinery and the Lima Refinery, which were sold effective July 1, 2008 and July 1, 2007, respectively.

The term UDS Acquisition refers to the merger of Ultramar Diamond Shamrock Corporation (UDS) into Valero effective December 31, 2001. The term Premcor Acquisition refers to the merger of Premcor Inc. (Premcor) into Valero effective September 1, 2005.

We have evaluated subsequent events that occurred after December 31, 2009 through the filing of this Form 10-K. Any material subsequent events that occurred during this time have been properly recognized or disclosed in our financial statements.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification or ASC)

The Codification is the single source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB, to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification became effective for interim and annual periods ending after September 15, 2009 and superseded all previously existing non-SEC accounting and reporting standards.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All other non-grandfathered non-SEC accounting literature not included in the Codification is nonauthoritative. All of our references to GAAP now use the specific Codification Topic or Section rather than prior accounting and reporting standards. The Codification did not change existing GAAP and, therefore, did not affect our financial position or results of operations.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires our management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. On an ongoing basis, management reviews its estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

Cash and Temporary Cash Investments

Our temporary cash investments are highly liquid, low-risk debt instruments that have a maturity of three months or less when acquired. Cash and temporary cash investments exclude cash that is not available to us due to restrictions related to its use. Such amounts are segregated in the consolidated balance sheets in restricted cash as described in Note 4.

Inventories

Inventories are carried at the lower of cost or market. The cost of refinery feedstocks purchased for processing, refined products, and grain and ethanol inventories are determined under the last-in, first-out (LIFO) method using the dollar-value LIFO method, with any increments valued based on average purchase prices during the year. The cost of feedstocks and products purchased for resale and the cost of materials, supplies, and convenience store merchandise are determined principally under the weighted-average cost method.

Property, Plant and Equipment

Additions to property, plant and equipment, including capitalized interest and certain costs allocable to construction and property purchases, are recorded at cost.

The costs of minor property units (or components of property units), net of salvage value, retired or abandoned are charged or credited to accumulated depreciation under the composite method of depreciation. Gains or losses on sales or other dispositions of major units of property are recorded in income and are reported in depreciation and amortization expense in the consolidated statements of income, except gains or losses on dispositions of certain property, plant and equipment that are reported on a separate line item due to materiality.

Depreciation of property, plant and equipment used in the refining and retail segments is recorded on a straight-line basis over the estimated useful lives of the related facilities primarily using the composite method of depreciation. Depreciation of property, plant and equipment used in the ethanol segment is recorded on a straight-line basis over the estimated useful lives of each individual asset. Leasehold improvements and assets acquired under capital leases are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related asset.

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Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquired entity over the fair value of the assets acquired less liabilities assumed. Intangible assets are assets that lack physical substance (excluding financial assets). Goodwill acquired in a business combination and intangible assets with indefinite useful lives are not amortized and intangible assets with finite useful lives are amortized on a straight-line basis over 1 to 40 years. Goodwill and intangible assets not subject to amortization are tested for impairment annually or more frequently if events or changes in circumstances indicate the asset might be impaired. See Note 9.

Deferred Charges and Other Assets

Deferred charges and other assets, net include the following:

- refinery turnaround costs, which are incurred in connection with planned major maintenance activities at our refineries and which are deferred when incurred and amortized on a straight-line basis over the period of time estimated to lapse until the next turnaround occurs;
- fixed-bed catalyst costs, representing the cost of catalyst that is changed out at periodic intervals when the quality of the catalyst has deteriorated beyond its prescribed function, which are deferred when incurred and amortized on a straight-line basis over the estimated useful life of the specific catalyst;
- investments in entities that we do not control; and
- other noncurrent assets such as long-term investments, convenience store dealer incentive programs, nonqualified pension plan assets, debt issuance costs, and various other costs.

We evaluate our equity method investments for impairment when there is evidence that we may not be able to recover the carrying amount of our investments or the investee is unable to sustain an earnings capacity that justifies the carrying amount. A loss in the value of an investment that is other than a temporary decline is recognized currently in earnings, and is based on the difference between the estimated current fair value of the investment and its carrying amount. We believe that the carrying amounts of our equity method investments as of December 31, 2009 are recoverable.

In November 2008, the FASB modified ASC Topic 323, Investments—Equity Method and Joint Ventures, to provide guidance regarding (i) initial measurement of an equity investment, (ii) recognition of an other-than-temporary impairment of an equity method investment, including any impairment charge taken by the investee, and (iii) accounting for a change in ownership level or degree of influence on an investee. These provisions were effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. These provisions apply prospectively to equity method investments acquired after the effective date. Because we did not acquire any equity method investments during 2009, the adoption of these provisions effective January 1, 2009 did not affect our financial position or results of operations.

Impairment and Disposal of Long-Lived Assets

Long-lived assets (excluding goodwill, intangible assets with indefinite lives, equity method investments, and deferred tax assets) are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A long-lived asset is not recoverable if its carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If a long-lived asset is not recoverable, an impairment loss is recognized in an amount by which its carrying amount exceeds its fair value, with fair value determined based on discounted

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

estimated net cash flows or other appropriate methods. We believe that the carrying amounts of our long-lived assets as of December 31, 2009 are recoverable. See Note 3.

Taxes Other than Income Taxes

Taxes other than income taxes include primarily liabilities for ad valorem, excise, sales and use, and payroll taxes.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred amounts are measured using enacted tax rates expected to apply to taxable income in the year those temporary differences are expected to be recovered or settled.

We have elected to classify any interest expense and penalties related to the underpayment of income taxes in income tax expense in our consolidated statements of income.

Asset Retirement Obligations

We record a liability, which is referred to as an asset retirement obligation, at fair value for the estimated cost to retire a tangible long-lived asset at the time we incur that liability, which is generally when the asset is purchased, constructed, or leased. We record the liability when we have a legal obligation to incur costs to retire the asset and when a reasonable estimate of the fair value of the liability can be made. If a reasonable estimate cannot be made at the time the liability is incurred, we record the liability when sufficient information is available to estimate the liability's fair value.

We have asset retirement obligations with respect to certain of our refinery assets due to various legal obligations to clean and/or dispose of various component parts of each refinery at the time they are retired. However, these component parts can be used for extended and indeterminate periods of time as long as they are properly maintained and/or upgraded. It is our practice and current intent to maintain our refinery assets and continue making improvements to those assets based on technological advances. As a result, we believe that our refineries have indeterminate lives for purposes of estimating asset retirement obligations because dates or ranges of dates upon which we would retire refinery assets cannot reasonably be estimated at this time. When a date or range of dates can reasonably be estimated for the retirement of any component part of a refinery, we estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using established present value techniques.

We also have asset retirement obligations for the removal of underground storage tanks (USTs) for refined products at owned and leased retail locations. There is no legal obligation to remove USTs while they remain in service. However, environmental laws require that unused USTs be removed within certain periods of time after the USTs no longer remain in service, usually one to two years depending on the jurisdiction in which the USTs are located. We have estimated that USTs at our owned retail locations will not remain in service after 25 years of use and that we will have an obligation to remove those USTs at that time. For our leased retail locations, our lease agreements generally require that we remove certain improvements, primarily USTs and signage, upon termination of the lease. While our lease agreements typically contain options for multiple renewal periods, we have not assumed that such leases will be renewed for purposes of estimating our obligation to remove USTs and signage.

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**VALERO ENERGY CORPORATION AND SUBSIDIARIES
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Foreign Currency Translation

The functional currencies of our Canadian and Aruban operations are the Canadian dollar and the Aruban florin, respectively. The translation of the Canadian operations into U.S. dollars is computed for balance sheet accounts using exchange rates in effect as of the balance sheet date and for revenue and expense accounts using the weighted-average exchange rates during the year. Adjustments resulting from this translation are reported in other comprehensive income. The value of the Aruban florin is fixed to the U.S. dollar at 1.79 Aruban florins to one U.S. dollar. The translation of the Aruban operations into U.S. dollars is computed based on this fixed exchange rate for both balance sheet and income statement accounts. As a result, there are no adjustments resulting from this translation reported in other comprehensive income.

Revenue Recognition

Revenues for products sold by the refining, retail, and ethanol segments are recorded upon delivery of the products to our customers, which is the point at which title to the products is transferred, and when payment has either been received or collection is reasonably assured. Revenues for services are recorded when the services have been provided.

We present excise taxes on sales by our U.S. retail system on a gross basis with supplemental information regarding the amount of such taxes included in revenues provided in a footnote on the face of the income statement. All other excise taxes are presented on a net basis in the income statement.

We enter into certain purchase and sale arrangements with the same counterparty that are deemed to be made in contemplation of one another. We combine these transactions and, as a result, revenues and cost of sales are not recognized in connection with these arrangements.

We also enter into refined product exchange transactions to fulfill sales contracts with our customers by accessing refined products in markets where we do not operate our own refineries. These refined product exchanges are accounted for as exchanges of non-monetary assets, and no revenues are recorded on these transactions.

Product Shipping and Handling Costs

Costs incurred for shipping and handling of products are included in cost of sales in the consolidated statements of income.

Environmental Matters

Liabilities for future remediation costs are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Other than for assessments, the timing and magnitude of these accruals generally are based on the completion of investigations or other studies or a commitment to a formal plan of action. Environmental liabilities are based on best estimates of probable undiscounted future costs over a 20-year time period using currently available technology and applying current regulations, as well as our own internal environmental policies. Amounts recorded for environmental liabilities have not been reduced by possible recoveries from third parties.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivatives and Hedging

All derivative instruments are recorded in the balance sheet as either assets or liabilities measured at their fair values. When we enter into a derivative instrument, it is designated as a fair value hedge, a cash flow hedge, an economic hedge, or a trading activity. The gain or loss on a derivative instrument designated and qualifying as a fair value hedge, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized currently in income in the same period. The effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedge is initially reported as a component of other comprehensive income and is then recorded in income in the period or periods during which the hedged forecasted transaction affects income. The ineffective portion of the gain or loss on the cash flow derivative instrument, if any, is recognized in income as incurred. For our economic hedging relationships (hedges not designated as fair value or cash flow hedges) and for derivative instruments entered into by us for trading purposes, the derivative instrument is recorded at fair value and changes in the fair value of the derivative instrument are recognized currently in income. Income effects of commodity derivative instruments, other than certain contracts related to an earn-out agreement discussed in Notes 2 and 17, are recorded in cost of sales while income effects of interest rate swaps (if applicable) are recorded in interest and debt expense.

In March 2008, ASC Topic 815, *Derivatives and Hedging*, was modified to establish disclosure requirements for derivative instruments and for hedging activities. The required disclosures include qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about contingent features related to credit risk in derivative agreements. These disclosures were effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. The adoption of these provisions of Topic 815 effective January 1, 2009 did not affect our financial position or results of operations but did result in additional disclosures, which are provided in Note 18.

Financial Instruments

Our financial instruments include cash and temporary cash investments, restricted cash, receivables, payables, debt, capital lease obligations, commodity derivative contracts, and foreign currency derivative contracts. The estimated fair values of these financial instruments approximate their carrying amounts as reflected in the consolidated balance sheets, except for certain debt as discussed in Note 12. The fair values of our debt, commodity derivative contracts, and foreign currency derivative contracts were estimated primarily based on year-end quoted market prices and inputs other than quoted prices that are observable for the asset or liability.

In April 2009, the provisions of ASC Topic 825, *Financial Instruments*, were modified to require a publicly traded company to include disclosures about the fair value of its financial instruments for interim reporting periods as well as in annual financial statements. We adopted these provisions effective in the first quarter of 2009, the adoption of which did not affect our financial position or results of operations because only disclosures were affected by the new requirements.

Fair Value Measurements

In February 2008, ASC Topic 820, *Fair Value Measurements and Disclosures*, was modified to delay the effective date for applying fair value measurement disclosures for nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 18, 2008. The implementation of this provision of Topic 820 for these assets and liabilities effective January 1, 2009 did not affect our financial position or results of operations but did result in additional disclosures, which are provided in Note 17.

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In August 2009, the FASB modified Topic 820 to address the measurement of liabilities at fair value in circumstances in which a quoted price in an active market for the identical liability is not available. In such circumstances, a reporting entity is required to measure fair value using one or more of the following techniques: (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset, or the quoted prices for similar liabilities or similar liabilities when traded as assets; or (ii) another valuation technique that is consistent with Topic 820. The FASB also clarified that when estimating the fair value of the liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This modification also clarified that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. This guidance is effective for the first reporting period (including interim periods) beginning after issuance, the adoption of which in the fourth quarter of 2009 did not affect our financial position or results of operations.

Earnings per Common Share

Earnings per common share is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding for the year. Earnings per common share assuming dilution reflects the potential dilution of our outstanding stock options and nonvested shares granted to employees in connection with our stock compensation plans. In addition, see Notes 14 and 15 for a discussion of an accelerated share repurchase program during 2007 and its effect on earnings per common share assuming dilution for the year ended December 31, 2007. Common equivalent shares were excluded from the computation of diluted loss per share for the years ended December 31, 2009 and 2008 because the effect of including such shares would be antidilutive.

Effective January 1, 2009, we adopted amendments to ASC Topic 260, Earnings Per Share, which require participating share-based payment awards to be included in the computation of basic earnings per share using the two-class method and require the restatement of prior period earnings per share. Shares of restricted stock granted under certain of our stock-based compensation plans represent participating share-based payment awards covered by these provisions. The adoption of these provisions did not have any effect on the calculation of the basic loss per common share from continuing operations for the years ended December 31, 2009 and 2008, but did reduce basic earnings per common share from continuing operations by \$0.02 per common share from the amount originally reported that was attributable to continuing operations for the year ended December 31, 2007. The calculation is provided in Note 15.

Comprehensive Income

Comprehensive income consists of net income (loss) and other gains and losses affecting stockholders' equity that, under GAAP, are excluded from net income (loss), including foreign currency translation adjustments, gains and losses related to certain derivative contracts, and gains or losses, prior service costs or credits, and transition assets or obligations associated with pension or other postretirement benefits that have not been recognized as components of net periodic benefit cost.

Stock-Based Compensation

Compensation expense for our share-based compensation plans is based on the fair value of the awards granted and is recognized in our consolidated statements of income on a straight-line basis over the requisite service period of each award. For new grants that have retirement-eligibility provisions, we use the non-substantive vesting period approach, under which compensation cost is recognized immediately

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for awards granted to retirement-eligible employees or over the period from the grant date to the date retirement eligibility is achieved if that date is expected to occur during the nominal vesting period. Our total stock-based compensation expense recognized for the years ended December 31, 2009, 2008, and 2007 was \$44 million, net of tax benefits of \$24 million, \$38 million, net of tax benefits of \$21 million, and \$65 million, net of tax benefits of \$35 million, respectively. If we had used the non-substantive vesting period approach for awards granted prior to January 1, 2006 (the date of the adoption of the non-substantive vesting period approach), net income (loss) would have increased by \$1 million, \$2 million, and \$4 million for the years ended December 31, 2009, 2008, and 2007, respectively.

We report the effect of tax deductions in excess of recognized stock-based compensation cost as a financing cash flow, which were \$5 million, \$9 million, and \$311 million for the years ended December 31, 2009, 2008, and 2007, respectively.

Business Combinations

Effective January 1, 2009, we adopted the new provisions of ASC Topic 805, Business Combinations, which address the recognition and measurement of (i) identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree, and (ii) goodwill acquired or gain from a bargain purchase. In addition, acquisition-related costs are accounted for as expenses in the period in which the costs are incurred and the services are received. These provisions were applied to the acquisition of certain ethanol plants from VeraSun Energy Corporation (VeraSun, with the acquisition referred to as the VeraSun Acquisition) in the second quarter of 2009, which is discussed in Note 2.

Defined Benefit Pension Plans

In December 2008, the FASB modified ASC Topic 715, Compensation Retirement Benefits, to require enhanced disclosures regarding (i) investment policies and strategies, (ii) categories of plan assets, (iii) fair value measurements of plan assets, and (iv) significant concentrations of risk. These disclosures are effective for fiscal years ending after December 15, 2009, with earlier application permitted. See Note 21 for the additional disclosures required by this accounting pronouncement. Since only disclosures are affected by these requirements, the adoption of these provisions effective December 31, 2009 did not affect our financial position or results of operations.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, ASC Topic 810, Consolidation, was modified to provide guidance for the accounting and reporting of noncontrolling interests, changes in controlling interests, and the deconsolidation of subsidiaries. In addition, this modification provided that an entity shall disclose pro forma net income and pro forma earnings per share if an entity has one or more noncontrolling interests. The adoption of these provisions of Topic 810 effective January 1, 2009 did not affect our financial position or results of operations.

Subsequent Events

In May 2009, ASC Topic 855, Subsequent Events, was issued, which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, guidance was provided regarding (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures that an entity should make about events or

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transactions that occur after the balance sheet date. The provisions of Topic 855 are to be applied prospectively and are effective for interim or annual financial periods ending after June 15, 2009. The adoption of the provisions of Topic 855 in the second quarter of 2009 did not affect our financial position or results of operations but did result in additional disclosures, which are provided above under *Basis of Presentation and Principles of Consolidation*.

New Accounting Pronouncements

FASB Statement No. 166

In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets* an amendment of FASB Statement No. 140. According to ASC Topic 105, *Generally Accepted Accounting Principles*, Statement No. 166 shall continue to represent authoritative guidance until it is integrated into the Codification. Statement No. 166 amends and clarifies provisions related to the transfer of financial assets in order to address application and disclosure issues. In general, Statement No. 166 clarifies the requirements for derecognizing transferred financial assets, removes the concept of a qualifying special-purpose entity and related exceptions, and requires additional disclosures related to transfers of financial assets. Statement No. 166 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2009, and earlier application is prohibited. The adoption of Statement No. 166 effective January 1, 2010 has not had a material effect on our financial position or results of operations.

FASB Statement No. 167

In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*. According to ASC Topic 105, Statement No. 167 shall continue to represent authoritative guidance until it is integrated into the Codification. Statement No. 167 amends provisions related to variable interest entities to include entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated by Statement No. 166. This statement also clarifies consolidation requirements and expands disclosure requirements related to variable interest entities. Statement No. 167 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2009, and earlier application is prohibited. The adoption of Statement No. 167 effective January 1, 2010 has not had a material effect on our financial position or results of operations.

Fair Value Measurements and Disclosures

In January 2010, the provisions of ASC Topic 820 were modified to require additional disclosures, including transfers in and out of Level 1 and 2 fair value measurements and the gross basis presentation of the reconciliation of Level 3 fair value measurements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosures related to Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 (including interim periods). Early adoption is permitted. We have adopted all of these provisions of ASC Topic 820 effective December 31, 2009. Since only disclosures are affected by these requirements, the adoption of these provisions did not affect our financial position or results of operations.

Reclassifications

Certain amounts for 2008 and 2007 that were previously reported in our annual report on Form 10-K for the year ended December 31, 2008 have been reclassified to conform to the 2009 presentation. Our consolidated balance sheet as of December 31, 2008 and our consolidated statements of income for the years ended December 31, 2008 and 2007 have been reclassified to present the assets, liabilities, and operations of the Delaware City Refinery as discontinued operations. In addition, asset impairment losses

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
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(discussed in Note 3) have been presented on a separate line in the 2009 consolidated statement of income due to the materiality of the amount in 2009. For comparability with this presentation, asset impairment losses resulting from the cancellation of certain capital projects classified as construction in progress for the year ended December 31, 2008 have been reclassified from operating expenses and reflected on a separate line. The asset impairment losses are also presented on a separate line in the consolidated statements of cash flows, which resulted in an adjustment to capital expenditures previously reported for the year ended December 31, 2008.

2. ACQUISITIONS, DISPOSITIONS, AND PERMANENT PLANT CLOSURE

Shutdown of Delaware City Refinery

On November 20, 2009, we announced the permanent shutdown of our Delaware City Refinery due to financial losses caused by poor economic conditions, significant capital spending requirements, and high operating costs. In the fourth quarter of 2009, we recorded a pre-tax loss of \$1.9 billion, of which \$1.4 billion represented the write-down of the book value of the refinery assets to net realizable value (see discussion in Note 3 below). The remaining loss was comprised primarily of \$132 million related to the recognition of previously deferred losses on cash flow hedges that were discontinued due to the shutdown (see Note 18), \$95 million of asset retirement obligations, \$81 million of cancelled capital projects, \$56 million of contract cancellation costs, and \$47 million of employee termination costs. In addition to the loss resulting from the permanent shutdown of our Delaware City Refinery, the results of operations of the Delaware City Refinery for 2009 also included \$377 million of other pre-tax asset impairment losses, including both operating assets and projects in progress as further discussed in Note 3, and \$393 million of pre-tax losses from operations. During 2008, the Delaware City Refinery incurred a pre-tax loss of \$190 million, comprised of \$132 million of operating losses, \$41 million of goodwill impairment loss, and \$17 million of asset impairment losses. The consolidated statements of income reflect the operations related to the Delaware City Refinery in income (loss) from discontinued operations, net of income taxes for all periods presented. The remaining carrying amount of the Delaware City Refinery assets as of December 31, 2009 is immaterial.

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Financial information related to the assets, liabilities, and operations of the Delaware City Refinery is summarized as follows (in millions).

	December 31,	
	2009	2008
Current assets related to discontinued operations:		
Receivables, net	\$ 6	\$ 2
Inventories	4	17
Prepaid expenses and other	1	
Total current assets related to discontinued operations	\$ 11	\$ 19
Long-term assets related to discontinued operations:		
Property, plant and equipment, net	\$ 15	\$ 1,792
Deferred charges and other assets, net		94
Deferred income taxes	57	
Total long-term assets related to discontinued operations	\$ 72	\$ 1,886
Current liabilities related to discontinued operations:		
Accounts payable	\$ 90	\$ 123
Accrued expenses	124	4
Total current liabilities related to discontinued operations	\$ 214	\$ 127
Long-term liabilities related to discontinued operations:		
Deferred income taxes	\$	\$ 334
Other long-term liabilities	11	3
Total long-term liabilities related to discontinued operations	\$ 11	\$ 337

	Year Ended December 31,		
	2009	2008	2007
Operating revenues	\$ 2,764	\$ 5,978	\$ 5,340
Income (loss) before income tax expense	(2,637)	(190)	290

Acquisition of VeraSun Assets

In the second quarter of 2009, we acquired seven ethanol plants and a site under development from VeraSun. Because VeraSun was subject to bankruptcy proceedings and different lenders were involved with various plants, three separate closings were required to consummate the acquisition of these ethanol plants. On April 1, 2009, we closed on the acquisition of ethanol plants located in Charles City, Fort Dodge, and Hartley, Iowa; Aurora, South Dakota; and Welcome, Minnesota, and a site under development located in Reynolds, Indiana for consideration of \$350 million.

Through subsequent closings on April 9, 2009 and May 8, 2009, we acquired VeraSun's ethanol plant in Albert City, Iowa, for consideration of \$72 million and VeraSun's ethanol plant in Albion, Nebraska, for consideration of \$55 million, respectively. In conjunction with the acquisition of the seven ethanol plants, we also paid \$79 million primarily for inventory and certain other working capital. We have elected to use the LIFO method of accounting for the commodity inventories related to the acquired ethanol business. We incurred approximately \$10 million of acquisition-related costs that were recognized in general and administrative expenses in the consolidated statement of income for the year ended December 31, 2009.

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The acquired ethanol business involves the production and marketing of ethanol and its co-products, including distillers grains. The ethanol operations are reflected as a reportable segment in Note 20, the operations of which complement our existing clean motor fuels business. The acquisition cost was funded with part of the proceeds from a \$1 billion issuance of notes in March 2009, which is discussed in Note 12.

An independent appraisal of the assets acquired in the VeraSun Acquisition was completed, and the assets acquired and the liabilities assumed were recognized at their acquisition-date fair values as determined by the appraisal and other evaluations as follows (in millions):

Current assets, primarily inventory	\$ 77
Property, plant and equipment	491
Identifiable intangible assets	1
Current liabilities	(10)
Other long-term liabilities	(3)
 Total consideration	 \$ 556

Neither goodwill nor a gain from a bargain purchase was recognized in conjunction with the VeraSun Acquisition, and no significant contingent assets or liabilities were acquired or assumed in the acquisition.

The consolidated statements of income include the results of operations of the various ethanol plants commencing on their respective closing dates. The operating revenues and net income associated with the acquired ethanol plants included in our consolidated statement of income for the year ended December 31, 2009, and the consolidated pro forma operating revenues, net income (loss), and earnings (loss) per common share assuming dilution of the combined entity had the VeraSun Acquisition occurred on January 1, 2009, 2008, and 2007, are shown in the table below (in millions, except per share amounts). The pro forma information assumes that the purchase price was funded with proceeds from the issuance of \$556 million of debt on January 1 of each respective year. The pro forma financial information is not necessarily indicative of the results of future operations.

	Year Ended December 31,		
	2009	2008	2007
Actual amounts from acquired business:			
Operating revenues	\$ 1,198	N/A	N/A
Net income	92	N/A	N/A
Consolidated pro forma:			
Operating revenues	68,367	\$ 114,625	\$ 90,766
Income (loss) from continuing operations	(358)	(1,110)	4,388
Earnings (loss) per common share from continuing operations - assuming dilution	(0.66)	(2.12)	7.42

Sale of Krotz Springs Refinery

Effective July 1, 2008, we sold our refinery in Krotz Springs, Louisiana to Alon Refining Krotz Springs, Inc. (Alon), a subsidiary of Alon USA Energy, Inc. The nature and significance of our post-closing

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
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participation in an offtake agreement with Alon represents a continuation of activities with the Krotz Springs Refinery for accounting purposes, and as such the results of operations related to the Krotz Springs Refinery have not been presented as discontinued operations in the consolidated statements of income for the years ended December 31, 2008 and 2007. Under the offtake agreement, we agreed to (i) purchase all refined products from the Krotz Springs Refinery for three months after the effective date of the sale, (ii) purchase certain products for an additional one to five years after the expiration of the initial three-month period of the agreement, and (iii) provide certain refined products to Alon that are not produced at the Krotz Springs Refinery for an initial term of 15 months and thereafter until terminated by either party.

The sale resulted in a pre-tax gain of \$305 million (\$170 million after tax), which is presented as a separate line item in the consolidated statement of income for the year ended December 31, 2008. Cash proceeds, net of certain costs related to the sale, were \$463 million, including approximately \$135 million from the sale of working capital to Alon primarily related to the sale of inventory by our marketing and supply subsidiary.

In addition to the cash consideration received, we also received contingent consideration in the form of a three-year earn-out agreement based on certain product margins. This earn-out agreement qualified as a derivative contract and had a fair value of \$171 million as of July 1, 2008. We hedged the risk of a decline in the referenced product margins by entering into certain commodity derivative contracts. On August 27, 2009, we settled the earn-out agreement with Alon for \$35 million, of which \$18 million was received on the settlement date and the remaining amount will be received in eight payments of \$2.2 million each quarter beginning in the fourth quarter of 2009. In connection with the settlement of the earn-out agreement, we effectively closed our positions in the related commodity derivative contracts during the third quarter of 2009, as a result of which we locked in \$175 million of cash proceeds on those contracts, approximately \$105 million of which was received as of December 31, 2009 with the remaining proceeds to be received in varying monthly amounts through July 2011. As such, the total amount earned on the Alon earn-out agreement, including the related commodity derivative contracts, was \$210 million.

Financial information as of July 1, 2008 related to the Krotz Springs Refinery assets and liabilities sold is summarized as follows (in millions):

Current assets (primarily inventory)	\$ 138
Property, plant and equipment, net	153
Goodwill	42
Deferred charges and other assets, net	4
 Assets held for sale	 \$ 337
 Current liabilities	 \$ 10
 Liabilities related to assets held for sale	 \$ 10

Sale of Lima Refinery

Effective July 1, 2007, we sold our refinery in Lima, Ohio to Husky Refining Company (Husky), a wholly owned subsidiary of Husky Energy Inc. In addition, our marketing and supply subsidiary separately sold certain inventory amounts to Husky as part of this transaction. The consolidated

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

statements of income reflect the operations related to the Lima Refinery for the periods prior to the effective date of the sale in income (loss) from discontinued operations, net of income taxes.

Proceeds from the sale were approximately \$2.4 billion, including approximately \$550 million from the sale of working capital to Husky primarily related to the sale of inventory by our marketing and supply subsidiary. The sale resulted in a pre-tax gain of \$827 million, or \$426 million after tax, which is included as a part of the reported income from discontinued operations in the consolidated statement of income for the year ended December 31, 2007.

Financial information related to the assets and liabilities sold is summarized as follows (in millions). The statement of income information presented below for 2007 does not include the gain on the sale of the Lima Refinery.

	July 1, 2007
Current assets (primarily inventory)	\$ 570
Property, plant and equipment, net	929
Goodwill	107
Deferred charges and other assets, net	46

Assets held for sale	\$ 1,652
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Current liabilities, including current portion of capital lease obligation	\$ 15
Capital lease obligation, excluding current portion	38

Liabilities related to assets held for sale	\$ 53
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**Year Ended
December
31,
2007**

Operating revenues	\$ 2,231
Income before income tax expense	391

Minor Acquisitions

In June 2009, we purchased the Trans-Texas Pipeline, the Wynnewood Pipeline, and their related tank and storage facilities from NuStar Logistics, L.P. for \$29 million. These assets provide transportation and storage services for moving refined products from our McKee Refinery to Mont Belvieu, Texas, and from our Ardmore Refinery to the Magellan pipeline system in the Midwest.

In August 2008, we purchased 70 convenience stores and fueling kiosks from Albertson's LLC for \$87 million, including \$4 million for inventory. These retail sites, which are located in Texas, Colorado, Arizona, and Louisiana, enhance our existing retail network and supply chain.

In February 2008, we purchased ConocoPhillips' one-third undivided joint interest in a refined product pipeline and terminal for \$57 million. These assets provide transportation and storage services for moving refined products from our McKee Refinery to markets in El Paso, Texas and Phoenix and Tucson, Arizona.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
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Subsequent Acquisition of Additional Ethanol Plants

In December 2009, we signed an agreement with ASA Ethanol Holdings, LLC (ASA) to buy two ethanol plants that had been previously owned by VeraSun. The two plants are located in Linden, Indiana and Bloomingburg, Ohio. In December 2009, we made a \$20 million advance payment towards the purchase of these facilities, and in January 2010, we completed the acquisition for a total purchase price of approximately \$200 million.

Also in December 2009, we received approval from a bankruptcy court to acquire an ethanol facility located near Jefferson, Wisconsin from Renew Energy LLC for \$72 million plus certain receivables and inventories. In December 2009, we made a \$1 million advance payment towards the purchase of this facility. We completed this acquisition on February 4, 2010.

3. IMPAIRMENTS***Goodwill Impairment***

As shown in Note 9, as of December 31, 2007, we had goodwill with a balance of \$4.0 billion. All of our goodwill was allocated among four reporting units that comprise the refining segment. These reporting units are the Gulf Coast, Mid-Continent, Northeast, and West Coast refining regions. Our annual test for impairment of goodwill was historically performed as of October 1 of each year. However, during the fourth quarter of 2008, there were severe disruptions in the capital and commodities markets that contributed to a significant decline in our common stock price. As a result, our equity market capitalization fell significantly below our net book value. Because this situation is an indicator that goodwill may be impaired, we performed an additional analysis to evaluate the potential impairment of our goodwill as of December 31, 2008. Based on this additional analysis, we determined that all of the goodwill in our four reporting units was impaired, which resulted in the recognition of a goodwill impairment loss of \$4.1 billion (\$4.0 billion after tax), of which \$41 million (\$40 million after tax) was attributed to the Delaware City Refinery and therefore reclassified to discontinued operations. For purposes of this goodwill impairment test, the fair value of each reporting unit was estimated based on the present value of expected future cash flows, with the present value determined using discount rates that reflected the risk inherent in the assets and risk premiums that reflected the volatility in the industry and the financial markets.

Impairment of Property, Plant and Equipment, Excluding Capital Projects

Due to the adverse changes in market conditions during 2008 discussed under *Goodwill Impairment* above, we also evaluated our significant operating assets for potential impairment as of December 31, 2008, and we determined that the carrying amount of each of these assets was recoverable. However, the economic slowdown that began in 2008 continued throughout 2009, thereby impacting demand for refined products and putting significant pressure on refined product margins. Due to these economic conditions, in June 2009, we announced our plan to shut down the Aruba Refinery temporarily as narrow heavy sour crude oil differentials made the refinery uneconomical to operate. The Aruba Refinery was shut down in July 2009 and is expected to continue to be shut down until market conditions improve. We are continuing to evaluate potential alternatives for this refinery, which may include the sale of the refinery. In addition, we have negotiated a settlement of various tax disputes with the Government of Aruba (GOA), which will be presented to the Aruban Parliament for approval and implementation. The outcome of this agreement could have a significant impact on the future economics of this refinery (see Note 23). As of December 31, 2009, the Aruba Refinery had a net book value of approximately \$1.0 billion.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In September 2009, we announced the shutdown of our coker and gasification units at our Delaware City Refinery also due to economic reasons. The coker unit was expected to remain shut down until economics improved and the gasification unit was permanently shut down. As a result, we recorded a pre-tax loss of approximately \$280 million in the third quarter of 2009 related to the abandonment of that unit. In November 2009, our board of directors approved a plan to permanently shut down our Delaware City Refinery due to its financial losses caused by poor economic conditions, significant capital spending requirements, and high operating costs. Due to the permanent shutdown of the Delaware City Refinery, we recorded a pre-tax loss of \$1.4 billion related to the write-down of depreciable property, plant and equipment to its net realizable value and the write-off of the remaining balance of deferred turnaround and catalyst costs (see discussion in Note 2 above).

As a result of the above factors, we readdressed the potential impairment of all of our facilities (excluding the Delaware City Refinery assets) as of December 31, 2009 based on an assumption that we would operate these facilities in the future, incorporating updated price assumptions into our future estimated undiscounted cash flows. In addition, we considered the probability of any asset sale proceeds related to potential sales scenarios that existed as of December 31, 2009. Based on our analysis, we determined that the carrying amount of each of our significant operating assets continued to be recoverable as of December 31, 2009. Our analysis, as it relates to our Aruba and Paulsboro Refineries, did not indicate impairment. However, the expected future cash flows from these refineries did not exceed their respective net book values by a large amount. As such, future unfavorable price assumption changes or an increase in the likelihood of a potential sale could result in a significant write-down of these assets.

During 2010, management intends to evaluate strategic alternatives for our Paulsboro Refinery. These alternatives could include a temporary shutdown, alternative processing configurations and arrangements, or a possible sale. The net book value of the Paulsboro Refinery was approximately \$1.3 billion as of December 31, 2009.

Capital Project Write-offs

Due to the impact of the continuing economic slowdown on refining industry fundamentals, we further evaluated all of our capital projects classified as "construction in progress" during 2009. This was a continuation of an ongoing process that had commenced during the second half of 2008. As a result of this assessment, certain additional capital projects were permanently cancelled, resulting in write-offs of \$408 million of project costs for the year ended December 31, 2009. This amount includes \$178 million of project costs related to our Delaware City Refinery (\$81 million of which was included in the \$1.9 billion shutdown loss discussed in Note 2), the write-off of which is reported in discontinued operations in the consolidated statement of income. During the year ended December 31, 2008, we wrote off \$103 million of capital projects (including \$17 million related to the Delaware City Refinery that is reported as discontinued operations), the amount of which has been reclassified from operating expenses and presented separately for comparability with the 2009 presentation.

In addition to capital projects that have been written off, we have also suspended construction activity on various other projects. For example, our two hydrocracker projects on the Gulf Coast, one at the St. Charles Refinery and the other at the Port Arthur Refinery, have been temporarily suspended until market conditions and cash flows improve. As of December 31, 2009, approximately \$1.1 billion of costs had been incurred on these two projects. In addition, various other projects with a total cost of approximately \$600 million as of December 31, 2009 have also been temporarily suspended. These suspended projects remain in our strategic plan and were included in our impairment evaluations

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

discussed above, and the costs incurred to date have not been written off. We believe that the overall market conditions and our cash flows will improve in the future such that the completion and recoverability of these temporarily suspended projects is probable.

Effect of Impairment Assumptions

Due to the effect of the current unfavorable economic conditions on the refining industry, and our expectations of a continuation of such conditions for the near term, we will continue to monitor both our operating assets and our capital projects for additional potential asset impairments until conditions improve. The determination of future cash flows requires us to make significant estimates and assumptions about the future operations of our refineries, including overall throughput volumes, types of crude oil processed, types of products produced, and prices for crude oil and refined products. Prices for crude oil and refined products fluctuate significantly based on market factors, as well as geopolitical matters. Prices, in turn, impact refinery throughput assumptions. We believe that our estimates are reasonable; however, future cash flows will differ from our estimates and such differences may be material.

The sensitivity of our estimates is most significant with respect to the Aruba Refinery and the Paulsboro Refinery. As discussed above, we temporarily shut down the Aruba Refinery in July 2009. Our cash flow estimates assume that this refinery will restart in 2011 due to our expectation of improved prices resulting from an expected improvement in the worldwide economy. We have also assumed a high probability of a settlement with the GOA on our outstanding tax disputes. Should prices fail to improve as expected or other factors occur that result in our decision not to restart the refinery when expected, we may determine that the Aruba Refinery is impaired, and the resulting impairment loss could be material to our results of operations. With respect to the Paulsboro Refinery, the refinery's expected future cash flows are primarily sensitive to differences between expected and actual refined product prices. In addition, future developments from our evaluation of strategic alternatives for the Paulsboro Refinery (including a potential sale) could significantly impact our asset impairment assumptions. Should we determine that the Paulsboro Refinery is impaired, the resulting impairment loss could be material to our results of operations.

4. RESTRICTED CASH

Restricted cash consisted of the following (in millions):

	December 31,	
	2009	2008
Cash held in trust related to the UDS Acquisition	\$	\$ 22
Cash held in trust related to the Premcor Acquisition	7	7
Cash related to escrow agreement with the Government of Aruba (see Note 23)	115	102
Restricted cash	\$ 122	\$ 131

The cash held in trust related to the UDS Acquisition as of December 31, 2008 was released during 2009 due to the expiration of the statute of limitations for certain payments for which the cash had been restricted.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. RECEIVABLES

Receivables consisted of the following (in millions):

	December 31,	
	2009	2008
Accounts receivable	\$ 3,800	\$ 2,937
Notes receivable and other	18	16
	3,818	2,953
Allowance for doubtful accounts	(45)	(58)
Receivables, net	\$ 3,773	\$ 2,895

The changes in the allowance for doubtful accounts consisted of the following (in millions):

	Year Ended December 31,		
	2009	2008	2007
Balance as of beginning of year	\$ 58	\$ 43	\$ 33
Increase in allowance charged to expense	28	43	34
Accounts charged against the allowance, net of recoveries	(42)	(27)	(25)
Foreign currency translation	1	(1)	1
Balance as of end of year	\$ 45	\$ 58	\$ 43

6. INVENTORIES

Inventories consisted of the following (in millions):

	December 31,	
	2009	2008
Refinery feedstocks	\$ 2,124	\$ 2,140
Refined products and blendstocks	2,317	2,224
Ethanol feedstocks and products	141	
Convenience store merchandise	96	90
Materials and supplies	185	166
Inventories	\$ 4,863	\$ 4,620

Refinery feedstock and refined product and blendstock inventory volumes totaled 113 million barrels and 114 million barrels as of December 31, 2009 and 2008, respectively. In addition, the ethanol segment inventories comprised 9 million bushels of corn, 48 million gallons of ethanol, and 69,000 tons of distillers grains as of December 31, 2009. Overall during 2009, we had a net liquidation of LIFO inventory layers that were established in prior years, the effect of which was to increase cost of sales by \$66 million. There were no substantial liquidations of LIFO inventory layers for the years ended December 31, 2008 and 2007.

As of December 31, 2009 and 2008, the replacement cost (market value) of LIFO inventories exceeded their LIFO carrying amounts by approximately \$4.5 billion and \$686 million, respectively.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. PROPERTY, PLANT AND EQUIPMENT

Major classes of property, plant and equipment, which include capital lease assets, consisted of the following (in millions):

	Estimated Useful Lives	December 31, 2009	2008
Land		\$ 646	\$ 602
	10 - 33		
Crude oil processing facilities	years	20,819	19,333
Butane processing facilities	30 years	246	246
	24 - 44		
Pipeline and terminal facilities	years	668	549
Grain processing equipment	22 years	399	
Retail facilities	5 - 22 years	851	787
	13 - 47		
Buildings	years	1,013	872
Other	2 - 44 years	1,208	1,098
Construction in progress		2,756	2,632
Property, plant and equipment, at cost		28,606	26,119
Accumulated depreciation		(5,594)	(4,698)
Property, plant and equipment, net		\$ 23,012	\$ 21,421

We had crude oil processing facilities, pipeline and terminal facilities, and certain buildings and other equipment under capital leases totaling \$55 million and \$54 million as of December 31, 2009 and 2008, respectively. Accumulated amortization on assets under capital leases was \$17 million and \$13 million, respectively, as of December 31, 2009 and 2008.

Depreciation expense related to continuing operations for the years ended December 31, 2009, 2008, and 2007 was \$973 million, \$921 million, and \$848 million, respectively.

8. INTANGIBLE ASSETS

Intangible assets consisted of the following (in millions):

	December 31, 2009		December 31, 2008
	Gross Cost	Accumulated Amortization	Gross Cost
Intangible assets subject to amortization:			Accumulated Amortization
Customer lists	\$ 114	\$ (57)	\$ 97
Canadian retail operations	147	(30)	127
U.S. retail store operations	78	(64)	95
Air emission credits	62	(34)	62
Royalties and licenses	25	(14)	25
Gasoline and diesel sulfur credits			27
Other			4

Intangible assets subject to amortization	\$ 426	\$ (199)	\$ 437	\$ (213)
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All of our intangible assets are subject to amortization. Amortization expense for intangible assets was \$25 million, \$33 million, and \$48 million for the years ended December 31, 2009, 2008, and 2007,

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

respectively. The estimated aggregate amortization expense for the years ending December 31, 2010 through December 31, 2014 is as follows (in millions):

	Amortization Expense
2010	\$ 22
2011	16
2012	16
2013	16
2014	16

During the year ended December 31, 2009, both gross cost and accumulated amortization decreased by \$50 million due to the retirement of certain intangible assets, and gross cost and accumulated amortization of intangible assets increased by \$35 million and \$11 million, respectively, due to fluctuations in the Canadian dollar exchange rate.

9. GOODWILL

The changes in the carrying amount of goodwill for the year ended December 31, 2008 were as follows (in millions):

Balance as of December 31, 2007	\$ 4,019
Settlements and adjustments related to acquisition tax contingencies, stock option exercises, and other	50
Goodwill impairment loss	(4,069)
Balance as of December 31, 2008	\$

Settlements and adjustments related to acquisition tax contingencies, stock option exercises, and other reflected in the table above relate primarily to settlements and adjustments of various income tax contingencies assumed in the UDS and Premcor Acquisitions and exercises of stock options assumed in those acquisitions, the effects of which were recorded as purchase price adjustments. See Note 3 for a discussion of the goodwill impairment loss recognized in 2008.

10. DEFERRED CHARGES AND OTHER ASSETS

Deferred charges and other assets, net includes refinery turnaround and catalyst costs, which are deferred and amortized as discussed in Note 1. Amortization expense related to continuing operations for deferred refinery turnaround and catalyst costs was \$417 million, \$394 million, and \$336 million for the years ended December 31, 2009, 2008, and 2007, respectively.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
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Cameron Highway Oil Pipeline Project

We own a 50% interest in Cameron Highway Oil Pipeline Company, a general partnership formed to construct and operate a crude oil pipeline. The 390-mile crude oil pipeline delivers up to 500,000 barrels per day from the Gulf of Mexico to the major refining areas of Port Arthur and Texas City, Texas. Our investment in Cameron Highway Oil Pipeline Company is accounted for using the equity method and is included in deferred charges and other assets, net in the consolidated balance sheets. During May and June of 2007, we made cash capital contributions of \$215 million representing our 50% portion of the amount required to enable the joint venture to redeem its fixed-rate notes and variable-rate debt. As of December 31, 2009 and 2008, our investment in Cameron Highway Oil Pipeline Company totaled \$281 million and \$289 million, respectively.

11. ACCRUED EXPENSES

Accrued expenses consisted of the following (in millions):

	December 31,	
	2009	2008
Employee wage and benefit costs	\$ 156	\$ 165
Interest expense	100	66
Derivative liabilities	109	7
Environmental liabilities	41	42
Other	108	90
Accrued expenses	\$ 514	\$ 370

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. DEBT AND CAPITAL LEASE OBLIGATIONS

Debt balances, at stated values, and capital lease obligations consisted of the following (in millions):

	Maturity	December 31, 2009	2008
Bank credit facilities	Various	\$	\$
Industrial revenue bonds:			
Tax-exempt Revenue Refunding Bonds (a):			
Series 1997A, 5.45%	2027	24	24
Series 1997B, 5.40%	2018	33	33
Series 1997C, 5.40%	2018	33	33
Series 1997D, 5.125%	2009		9
Tax-exempt Waste Disposal Revenue Bonds:			
Series 1997, 5.6%	2031	25	25
Series 1998, 5.6%	2032	25	25
Series 1999, 5.7%	2032	25	25
Series 2001, 6.65%	2032	19	19
3.50% notes	2009		200
4.75% notes	2013	300	300
4.75% notes	2014	200	200
6.125% notes	2017	750	750
6.625% notes	2037	1,500	1,500
6.875% notes	2012	750	750
7.50% notes	2032	750	750
8.75% notes	2030	200	200
Debentures:			
7.25%	2010	25	25
7.65%	2026	100	100
8.75%	2015	75	75
Senior Notes:			
6.125%	2011	200	200
6.70%	2013	180	180
6.75%	2011	210	210
6.75%	2014	185	185
6.75%	2037	24	100
7.20%	2017	200	200
7.45%	2097	100	100
7.50%	2015	287	287
9.375%	2019	750	
10.50%	2039	250	
Other debt	2010	200	100
Net unamortized discount, including fair value adjustments		(56)	(68)
Total debt		7,364	6,537
Capital lease obligations, including unamortized fair value adjustments of \$3 and \$3		36	39

Total debt and capital lease obligations	7,400	6,576
Less current portion	(237)	(312)
Debt and capital lease obligations, less current portion	\$ 7,163	\$ 6,264

- (a) The maturity dates reflected for the Series 1997A, 1997B, and 1997C tax-exempt revenue refunding bonds represent their final maturity dates; however, principal payments on these bonds commence in 2010.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
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Bank Credit Facilities

We have a revolving credit facility (the Revolver) that has a maturity date of November 2012. As of December 31, 2008, the Revolver had a borrowing capacity of \$2.5 billion. In October 2009, Aurora Bank FSB (Aurora, formerly Lehman Brothers Bank, FSB), one of the participating banks under the Revolver, failed to fund its loan commitment related to our borrowing under this facility. Aurora's aggregate commitment under the Revolver was \$84 million. As a result, our borrowing capacity under the Revolver has been effectively reduced to \$2.4 billion. Borrowings under the Revolver bear interest at LIBOR plus a margin, or an alternate base rate as defined under the agreement. We are also being charged various fees and expenses in connection with the Revolver, including facility fees and letter of credit fees. The interest rate and fees under the Revolver are subject to adjustment based upon the credit ratings assigned to our non-bank debt. The Revolver also includes certain restrictive covenants including a debt-to-capitalization ratio. During the years ended December 31, 2009 and 2008, we borrowed and repaid \$39 million and \$296 million, respectively, under the Revolver. There were no borrowings under the Revolver during the year ended December 31, 2007. As of December 31, 2009 and 2008, there were no borrowings outstanding under the Revolver and letters of credit outstanding under this committed facility totaled \$104 million and \$199 million, respectively.

In addition to the Revolver, one of our Canadian subsidiaries has a committed revolving credit facility under which it may borrow and obtain letters of credit up to Cdn. \$115 million. In December 2007, the Canadian credit facility was amended to extend the maturity date from December 2010 to December 2012. As of December 31, 2009 and 2008, we had no borrowings outstanding under our Canadian credit facility and letters of credit issued under this credit facility totaled Cdn. \$22 million and Cdn. \$19 million, respectively.

In June 2008, we entered into a one-year committed revolving letter of credit facility under which we may obtain letters of credit of up to \$300 million to support certain of our crude oil purchases. In June 2009, we amended this agreement to extend the maturity date to June 2010. We are being charged letter of credit issuance fees in connection with this letter of credit facility. As of December 31, 2009 and 2008, we had \$195 million and \$150 million, respectively, of outstanding letters of credit issued under this revolving credit facility.

In July 2008, we entered into a one-year committed revolving letter of credit facility under which we could obtain letters of credit of up to \$275 million. As of December 31, 2008, we had \$82 million of outstanding letters of credit issued under this credit facility. This credit facility expired in July 2009.

We also have various uncommitted short-term bank credit facilities. As of December 31, 2009 and 2008, we had no borrowings outstanding under our uncommitted short-term bank credit facilities; however, there were \$259 million and \$201 million, respectively, of letters of credit outstanding under such facilities for which we are charged letter of credit issuance fees. The uncommitted credit facilities have no commitment fees or compensating balance requirements.

During April 2007, we borrowed \$3 billion under a 364-day term credit agreement with a financial institution to fund the accelerated share repurchase program discussed in Note 14. The term loan bore interest at LIBOR plus a margin, or an alternate base rate as defined under the term credit agreement. In May 2007, we repaid \$500 million of the borrowings under the term credit agreement. The remaining

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

balance of \$2.5 billion was repaid in June 2007 using available cash and proceeds from our issuance of long-term notes in June 2007 described below.

Non-Bank Debt

In February 2007, we redeemed our 9.25% senior notes for \$183 million, or 104.625% of stated value. These notes had a carrying amount of \$187 million on the date of redemption, resulting in a gain of \$4 million that was included in other income, net in the consolidated statement of income. In addition, we made scheduled debt repayments of \$230 million in April 2007 related to our 6.125% notes and \$50 million in November 2007 related to our 6.311% CORE notes.

In June 2007, we issued \$750 million of 6.125% notes due June 15, 2017 and \$1.5 billion of 6.625% notes due June 15, 2037. Proceeds from the issuance of these notes totaled \$2.245 billion, before deducting underwriting discounts of \$18 million.

On February 1, 2008, we redeemed our 9.50% senior notes for \$367 million, or 104.75% of stated value. These notes had a carrying amount of \$381 million on the date of redemption, resulting in a gain of \$14 million that was included in other income, net in the consolidated statement of income. In addition, in March 2008, we made a scheduled debt repayment of \$7 million related to certain of our other debt.

In March 2009, we issued \$750 million of 9.375% notes due March 15, 2019 and \$250 million of 10.5% notes due March 15, 2039. Proceeds from the issuance of these notes totaled \$998 million, before deducting underwriting discounts and other issuance costs of \$8 million.

On April 1, 2009, we made scheduled debt repayments of \$200 million related to our 3.5% notes and \$9 million related to our 5.125% Series 1997D industrial revenue bonds.

Under the indenture related to our \$100 million of 6.75% senior notes with a maturity date of October 15, 2037, on July 31, 2009, we notified the holders of such notes of our obligation to purchase any of those notes for which a written notice of purchase (purchase notice) was received from the holders prior to September 15, 2009. A purchase notice was received related to \$76 million of the outstanding notes, which resulted in a charge of \$6 million in the third quarter of 2009 to write off a pro rata portion of unamortized fair value adjustment. We redeemed the \$76 million of notes at 100% of their principal amount plus accrued and unpaid interest to October 15, 2009, the date of the payment of the purchase price.

In February 2010, we issued \$400 million of 4.50% notes due in February 2015 and \$850 million of 6.125% notes due in February 2020. Proceeds from the issuance of these notes totaled approximately \$1.24 billion, before deducting underwriting discounts of \$8 million, and will be used for general corporate purposes, including the refinancing of debt.

Also in February 2010, we called for redemption our 7.50% senior notes with a maturity date of June 15, 2015 for \$294 million, or 102.5% of stated value. The redemption date will be March 15, 2010. These notes will have a carrying amount of \$296 million as of the redemption date, resulting in a small gain on the redemption.

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**VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Accounts Receivable Sales Facility

We have an accounts receivable sales facility with a group of third-party entities and financial institutions to sell on a revolving basis up to \$1 billion of eligible trade receivables. In June 2009, we amended the agreement to extend the maturity date to June 2010. We use this program as a source of working capital funding. Under this program, one of our marketing subsidiaries (Valero Marketing) sells eligible receivables, without recourse, to another of our subsidiaries (Valero Capital), whereupon the receivables are no longer owned by Valero Marketing. Valero Capital, in turn, sells an undivided percentage ownership interest in the eligible receivables, without recourse, to the third-party entities and financial institutions. To the extent that Valero Capital retains an ownership interest in the receivables it has purchased from Valero Marketing, such interest is included in our consolidated financial statements solely as a result of the consolidation of the financial statements of Valero Capital with those of Valero Energy Corporation; the receivables are not available to satisfy the claims of the creditors of Valero Marketing or Valero Energy Corporation. As of December 31, 2009 and 2008, \$1.8 billion and \$1.3 billion, respectively, of our accounts receivable composed the designated pool of accounts receivable included in the program. The amount of eligible receivables sold to the third-party entities and financial institutions was \$200 million and \$100 million as of December 31, 2009 and 2008, respectively. Proceeds from the sale of receivables under this facility are reflected as debt in our consolidated balance sheets and is presented as other debt in the table of debt and capital leases at the beginning of this Note 12. During the year ended December 31, 2009, we sold additional eligible receivables under this program of \$950 million and repaid \$850 million.

We remain responsible for servicing the receivables sold to the third-party entities and financial institutions and pay certain fees related to our sale of receivables under the program. The costs we incurred related to this facility were \$8 million, \$6 million, and \$40 million for the years ended December 31, 2009, 2008, and 2007, respectively. Proceeds from collections under this facility of \$5.5 billion, \$3.3 billion, and \$19.3 billion for the years ended December 31, 2009, 2008, and 2007, respectively, were reinvested in the program by the third-party entities and financial institutions. However, the third-party entities and financial institutions interests in our accounts receivable were never in excess of the sales facility limits at any time under this program. No accounts receivable included in this program were written off during 2009, 2008, or 2007.

Other Disclosures

Our revolving bank credit facilities and other debt arrangements contain various customary restrictive covenants, including cross-default and cross-acceleration clauses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Principal payments due on debt as of December 31, 2009 were as follows (in millions):

2010	\$ 233
2011	418
2012	759
2013	489
2014	395
Thereafter	5,126
Net unamortized discount and fair value adjustments	(56)
 Total	 \$ 7,364

For payments due on capital lease obligations, see Note 23.

As of December 31, 2009 and 2008, the estimated fair value of our debt, including current portion, was as follows (in millions):

	December 31,	December 31,
	2009	2008
Carrying amount	\$ 7,364	\$ 6,537
Fair value	8,228	6,462

13. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consisted of the following (in millions):

	December 31,	December 31,
	2009	2008
Employee benefit plan liabilities	\$ 703	\$ 1,036
Tax liabilities for uncertain income tax positions	481	226
Environmental liabilities	238	255
Other tax liabilities	103	189
Insurance liabilities	84	90
Asset retirement obligations	76	72
Deferred gain on sale of assets to NuStar Energy L.P.	70	92
Unfavorable lease obligations	32	38
Other	82	160
 Other long-term liabilities	 \$ 1,869	 \$ 2,158

Employee benefit plan liabilities include the long-term obligation for our pension and other postretirement benefit plans as discussed in Note 21 as well as certain other employee benefit obligations. Tax liabilities for uncertain income tax positions are discussed in Note 19. Environmental liabilities reflect the long-term portion of our estimated remediation costs for environmental matters as discussed in Note 24. Other tax liabilities include long-term liabilities for various taxes such as sales, franchise, and excise taxes as well as interest accrued on all tax-related liabilities, including income taxes.

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Insurance liabilities reflect reserves established by our captive insurance subsidiary, self-insured liabilities, and obligations for losses related to our participation in certain mutual insurance companies. Deferred gain reflects the unamortized balance of the proceeds in excess of the carrying amount of assets we sold to NuStar Energy L.P., which we recognize in income over the term of certain throughput and handling agreements with NuStar Energy L.P.

Unfavorable lease obligations reflect the fair value of liabilities assumed in connection with the Premcor Acquisition related to lease agreements for closed retail facilities and the UDS Acquisition related to lease agreements for retail facilities and vessel charters. Included in other are liabilities for various matters including legal and regulatory liabilities and various contractual obligations.

The table below reflects the changes in our asset retirement obligations (in millions). See Note 1 under *Asset Retirement Obligations* for a discussion of the liability related to these obligations. Asset retirement obligations related to our shutdown Delaware City Refinery are included in current and long-term liabilities related to discontinued operations in our consolidated balance sheets.

	Year Ended December 31,		
	2009	2008	2007
Balance as of beginning of year	\$ 72	\$ 70	\$ 51
Additions to accrual	4	4	1
Accretion expense	3	3	2
Settlements	(3)	(4)	(13)
Changes in timing and amount of estimated cash flows			28
Foreign currency translation		(1)	1
Balance as of end of year	\$ 76	\$ 72	\$ 70

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14. STOCKHOLDERS' EQUITY***Share Activity***

For the years ended December 31, 2009, 2008, and 2007, activity in the number of shares of common stock and treasury stock was as follows (in millions):

	Common Stock	Treasury Stock
Balance as of December 31, 2006	627	(24)
Shares repurchased under \$6 billion common stock purchase program		(70)
Shares issued, net of shares repurchased, in connection with employee stock plans and other		3
Balance as of December 31, 2007	627	(91)
Shares repurchased under \$6 billion common stock purchase program		(18)
Shares repurchased, net of shares issued, in connection with employee stock plans and other		(2)
Balance as of December 31, 2008	627	(111)
Sale of common stock	46	
Shares issued, net of shares repurchased, in connection with employee stock plans and other		2
Balance as of December 31, 2009	673	(109)

Common Stock Offering

On June 3, 2009, we sold in a public offering 46 million shares of our common stock, which included 6 million shares related to an overallotment option exercised by the underwriters, at a price of \$18.00 per share and received proceeds, net of underwriting discounts and commissions and other issuance costs, of \$799 million.

Preferred Stock

We have 20 million shares of preferred stock authorized with a par value of \$.01 per share. No shares of preferred stock were outstanding during the years ended December 31, 2009, 2008, and 2007.

Treasury Stock

We purchase shares of our common stock in open market transactions to meet our obligations under employee benefit plans. We also purchase shares of our common stock from our employees and non-employee directors in connection with the exercise of stock options, the vesting of restricted stock, and other stock compensation transactions.

On April 25, 2007, our board of directors approved an amendment to our pre-existing \$2 billion common stock purchase program to increase the authorized purchases under the program to \$6 billion. Stock purchases under the program are made from time to time at prevailing prices as permitted by securities laws and other legal requirements, and are subject to market conditions and other factors. The program does not have a scheduled expiration date.

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In conjunction with the increase in our common stock purchase program, we entered into an agreement with a financial institution to purchase \$3 billion of our shares under an accelerated share repurchase program, and in late April 2007, 42.1 million shares were purchased under this agreement. As described in Note 12 above, the purchase of these shares was initially funded with a 364-day term credit agreement, which we subsequently replaced with longer-term financing. The cost of the shares purchased under this accelerated share repurchase program was to be adjusted at the expiration of the program, with the final purchase cost based on a discount to the average trading price of our common stock, weighted by the daily volume of shares traded, during the program period. Any adjustment to the cost could be paid in cash or stock, at our option.

The accelerated share repurchase program was completed on July 23, 2007, and we elected to pay in cash an additional \$94 million for the shares purchased. This cash payment was deducted from reported income from continuing operations in calculating earnings per common share from continuing operations assuming dilution for the year ended December 31, 2007 (see Note 15).

On February 28, 2008, our board of directors approved a \$3 billion common stock purchase program, which is in addition to the remaining amount under the \$6 billion program previously authorized. This additional \$3 billion program has no expiration date. As of December 31, 2009, we had made no purchases of our common stock under this \$3 billion program. As of December 31, 2009, we have approvals under these stock purchase programs to purchase approximately \$3.5 billion of our common stock.

During the years ended December 31, 2009, 2008, and 2007, we purchased 0.2 million, 23.0 million, and 84.3 million shares of our common stock, respectively, at a cost of \$4 million, \$955 million, and \$5.8 billion, respectively. These purchases were made in connection with the administration of our employee benefit plans and the \$6 billion common stock purchase program authorized by our board of directors, including the effect of the accelerated share repurchase program discussed above. During the years ended December 31, 2009, 2008, and 2007, we issued 2.7 million, 2.5 million, and 16.1 million shares from treasury, respectively, for our employee benefit plans.

Common Stock Dividends

On January 26, 2010, our board of directors declared a quarterly cash dividend of \$0.05 per common share payable March 17, 2010 to holders of record at the close of business on February 17, 2010.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
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Accumulated Other Comprehensive Income

Accumulated balances for each component of accumulated other comprehensive income (loss) were as follows (in millions):

	Foreign Currency	Pension/OPEB	Net Gain (Loss) On Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
	Translation Adjustment	Liability Adjustment		
Balance as of December 31, 2006	\$ 330	\$ (110)	\$ 45	\$ 265
2007 change	250	86	(28)	308
Balance as of December 31, 2007	580	(24)	17	573
2008 change	(490)	(411)	152	(749)
Balance as of December 31, 2008	90	(435)	169	(176)
2009 change	375	218	(52)	541
Balance as of December 31, 2009	\$ 465	\$ (217)	\$ 117	\$ 365

Preferred Share Purchase Rights

Prior to June 30, 2007, each outstanding share of our common stock was accompanied by one preferred share purchase right (Right). With certain exceptions, each Right entitled the registered holder to purchase from us .0025 of a share of our Junior Participating Preferred Stock, Series I at a price of \$100 per .0025 of a share, subject to adjustment for certain recapitalization events. These Rights expired on June 30, 2007.

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15. EARNINGS (LOSS) PER SHARE

Earnings (loss) per common share amounts from continuing operations were computed as follows (dollars and shares in millions, except per share amounts):

	Year Ended December 31,					
	2009		2008		2007	
	Restricted Stock	Common Stock	Restricted Stock	Common Stock	Restricted Stock	Common Stock
Earnings (loss) per common share from continuing operations:						
Income (loss) from continuing operations		\$ (352)		\$ (1,012)		\$ 4,377
Less dividends paid:						
Common stock		323		298		270
Nonvested restricted stock		1		1		1
Undistributed earnings (loss)		\$ (676)		\$ (1,311)		\$ 4,106
Weighted-average common shares outstanding	2	541	1	524	1	565
Earnings (loss) per common share from continuing operations:						
Distributed earnings	\$ 0.61	\$ 0.60	\$ 0.56	\$ 0.57	\$ 0.47	\$ 0.48
Undistributed earnings (loss)		(1.25)		(2.50)	7.25	7.25
Total earnings (loss) per common share from continuing operations (1)	\$ 0.61	\$ (0.65)	\$ 0.56	\$ (1.93)	\$ 7.72	\$ 7.73
Earnings (loss) per common share from continuing operations assuming dilution:						
Income (loss) from continuing operations		\$ (352)		\$ (1,012)		\$ 4,377
Less: Cash paid in final settlement of accelerated share repurchase program						94
Income (loss) from continuing operations assuming dilution		\$ (352)		\$ (1,012)		\$ 4,283
Weighted-average common shares outstanding		541		524		565
Common equivalent shares (2):						
Stock options						13
Restricted stock and other						1

Weighted-average common shares outstanding assuming dilution	541	524	579
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Earnings (loss) per common share from continuing operations - assuming dilution	\$ (0.65)	\$ (1.93)	\$ 7.40
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(1) In addition to the change in earnings (loss) per common share from continuing operations resulting from the reclassification of the results of operations of the Delaware City Refinery as discontinued operations, the basic earnings per common share amount for the year ended December 31, 2007 decreased by \$0.02 per share from the amount originally reported as a result of the adoption of certain modifications that require our restricted stock to be treated as a participating security in calculating basic earnings per common share effective January 1, 2009, as

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discussed in
 Note 1. The
 change related
 to our restricted
 stock had no
 effect on the
 basic loss per
 common share
 originally
 reported for the
 year ended
 December 31,
 2008.

- (2) Common
 equivalent
 shares were
 excluded from
 the computation
 of diluted loss
 per share for the
 years ended
 December 31,
 2009 and 2008
 because the
 effect of
 including such
 shares would be
 antidilutive.

The following table reflects potentially dilutive securities that were excluded from the calculation of earnings (loss) per common share from continuing operations assuming dilution as the effect of including such securities would have been antidilutive (in millions). For the years ended December 31, 2009 and 2008, common equivalent shares, which represent primarily stock options, were excluded as a result of the net losses reported for 2009 and 2008. In addition, for all years, certain stock option amounts presented below were excluded, representing outstanding stock options for which the exercise prices were greater than the average market price of the common shares during each respective reporting period.

	Year Ended December 31,		
	2009	2008	2007
Common equivalent shares	4	7	
Stock options	12	7	2

16. SUPPLEMENTAL CASH FLOW INFORMATION

In order to determine net cash provided by operating activities, net income (loss) is adjusted by, among other things, changes in current assets and current liabilities as follows (in millions):

Year Ended December 31,

	2009	2008	2007
Decrease (increase) in current assets:			
Restricted cash	\$ 9	\$ (100)	\$
Receivables, net	(806)	4,865	(3,227)
Inventories	(77)	(705)	(249)
Income taxes receivable	(668)	(197)	32
Prepaid expenses and other	47	(7)	(58)
Increase (decrease) in current liabilities:			
Accounts payable	1,475	(4,985)	2,557
Accrued expenses	73	(51)	(20)
Taxes other than income taxes	107	(4)	15
Income taxes payable	95	(446)	481
Changes in current assets and current liabilities	\$ 255	\$ (1,630)	\$ (469)

The above changes in current assets and current liabilities differ from changes between amounts reflected in the applicable consolidated balance sheets for the respective periods for the following reasons:

the amounts shown above exclude changes in cash and temporary cash investments, deferred income taxes, and current portion of debt and capital lease obligations, as well as the effect of certain noncash investing and financing activities discussed below;

the amounts shown above exclude the current assets and current liabilities acquired in connection with the VeraSun Acquisition;

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amounts accrued for capital expenditures, deferred turnaround and catalyst costs, and contingent earn-out payments are reflected in investing activities in the consolidated statements of cash flows when such amounts are paid;

amounts accrued for common stock purchases in the open market that are not settled as of the balance sheet date are reflected in financing activities in the consolidated statements of cash flows when the purchases are settled and paid;

changes in assets and liabilities related to the discontinued operations of the Delaware City Refinery prior to its shutdown are reflected in the line items to which the changes relate in the table above;

changes in assets held for sale and liabilities related to assets held for sale pertaining to the operations of the Krotz Springs Refinery and the Lima Refinery prior to their sales are reflected in the line items to which the changes relate in the table above; and

certain differences between consolidated balance sheet changes and consolidated statement of cash flow changes reflected above result from translating foreign currency denominated amounts at different exchange rates.

There were no significant noncash investing or financing activities for the year ended December 31, 2009. Noncash investing activities for the year ended December 31, 2008 included the contingent consideration received in the form of the earn-out agreement related to the sale of the Krotz Springs Refinery discussed in Note 2. Noncash investing activities for the years ended December 31, 2008 and 2007 included adjustments to goodwill and certain noncurrent liabilities resulting from adjustments to the purchase price allocations related to the Premcor and UDS Acquisitions (as discussed in Note 9).

Cash flows related to the discontinued operations of the Delaware City Refinery and the Lima Refinery have been combined with the cash flows from continuing operations within each category in the consolidated statements of cash flows for all years presented and are summarized as follows (in millions):

	Year Ended December 31,		
	2009	2008	2007
Cash provided by (used in) operating activities:			
Delaware City Refinery	\$ (126)	\$ 81	\$ 348
Lima Refinery			260
Cash used in investing activities:			
Delaware City Refinery	(153)	(268)	(130)
Lima Refinery			(14)

Cash flows related to interest and income taxes were as follows (in millions):

	Year Ended December 31,		
	2009	2008	2007
Interest paid in excess of amount capitalized	\$ 390	\$ 351	\$ 331
Income taxes paid (net of tax refunds received)	(165)	1,455	2,014

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17. FAIR VALUE MEASUREMENTS

A fair value hierarchy (Level 1, Level 2, or Level 3) is used to categorize fair value amounts based on the quality of inputs used to measure fair value. Accordingly, fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs are based on quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. We use appropriate valuation techniques based on the available inputs to measure the fair values of our applicable assets and liabilities. When available, we measure fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The tables below present information (dollars in millions) about our financial assets and liabilities measured and recorded at fair value on a recurring basis and indicate the fair value hierarchy of the inputs utilized by us to determine the fair values as of December 31, 2009 and 2008.

	Fair Value Measurements Using			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total as of December 31, 2009
Assets:				
Commodity derivative contracts	\$ 10	\$ 349	\$	\$ 359
Nonqualified benefit plans	99		10	109
Liabilities:				
Commodity derivative contracts	100	9		109
Certain nonqualified benefit plans	34			34

	Fair Value Measurements Using			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total as of December 31, 2008
Assets:				
Commodity derivative contracts	\$ 40	\$ 610	\$	\$ 650
Nonqualified benefit plans	98			98
Alon earn-out agreement			13	13
Liabilities:				
Commodity derivative contracts		7		7
Certain nonqualified benefit plans	26			26

The valuation methods used to measure our financial instruments at fair value are as follows:

Commodity derivative contracts, consisting primarily of exchange-traded futures and swaps, are measured at fair value using the market approach. Exchange-traded futures are valued based on quoted prices from the exchange and are categorized in Level 1 of the fair value hierarchy.

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Swaps are priced using third-party broker quotes, industry pricing services, and exchange-traded curves, with appropriate consideration of counterparty credit risk, but since they have contractual terms that are not identical to exchange-traded futures instruments with a comparable market price, these financial instruments are categorized in Level 2 of the fair value hierarchy.

The nonqualified benefit plan assets and certain nonqualified benefit plan liabilities categorized in Level 1 of the fair value hierarchy are measured at fair value using a market approach based on quotations from national security exchanges. The nonqualified benefit plan assets categorized in Level 3 of the fair value hierarchy represent insurance contracts, the fair values of which are provided by the insurer.

The Alon earn-out agreement, which we received as partial consideration for the sale of our Krotz Springs Refinery in July 2008, was measured at fair value using a discounted cash flow model and was categorized in Level 3 of the fair value hierarchy through July 2009. Significant inputs to the model included expected payments and discount rates that considered the effects of both credit risk and the time value of money. On August 27, 2009, we settled the Alon earn-out agreement as discussed in Note 2. We have elected not to apply the fair value option to this settlement receivable.

Cash received from brokers of \$64 million, resulting from the equity in broker accounts covered by master netting arrangements exceeding the minimum margin requirements for such accounts, is netted against the fair value of the commodity derivatives reflected in Level 1. Certain of our commodity derivative contracts under master netting arrangements include both asset and liability positions. We have elected to offset the fair value amounts recognized for multiple similar derivative instruments executed with the same counterparty, including any related cash collateral asset or obligation.

The following is a reconciliation of the beginning and ending balances (in millions) for fair value measurements developed using significant unobservable inputs for the years ended December 31, 2009 and 2008.

	Year Ended December	
	31,	
	2009	2008
Balance at beginning of year	\$ 13	\$
Alon earn-out agreement (see Note 2)	(33)	171
Net realized and unrealized gains (losses) included in earnings	20	(158)
Transfers in and/or out of Level 3	10	
Balance at end of year	\$ 10	\$ 13

The above realized and unrealized gains and losses, which are reported in other income, net in the consolidated statements of income, related to the Alon earn-out agreement that was settled in August 2009, as discussed above. These gains and losses were offset by the recognition in other income, net of losses and gains on derivative instruments entered into to hedge the risk of changes in the fair value of the Alon earn-out agreement. The derivative instruments used to hedge the Alon earn-out agreement prior to the settlement are included in the commodity derivative contracts amounts reflected in the fair value table as of December 31, 2008 above.

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The table below presents information (dollars in millions) about our nonfinancial assets and liabilities measured and recorded at fair value on a nonrecurring basis that arose on or after January 1, 2009, and indicates the fair value hierarchy of the inputs utilized by us to determine the fair values as of December 31, 2009.

	Fair Value Measurements Using				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total as of December 31, 2009	Total Gains (Losses)
Assets:					
Long-lived assets of discontinued Delaware City Refinery	\$	\$	\$ 15	\$ 15	\$ (1,901)
Cancelled capital projects in progress related to continuing operations					(230)
Liabilities:					
Asset retirement obligations			108	108	(95)

The \$15 million fair value of the discontinued Delaware City Refinery represents our estimated net realizable value for the combined cycle power plant, which was the only part of the refinery that was deemed to have any salvage value as of December 31, 2009. The \$1.9 billion loss, which is reflected in discontinued operations for the year ended December 31, 2009, relates to the impairment loss recognized related to all long-lived assets of the Delaware City Refinery, as discussed further in Notes 2 and 3. See Note 3 for a discussion of the loss resulting from the cancellation of various capital projects in progress.

Asset retirement obligations in the table above are calculated based on the present value of estimated removal and other closure costs using our internal risk-free rate of return or appropriate equivalent. The \$95 million loss relates to asset retirement costs associated with the shutdown of the Delaware City Refinery, which is included in the loss from discontinued operations in the consolidated statement of income for the year ended December 31, 2009.

18. PRICE RISK MANAGEMENT ACTIVITIES

We enter into derivative instruments to manage our exposure to commodity price risk, interest rate risk, and foreign currency risk, and to hedge price risk on other contractual derivatives into which we have entered. In addition, we use derivative instruments for trading purposes based on our fundamental and technical analysis of market conditions. All derivative instruments are recorded on our balance sheet as either assets or liabilities measured at their fair values. When we enter into a derivative instrument, it is designated as a fair value hedge, a cash flow hedge, an economic hedge, or a trading activity. The gain or loss on a derivative instrument designated and qualifying as a fair value hedge, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized currently in income in the same period. The effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedge is initially reported as a component of other comprehensive income and is then recorded in income in the period or periods during which the hedged forecasted transaction affects

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income. The ineffective portion of the gain or loss on the cash flow derivative instrument, if any, is recognized in income as incurred. For our economic hedging relationships (hedges not designated as fair value or cash flow hedges) and for derivative instruments entered into by us for trading purposes, the derivative instrument is recorded at fair value and changes in the fair value of the derivative instrument are recognized currently in income. The cash flow effects of all of our derivative contracts are reflected in operating activities in the consolidated statements of cash flows for all periods presented.

Commodity Price Risk

We are exposed to market risks related to the volatility of crude oil, refined product, and grain prices, as well as volatility in the price of natural gas used in our refining operations. To reduce the impact of this price volatility on our results of operations and cash flows, we use commodity derivative instruments, including swaps, futures, and options, to manage our exposure to commodity price risks. For such risk management purposes, we use fair value hedges, cash flow hedges, and economic hedges.

In addition to the use of derivative instruments to manage commodity price risk, we also enter into certain commodity derivative instruments for trading purposes. Our objectives for entering into each of these types of derivative instruments and the level of activity of each as of December 31, 2009 are described below.

Fair Value Hedges

Fair value hedges are used to hedge certain refining inventories and firm commitments to purchase inventories. The level of activity for our fair value hedges is based on the level of our operating inventories, and normally represents the amount by which our inventories differ from our previous year-end LIFO inventory levels.

As of December 31, 2009, we had the following outstanding commodity derivative instruments that were entered into to hedge crude oil and refined product inventories. The information presents the volume of outstanding contracts by type of instrument and year of maturity (volumes in thousands of barrels).

Derivative Instrument / Maturity	Contract Volumes
Futures short (2010)	4,880
	105

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Cash Flow Hedges

Cash flow hedges are used to hedge certain forecasted feedstock and product purchases, refined product sales, and natural gas purchases. The purpose of our cash flow hedges is to lock in the price of forecasted feedstock, product, or natural gas purchases or refined product sales at existing market prices that are deemed favorable by management.

As of December 31, 2009, we had the following outstanding commodity derivative instruments that were entered into to hedge forecasted purchases or sales of crude oil and refined products. The information presents the volume of outstanding contracts by type of instrument and year of maturity (volumes in thousands of barrels).

Derivative Instrument / Maturity	Contract Volumes
Swaps long:	
2010	42,600
Swaps short:	
2010	42,600
	106

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Economic Hedges

Economic hedges are hedges not designated as fair value or cash flow hedges that are used to (i) manage price volatility in certain refinery feedstock, refined product, and grain inventories, and (ii) manage price volatility in certain forecasted refinery feedstock, product, and grain purchases, refined product sales, and natural gas purchases. In addition, through August 2009, we used economic hedges to manage price volatility in the referenced product margins associated with the Alon earn-out agreement, which was a separate contractual derivative that we entered into with the sale of our Krotz Springs Refinery but which was settled in August 2009, as further discussed in Note 2. Our objective in entering into economic hedges is consistent with the objectives discussed above for fair value hedges and cash flow hedges. However, the economic hedges are not designated as a fair value hedge or a cash flow hedge for accounting purposes, usually due to the difficulty of establishing the required documentation at the date that the derivative instrument is entered into that would allow us to achieve hedge deferral accounting. As of December 31, 2009, we had the following outstanding commodity derivative instruments that were entered into as economic hedges. The information presents the volume of outstanding contracts by type of instrument and year of maturity (volumes in thousands of barrels, except those identified as grain contracts that are presented in thousands of bushels).

Derivative Instrument / Maturity	Contract Volumes
Swaps long:	
2010	139,901
2011	27,250
Swaps short:	
2010	88,244
2011	23,875
Futures long:	
2010	204,810
2010 (grain)	7,155
2011 (grain)	150
Futures short:	
2010	199,566
2010 (grain)	23,250
2011 (grain)	160
Options long:	
2010	522
Options short:	
2010	500
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Trading Activities

These represent commodity derivative instruments held or issued for trading purposes. Our objective in entering into commodity derivative instruments for trading purposes is to take advantage of existing market conditions related to crude oil and refined products that management perceives as opportunities to benefit our results of operations and cash flows, but for which there are no related physical transactions. As of December 31, 2009, we had the following outstanding commodity derivative instruments that were entered into for trading purposes. The information presents the volume of outstanding contracts by type of instrument and year of maturity (volumes represent thousands of barrels, except those identified as natural gas contracts that are presented in billions of British thermal units).

Derivative Instrument / Maturity	Contract Volumes
Swaps long:	
2010	27,201
2011	3,000
Swaps short:	
2010	31,201
2011	3,900
Futures long:	
2010	40,188
2011	10
2010 (natural gas)	100
Futures short:	
2010	40,164
2011	10
2010 (natural gas)	100
Options long:	
2010	250
Options short:	
2010	1,250

Interest Rate Risk

Our primary market risk exposure for changes in interest rates relates to our debt obligations. We manage our exposure to changing interest rates through the use of a combination of fixed-rate and floating-rate debt. In addition, we have at times used interest rate swap agreements to manage our fixed to floating interest rate position by converting certain fixed-rate debt to floating-rate debt. These interest rate swap agreements are generally accounted for as fair value hedges. However, we had no outstanding interest rate swap agreements during the years ended December 31, 2009, 2008, and 2007.

Foreign Currency Risk

We are exposed to exchange rate fluctuations on transactions related to our Canadian operations. To manage our exposure to these exchange rate fluctuations, we use foreign currency exchange and purchase contracts. These contracts are not designated as hedging instruments for accounting purposes, and therefore they are classified as economic hedges. As of December 31, 2009, we had commitments to purchase \$456 million of U.S. dollars and commitments to sell \$604 million of U.S. dollars. These commitments matured on or before February 1, 2010, resulting in a \$3 million loss in the first quarter of 2010.

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Fair Values of Derivative Instruments

The following tables provide information about the fair values of our derivative instruments as of December 31, 2009 (in millions) and the line items in the balance sheet in which the fair values are reflected. See Note 17 for additional information related to the fair values of our derivative instruments. As indicated in Note 17, we net fair value amounts recognized for multiple similar derivative instruments executed with the same counterparty under master netting arrangements. The table below, however, is presented on a gross asset and gross liability basis, which results in the reflection of certain assets in liability accounts and certain liabilities in asset accounts. In addition, in Note 17 we netted cash received from brokers attributable to excess margin against the fair value of the commodity derivatives; this cash receipt is not reflected in the table below.

	Asset Derivatives		Liability Derivatives	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value
	Location		Location	
<u>Derivatives designated as hedging instruments</u>				
Commodity contracts:				
Futures	Receivables, net	\$ 1	Receivables, net	\$ 2
Futures	Accrued expenses	13	Accrued expenses	37
Swaps	Receivables, net	308	Receivables, net	271
Swaps	Prepaid expenses and other current assets	579	Prepaid expenses and other current assets	415
Swaps	Accrued expenses	28	Accrued expenses	19
Total derivatives designated as hedging instruments		\$ 929		\$ 744

Derivatives not designated as hedging instruments

Commodity contracts:				
Futures	Receivables, net	\$ 34	Receivables, net	\$ 29
Futures	Accrued expenses	2,094	Accrued expenses	2,101
Swaps	Receivables, net	506	Receivables, net	370
Swaps	Prepaid expenses and other current assets	1,049	Prepaid expenses and other current assets	1,037
Swaps	Accrued expenses	46	Accrued expenses	62
Options	Prepaid expenses and other current assets		Prepaid expenses and other current assets	
Options	Accrued expenses		Accrued expenses	1
Foreign currency contracts	Receivables, net		Accounts payable	
Total derivatives not designated as hedging instruments		\$ 3,729		\$ 3,600

Total derivatives	\$ 4,658	\$ 4,344
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Market and Counterparty Risk

Our price risk management activities involve the receipt or payment of fixed price commitments into the future. These transactions give rise to market risk, the risk that future changes in market conditions may make an instrument less valuable. We closely monitor and manage our exposure to market risk on a daily basis in accordance with policies approved by our board of directors. Market risks are monitored by a risk control group to ensure compliance with our stated risk management policy. Concentrations of customers in the refining industry may impact our overall exposure to counterparty risk, in that these customers may be similarly affected by changes in economic or other conditions. In addition, financial services companies are the counterparties in certain of our price risk management activities, and such financial services companies may be adversely affected by periods of uncertainty and illiquidity in the credit and capital markets.

As of December 31, 2009, we had net receivables related to derivative instruments of \$19 million from counterparties in the refining industry and \$157 million from counterparties in the financial services industry. These amounts represent the aggregate receivables from companies in those industries, reduced by payables from us to those companies under master netting arrangements that allow for the setoff of amounts receivable from and payable to the same party. We do not require any collateral or other security to support derivative instruments into which we enter. We also do not have any derivative instruments that require us to maintain a minimum investment-grade credit rating.

Effect of Derivative Instruments on Statements of Income and Other Comprehensive Income

The following tables provide information about the gain or loss recognized in income and other comprehensive income on our derivative instruments for the year ended December 31, 2009 (in millions), and the line items in the financial statements in which such gains and losses are reflected.

Derivatives in Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized in Income on Derivatives Cost of	Amount of Gain or (Loss) Recognized in Income on Derivatives	Location of Gain or (Loss) Recognized in Income on Hedged Item Cost of	Amount of Gain or (Loss) Recognized in Income on Hedged Item	Amount of Gain or (Loss) Recognized in Income for Ineffective Portion of Derivative (1)
Commodity contracts	sales	\$ (75)	sales	\$ 69	\$ (6)
Total		\$ (75)		\$ 69	(6)

(1) For fair value hedges, no component of the derivative instruments gains or losses was excluded from the assessment of hedge effectiveness.

No amounts were recognized in income for hedged firm commitments that no longer qualify as fair value hedges.

	Amount of Gain or (Loss) Recognized in	Location of Gain or (Loss) Reclassified from Accumulated OCI	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in	Amount of Gain or (Loss) Recognized in
Derivatives in Cash Flow Hedging Relationships	OCI on Derivatives (Effective Portion)	into Income (Effective Portion)		Income on Derivatives (Ineffective Portion)	Income on Derivatives (Ineffective Portion) (1)
Commodity contracts (2)	\$ 125	Cost of sales Income (loss) from discontinued operations, net of income taxes	\$ 337	Cost of sales	\$ 3
Commodity contracts			(132)	N.A.	
Total	\$ 125		\$ 205		\$ 3

(1) No component of the derivative instruments gains or losses was excluded from the assessment of hedge effectiveness.

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**VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (2) For the year ended December 31, 2009, cash flow hedges primarily related to forward sales of distillates and associated forward purchases of crude oil, with \$117 million of cumulative after-tax gains on cash flow hedges remaining in accumulated other comprehensive income as of December 31, 2009. We expect that all of the deferred gains at December 31, 2009 will be reclassified into cost of sales over the next 12 months as a result of hedged transactions that are forecasted to occur. The amount ultimately realized in income, however, will differ as commodity prices change. For the year ended

December 31, 2009, there were \$132 million of pre-tax losses reclassified from accumulated other comprehensive income into income as a result of the discontinuance of cash flow hedge accounting. This amount, which is the amount classified as a loss from discontinued operations in the table, relates to the forecasted sales of distillates that will not occur due to the shutdown of the Delaware City Refinery.

Derivatives Designated as Economic	Location of Gain or (Loss) Recognized in Income	Amount of Gain or (Loss) Recognized in Income
Hedges and Other Derivative Instruments	on Derivatives	Income on Derivatives
Commodity contracts	Cost of sales	\$ 55
Foreign currency contracts	Cost of sales	(22)
		33
Alon earn-out agreement	Other income, net	20
Alon earn-out hedge (commodity contracts)	Other income, net	(62)
		(42)
Total		\$ (9)

Derivatives Designated as Trading Activities	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives
Commodity contracts	Cost of sales	\$ 126
Total		\$ 126

19. INCOME TAXES

Income (loss) from continuing operations before income tax expense (benefit) from domestic and foreign operations was as follows (in millions):

	Year Ended December 31,		
	2009	2008	2007
U.S. operations	\$ (504)	\$ (64)	\$ 5,556
Canadian operations	222	605	458
Aruban operations	(167)	(14)	422
Income (loss) from continuing operations before income tax expense (benefit)	\$ (449)	\$ 527	\$ 6,436

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
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The following is a reconciliation of income tax expense (benefit) related to continuing operations to income taxes computed by applying the statutory federal income tax rate (35% for all years presented) to income (loss) from continuing operations before income tax expense (benefit) (in millions):

	Year Ended December 31,		
	2009	2008	2007
Federal income tax expense (benefit) at the U.S. statutory rate	\$ (157)	\$ 184	\$ 2,253
U.S. state income tax expense (benefit), net of U.S. federal income tax effect	(12)	30	78
U.S. manufacturing deduction	9	(59)	(84)
Canadian operations	(6)	(27)	(48)
Aruban operations	81	7	(144)
Goodwill impairment		1,353	
Permanent differences	(7)	26	16
Other, net	(5)	25	(12)
Income tax expense (benefit)	\$ (97)	\$ 1,539	\$ 2,059

The Aruba Refinery's profits are currently non-taxable in Aruba due to a tax holiday granted by the GOA. The tax holiday had an immaterial effect on our consolidated results of operations for the years ended December 31, 2009, 2008, and 2007.

Components of income tax expense (benefit) related to continuing operations were as follows (in millions):

	Year Ended December 31,		
	2009	2008	2007
Current:			
U.S. federal	\$ (379)	\$ 828	\$ 1,710
U.S. state	(14)	18	93
Canada	120	45	202
Aruba	22	2	3
Total current	(251)	893	2,008
Deferred:			
U.S. federal	212	478	114
U.S. state	(5)	28	27
Canada	(53)	140	(90)
Total deferred	154	646	51
Income tax expense (benefit)	\$ (97)	\$ 1,539	\$ 2,059

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
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The tax effects of significant temporary differences representing deferred income tax assets and liabilities were as follows (in millions):

	December 31,	
	2009	2008
Deferred income tax assets:		
Tax credit carryforwards	\$ 88	\$ 91
Net operating losses (NOL)	241	78
Compensation and employee benefit liabilities	304	394
Environmental	84	93
Inventories	152	72
Other assets	234	298
 Total deferred income tax assets	 1,103	 1,026
Less: Valuation allowance	(200)	(62)
 Net deferred income tax assets	 903	 964
 Deferred income tax liabilities:		
Turnarounds	(212)	(216)
Property, plant and equipment	(4,337)	(4,230)
Inventories	(399)	(628)
Other	(91)	(106)
 Total deferred income tax liabilities	 (5,039)	 (5,180)
 Net deferred income tax liabilities	 \$ (4,136)	 \$ (4,216)

As of December 31, 2009, we had the following U.S. federal and state income tax credit and loss carryforwards (in millions):

	Amount	Expiration
U.S. state income tax credits	\$ 51	2010 through 2029
U.S. state income tax credits	38	Unlimited
Foreign tax credit	30	2011 through 2010
U.S. state NOL	4,451	2029
U.S. federal NOL	40	2029

We have recorded a valuation allowance as of December 31, 2009 and 2008, due to uncertainties related to our ability to utilize some of our deferred income tax assets, primarily consisting of certain state net operating losses, state

income tax credits, and foreign tax credits, before they expire. The valuation allowance is based on our estimates of taxable income in the various jurisdictions in which we operate and the period over which deferred income tax assets will be recoverable. The realization of net deferred income tax assets recorded as of December 31, 2009 is primarily dependent upon our ability to generate future taxable income in certain states and foreign source income in the United States.

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Subsequently recognized tax benefits related to the valuation allowance for deferred income tax assets as of December 31, 2009 will be allocated as follows (in millions):

Income tax benefit in consolidated statement of income	\$ 195
Additional paid-in capital	5
Total	\$ 200

Deferred income taxes have not been provided on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and the respective tax bases of our foreign subsidiaries based on the determination that such differences are essentially permanent in duration in that the earnings of these subsidiaries are expected to be indefinitely reinvested in foreign operations. As of December 31, 2009, the cumulative undistributed earnings of these subsidiaries were approximately \$4.1 billion. If those earnings were not considered indefinitely reinvested, deferred income taxes would have been recorded after consideration of foreign tax credits. It is not practicable to estimate the amount of additional tax that might be payable on those earnings, if distributed.

The following is a reconciliation of the change in unrecognized tax benefits, excluding the effect of related penalties and interest and the federal tax effect of state unrecognized tax benefits (in millions):

	Year Ended December 31,		
	2009	2008	2007
Balance as of beginning of year	\$ 238	\$ 164	\$ 160
Additions based on tax positions related to the current year	158	17	32
Additions for tax positions related to prior years	106	67	13
Reductions for tax positions related to prior years	(6)	(5)	(36)
Reductions for tax positions related to the lapse of applicable statute of limitations	(1)	(5)	
Settlements	(11)		(5)
Balance as of end of year	\$ 484	\$ 238	\$ 164

Included in the balance as of December 31, 2009 and 2008 are \$155 million and \$136 million, respectively, of tax benefits that, if recognized, would reduce our annual effective tax rate. We do not expect our unrecognized tax benefits to change significantly over the next 12 months.

We have elected to classify any interest expense and penalties related to income taxes within income tax expense in our consolidated statements of income. During the years ended December 31, 2009, 2008, and 2007, we recognized approximately \$22 million, \$22 million, and \$1 million in interest and penalties. We had accrued approximately \$90 million and \$68 million for the payment of interest and penalties as of December 31, 2009 and 2008, respectively. Our tax years through 2001 and UDS's tax years through 2001 are closed to adjustment by the Internal Revenue Service. Valero's separate tax years 2000 and 2001 (prior to the UDS Acquisition) were settled in 2009. During 2008, Valero settled Premcor's 2002-2003 separate tax year audit. Our tax years 2002 through 2005 are currently under examination and Premcor's separate tax years 2004 and 2005 are also under examination. During 2007, the Internal Revenue Service proposed adjustments to our 2002 and 2003 taxable income, including adjustments related to inventory and depreciation methods. We are

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

protesting the proposed adjustments and do not expect that the ultimate disposition of these findings will result in a material change to our financial position or results of operations. We believe that adequate provisions for income taxes have been reflected in the consolidated financial statements.

20. SEGMENT INFORMATION

Prior to the second quarter of 2009, we had two reportable segments, which were refining and retail. As a result of the VeraSun Acquisition during the second quarter of 2009 (as discussed in Note 2), ethanol is now being presented as a third reportable segment. Our refining segment includes refining operations, wholesale marketing, product supply and distribution, and transportation operations. The retail segment includes company-operated convenience stores, Canadian dealers/jobbers and truckstop facilities, cardlock facilities, and home heating oil operations. Our ethanol segment includes sales of internally-produced ethanol and distillers grains. Operations that are not included in any of the three reportable segments are included in the corporate category.

The reportable segments are strategic business units that offer different products and services. They are managed separately as each business requires unique technology and marketing strategies. Performance is evaluated based on operating income. Intersegment sales are generally derived from transactions made at prevailing market rates.

The following table reflects activity related to continuing operations (in millions):

	Refining	Retail	Ethanol	Corporate	Total
Year ended December 31, 2009:					
Operating revenues from external customers	\$ 59,061	\$ 7,885	\$ 1,198	\$	\$ 68,144
Intersegment revenues	5,137		137		5,274
Depreciation and amortization expense	1,261	101	18	48	1,428
Operating income (loss)	105	293	165	(621)	(58)
Total expenditures for long-lived assets	2,482	66	5	39	2,592
Year ended December 31, 2008:					
Operating revenues from external customers	102,608	10,528			113,136
Intersegment revenues	7,703				7,703
Depreciation and amortization expense	1,214	105		44	1,363
Operating income (loss)	995	369		(603)	761
Total expenditures for long-lived assets	2,689	104		141	2,934
Year ended December 31, 2007:					
Operating revenues from external customers	81,103	8,884			89,987
Intersegment revenues	6,298				6,298
Depreciation and amortization expense	1,106	90		48	1,244

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Operating income (loss)	7,067	249	(686)	6,630
Total expenditures for long-lived assets	2,342	107	193	2,642
		115		

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
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Our principal products include conventional and CARB (California Air Resources Board) gasolines, RBOB (reformulated gasoline blendstock for oxygenate blending), ultra-low-sulfur diesel, and oxygenates and other gasoline blendstocks. We also produce a substantial slate of middle distillates, jet fuel, and petrochemicals, in addition to lube oils and asphalt. Other product revenues include such products as gas oils, No. 6 fuel oil, and petroleum coke. Operating revenues from external customers for our principal products for the years ended December 31, 2009, 2008, and 2007 were as follows (in millions):

	Year Ended December 31,		
	2009	2008	2007
Refining:			
Gasolines and blendstocks	\$ 29,830	\$ 44,885	\$ 40,059
Distillates	21,911	43,629	29,653
Petrochemicals	2,275	4,017	3,563
Lubes and asphalts	1,576	2,770	1,837
Other product revenues	3,469	7,307	5,991
Total refining operating revenues	59,061	102,608	81,103
Retail:			
Fuel sales (gasoline and diesel)	6,148	8,750	7,235
Merchandise sales and other	1,505	1,446	1,356
Home heating oil	232	332	293
Total retail operating revenues	7,885	10,528	8,884
Ethanol:			
Ethanol	1,032		
Distillers grains	166		
Total ethanol operating revenues	1,198		
Consolidated operating revenues	\$ 68,144	\$ 113,136	\$ 89,987

Operating revenues by geographic area for the years ended December 31, 2009, 2008, and 2007 are shown in the table below (in millions). The geographic area is based on location of customer.

	Year Ended December 31,		
	2009	2008	2007
United States	\$ 58,792	\$ 95,163	\$ 76,828
Canada	6,048	9,961	8,142
Other countries	3,304	8,012	5,017
Consolidated operating revenues	\$ 68,144	\$ 113,136	\$ 89,987

For the years ended December 31, 2009, 2008, and 2007, no customer accounted for more than 10% of our consolidated operating revenues.

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Long-lived assets include property, plant and equipment, intangible assets subject to amortization, and certain long-lived assets included in deferred charges and other assets, net. Geographic information by country for long-lived assets, including long-lived assets related to discontinued operations, consisted of the following (in millions):

	December 31,	
	2009	2008
United States	\$ 20,810	\$ 21,327
Canada	2,239	1,999
Aruba	1,002	1,045
Consolidated long-lived assets	\$ 24,051	\$ 24,371

Total assets by reportable segment, including assets related to discontinued operations, were as follows (in millions):

	December 31,	
	2009	2008
Refining	\$ 30,701	\$ 30,801
Retail	1,875	1,818
Ethanol	654	
Corporate	2,399	1,798
Total consolidated assets	\$ 35,629	\$ 34,417

21. EMPLOYEE BENEFIT PLANS***Pension Plans and Postretirement Benefits Other Than Pensions***

We have several qualified non-contributory defined benefit pension plans (collectively, the Qualified Plans), some of which are subject to collective bargaining agreements. The Qualified Plans cover substantially all employees in the United States and generally provide eligible employees with retirement income based on years of service and compensation during specific periods.

We also have several nonqualified supplemental executive retirement plans (Supplemental Plans), which provide additional pension benefits to executive officers and certain other employees. The Supplemental Plans and the Qualified Plans are collectively referred to as the Pension Plans.

We also provide certain health care and life insurance benefits for retired employees, referred to as other postretirement benefits. Substantially all of our employees may become eligible for these benefits if, while still working for us, they either reach normal retirement age or take early retirement. We offer health care benefits through a self-insured plan and, for certain locations, a health maintenance organization while life insurance benefits are provided through an insurance company. We fund our postretirement benefits other than pensions on a pay-as-you-go basis. Individuals who became our employees as a result of an acquisition became eligible for other postretirement benefits under our plan as determined by the terms of the relevant acquisition agreement.

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The changes in benefit obligation, the changes in fair value of plan assets, and the funded status of our Pension Plans and other postretirement benefit plans as of and for the years ended December 31, 2009 and 2008 were as follows (in millions):

	Pension Plans		Other Postretirement Benefit Plans	
	2009	2008	2009	2008
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 1,492	\$ 1,292	\$ 520	\$ 477
Service cost	104	92	12	13
Interest cost	79	76	25	28
Participant contributions			9	7
Plan amendments			(51)	
Special termination benefits	6		1	
Medicare subsidy for prescription drugs			1	2
Benefits paid	(74)	(75)	(28)	(27)
Actuarial (gain) loss	(153)	107	(27)	26
Foreign currency exchange rate changes			4	(6)
Benefit obligation at end of year	\$ 1,454	\$ 1,492	\$ 466	\$ 520
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 1,005	\$ 1,358	\$	\$
Actual return on plan assets	228	(400)		
Valero contributions	92	122	18	18
Participant contributions			9	7
Medicare subsidy for prescription drugs			1	2
Benefits paid	(74)	(75)	(28)	(27)
Fair value of plan assets at end of year	\$ 1,251	\$ 1,005	\$	\$
Reconciliation of funded status:				
Fair value of plan assets at end of year	\$ 1,251	\$ 1,005	\$	\$
Less: Benefit obligation at end of year	1,454	1,492	466	520
Funded status at end of year	\$ (203)	\$ (487)	\$ (466)	\$ (520)

The pre-tax amounts related to our Pension Plans and other postretirement benefit plans recognized in our consolidated balance sheets as of December 31, 2009 and 2008 were as follows (in millions):

	Pension Plans		Other Postretirement Benefit Plans	
	2009	2008	2009	2008

Accrued expenses	\$ (19)	\$ (13)	\$ (25)	\$ (22)
Other long-term liabilities	(184)	(474)	(441)	(498)
Accumulated other comprehensive (income) loss	358	645	(21)	43
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The pre-tax amounts in accumulated other comprehensive income as of December 31, 2009 and 2008 that have not yet been recognized as components of net periodic benefit cost were as follows (in millions):

	Pension Plans		Other Postretirement Benefit Plans	
	2009	2008	2009	2008
Prior service cost (credit)	\$ 16	\$ 19	\$ (115)	\$ (84)
Net actuarial loss	342	626	94	127
Total	\$ 358	\$ 645	\$ (21)	\$ 43

The following amounts included in accumulated other comprehensive income as of December 31, 2009 are expected to be recognized as components of net periodic benefit cost during the year ending December 31, 2010 (in millions):

	Pension Plans	Other Postretirement Benefit Plans
Amortization of prior service cost (credit)	\$ 3	\$ (20)
Amortization of loss	1	4
Total	\$ 4	\$ (16)

As of both December 31, 2009 and 2008, the accumulated benefit obligation for our Pension Plans was \$1.2 billion. With the exception of our main Qualified Plan as of December 31, 2009, the accumulated benefit obligation for each of our Pension Plans was in excess of the fair value of plan assets as of December 31, 2009 and 2008. Due to an increase in the fair value of the assets of our main Qualified Plan during 2009, the fair value of plan assets for our main Qualified Plan was in excess of the accumulated benefit obligation by \$163 million as of December 31, 2009, thus resulting in the reduced amounts reflected in the table below. The aggregate projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for our Pension Plans for which the accumulated benefit obligation exceeded the fair value of plan assets were as follows (in millions):

	December 31,	
	2009	2008
Projected benefit obligation	\$ 249	\$ 1,492
Accumulated benefit obligation	221	1,201
Fair value of plan assets	81	1,005

There are no plan assets for our other postretirement benefit plans, and no assets related to our Supplemental Plans are included in the fair value of plan assets above. The assets of the Qualified Plans are measured at fair value using a market approach based on quotations from national securities exchanges and are categorized as Level 1 of the fair value hierarchy.

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The fair values of the assets of our Qualified Plans by category as of December 31, 2009 were as follows (in millions):

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity securities:				
Valero Energy Corporation common stock	\$ 15	\$	\$	\$ 15
Other U.S. companies (a)	519			519
International companies	98			98
Preferred stock	2			2
Mutual funds:				
International growth	107			107
Index funds (b)	60			60
Corporate debt instruments	257			257
Government securities:				
U.S. Treasury securities	66			66
Mortgage-backed securities	1			1
Other government securities	89			89
Cash and cash equivalents	37			37
Total	\$ 1,251	\$	\$	\$ 1,251

(a) Equity securities are held in a wide range of industrial sectors, including consumer goods, information technology, healthcare, industrials, and financial services.

(b) These funds invest in the common stock of U.S. companies in the following

approximate
proportions:
70% large-cap;
20% mid-cap,
and 10%
small-cap.

Equity securities in the Qualified Plans include our common stock in the amount of approximately \$20 million (2% of total Qualified Plan assets) as of December 31, 2008.

The investment policies and strategies for the assets of our Qualified Plans incorporate a diversified approach that is expected to earn long-term returns from capital appreciation and a growing stream of current income. This approach recognizes that assets are exposed to risk and the market value of the Qualified Plans' assets may fluctuate from year to year. Risk tolerance is determined based on our financial ability to withstand risk within the investment program and the willingness to accept return volatility. In line with the investment return objective and risk parameters, the Qualified Plans' mix of assets includes a diversified portfolio of equity and fixed-income investments. As of December 31, 2009, the target allocations for plan assets are 70% equity securities and 30% fixed income investments. Equity securities include investments in U.S. and foreign companies, including Valero Energy Corporation common stock. Fixed income securities include bonds and notes issued by the U.S. government and its

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agencies, corporate bonds, and mortgage-backed securities. The aggregate asset allocation is reviewed on an annual basis.

The overall expected long-term rate of return on plan assets for the Qualified Plans is estimated using models of asset returns. Model assumptions are derived using historical data given the assumption that capital markets are informationally efficient. Three methods are used to derive the long-term expected returns for each asset class. Because each method has distinct advantages and disadvantages and differing results, an equal weighted average of the methods' results is used.

We have less than \$1 million of minimum required contributions to our Qualified Plans during 2010 under the Employee Retirement Income Security Act; however, we plan to contribute approximately \$50 million to our Qualified Plans during 2010, of which \$30 million was contributed during February 2010.

The following benefit payments, which reflect expected future service and anticipated Medicare subsidy, as appropriate, are expected to be paid (received) for the years ending December 31 (in millions):

	Pension Benefits	Other Benefits	Health Care Subsidy Receipts
2010	\$ 73	\$ 24	\$ (2)
2011	78	27	(2)
2012	82	28	(3)
2013	93	29	(3)
2014	113	31	(3)
Years 2015-2019	682	171	(25)

The components of net periodic benefit cost were as follows for the years ended December 31, 2009, 2008, and 2007 (in millions):

	Pension Plans			Other Postretirement Benefit Plans		
	2009	2008	2007	2009	2008	2007
Components of net periodic benefit cost:						
Service cost	\$ 104	\$ 92	\$ 95	\$ 12	\$ 13	\$ 13
Interest cost	79	76	71	25	28	27
Expected return on plan assets	(108)	(105)	(84)			
Amortization of:						
Prior service cost (credit)	3	3	3	(19)	(9)	(9)
Net loss	10	2	9	6	3	6
Net periodic benefit cost before special charges	88	68	94	24	35	37
Charge for special termination benefits	7		14	1		1
Net periodic benefit cost	\$ 95	\$ 68	\$ 108	\$ 25	\$ 35	\$ 38

Amortization of prior service cost (credit) shown in the above table was based on the average remaining service period of employees expected to receive benefits under each respective plan. The charge for special termination benefits in 2009 relates to early retirement programs at our Delaware City and

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Paulsboro Refineries. The special termination charge for 2007 pertained to early retirement programs associated with reorganizations in our refining and retail business segments.

Pre-tax amounts recognized in other comprehensive income for the years ended December 31, 2009 and 2008 were as follows (in millions):

	Pension Plans		Other Postretirement Benefit Plans	
	2009	2008	2009	2008
Net (gain) loss arising during the year:				
Net actuarial loss (gain)	\$ (273)	\$ 612	\$ (27)	\$ 25
Prior service cost (credit)			(51)	
Net gain (loss) reclassified into income:				
Net actuarial (loss) gain	(10)	(2)	(6)	(3)
Prior service (cost) credit	(3)	(3)	19	9
Curtailment and settlement	(1)			
Total changes in other comprehensive (income) loss	\$ (287)	\$ 607	\$ (65)	\$ 31

The weighted-average assumptions used to determine the benefit obligations as of December 31, 2009 and 2008 were as follows:

	Pension Plans		Other Postretirement Benefit Plans	
	2009	2008	2009	2008
Discount rate	5.80%	5.40%	5.68%	5.39%
Rate of compensation increase	3.47%	4.18%		

The discount rate assumptions used to determine the pension plan and other postretirement benefit plan obligations as of December 31, 2009 were based on the Hewitt Above Median yield curve (HAM). The discount rate assumptions used to determine the benefit obligations as of December 31, 2008 were based on the Hewitt Bond Universe yield curve (HBU). The HAM and the HBU were designed by Hewitt Associates LLC to provide a means for plan sponsors to value the liabilities of their pension plans and other postretirement benefit plans. Both the HAM and the HBU are hypothetical double and triple A (or better) yield curves represented by a series of annualized individual discount rates with maturities from one-half year to more than 30 years. Each bond issue underlying these yield curves is required to have a rating of Aa or better by Moody's Investors Service or a rating of AA or better by Standard & Poor's Ratings Services. The HBU includes all of the bonds from this process. The HAM includes only those bonds with yields to maturity in the top half of each respective maturity.

Due to significant volatility in the bond market as of December 31, 2008, we based our discount rates on the HBU at the end of 2008. Because the market stabilized by the end of 2009, we based our discount rates on the HAM as of December 31, 2009, which is more representative of rates being used by other companies and more representative of the types of bonds that we would use to settle these liabilities. Prior to 2008, we selected the discount rate based on a review of long-term bonds that received one of the two highest ratings given by a recognized rating agency as of December 31 of each year. The average

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timing of benefit payments from our plans was compared to the average timing of cash flows from the long-term bonds to assess potential timing adjustments. Based on this analysis, there were no significant differences in the timing of the cash flows, and therefore no adjustments were necessary.

The weighted-average assumptions used to determine the net periodic benefit cost for the years ended December 31, 2009, 2008, and 2007 were as follows:

	Pension Plans			Other Postretirement Benefit Plans		
	2009	2008	2007	2009	2008	2007
Discount rate	5.40%	6.00%	5.75%	5.39%	6.00%	5.75%
Expected long-term rate of return on plan assets	7.72%	8.23%	8.25%			
Rate of compensation increase	4.18%	4.40%	4.43%			

The assumed health care cost trend rates as of December 31, 2009 and 2008 were as follows:

	2009	2008
Health care cost trend rate assumed for next year	7.50%	8.30%
Rate to which the cost trend rate was assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2018	2015

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects on other postretirement benefits (in millions):

	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 1	\$ (1)
Effect on accumulated postretirement benefit obligation	20	(18)

Defined Contribution Plans**Valero Energy Corporation Thrift Plan**

We are the sponsor of the Valero Energy Corporation Thrift Plan, which is a defined contribution plan. Participation in the Thrift Plan is voluntary. Participants may participate in the plan as soon as practicable following enrollment. Through December 31, 2009, Thrift Plan participants could make basic contributions up to 8% of their total annual salary, which included overtime and cash bonuses. In addition, participants who made a basic contribution of 8% could also make a supplemental contribution of up to 22% of their total eligible annual salary. We matched 75% of each participant's total basic contributions up to 8% based on the participant's total annual salary, excluding cash bonuses. Commencing January 1, 2010, we will match 100% of basic contributions up to 6% of each participant's total annual salary, excluding cash bonuses.

Our contributions to the Thrift Plan for the years ended December 31, 2009, 2008, and 2007 were \$37 million, \$38 million, and \$38 million, respectively.

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Valero Savings Plan

The Valero Savings Plan is a defined contribution plan covering our retail store employees, certain other employees supporting the retail organization, and employees at our ethanol plants. Under the Valero Savings Plan, participants can contribute from 1% to 30% of their compensation. We contribute \$0.60 for every \$1.00 of the participant's contribution up to 6% of compensation.

Our contributions to the Valero Savings Plan were \$5 million for each of the years ended December 31, 2009, 2008, and 2007.

Premcor Retirement Savings Plan

The Premcor Retirement Savings Plan is a defined contribution plan covering former Premcor employees who became employees of Valero effective September 1, 2005. Under this plan, participants can contribute from 1% to 50% of their eligible compensation. We contribute 200% of the first 3% of a participant's pre-tax contribution. In addition, we contribute 100% of a participant's pre-tax contribution above 3% up to 6% for certain union participants who contribute to the plan.

Our contributions to the Premcor Retirement Savings Plan for the years ended December 31, 2009, 2008, and 2007 were \$6 million, \$6 million, and \$7 million, respectively.

22. STOCK-BASED COMPENSATION

We have various fixed and performance-based stock compensation plans under which awards have been granted, which are summarized as follows:

The 2005 Omnibus Stock Incentive Plan (the OSIP) authorizes the grant of various stock and stock-based awards to our employees and our non-employee directors. Awards available under the OSIP include options to purchase shares of common stock, performance awards that vest upon the achievement of an objective performance goal, and restricted stock that vests over a period determined by our compensation committee. As of December 31, 2009, a total of 12,002,043 shares of our common stock remained available to be awarded under the OSIP.

A non-employee director stock option plan provided our non-employee directors with grants of stock options to purchase our common stock. Effective January 1, 2007, each director was granted an option to purchase 10,000 shares of our common stock upon initial election to our board of directors. These options expire seven years from the date of grant. Effective April 23, 2007, no further options may be granted under this plan; subsequent option grants are made under the OSIP.

Effective January 1, 2007, each non-employee director received an annual grant of our common stock valued at \$80,000 that vested in three equal annual installments. Effective January 1, 2008, each non-employee director receives an annual grant of our common stock valued at \$160,000. Vesting will occur based on the number of grants received as follows: (i) initial grants will vest in three equal annual installments, (ii) second grants will vest one-third on the first anniversary of the grant date and the remaining two-thirds on the second anniversary of the grant date, and (iii) all grants thereafter will vest 100% on the first anniversary of the grant date. As of December 31, 2009, a total of 139,247 shares of our common stock remained available to be awarded under this plan.

The 2003 Employee Stock Incentive Plan authorizes the grant of various stock and stock-related awards to employees and prospective employees. Awards include options to purchase shares of

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common stock, performance awards that vest upon the achievement of an objective performance goal, stock appreciation rights, and restricted stock that vests over a period determined by our compensation committee. As of December 31, 2009, a total of 148,229 shares of our common stock remained available to be awarded under this plan.

In addition, we formerly maintained other stock option and incentive plans under which previously granted equity awards remain outstanding. No additional grants may be awarded under these plans.

Each of our current stock-based compensation arrangements is discussed below. The tax benefit realized for tax deductions resulting from exercises and vestings under all of our stock-based compensation arrangements totaled \$9 million, \$22 million, and \$336 million for the years ended December 31, 2009, 2008, and 2007, respectively.

Stock Options

Under the terms of our various stock option plans, the exercise price of options granted is not less than the fair market value of our common stock on the date of grant. Stock options become exercisable pursuant to the individual written agreements between the participants and us, usually in three or five equal annual installments beginning one year after the date of grant, with unexercised options generally expiring seven or ten years from the date of grant.

The fair value of each stock option grant was estimated on the grant date using the Black-Scholes option-pricing model. The expected life of options granted is the period of time from the grant date to the date of expected exercise or other expected settlement. The expected life for each of the years in the table below was calculated using the safe harbor provisions of SEC Staff Accounting Bulletin No. 107 and No. 110 related to share-based payments. Because the vesting period for almost all of the stock options granted during the years ended December 31, 2009 and 2008 was three years rather than five years as in prior years, historical exercise patterns did not provide a reasonable basis for estimating the expected life. Expected volatility is based on closing prices of our common stock for periods corresponding to the expected life of options granted. Expected dividend yield is based on annualized dividends at the date of grant. The risk-free interest rate used is the implied yield currently available from the U.S. Treasury zero-coupon issues with a remaining term equal to the expected life of the options at the grant date. A summary of the weighted-average assumptions used in our fair value measurements is presented in the table below:

	Year Ended December 31,		
	2009	2008	2007
Expected life in years	6.0	4.5	5.0
Expected volatility	47.8%	43.2%	33.7%
Expected dividend yield	3.1%	3.5%	0.7%
Risk-free interest rate	2.8%	2.8%	4.0%

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A summary of the status of our stock option awards is presented in the table below.

	Number of Stock Options	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2009	25,069,553	\$ 24.76		
Granted	3,766,000	19.13		
Exercised	(1,280,036)	8.75		
Forfeited	(929,641)	52.83		
Outstanding at December 31, 2009	26,625,876	23.75	4.6	\$ 73
Exercisable at December 31, 2009	18,264,250	21.32	3.4	73

The weighted-average grant-date fair value of stock options granted during the years ended December 31, 2009, 2008, and 2007 was \$6.91, \$5.03, and \$24.51 per stock option, respectively. The total intrinsic value of stock options exercised during the years ended December 31, 2009, 2008, and 2007 was \$12 million, \$47 million, and \$881 million, respectively. Cash received from stock option exercises for the years ended December 31, 2009, 2008, and 2007 was \$11 million, \$16 million, and \$130 million, respectively.

As of December 31, 2009, there was \$45 million of unrecognized compensation cost related to outstanding unvested stock option awards, which is expected to be recognized over a weighted-average period of approximately two years.

Restricted Stock

Restricted stock is granted to employees and non-employee directors. Restricted stock granted to employees vests in accordance with individual written agreements between the participants and us, usually in equal annual installments over a period of five years beginning one year after the date of grant. Restricted stock granted to our non-employee directors vests from one to three years following the date of grant. A summary of the status of our restricted stock awards is presented in the table below.

	Number of Shares	Weighted- Average Grant-Date Fair Value Per Share
Nonvested shares at January 1, 2009	1,829,295	\$ 35.41
Granted	1,425,710	19.22
Vested	(626,424)	37.09
Forfeited	(30,284)	35.49
Nonvested shares at December 31, 2009	2,598,297	26.12

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As of December 31, 2009, there was \$40 million of unrecognized compensation cost related to outstanding unvested restricted stock awards, which is expected to be recognized over a weighted-average period of approximately three years. The total fair value of restricted stock that vested during the years ended December 31, 2009, 2008, and 2007 was \$12 million, \$12 million, and \$44 million, respectively.

Performance Awards

In 2007, we issued to certain key employees performance awards, which represent rights to receive shares of Valero common stock only upon Valero's achievement of an objective performance measure. Performance awards are subject to vesting in three annual amounts beginning approximately one year after the date of grant. The number of common shares earned each year is based on the vested award adjusted by a factor determined by our total shareholder return over a rolling three-year period compared to the total shareholder return of a defined peer group for the same time period.

During the years ended December 31, 2009 and 2008, no performance awards were granted or forfeited. The fair value of performance awards subject to vesting for the year ended December 31, 2009 was based on an expected conversion to common shares at a rate of 100% and a weighted-average fair value of \$23.43 per share, representing the market price of our common stock on the grant date reduced by expected dividends over the vesting period. No performance awards vested during the year ended December 31, 2009. The total fair value of performance awards that vested during the years ended December 31, 2008 and 2007 was \$4 million and \$11 million, respectively.

Restricted Stock Units

As of December 31, 2009, 64,020 unvested restricted stock units were outstanding. Restricted stock units vest in equal annual amounts over a three-year or five-year period beginning one year after the date of grant. These restricted stock units are payable in cash based on the price of our common stock on the date of vesting, and therefore they are accounted for as liability-based awards. For the years ended December 31, 2009, 2008, and 2007, cash payments of \$1 million, \$1 million, and \$8 million, respectively, were made for vested restricted stock units. During the year ended December 31, 2009, 5,340 restricted stock units were granted, 35,708 units vested, and 4,300 units were forfeited. Based on the price of our common stock on December 31, 2009, there was \$1 million of unrecognized compensation cost related to outstanding unvested restricted stock units, which is expected to be recognized over a weighted-average period of approximately four years.

23. COMMITMENTS AND CONTINGENCIES

Leases

We have long-term operating lease commitments for land, office facilities, retail facilities and related equipment, transportation equipment, time charters for ocean-going tankers and coastal vessels, dock facilities, and various facilities and equipment used in the storage, transportation, production, and sale of refinery feedstocks and refined products.

Certain leases for processing equipment and feedstock and refined product storage facilities provide for various contingent payments based on, among other things, throughput volumes in excess of a base amount. Certain leases for vessels contain renewal options and escalation clauses, which vary by charter, and provisions for the payment of chartering fees, which either vary based on usage or provide for payments, in addition to established minimums, that are contingent on usage. Leases for convenience

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stores may also include provisions for contingent rental payments based on sales volumes. In most cases, we expect that in the normal course of business, our leases will be renewed or replaced by other leases.

As of December 31, 2009, our future minimum rentals and minimum rentals to be received under subleases for leases having initial or remaining noncancelable lease terms in excess of one year were as reflected in the following table (in millions):

	Operating Leases	Capital Leases
2010	\$ 348	\$ 7
2011	230	6
2012	127	6
2013	86	6
2014	65	5
Remainder	297	17
Total minimum rental payments	1,153	47
Less minimum rentals to be received under subleases	(20)	
Net minimum rental payments	\$ 1,133	47
Less interest expense		(11)
Capital lease obligations		\$ 36

Consolidated rental expense for all operating leases related to continuing operations was as follows (in millions):

	Year Ended December 31,		
	2009	2008	2007
Minimum rental expense	\$ 534	\$ 514	\$ 509
Contingent rental expense	21	23	24
Total rental expense	555	537	533
Less sublease rental income	(4)	(4)	(4)
Net rental expense	\$ 551	\$ 533	\$ 529

Other Commitments

We have various purchase obligations under certain industrial gas and chemical supply arrangements (such as hydrogen supply arrangements), crude oil and other feedstock supply arrangements, and various throughput and terminalling agreements. We enter into these contracts to ensure an adequate supply of utilities and feedstock and adequate storage capacity to operate our refineries. Substantially all of our purchase obligations are based on market prices or adjustments based on market indices. Certain of these purchase obligations include fixed or minimum volume requirements, while others are based on our usage requirements. None of these obligations are associated with suppliers' financing arrangements. These purchase obligations are not reflected in the consolidated balance sheets.

Environmental Matters

Currently, some of the proposed federal cap-and-trade legislation would require businesses that emit greenhouse gases to buy emission credits from the government, other businesses, or through an auction process. In addition, refiners would be obligated to purchase emission credits associated with the

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transportation fuels (gasoline, diesel, and jet fuel) sold and consumed in the United States. As a result of such a program, we would be required to purchase emission credits for greenhouse gas emissions resulting from our own operations as well as from the fuels we sell. Although it is not possible at this time to predict the final form of a cap-and-trade bill (or whether such a bill will be passed by Congress), any new federal restrictions on greenhouse gas emissions including a cap-and-trade program could result in material increased compliance costs, additional operating restrictions for our business, and an increase in the cost of the products we produce, which could have a material adverse effect on our financial position, results of operations, and liquidity.

Tax Matters

We are subject to extensive tax liabilities, including federal, state, and foreign income taxes and transactional taxes such as excise, sales/use, payroll, franchise, withholding, and ad valorem taxes. New tax laws and regulations and changes in existing tax laws and regulations are continuously being enacted or proposed that could result in increased expenditures for tax liabilities in the future. Many of these liabilities are subject to periodic audits by the respective taxing authority. Subsequent changes to our tax liabilities as a result of these audits may subject us to interest and penalties.

Effective January 1, 2007, the Government of Aruba (GOA) enacted a turnover tax on revenues from the sale of goods produced and services rendered in Aruba. The turnover tax, which initially was 3% for on-island sales and services (but has subsequently been reduced to 1.5%) and 1% on export sales, is being assessed by the GOA on sales by our Aruba Refinery. We disputed the GOA's assessment of the turnover tax in arbitration proceedings with the Netherlands Arbitration Institute (NAI) pursuant to which we sought to enforce our rights under a tax holiday agreement related to the refinery and other agreements. The arbitration hearing was held on February 3-4, 2009. We also filed protests of these assessments through proceedings in Aruba.

In April 2008, we entered into an escrow agreement with the GOA and Caribbean Mercantile Bank NV (CMB), pursuant to which we agreed to deposit an amount equal to the disputed turnover tax on exports into an escrow account with CMB, pending resolution of the tax protest proceedings in Aruba. Under this escrow agreement, we are required to continue to deposit an amount equal to the disputed tax on a monthly basis until the tax dispute is resolved through the Aruba proceedings. On April 20, 2009, we were notified that the Aruban tax court overruled our protests with respect to the turnover tax assessed in January and February 2007, totaling \$8 million. Under the escrow agreement, we expensed and paid \$8 million, plus \$1 million of interest, to the GOA in the second quarter of 2009. Amounts deposited under the escrow agreement, which totaled \$115 million and \$102 million as of December 31, 2009 and December 31, 2008, respectively, are reflected as restricted cash in our consolidated balance sheets. In addition to the turnover tax described above, the GOA has asserted other tax amounts including approximately \$35 million related to various dividends. We also challenged approximately \$35 million in foreign exchange payments made to the Central Bank of Aruba as payments exempted under our tax holiday, as well as other reasons. Both the dividend tax and the foreign exchange payment matters were also addressed in the arbitration proceedings discussed above.

On November 3, 2009, we received an interim First Partial Award from the NAI arbitral panel. The panel's ruling validated our tax holiday agreement, but the panel also ruled in favor of the GOA on our dispute of the \$35 million in foreign exchange payments previously made to the Central Bank of Aruba. The panel's decision did not, however, fully resolve the remaining two items in the arbitration, the applicable dividend tax rate and the turnover tax. With respect to the dividend tax, the panel ruled that

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the dividend tax was not a profit tax covered by the tax holiday agreement, but the panel did not address the fact that Aruban companies with tax holidays are subject to a 0% dividend withholding rate rather than the 5% rate alleged by the GOA. With respect to the turnover tax, the panel did reject our contractual claims but it decided that our non-contractual claims against the turnover tax merited further discussion with and review by the panel before a final decision could be rendered. Prior to this interim decision, no expense or liability had been recognized in our consolidated financial statements with respect to unfunded amounts. In light of the uncertain timing of any final resolution of these claims as a result of the First Partial Award from the panel, we recorded a loss contingency accrual of approximately \$140 million, including interest, with respect to both the dividend and turnover taxes.

Following the November ruling, we entered into settlement discussions with the GOA. On February 24, 2010, we signed a settlement agreement that details the parties' proposed terms for settlement of these disputes and provides a framework for taxation of our operations in Aruba on a go-forward basis as our tax holiday was set to expire on December 31, 2010. Under the proposed settlement, we will make a payment to the GOA of \$118 million in consideration of a full release of all tax claims prior to the effective date of the settlement, including the turnover tax disputed in the Netherlands Arbitration. The GOA will eliminate the turnover tax on exports as of the effective date of the settlement. In addition, we will agree to exit the Tax Holiday regime following the effective date of the settlement agreement and will enter into a new tax regime under which we will be subject to a net profit tax of less than 10% on an overall basis. Beginning on the second anniversary of the settlement agreement's effective date, we will also begin to make an annual prepayment of taxes of \$10 million, with the ability to carry forward any excess tax prepayments to future tax years. The proposed settlement will not be effective until the settlement agreement is approved by the Aruban Parliament and certain laws and regulations are modified and/or established to provide for the terms of the settlement. The parties anticipate that this will occur on or before June 1, 2010. If the settlement is not effective as of June 1, 2010, we both have the right to terminate the settlement agreement and return to arbitration and the on-island proceedings to continue litigation.

Contingent Earn-Out Agreements

In connection with our acquisition of the St. Charles Refinery in 2003, the seller was entitled to receive payments in any of the seven years following the acquisition if certain average refining margins during any of those years exceeded a specified level. In connection with the Premcor Acquisition in 2005, we assumed Premcor's obligation under a contingent earn-out agreement related to Premcor's acquisition of the Delaware City Refinery from Motiva Enterprises LLC (Motiva). Under this agreement, Motiva was entitled to receive two separate annual earn-out payments depending on (a) the amount of crude oil processed at the refinery and the level of refining margins through May 2007, and (b) the achievement of certain performance criteria at the gasification facility through May 2006. As described below, final payments under all of these agreements have been made, and, consequently, our obligations have been fulfilled under the agreements. No payments were made during the year ended December 31, 2009.

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The following table summarizes the aggregate payments we had made through December 31, 2008 and payment limitations related to the following acquisitions (in millions). The amounts reflected for the Delaware City Refinery represent amounts applicable only to the throughput/margin earn-out contingency because the earn-out contingency related to the refinery's gasification facility expired during the second quarter of 2006 with no payment required. The amounts reflected represent only amounts for which we were liable subsequent to the Premcor Acquisition.

	St. Charles Refinery	Delaware City Refinery
Payments made during the year ended December 31:		
2007	\$ 50	\$ 25
2008	25	
Aggregate payments made through 2008	175	50
Annual maximum limit	50	25
Aggregate limit	175	50

As part of the purchase price allocation related to the acquisition of the St. Charles Refinery, a liability was accrued for the aggregate limit of potential earn-out payments totaling \$175 million. The offsetting amount was reflected in property, plant and equipment and is being depreciated over the remaining lives of the assets to which the cost was allocated. In January 2008, we made a final earn-out payment of \$25 million related to the acquisition of the St. Charles Refinery.

In connection with the Premcor Acquisition, a liability of \$50 million was accrued as of September 1, 2005 as we believed it was probable that the maximum payments would be made related to the Delaware City Refinery margin contingency. The offsetting amount was recorded in goodwill. A final payment under this agreement was made in June 2007.

As discussed in Note 2, in July 2008 we received contingent consideration from Alon in the form of a three-year earn-out agreement based on certain product margins, as partial consideration for the sale of our Krotz Springs Refinery. On August 27, 2009, we settled this earn-out agreement with Alon for \$35 million, of which \$18 million was received on the settlement date and the remaining amount will be received in eight payments of \$2.2 million each quarter beginning in the fourth quarter of 2009.

Keystone Pipeline

In July 2008, we entered into an agreement to participate as a prospective shipper on the 500,000 barrel-per-day expansion of the Keystone crude oil pipeline system, which is expected to be completed in 2012 or 2013. Once completed, the pipeline will enable crude oil to be transported from Western Canada to the U.S. Gulf Coast at Port Arthur, Texas. We have also secured commitments from several Canadian oil producers to sell to us heavy sour crude oil for shipment through the pipeline.

Insurance Recoveries

During the first quarter of 2007, our McKee Refinery was shut down due to a fire originating in its propane deasphalting unit, resulting in business interruption losses for which we submitted claims to our insurance carriers under our insurance policies. We reached a settlement with the insurance carriers on

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our claims, resulting in pre-tax income of approximately \$100 million in the first quarter of 2008 that was recorded as a reduction to cost of sales.

24. ENVIRONMENTAL MATTERS***Remediation Liabilities***

Liabilities for future remediation costs are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Other than for assessments, the timing and magnitude of these accruals generally are based on the completion of investigations or other studies or a commitment to a formal plan of action. Environmental liabilities are based on best estimates of probable undiscounted future costs using currently available technology and applying current regulations, as well as our own internal environmental policies.

The balance of and changes in the accruals for environmental matters (excluding asset retirement obligations), which are principally included in other long-term liabilities described in Note 13, were as follows (in millions):

	Year Ended December 31,		
	2009	2008	2007
Balance as of beginning of year	\$ 297	\$ 285	\$ 298
Adjustments to estimates, net	16	72	36
Payments, net of third-party recoveries	(40)	(51)	(55)
Foreign currency translation	6	(9)	6
Balance as of end of year	\$ 279	\$ 297	\$ 285

The balance of accruals for environmental matters is included in the consolidated balance sheet as follows (in millions):

	December 31,	
	2009	2008
Accrued expenses	\$ 41	\$ 42
Other long-term liabilities	238	255
Accruals for environmental matters	\$ 279	\$ 297

In connection with our various acquisitions, we assumed certain environmental liabilities including, but not limited to, certain remediation obligations, site restoration costs, and certain liabilities relating to soil and groundwater remediation. In addition, we have indemnified NuStar Energy L.P. for certain environmental liabilities related to assets we previously sold to NuStar Energy L.P. that were known on the date the assets were sold or are discovered within a specified number of years after the assets were sold and result from events occurring or conditions existing prior to the date of sale.

We believe that we have adequately provided for our environmental exposures with the accruals referred to above. These liabilities have not been reduced by potential future recoveries from third parties. Environmental liabilities are difficult to assess and estimate due to unknown factors such as the timing and extent of remediation, the determination of our obligation in proportion to other parties, improvements in remediation technologies, and the extent to which environmental laws and regulations may change in the future.

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**VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

25. LITIGATION MATTERS

MTBE Litigation

As of February 26, 2010, we were named as a defendant in 34 active cases alleging liability related to MTBE contamination in groundwater. The plaintiffs are generally water providers, governmental authorities, and private water companies alleging that refiners and marketers of MTBE and gasoline containing MTBE are liable for manufacturing or distributing a defective product. We have been named in these lawsuits together with many other refining industry companies. We are being sued primarily as a refiner and marketer of MTBE and gasoline containing MTBE. We do not own or operate gasoline station facilities in most of the geographic locations in which damage is alleged to have occurred. The lawsuits generally seek individual, unquantified compensatory and punitive damages, injunctive relief, and attorneys' fees. Many of the cases are pending in federal court and are consolidated for pre-trial proceedings in the U.S. District Court for the Southern District of New York (Multi-District Litigation Docket No. 1358, *In re: Methyl-Tertiary Butyl Ether Products Liability Litigation*). Sixteen cases are pending in state court. Discovery is open in all cases. We believe that we have strong defenses to all claims and are vigorously defending the lawsuits.

We have recorded a loss contingency liability with respect to our MTBE litigation portfolio. However, due to the inherent uncertainty of litigation, we believe that it is reasonably possible that we may suffer a loss with respect to one or more of the lawsuits in excess of the amount accrued. We believe that such an outcome in any one of these lawsuits would not have a material adverse effect on our results of operations or financial position. An estimate of the possible loss or range of loss from an adverse result in all or substantially all of these cases cannot reasonably be made.

Retail Fuel Temperature Litigation

As of February 26, 2010, we were named in 21 consumer class action lawsuits relating to fuel temperature. We have been named in these lawsuits together with several other defendants in the retail and wholesale petroleum marketing business. The complaints, filed in federal courts in several states, allege that because fuel volume increases with fuel temperature, the defendants have violated state consumer protection laws by failing to adjust the volume or price of fuel when the fuel temperature exceeded 60 degrees Fahrenheit. The complaints seek to certify classes of retail consumers who purchased fuel in various locations. The complaints seek an order compelling the installation of temperature correction devices as well as monetary relief. The federal lawsuits are consolidated into a multi-district litigation case in the U.S. District Court for the District of Kansas (Multi-District Litigation Docket No. 1840, *In re: Motor Fuel Temperature Sales Practices Litigation*). Discovery has commenced. The court has indicated that it will rule on the Kansas-based class certification motion only (possibly in the spring of 2010), and then make a decision on how to further proceed with the rest of the docket. We believe that we have several strong defenses to these lawsuits and intend to contest them. We have not recorded a loss contingency liability with respect to this matter, but due to the inherent uncertainty of litigation, we believe that it is reasonably possible that we may suffer a loss with respect to one or more of the lawsuits. An estimate of the possible loss or range of loss from an adverse result in all or substantially all of these cases cannot reasonably be made.

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**VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Rosolowski

Rosolowski v. Clark Refining & Marketing, Inc., et al., Judicial Circuit Court, Cook County, Illinois (Case No. 95-L 014703). We assumed this lawsuit in our acquisition of Premcor Inc. The lawsuit relates in part to a 1994 release to the atmosphere of spent catalyst from the now-closed Blue Island, Illinois refinery. The case was certified as a class action in 2000 with three classes, two of which received nominal or no damages, and one of which received a sizeable jury verdict. That class consisted of local residents who claimed property damage or loss of use and enjoyment of their property over a period of several years. In 2005, the jury returned a verdict for the plaintiffs of \$80 million in compensatory damages and \$40 million in punitive damages. However, following our motions for new trial and judgment notwithstanding the verdict (citing, among other things, misconduct by plaintiffs' counsel and improper class certification), the trial judge in 2006 vacated the jury's award and decertified the class. Plaintiffs appealed, and in June 2008 the state appeals court reversed the trial judge's decision to decertify the class and set aside the judgment. Thereafter, the Illinois Supreme Court refused to hear the case and returned it to the trial court. We have submitted renewed motions for judgment notwithstanding the verdict or, alternatively, a new trial. We are pursuing several options for resolution of this matter, including settlement. While we do not believe that the ultimate resolution of this matter will have a material effect on our financial position or results of operations, we have recorded a loss contingency liability with respect to this matter.

Other Litigation

We are also a party to additional claims and legal proceedings arising in the ordinary course of business. We believe that there is only a remote likelihood that future costs related to known contingent liabilities related to these legal proceedings would have a material adverse impact on our consolidated results of operations or financial position.

26. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

In conjunction with the Premcor Acquisition on September 1, 2005, Valero Energy Corporation has fully and unconditionally guaranteed the following debt of The Premcor Refining Group Inc. (PRG), a wholly owned subsidiary of Valero Energy Corporation, that was outstanding as of December 31, 2009:

6.75% senior notes due February 2011,

6.125% senior notes due May 2011,

6.75% senior notes due May 2014, and

7.5% senior notes due June 2015.

In addition, PRG has fully and unconditionally guaranteed all of the outstanding debt issued by Valero Energy Corporation.

The following condensed consolidating financial information is provided for Valero and PRG as an alternative to providing separate financial statements for PRG. The accounts for all companies reflected herein are presented using the equity method of accounting for investments in subsidiaries.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Condensed Consolidating Balance Sheet as of December 31, 2009
(in millions)

	Valero Energy Corporation	PRG	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and temporary cash investments	\$ 78	\$	\$ 747	\$	\$ 825
Restricted cash		1	121		122
Receivables, net		24	3,749		3,773
Inventories		420	4,443		4,863
Income taxes receivable	858		888	(858)	888
Deferred income taxes			180		180
Prepaid expenses and other		5	256		261
Assets related to discontinued operations		11			11
Total current assets	936	461	10,384	(858)	10,923
Property, plant and equipment, at cost		4,234	24,372		28,606
Accumulated depreciation		(402)	(5,192)		(5,594)
Property, plant and equipment, net		3,832	19,180		23,012
Intangible assets, net			227		227
Investment in Valero Energy affiliates	6,456	3,807	68	(10,331)	
Long-term notes receivable from affiliates	14,181			(14,181)	
Deferred income tax receivable	809			(809)	
Deferred charges and other assets, net	133	67	1,195		1,395
Long-term assets related to discontinued operations		72			72
Total assets	\$ 22,515	\$ 8,239	\$ 31,054	\$ (26,179)	\$ 35,629
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current portion of debt and capital lease obligations	\$ 33	\$	\$ 204	\$	\$ 237
Accounts payable	52	133	5,575		5,760

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Accrued expenses	117	88	309		514
Taxes other than income taxes		19	706		725
Income taxes payable			953	(858)	95
Deferred income taxes	253				253
Liabilities related to discontinued operations		214			214
Total current liabilities	455	454	7,747	(858)	7,798
Debt and capital lease obligations, less current portion	6,236	895	32		7,163
Long-term notes payable to affiliates		5,924	8,257	(14,181)	
Deferred income taxes		760	4,112	(809)	4,063
Other long-term liabilities	1,099	127	643		1,869
Long-term liabilities related to discontinued operations		11			11
Stockholders' equity:					
Common stock	7		1	(1)	7
Additional paid-in capital	7,896	3,719	6,887	(10,606)	7,896
Treasury stock	(6,721)				(6,721)
Retained earnings	13,178	(3,644)	3,262	382	13,178
Accumulated other comprehensive income (loss)	365	(7)	113	(106)	365
Total stockholders' equity	14,725	68	10,263	(10,331)	14,725
Total liabilities and stockholders' equity	\$ 22,515	\$ 8,239	\$ 31,054	\$ (26,179)	\$ 35,629

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Condensed Consolidating Balance Sheet as of December 31, 2008
(in millions)

	Valero Energy Corporation	PRG	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and temporary cash investments	\$ 215	\$	\$ 725	\$	\$ 940
Restricted cash	23	2	106		131
Receivables, net		34	2,861		2,895
Inventories		343	4,277		4,620
Income taxes receivable	76		197	(76)	197
Deferred income taxes			98		98
Prepaid expenses and other		8	542		550
Assets related to discontinued operations		19			19
Total current assets	314	406	8,806	(76)	9,450
Property, plant and equipment, at cost		4,041	22,078		26,119
Accumulated depreciation		(291)	(4,407)		(4,698)
Property, plant and equipment, net		3,750	17,671		21,421
Intangible assets, net			224		224
Investment in Valero Energy affiliates	6,429	2,718	65	(9,212)	
Long-term notes receivable from affiliates	15,225			(15,225)	
Deferred income tax receivable	883			(883)	
Deferred charges and other assets, net	121	42	1,273		1,436
Long-term assets related to discontinued operations		1,886			1,886
Total assets	\$ 22,972	\$ 8,802	\$ 28,039	\$ (25,396)	\$ 34,417
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current portion of debt and capital lease obligations	\$ 209	\$	\$ 103	\$	\$ 312
Accounts payable	43	291	3,989		4,323

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Accrued expenses	82	30	258		370
Taxes other than income taxes		23	569		592
Income taxes payable		6	70	(76)	
Deferred income taxes	485				485
Liabilities related to discontinued operations		127			127
Total current liabilities	819	477	4,989	(76)	6,209
Debt and capital lease obligations, less current portion	5,329	899	36		6,264
Long-term notes payable to affiliates		5,966	9,259	(15,225)	
Deferred income taxes		866	3,846	(883)	3,829
Other long-term liabilities	1,204	192	762		2,158
Long-term liabilities related to discontinued operations		337			337
Stockholders' equity:					
Common stock	6		1	(1)	6
Additional paid-in capital	7,190	1,598	4,349	(5,947)	7,190
Treasury stock	(6,884)				(6,884)
Retained earnings	15,484	(1,523)	4,636	(3,113)	15,484
Accumulated other comprehensive income (loss)	(176)	(10)	161	(151)	(176)
Total stockholders' equity	15,620	65	9,147	(9,212)	15,620
Total liabilities and stockholders' equity	\$ 22,972	\$ 8,802	\$ 28,039	\$ (25,396)	\$ 34,417

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Condensed Consolidating Statement of Income for the Year Ended December 31, 2009
(in millions)

	Valero Energy Corporation	PRG	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	\$	\$ 10,864	\$ 67,405	\$ (10,125)	\$ 68,144
Costs and expenses:					
Cost of sales		11,979	60,105	(10,125)	61,959
Operating expenses		287	3,024		3,311
Retail selling expenses			702		702
General and administrative expenses	3	43	526		572
Depreciation and amortization expense		129	1,299		1,428
Asset impairment loss		131	99		230
Total costs and expenses	3	12,569	65,755	(10,125)	68,202
Operating income (loss)	(3)	(1,705)	1,650		(58)
Equity in earnings (losses) of subsidiaries	(2,220)	947	(2,121)	3,394	
Other income (expense), net	1,154	(55)	727	(1,809)	17
Interest and debt expense:					
Incurred	(633)	(542)	(1,154)	1,809	(520)
Capitalized		13	99		112
Loss from continuing operations before income tax expense (benefit)	(1,702)	(1,342)	(799)	3,394	(449)
Income tax expense (benefit) (1)	280	(851)	474		(97)
Loss from continuing operations	(1,982)	(491)	(1,273)	3,394	(352)
Loss from discontinued operations, net of income taxes		(1,630)			(1,630)
Net loss	\$ (1,982)	\$ (2,121)	\$ (1,273)	\$ 3,394	\$ (1,982)

(1) The income tax expense (benefit) reflected in each column does not include any tax effect of the equity in earnings (losses) of subsidiaries.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Condensed Consolidating Statement of Income for the Year Ended December 31, 2008
(in millions)

	Valero Energy Corporation	PRG	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	\$	\$ 20,105	\$ 109,997	\$ (16,966)	\$ 113,136
Costs and expenses:					
Cost of sales		19,683	99,113	(16,966)	101,830
Operating expenses		443	3,603		4,046
Retail selling expenses			768		768
General and administrative expenses	(9)	40	528		559
Depreciation and amortization expense		140	1,223		1,363
Asset impairment loss		43	43		86
Gain on sale of Krotz Springs Refinery			(305)		(305)
Goodwill impairment loss		1,796	2,232		4,028
Total costs and expenses	(9)	22,145	107,205	(16,966)	112,375
Operating income (loss)	9	(2,040)	2,792		761
Equity in earnings (losses) of subsidiaries	(1,436)	882	(1,523)	2,077	
Other income (expense), net	1,083	(69)	868	(1,769)	113
Interest and debt expense:					
Incurred	(577)	(552)	(1,091)	1,769	(451)
Capitalized		17	87		104
Income (loss) from continuing operations before income tax expense (benefit)	(921)	(1,762)	1,133	2,077	527
Income tax expense (benefit) (1)	210	(358)	1,687		1,539
Loss from continuing operations	(1,131)	(1,404)	(554)	2,077	(1,012)
Loss from discontinued operations, net of income taxes		(119)			(119)
Net loss	\$ (1,131)	\$ (1,523)	\$ (554)	\$ 2,077	\$ (1,131)

- (1) The income tax expense (benefit) reflected in each column does not include any tax effect of the equity in earnings (losses) of subsidiaries.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Condensed Consolidating Statement of Income for the Year Ended December 31, 2007
(in millions)

	Valero Energy Corporation	PRG	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	\$	\$ 19,310	\$ 89,903	\$ (19,226)	\$ 89,987
Costs and expenses:					
Cost of sales		17,694	78,591	(19,226)	77,059
Operating expenses		524	3,142		3,666
Retail selling expenses			750		750
General and administrative expenses	(6)	30	614		638
Depreciation and amortization expense		189	1,055		1,244
Total costs and expenses	(6)	18,437	84,152	(19,226)	83,357
Operating income	6	873	5,751		6,630
Equity in earnings of subsidiaries	4,556	668	1,320	(6,544)	
Other income (expense), net	1,446	(245)	869	(1,903)	167
Interest and debt expense:					
Incurred	(520)	(574)	(1,275)	1,903	(466)
Capitalized		5	100		105
Income from continuing operations before income tax expense	5,488	727	6,765	(6,544)	6,436
Income tax expense (1)	254	85	1,720		2,059
Income from continuing operations	5,234	642	5,045	(6,544)	4,377
Income from discontinued operations, net of income taxes		678	179		857
Net income	\$ 5,234	\$ 1,320	\$ 5,224	\$ (6,544)	\$ 5,234

(1) The income tax expense reflected in each column does not include any tax effect of the equity in earnings of subsidiaries.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Condensed Consolidating Statement of Cash Flows for the Year Ended December 31, 2009
(in millions)

	Valero Energy Corporation	PRG	Other Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ (526)	\$ (1,198)	\$ 3,547	\$	\$ 1,823
Cash flows from investing activities:					
Capital expenditures		(526)	(1,780)		(2,306)
Deferred turnaround and catalyst costs		(72)	(343)		(415)
Purchase of certain VeraSun Energy Corporation facilities			(556)		(556)
Advance payments related to purchase of ethanol facilities			(21)		(21)
Return of investment in Cameron Highway Oil Pipeline Company			27		27
Investments in subsidiaries	(2,335)	(142)	(2,121)	4,598	
Return of investment	109			(109)	
Proceeds from minor dispositions of property, plant and equipment			16		16
Net intercompany loan repayments	1,422			(1,422)	
Minor acquisition			(29)		(29)
Other investing activities, net			(8)		(8)
Net cash used in investing activities	(804)	(740)	(4,815)	3,067	(3,292)
Cash flows from financing activities:					
Proceeds from the sale of common stock, net of issuance costs	799				799
Non-bank debt:					
Borrowings	998				998
Repayments	(285)				(285)
Bank credit agreements:					
Borrowings	39				39
Repayments	(39)				(39)
Accounts receivable sales program:					
Proceeds from sale of receivables			950		950
Repayments			(850)		(850)

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Common stock dividends	(324)				(324)
Dividend to parent			(109)	109	
Capital contributions from parent		2,121	2,477	(4,598)	
Net intercompany repayments		(183)	(1,239)	1,422	
Other financing activities, net	5		(4)		1
Net cash provided by financing activities	1,193	1,938	1,225	(3,067)	1,289
Effect of foreign exchange rate changes on cash			65		65
Net increase (decrease) in cash and temporary cash investments	(137)		22		(115)
Cash and temporary cash investments at beginning of year	215		725		940
Cash and temporary cash investments at end of year	\$ 78	\$	\$ 747	\$	\$ 825

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Condensed Consolidating Statement of Cash Flows for the Year Ended December 31, 2008
(in millions)

	Valero Energy Corporation	PRG (1)	Other Non- Guarantor Subsidiaries (1)	Eliminations	Consolidated
Net cash provided by operating activities	\$ 46	\$ 14	\$ 3,035	\$	\$ 3,095
Cash flows from investing activities:					
Capital expenditures		(653)	(2,240)		(2,893)
Deferred turnaround and catalyst costs		(93)	(315)		(408)
Proceeds from sale of Krotz Springs Refinery			463		463
Contingent payment in connection with acquisition			(25)		(25)
Return of investment in Cameron Highway Oil Pipeline Company, net			24		24
Investments in subsidiaries	(1,235)		(1,523)	2,758	
Return of investment	629	265		(894)	
Proceeds from minor dispositions of property, plant and equipment			25		25
Net intercompany loan repayments	596			(596)	
Minor acquisitions			(144)		(144)
Other investing activities, net			(7)		(7)
Net cash used in investing activities	(10)	(481)	(3,742)	1,268	(2,965)
Cash flows from financing activities:					
Non-bank debt repayments	(6)	(368)			(374)
Bank credit agreements:					
Borrowings	296				296
Repayments	(296)				(296)
Purchase of common stock for treasury	(955)				(955)
Issuance of common stock in connection with employee benefit	16				16

plans					
Benefit from tax deduction in excess of recognized stock-based compensation cost	9				9
Common stock dividends	(299)				(299)
Dividends to parent			(894)	894	
Capital contributions from parent		1,523	1,235	(2,758)	
Net intercompany borrowings (repayments)		(688)	92	596	
Other financing activities			(4)		(4)
Net cash provided by (used in) financing activities	(1,235)	467	429	(1,268)	(1,607)
Effect of foreign exchange rate changes on cash			(47)		(47)
Net decrease in cash and temporary cash investments	(1,199)		(325)		(1,524)
Cash and temporary cash investments at beginning of year	1,414		1,050		2,464
Cash and temporary cash investments at end of year	\$ 215	\$	\$ 725	\$	\$ 940

(1) The information presented herein excludes a \$918 million noncash capital contribution of property and other assets, net of certain liabilities, from PRG to Valero Refining Company Tennessee, L.L.C. (included in Other Non-Guarantor Subsidiaries) on April 1, 2008.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Condensed Consolidating Statement of Cash Flows for the Year Ended December 31, 2007
(in millions)

	Valero Energy Corporation	PRG (1)	Other Non- Guarantor Subsidiaries (1)	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ 736	\$ (51)	\$ 4,573	\$	\$ 5,258
Cash flows from investing activities:					
Capital expenditures		(293)	(1,967)		(2,260)
Deferred turnaround and catalyst costs		(64)	(454)		(518)
Proceeds from sale of Lima Refinery		1,873	555		2,428
Contingent payments in connection with acquisitions		(25)	(50)		(75)
Investment in Cameron Highway Oil Pipeline Company, net			(209)		(209)
Investments in subsidiaries	(2,742)	(58)		2,800	
Return of investment	2,383		1,346	(3,729)	
Proceeds from minor dispositions of property, plant and equipment		3	60		63
Net intercompany loan repayments	3,969			(3,969)	
Other investing activities, net		1	(12)		(11)
Net cash provided by (used in) investing activities	3,610	1,437	(731)	(4,898)	(582)
Cash flows from financing activities:					
Non-bank debt:					
Borrowings	2,245				2,245
Repayments	(280)	(183)			(463)
Bank credit agreements:					
Borrowings	3,000				3,000
Repayments	(3,000)				(3,000)
Purchase of common stock for treasury	(5,788)				(5,788)
Issuance of common stock in connection with employee benefit plans	159				159
Benefit from tax deduction in excess of recognized stock-based compensation cost	311				311
Common stock dividends	(271)				(271)
Dividends to parent		(1,346)	(2,383)	3,729	
Capital contributions from parent			2,800	(2,800)	
Net intercompany borrowings (repayments)		143	(4,112)	3,969	
Other financing activities	(20)		(4)		(24)
Net cash used in financing activities	(3,644)	(1,386)	(3,699)	4,898	(3,831)

Effect of foreign exchange rate changes on cash		29	29
Net increase in cash and temporary cash investments	702	172	874
Cash and temporary cash investments at beginning of year	712	878	1,590
Cash and temporary cash investments at end of year	\$ 1,414	\$ 1,050	\$ 2,464

(1) The information presented herein excludes a \$686 million noncash capital contribution of property and other assets, net of certain liabilities, from PRG to Lima Refining Company (included in Other Non-Guarantor Subsidiaries) on April 1, 2007.

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VALERO ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. QUARTERLY RESULTS OF OPERATIONS (Unaudited)

Our results of operations by quarter for the years ended December 31, 2009 and 2008 were as follows (in millions, except per share amounts):

	2009 Quarter Ended			December 31
	March 31	June 30	September 30	(a)
Operating revenues (b)	\$ 13,329	\$ 17,375	\$ 18,573	\$ 18,867
Operating income (loss) (b)	593	(192)	(238)	(221)
Net income (loss)	309	(254)	(629)	(1,408)
Earnings (loss) per common share (c)	0.60	(0.48)	(1.12)	(2.51)
Earnings (loss) per common share assuming dilution (c)	0.59	(0.48)	(1.12)	(2.51)

	2008 Quarter Ended			December 31
	March 31	June 30	September 30	(e)
			(d)	
Operating revenues (b)	\$ 26,443	\$ 34,824	\$ 34,038	\$ 17,831
Operating income (loss) (b)	498	1,268	1,787	(2,792)
Net income (loss)	261	734	1,152	(3,278)
Earnings (loss) per common share (c)	0.49	1.39	2.20	(6.36)
Earnings (loss) per common share assuming dilution (c)	0.48	1.37	2.18	(6.36)

(a) Net loss for the quarter ended December 31, 2009 includes the after-tax effect of a \$1.9 billion loss related to the shutdown of the Delaware City Refinery, as discussed in Note 2.

(b) Operating revenues and operating income for 2009 and 2008 exclude the operations

related to the Delaware City Refinery, which are reported as discontinued operations.

(c) Earnings per common share amounts are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the annual earnings per share.

(d) Operating income and net income for the quarter ended September 30, 2008 include \$305 million and \$170 million, respectively, related to a gain on the sale of the Krotz Springs Refinery in July 2008, as discussed in Note 2.

(e) Operating loss and net loss for the quarter ended December 31, 2008 both include charges of \$4.0 billion

resulting from a
goodwill
impairment loss,
as discussed in
Note 3.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. Our management has evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective as of December 31, 2009.

Internal Control over Financial Reporting.

(a) Management's Report on Internal Control over Financial Reporting.

The management report on Valero's internal control over financial reporting required by Item 9A appears in Item 8 on page 60 of this report, and is incorporated herein by reference.

(b) Attestation Report of the Independent Registered Public Accounting Firm.

KPMG LLP's report on Valero's internal control over financial reporting appears in Item 8 beginning on page 62 of this report, and is incorporated herein by reference.

(c) Changes in Internal Control over Financial Reporting.

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

Table of Contents**PART III****ITEMS 10-14.**

The information required by Items 10 through 14 of Form 10-K is incorporated herein by reference to the definitive Proxy Statement for our 2010 Annual Meeting of Stockholders that we will file with the SEC before March 31, 2010. Certain information required by Item 401 of Regulation S-K concerning our executive officers appears in Part I of this report.

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) 1. Financial Statements. The following consolidated financial statements of Valero Energy Corporation and its subsidiaries are included in Part II, Item 8 of this Form 10-K:

	Page
<u>Management's report on internal control over financial reporting</u>	60
<u>Reports of independent registered public accounting firm</u>	61
<u>Consolidated balance sheets as of December 31, 2009 and 2008</u>	64
<u>Consolidated statements of income for the years ended December 31, 2009, 2008, and 2007</u>	65
<u>Consolidated statements of stockholders' equity for the years ended December 31, 2009, 2008, and 2007</u>	66
<u>Consolidated statements of cash flows for the years ended December 31, 2009, 2008, and 2007</u>	67
<u>Consolidated statements of comprehensive income for the years ended December 31, 2009, 2008, and 2007</u>	68
<u>Notes to consolidated financial statements</u>	69

2. Financial Statement Schedules and Other Financial Information. No financial statement schedules are submitted because either they are inapplicable or because the required information is included in the consolidated financial statements or notes thereto.

3. Exhibits. Filed as part of this Form 10-K are the following exhibits:

- | | |
|------|--|
| 2.01 | Agreement and Plan of Merger dated as of April 24, 2005 by and among Valero Energy Corporation and Premcor Inc. incorporated by reference to Exhibit 2.1 to Valero's Current Report on Form 8-K dated April 24, 2005, and filed April 25, 2005 (SEC File No. 1-13175). |
| 3.01 | Amended and Restated Certificate of Incorporation of Valero Energy Corporation, formerly known as Valero Refining and Marketing Company incorporated by reference to Exhibit 3.1 to Valero's Registration Statement on Form S-1 (SEC File No. 333-27013) filed May 13, 1997. |
| 3.02 | Certificate of Amendment (effective July 31, 1997) to Restated Certificate of Incorporation of Valero Energy Corporation incorporated by reference to Exhibit 3.02 to Valero's Annual Report on Form 10-K for the year ended December 31, 2003 (SEC File No. 1-13175). |
| 3.03 | Certificate of Merger of Ultramar Diamond Shamrock Corporation with and into Valero Energy Corporation dated December 31, 2001 incorporated by reference to Exhibit 3.03 to Valero's Annual Report on Form 10-K for the year ended December 31, 2003 (SEC File No. 1-13175). |

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- 3.04 Amendment (effective December 31, 2001) to Restated Certificate of Incorporation of Valero Energy Corporation incorporated by reference to Exhibit 3.1 to Valero's Current Report on Form 8-K dated December 31, 2001, and filed January 11, 2002 (SEC File No. 1-13175).

- 3.05 Second Certificate of Amendment (effective September 17, 2004) to Restated Certificate of Incorporation of Valero Energy Corporation incorporated by reference to Exhibit 3.04 to Valero's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (SEC File No. 1-13175).

- 3.06 Certificate of Merger of Premcor Inc. with and into Valero Energy Corporation effective September 1, 2005 - incorporated by reference to Exhibit 2.01 to Valero's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 (SEC File No. 1-13175).

- 3.07 Third Certificate of Amendment (effective December 2, 2005) to Restated Certificate of Incorporation of Valero Energy Corporation incorporated by reference to Exhibit 3.07 to Valero's Annual Report on Form 10-K for the year ended December 31, 2005 (SEC File No. 1-13175).

- 3.08 Amended and Restated Bylaws of Valero Energy Corporation (as of July 12, 2007) incorporated by reference to Exhibit 3.01 to Valero's Current Report on Form 8-K dated July 11, 2007, and filed July 17, 2007 (SEC File No. 1-13175).

- 4.01 Indenture dated as of December 12, 1997 between Valero Energy Corporation and The Bank of New York - incorporated by reference to Exhibit 3.4 to Valero's Registration Statement on Form S-3 (SEC File No. 333-56599) filed June 11, 1998.

- 4.02 First Supplemental Indenture dated as of June 28, 2000 between Valero Energy Corporation and The Bank of New York (including Form of 7 3/4% Senior Deferrable Note due 2005) incorporated by reference to Exhibit 4.6 to Valero's Current Report on Form 8-K dated June 28, 2000, and filed June 30, 2000 (SEC File No. 1-13175).

- 4.03 Indenture (Senior Indenture) dated as of June 18, 2004 between Valero Energy Corporation and Bank of New York incorporated by reference to Exhibit 4.7 to Valero's Registration Statement on Form S-3 (SEC File No. 333-116668) filed June 21, 2004.

- 4.04 Form of Indenture related to subordinated debt securities incorporated by reference to Exhibit 4.8 to Valero's Registration Statement on Form S-3 (SEC File No. 333-116668) filed June 21, 2004.

- 4.05 Third Supplemental Indenture dated as of August 31, 2005 between The Premcor Refining Group Inc. and Deutsche Bank Trust Company Americas incorporated by reference to Exhibit 4.09 to Valero's Annual Report on Form 10-K for the year ended December 31, 2005 (SEC File No. 1-13175).

- 4.06 Fourth Supplemental Indenture dated as of September 1, 2005 among The Premcor Refining Group Inc., Valero Energy Corporation, and Deutsche Bank Trust Company Americas incorporated by reference to Exhibit 4.10 to Valero's Annual Report on Form 10-K for the year ended December 31, 2005 (SEC File No. 1-13175).

- 4.07 Guaranty dated September 2, 2005 of The Premcor Refining Group Inc. (guaranteeing certain Valero-heritage debt) incorporated by reference to Exhibit 4.11 to Valero's Annual Report on Form 10-K for the year ended December 31, 2005 (SEC File No. 1-13175).
- 4.08 Guaranty dated September 2, 2005 of Valero Energy Corporation (guaranteeing certain Premcor-heritage debt) incorporated by reference to Exhibit 4.12 to Valero's Annual Report on Form 10-K for the year ended December 31, 2005 (SEC File No. 1-13175).
- 4.09 Specimen Certificate of Common Stock incorporated by reference to Exhibit 4.1 to Valero's Registration Statement on Form S-3 (SEC File No. 333-116668) filed June 21, 2004.

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+10.01	Valero Energy Corporation Annual Bonus Plan, amended and restated as of July 29, 2009 incorporated by reference to Exhibit 10.01 to Valero's Current Report on Form 8-K dated July 29, 2009, and filed August 4, 2009 (SEC File No. 1-13175).
*+10.02	Valero Energy Corporation 2005 Omnibus Stock Incentive Plan, amended and restated as of October 1, 2005.
+10.03	Valero Energy Corporation 2001 Executive Stock Incentive Plan, amended and restated as of October 1, 2005 - incorporated by reference to Exhibit 10.04 to Valero's Annual Report on Form 10-K for the year ended December 31, 2005 (SEC File No. 1-13175).
+10.04	Valero Energy Corporation Deferred Compensation Plan, amended and restated as of January 1, 2008 - incorporated by reference to Exhibit 10.04 to Valero's Annual Report on Form 10-K for the year ended December 31, 2008 (SEC File No. 1-13175).
*+10.05	Form of 2010 Elective Deferral Agreement pursuant to the Valero Energy Corporation Deferred Compensation Plan.
*+10.06	Form of Investment Election Form pursuant to the Valero Energy Corporation Deferred Compensation Plan.
*+10.07	Form of 2010 Distribution Election Form pursuant to the Valero Energy Corporation Deferred Compensation Plan.
+10.08	Valero Energy Corporation Amended and Restated Supplemental Executive Retirement Plan, amended and restated as of November 10, 2008 - incorporated by reference to Exhibit 10.08 to Valero's Annual Report on Form 10-K for the year ended December 31, 2008 (SEC File No. 1-13175).
+10.09	Valero Energy Corporation 2003 Employee Stock Incentive Plan, as amended and restated effective October 1, 2005 - incorporated by reference to Exhibit 10.11 to Valero's Annual Report on Form 10-K for the year ended December 31, 2005 (SEC File No. 1-13175).
+10.10	Valero Energy Corporation Stock Option Plan, as amended and restated effective January 1, 2009 - incorporated by reference to Exhibit 10.10 to Valero's Annual Report on Form 10-K for the year ended December 31, 2008 (SEC File No. 1-13175).
+10.11	Valero Energy Corporation Restricted Stock Plan for Non-Employee Directors, as amended and restated July 11, 2007 - incorporated by reference to Exhibit 10.02 to Valero's Current Report on Form 8-K/A dated July 11, 2007, and filed September 18, 2007 (SEC File No. 1-13175).
+10.12	Valero Energy Corporation Non-Employee Director Stock Option Plan, as amended and restated effective January 1, 2007 - incorporated by reference to Exhibit 10.02 to Valero's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (SEC File No. 1-13175).
+10.13	Form of Indemnity Agreement between Valero Energy Corporation (formerly known as Valero Refining and Marketing Company) and certain officers and directors - incorporated by reference to Exhibit 10.8 to Valero's Registration Statement on Form S-1 (SEC File No. 333-27013) filed

May 13, 1997.

- +10.14 Schedule of Indemnity Agreements incorporated by reference to Exhibit 10.9 to Valero's Registration Statement on Form S-1 (SEC File No. 333-27013) filed May 13, 1997.
- +10.15 Change of Control Agreement (Tier I) dated January 18, 2007 between Valero Energy Corporation and William R. Klesse incorporated by reference to Exhibit 10.01 to Valero's Current Report on Form 8-K dated January 17, 2007 and filed January 19, 2007 (SEC File No. 1-13175).
- +10.16 Schedule of Change of Control Agreements (Tier I) incorporated by reference to Exhibit 10.16 to Valero's Annual Report on Form 10-K for the year ended December 31, 2008 (SEC File No. 1-13175).

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+10.17	Change of Control Agreement (Tier II) dated March 15, 2007 between Valero Energy Corporation and Kimberly S. Bowers incorporated by reference to Exhibit 10.16 to Valero's Annual Report on Form 10-K for the year ended December 31, 2008 (SEC File No. 1-13175).
+10.18	Form of Performance Award Agreement pursuant to the Valero Energy Corporation 2005 Omnibus Stock Incentive Plan incorporated by reference to Exhibit 10.02 to Valero's Current Report on Form 8-K dated January 18, 2006, and filed January 20, 2006 (SEC File No. 1-13175).
+10.19	Form of Stock Option Agreement pursuant to the Valero Energy Corporation 2005 Omnibus Stock Incentive Plan incorporated by reference to Exhibit 10.03 to Valero's Current Report on Form 8-K dated October 20, 2005, and filed October 26, 2005 (SEC File No. 1-13175).
+10.20	Form of Stock Option Agreement pursuant to the Valero Energy Corporation Non-Employee Director Stock Option Plan incorporated by reference to Exhibit 10.04 to Valero's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (SEC File No. 1-13175).
+10.21	Form of Restricted Stock Agreement pursuant to the Valero Energy Corporation 2005 Omnibus Stock Incentive Plan incorporated by reference to Exhibit 10.02 to Valero's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 (SEC File No. 1-13175).
+10.22	Form of Restricted Stock Agreement pursuant to the Valero Energy Corporation Restricted Stock Plan for Non-Employee Directors incorporated by reference to Exhibit 10.03 to Valero's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (SEC File No. 1-13175).
10.23	\$2,500,000,000 5-Year Revolving Credit Agreement, dated as of August 17, 2005, among Valero Energy Corporation, as Borrower; JPMorgan Chase Bank, N.A., as Administrative Agent and Global Administrative Agent; and the lenders named therein incorporated by reference to Exhibit 10.23 to Valero's Annual Report on Form 10-K for the year ended December 31, 2008 (SEC File No. 1-13175).
10.24	First Amendment to \$2,500,000,000 5-Year Revolving Credit Agreement, dated as of July 24, 2006 - incorporated by reference to Exhibit 10.24 to Valero's Annual Report on Form 10-K for the year ended December 31, 2008 (SEC File No. 1-13175).
10.25	Second Amendment to \$2,500,000,000 5-Year Revolving Credit Agreement, dated as of November 9, 2007 - incorporated by reference to Exhibit 10.25 to Valero's Annual Report on Form 10-K for the year ended December 31, 2008 (SEC File No. 1-13175).
*12.01	Statements of Computations of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Fixed Charges and Preferred Stock Dividends.
14.01	Code of Ethics for Senior Financial Officers incorporated by reference to Exhibit 14.01 to Valero's Annual Report on Form 10-K for the year ended December 31, 2003 (SEC File No. 1-13175).
*21.01	Valero Energy Corporation subsidiaries.

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- *23.01 Consent of KPMG LLP dated February 26, 2010.
- *24.01 Power of Attorney dated February 25, 2010 (on the signature page of this Form 10-K).
- *31.01 Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal executive officer.
- *31.02 Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal financial officer.

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*32.01 Section 1350 Certifications (under Section 906 of the Sarbanes-Oxley Act of 2002).

*99.01 Audit Committee Pre-Approval Policy.

* Filed herewith.

+ Identifies
 management
 contracts or
 compensatory
 plans or
 arrangements
 required to be
 filed as an
 exhibit hereto.

Copies of exhibits filed as a part of this Form 10-K may be obtained by stockholders of record at a charge of \$0.15 per page, minimum \$5.00 each request. Direct inquiries to Jay D. Browning, Senior Vice President-Corporate Law and Secretary, Valero Energy Corporation, P.O. Box 696000, San Antonio, Texas 78269-6000.

Pursuant to paragraph 601(b)(4)(iii)(A) of Regulation S-K, the registrant has omitted from the foregoing listing of exhibits, and hereby agrees to furnish to the SEC upon its request, copies of certain instruments, each relating to debt not exceeding 10% of the total assets of the registrant and its subsidiaries on a consolidated basis.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VALERO ENERGY CORPORATION
(Registrant)

By /s/ William R. Klesse

(William R. Klesse)
Chief Executive Officer, President, and
Chairman of the Board

Date: February 26, 2010

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KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints William R. Klesse, Michael S. Ciskowski, and Jay D. Browning, or any of them, each with power to act without the other, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all subsequent amendments and supplements to this Annual Report on Form 10-K, and to file the same, or cause to be filed the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby qualifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ William R. Klesse (William R. Klesse)	Chief Executive Officer, President, and Chairman of the Board (Principal Executive Officer)	February 25, 2010
/s/ Michael S. Ciskowski (Michael S. Ciskowski)	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 25, 2010
/s/ Ronald K. Calgaard (Ronald K. Calgaard)	Director	February 25, 2010
/s/ Jerry D. Choate (Jerry D. Choate)	Director	February 25, 2010
/s/ Irl F. Engelhardt (Irl F. Engelhardt)	Director	February 25, 2010
/s/ Ruben M. Escobedo (Ruben M. Escobedo)	Director	February 25, 2010
/s/ Bob Marbut (Bob Marbut)	Director	February 25, 2010
/s/ Donald L. Nickles (Donald L. Nickles)	Director	February 25, 2010

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/s/ Robert A. Profusek

Director

February 25, 2010

(Robert A. Profusek)

/s/ Susan Kaufman Purcell

Director

February 25, 2010

(Susan Kaufman Purcell)

/s/ Stephen M. Waters

Director

February 25, 2010

(Stephen M. Waters)