VALERO ENERGY CORPORATION

UDS™
Clean Fuels. Convenience.

Bill Greehey
Chairman and CEO

Jean Gaulin
Chairman and CEO

The Rise of a Refining & Marketing Major

May 2001

Safe Harbor Statement

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

Prospectus Disclaimer

Investors and security holders are urged to read the joint proxy statement/prospectus that will be sent to Valero and UDS stockholders regarding the proposed merger, when it becomes available, because it will contain important information. Investors and security holders may obtain a free copy of the joint proxy statement/prospectus, when it is available, and other documents filed by Valero and UDS with the Securities and Exchange Commission at the Commission's web site at www.sec.gov. The joint proxy statement/prospectus and these other documents may also be obtained, when available, free of charge from Valero and UDS.

Valero and UDS, and their respective directors, executive officers and certain other of their respective employees, may be soliciting proxies from their respective stockholders in favor of the approval of the merger. Information regarding the persons who may, under SEC rules, be deemed to be participants in the solicitation of Valero and UDS stockholders in connection with the merger is set forth in Valero's proxy statement and in UDS's proxy statement for their 2001 annual meetings, filed with the SEC on March 28, 2001 and March 27, 2001, respectively. Additional information will be set forth in the definitive proxy statement/prospectus referred to above when it is filed with the SEC.

Bill Greehey

Chairman and CEO

Valero Energy Corporation

Transaction Summary

- Valero to acquire UDS in over $6 billion transaction
- Exchange ratio fixed at 1.228 shares of Valero stock for each share of UDS stock - represents 30% premium based on trailing 10 days average ending April 26
- To be paid -
  - 50% in Valero stock
  - 50% in cash fixed at $55 per share of UDS stock
- Transaction significantly accretive to Valero's EPS and CFPS
- Closing by year end 2001

Strategic Rationale

- Size and scope creates the premier U.S. refiner & marketer
- Superior asset portfolio
  - Quality UDS management team and workforce
- Enhanced earnings stability through top-quality, nationally recognized retail operations
- Estimated synergies of at least $200 million annually
- Significantly increased size and liquidity -- <u>multiple expansion</u>
  - Likely inclusion in S&P 500
- Positions company for further growth

The Combined Company

- Bill Greehey to remain Chairman and CEO of Valero
- Valero Board to expand to 13 members with addition of 4 UDS directors

Headquarters in San Antonio

23,000 employees

13 refineries

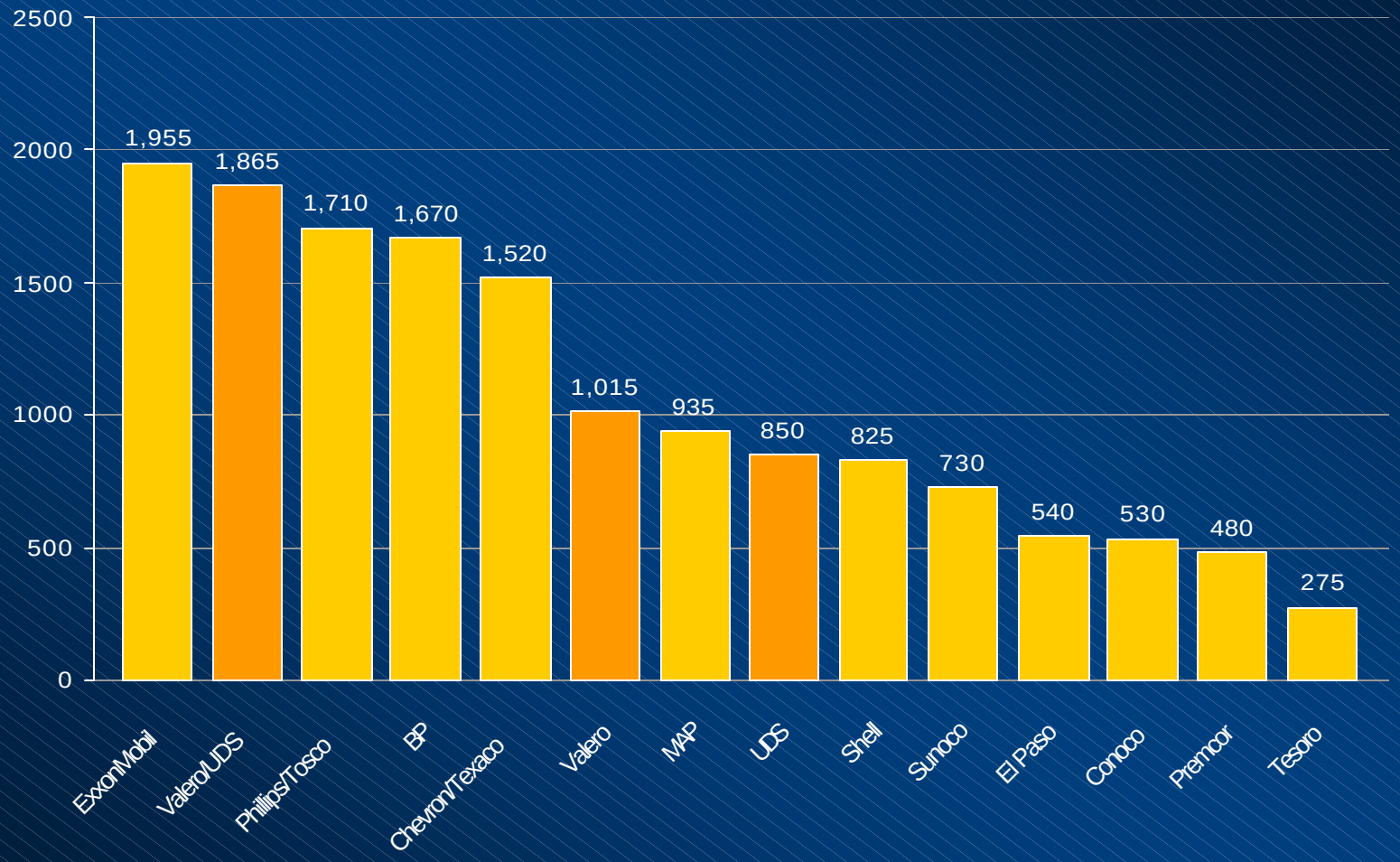
5,350 retail outlets

4,600 miles of crude & product pipelines

$32 billion in revenues

$10 billion in total assets

The New U.S. Refining Major



Source: Oil & Gas Journal and company reports

With Major Marketing Presence

Rank/Company	Company Operated U.S. Sites
1. Phillips Petroleum	2,350
2. Speedway SuperAmerica (MAP)	2,200
3. The Southland Corp.	2,050
4. Valero Energy Corporation	**1,735**
5. BP/Amoco/Arco	1,635
6. The Pantry Inc.	1,200
7. ExxonMobil	1,075
8. Equilon/Motiva	975
9. Clark	900
10. Cumberland Farms, Inc.	725

Source: 2000 C-Store & Pet. Mktg. Industry Review, 1999 data adjusted by UDS management

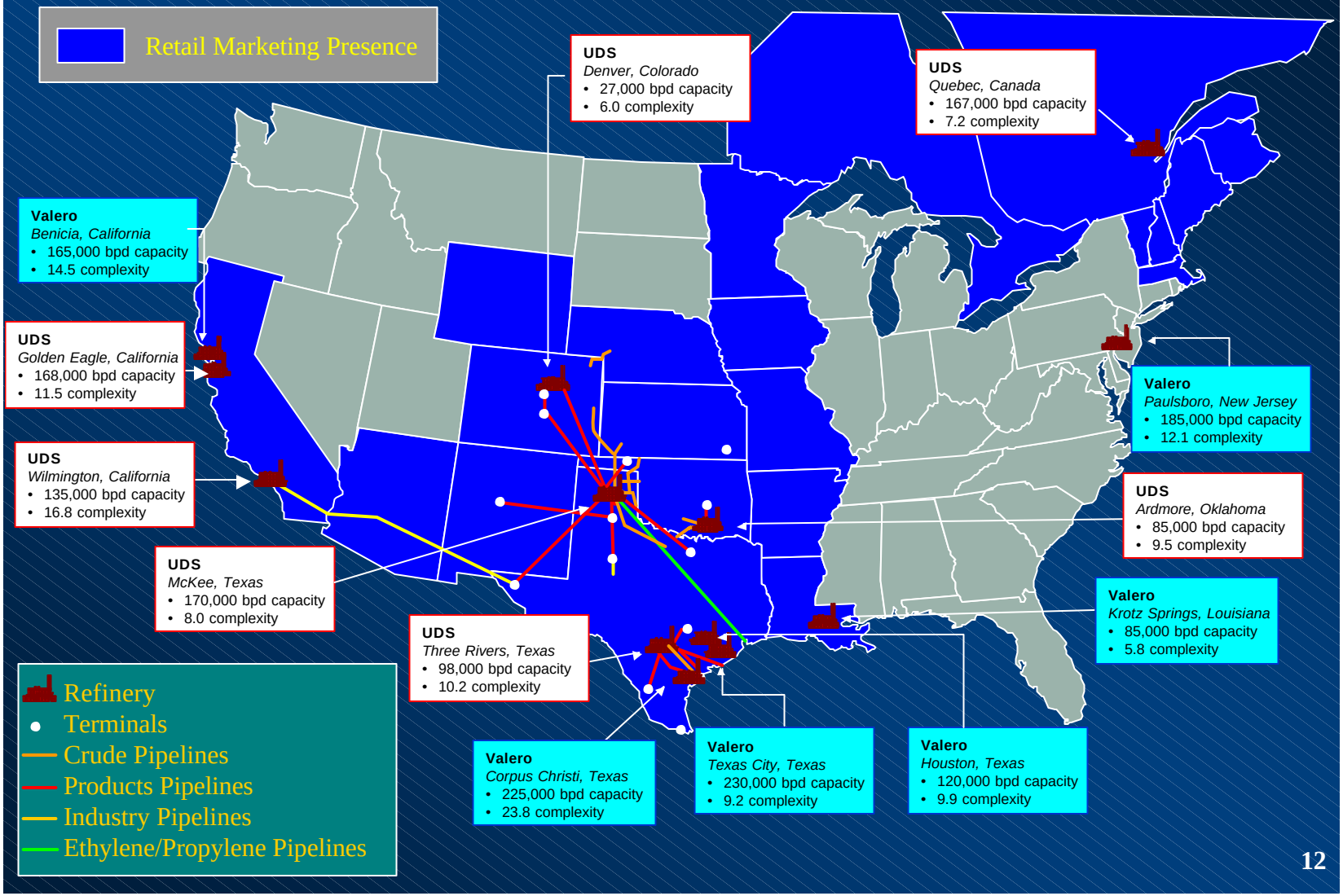
Jean Gaulin

Chairman and CEO

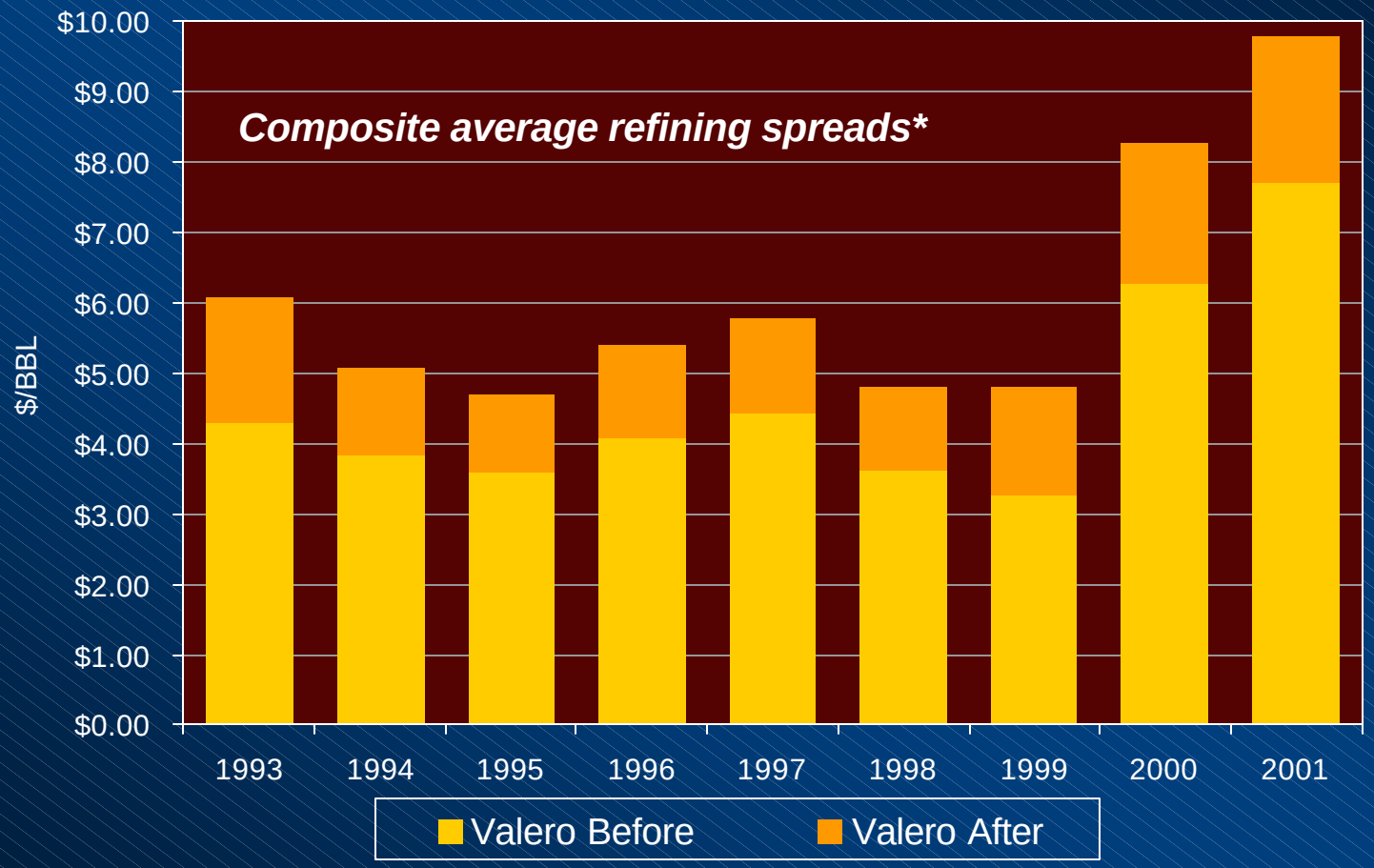
Ultramar Diamond Shamrock

Geographic Diversity and Complexity . . .

. . . Enhanced by UDS' Quality Assets

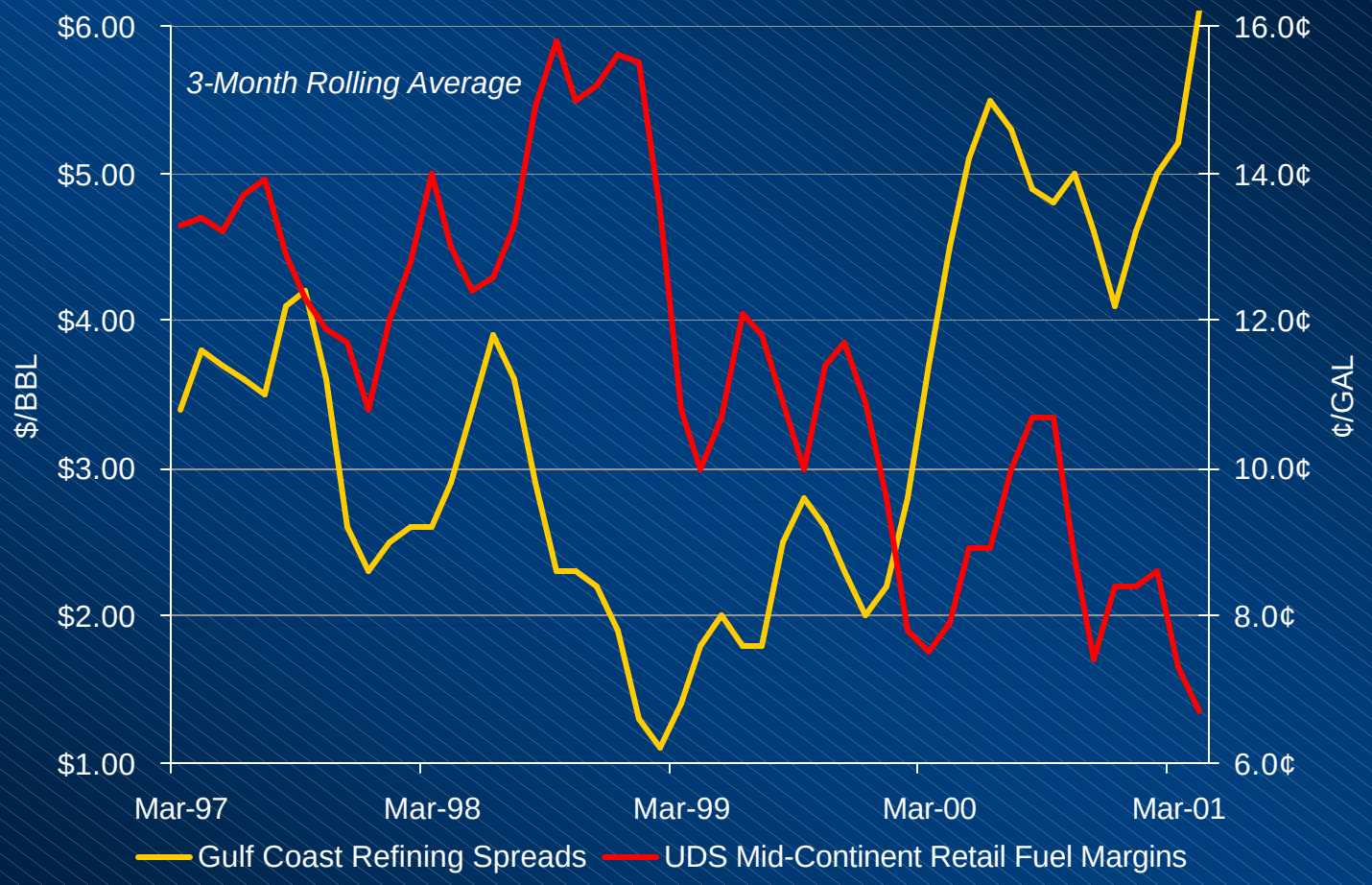


Better Exposure to the Right Markets



*5-3-2 refining margins (5 parts crude oil, 3 parts gasoline, 2 parts distillate)

Enhancing the Stability of Earnings



Retail fuel margins tend to be counter-cyclical to refining spreads

Quality Retail Presence

- Some 2,000 company-operated sites and over 2,500 dealers/jobbers and truck rack facilities in 18 U.S. states and six Canadian provinces
  - Largest company-owned retailer in Texas, Oklahoma, Colorado and New Mexico
  - One of the largest home heating oil businesses in North America
  - Over $1.2 billion in annual merchandise sales and growing

- 80 Valero branded sites and 260 Exxon-branded locations in the California market
- 30% increase in volumes since acquisition

Improving Operations . . .

. . . Through high return projects adding over $175 million annu ally

- Restart of No. 3 Crude Unit at the Golden Eagle Refinery
- Increasing CARB gasoline and diesel production at both Golden Eagle and Wilmington to nearly 90%
- Expansion of Quebec Refinery by 40,000 BPD later this year
- Enhancing sour crude and clean product capabilities at McKee, Three Rivers and Ardmore
- Cost reduction and re-imaging programs in progress throughout the retail network
- Expanding crude oil and product logistics throughout Mid - Continent

Bill Greehey

Chairman and CEO

Valero Energy Corporation

Better Refineries, Better Products

- 2000 upgrades at Texas City, Benicia and Paulsboro to contribute $40 to $50 million annually
- 1st Qtr. 2001 Projects - $50 million annual benefit
  - Benicia hydrocracker - increased CARB production
  - Houston FCC and plantwide turnaround - up to 100% sour crude and light product yields
  - Texas City Crude Unit upgrade - increased sour crude capacity and light product yields

MORE HIGH RETURN PROJECTS TO COME

Anticipated Synergies

($ in millions)

	Year 1	Year 2+
Crude Sourcing & Logistics	$75	$80
Marketing	60	75
Administrative, Procurement & Best Practices	55	85
Total	$190	$240

SIGNIFICANT UPSIDE TO CURRENT ESTIMATES

Right Deal at the Right Time

- Industry fundamentals remain positive
- Inventories for light products should remain at low end of historic range
  - High natural gas prices impact inventories of both gasoline and distillate
  - Continued healthy demand for refined products
  - Tight US refining capacity; limited capacity growth
  - Worldwide movement toward cleaner burning fuels accelerating
- Positive sour crude fundamentals

→ ***PERFECT CYCLE TO CONTINUE***

Compelling Financial Impact

	2001 Forward Curve Case (1)		
	Valero	UDS	Pro Forma
EBITDA	$1,301	$1,413	$2,714
Net Income	$626	$579	$1,263
Earnings Per Share	$9.73	$7.86	$11.46
Accretion ($)	--	--	$1.73
Cash Flow Per Share	$15.43	$14.84	$17.19
Accretion ($)	--	--	$1.76
Long Term Debt	$1,041	$1,306	$4,104
Debt-to-capitalization	31.8%	44.0%	45.6%
Fixed charge coverage	11.1x	8.6x	6.2x

**Pro Forma includes acquisition financing, synergies and purchas e accounting adjustments*

(1) Based on 2001 forward curve prices as of April 16, 2001

Base Earnings Raised Substantially

Estimated EPS Cases	2001	2002 First Call	5 year Avg. Case
Valero	$9.73	$4.70	$4.84
Pro Forma	$11.46	$7.08	$7.85
Accretion	18%	51%	62%

- Accretion increases as refining margins decline
- Dramatic reduction in volatility

Estimated Transaction Timetable

May 7-16	Roadshow
May 31	UDS & VLO to file HSR with FTC
June 4-7	File Registration and Proxy Statements with SEC
September 6	Stockholder Meetings of Valero and UDS to approve transaction
October 31	Closing

A New "Major" Positioned for Growth

- The only "major" U.S. independent refiner and marketer
  - Second largest U.S. refiner, including the majors
  - Clear separation from independent refiners
- Positioned to capitalize on the future of the R&M industry
- Maintaining highest leverage to quality refining margins with geographically diverse and reliable operations
- High leverage to stabilizing retail margins and growing sales volumes
- Proven track record of successfully integrating acquisitions
- Increased size and financial capacity provides significant opportunities for further growth