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FORM 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the year ended December 31, 2002

OR

o 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 1-16417

VALERO L.P.

(Exact name of registrant as specified in its charter)

Delaware	74-2956831
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Valero Place
San Antonio, Texas
(Address of principal executive offices)
78212
(Zip Code)

Telephone number: (210) 370-2000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Units representing limited partnership interests listed on the New York Stock Exchange.

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

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** **X** **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 the Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). **Yes** **X** **No** _____

As of June 28, 2002, the aggregate market value of common units held by non-affiliates based on the last sales price as quoted on the New York Stock Exchange was $188,887,500.

The number of common units outstanding as of February 1, 2003 was 9,684,572.

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Cautionary Statement Regarding Forward-Looking Information

This report includes forward-looking statements regarding future events and the future financial performance of the Partnership (as defined below). All forward-looking statements are based on the Partnership's beliefs as well as assumptions made by and information currently available to the Partnership. Words such as "believes", "expects", "intends", "forecasts", "projects" and similar expressions, identify forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995. These statements reflect the Partnership's current views with respect to future events and are subject to various risks, uncertainties and assumptions including:

- *Any reduction in the quantities of crude oil and refined products transported in the Partnership's pipelines and handled at the Partnership's terminals and storage facilities;*
- *Any significant decrease in the demand for refined products in the markets served by the Partnership's pipelines;*
- *Any material decline in production by any of Valero Energy's (as defined below) McKee, Three Rivers, or Ardmore Refineries;*
- *Any downward pressure on market prices caused by new competing refined product pipelines that could cause Valero Energy to decrease the volumes transported in the Partnership's pipelines;*
- *Any challenges to the Partnership's tariff rates or changes in the FERC's ratemaking methodology;*
- *Any material decrease in the supply of or material increase in the price of crude oil available for transport through the Partnership's pipelines;*
- *Inability to expand the Partnership's business and acquire new assets as well as to attract third party shippers;*
- *Conflicts of interest with Valero Energy;*
- *Any inability to borrow additional funds;*
- *Any substantial costs related to environmental risks, including increased costs of compliance;*
- *Any change in the credit ratings assigned to Valero Logistics' indebtedness;*
- *Any change in the credit rating assigned to Valero Energy's indebtedness;*
- *Any reductions in space allocated to our customers in interconnecting third party pipelines;*
- *Any material increase in the price of natural gas;*
- *War, terrorist attacks, threats of war or terrorist attacks or political or other disruptions that limit oil production;*
- *The Partnership's former use of Arthur Andersen LLP; and*
- *Proposed changes in federal income tax law.*

If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statement. Readers are cautioned not to place undue reliance on this forward-looking information, which is as of the date of this Form 10-K, and the Partnership undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

PART I

Items 1. and 2. Business and Properties

General

Valero L.P. is a Delaware limited partnership that was formed December 7, 1999. Valero L.P.'s principal executive offices are located at One Valero Place, San Antonio, Texas 78212 and its telephone number is (210) 370-2000. The operations are conducted through a subsidiary entity, Valero Logistics Operations, L.P (Valero Logistics). As used in this report, the term "Partnership" refers to Valero L.P. and its operating subsidiary, Valero Logistics.

Valero L.P. was originally formed under the name of “Shamrock Logistics, L.P.,” and changed its name to “Valero L.P.” effective January 1, 2002, following completion of Valero Energy Corporation’s acquisition of Ultramar Diamond Shamrock Corporation (UDS) on December 31, 2001. In addition, Valero Logistics changed its name from “Shamrock Logistics Operations, L.P.” effective January 1, 2002. As used in this report, the term “Valero Energy” may refer, depending on the context, to Valero Energy Corporation, to one or more of its consolidated subsidiaries or to all of them taken as a whole, but excludes Valero L.P. and its operating subsidiary.

On April 16, 2001, Valero L.P. completed its initial public offering of 5,175,000 common units, representing approximately 26% of its outstanding units. Valero L.P.’s common units are listed on the New York Stock Exchange under the symbol “VLI.”

Valero Energy, through its wholly owned subsidiaries, currently owns a total of 4,497,641 common units and 9,599,322 subordinated units, representing an aggregate 71.6% limited partner interest in Valero L.P. Valero Energy owns and controls Valero L.P.’s general partner, Riverwalk Logistics, L.P., which owns a 2% interest in Valero L.P. and has incentive distribution rights giving it higher percentages of Valero L.P.’s quarterly cash distributions as various target distribution levels are met.

The Partnership generates revenue from its pipeline operations by charging tariffs for transporting crude oil, other refinery feedstocks and refined products through its pipelines. The Partnership also generates revenue through its terminalling operations by charging a terminalling fee to its customers. The terminalling fee is earned when refined products enter the terminal and includes the cost of transferring the refined products from the terminal to trucks. An additional fee is charged at the refined product terminals for blending additives into various refined products. The Partnership currently does not generate any separate revenue from its crude oil storage facilities. Instead, the costs associated with these facilities were considered in establishing the tariff rates charged for transporting crude oil from the storage facilities to the refineries. The Partnership’s primary customer for its pipelines and its terminalling operations is Valero Energy, which accounted for 99% of the Partnership’s revenues for the year ended December 31, 2002.

The term “throughput” as used in this document generally refers to the crude oil or refined product barrels, as applicable, that pass through each pipeline, even if those barrels also are transported in another of the Partnership’s pipelines for which a separate tariff is charged.

Pipeline Operations

General

The Partnership has an ownership interest in nine crude oil pipelines with an aggregate length of approximately 783 miles and 19 refined product pipelines with an aggregate length of approximately 2,846 miles. The Partnership also owns a 25-mile-long crude hydrogen pipeline. The Partnership operates all but three of the pipelines. For the pipelines in which the Partnership owns less than a 100% ownership interest, the Partnership funds capital expenditures in proportion to its respective ownership percentage.

For all but two of the pipelines, Valero Energy is the only customer for transportation of crude oil or refined products.

Crude Oil Pipelines

The Partnership’s crude oil pipelines deliver crude oil and other feedstocks, such as gas oil and normal butane, from various points in Texas, Oklahoma, Kansas and Colorado to Valero Energy’s McKee, Three Rivers and Ardmore refineries. The following table sets forth the average daily number of barrels of crude oil and other feedstocks the Partnership transported through its crude oil pipelines, in the aggregate, in each of the years presented.

	Aggregate Throughput Years Ended December 31,				
	2002	2001	2000	1999	1998
			(barrels/day)		
Crude Oil and Other Feedstocks	348,023	303,811	294,784	280,041	265,243

The following table sets forth information about each of the Partnership's crude oil pipelines.

Origin and Destination	Length	Ownership	Capacity	Year Ended December 31, 2002 Throughput	Capacity Utilization
	(miles)		(barrels/day)	(barrels/day)	
Cheyenne Wells, CO to McKee	252	100%	17,500	8,264	47%
Dixon, TX to McKee	44	100%	85,000	43,753	51%
Hooker, OK to Clawson, TX (1)	31	50%	22,000	18,542	84%
Clawson, TX to McKee (2)	41	100%	36,000	12,431	86%
Wichita Falls to McKee (3)	272	100%	110,000	72,091	66%
Corpus Christi, TX to Three Rivers	70	100%	120,000	68,701	57%
Ringgold, TX to Wasson, OK (2)	44	100%	90,000	34,602	55%
Healdton, OK to Ringling, OK	4	100%	52,000	14,861	29%
Wasson, OK to Ardmore, OK	25	100%	90,000	74,778	83%
	783		622,500	348,023	61%

(1) The Partnership receives 50% of the tariff with respect to 100% of the barrels transported in the Hooker to Clawson segment. Accordingly, the capacity, throughput and capacity utilization are given with respect to 100% of the pipeline.

(2) This pipeline transports barrels relating to two tariff routes, one of which begins at this pipeline's origin and ends at its destination and one of which is a longer tariff route with an origin or destination on another pipeline of the Partnership's which connects to this pipeline. Throughput disclosed above for this pipeline reflects only the barrels subject to the tariff route beginning at this pipeline's origin and ending at this pipeline's destination. To accurately determine the actual capacity utilization of the pipeline, as well as aggregate capacity utilization, all barrels passing through the pipelines have been taken into account.

(3) On February 1, 2002, the Partnership acquired the Wichita Falls crude oil pipeline from Valero Energy. The throughput for the month ended January 31, 2002, of 2,000,000 barrels is included in the above throughput barrels and capacity utilization percentage.

Refined Product Pipelines

The Partnership's refined product pipelines transport refined products from Valero Energy's McKee, Three Rivers and Ardmore refineries to the Partnership's terminals or to interconnections with third-party pipelines, for distributions in markets in Texas, Oklahoma, Colorado, New Mexico, Arizona and other mid-continent states. The refined products transported in these pipelines include gasoline, distillates (including diesel and jet fuel), natural gas liquids (such as propane and butane), blendstocks and petrochemical raw materials such as toluene, xylene and raffinate. During the year ended December 31, 2002, gasoline and distillates represented approximately 65% and 23%, respectively, of the total throughput in the Partnership's refined product pipelines.

The following table sets forth the average daily number of barrels of refined products the Partnership transported through its refined product pipelines, in the aggregate, in each of the years presented.

	Aggregate Throughput Years Ended December 31,				
	2002	2001	2000	1999	1998
			(barrels/day)		
Refined products	295,456	308,047	309,803	297,397	268,064

The following table sets forth information about each of the Partnership's refined product pipelines. In instances where the Partnership owns less than 100% of a pipeline, its ownership percentage is indicated, and the capacity, throughput and capacity utilization information reflects only its ownership interest in these pipelines.

Origin and Destination	Length	Ownership	Capacity	Year Ended December 31, 2002 Throughput	Capacity Utilization
	(miles)		(barrels/day)	(barrels/day)	
McKee to El Paso, TX	408	67%	40,000	37,921	95%
McKee to Colorado Springs, CO (1)	256	100%	52,000	11,426	37%
Colorado Springs, CO to Airport	2	100%	12,000	1,242	10%
Colorado Springs, CO to Denver, CO	101	100%	32,000	7,619	24%
McKee to Denver, CO	321	30%	12,450	11,790	95%
McKee to Amarillo, TX (6") (1)(2)	49	100%	51,000	28,708	70%
McKee to Amarillo, TX (8") (1)(2)	49	100%			
Amarillo, TX to Abernathy, TX	102	39%	6,812	7,742	114%
Amarillo, TX to Albuquerque, NM	293	50%	17,150	11,018	64%
McKee to Skellytown, TX	53	100%	52,000	9,563	18%
Skellytown, TX to Mont Belvieu, TX (Skelly-Belvieu)	571	50%	26,000	16,718	64%
Three Rivers to San Antonio, TX	81	100%	33,600	25,539	76%
Three Rivers to Laredo, TX	98	100%	16,800	12,908	77%
Three Rivers to Corpus Christi, TX	72	100%	15,000	4,752	32%
Three Rivers to Pettus, TX (12")	29	100%	24,000	19,746	82%
Three Rivers to Pettus, TX (8")	29	100%	15,000	6,406	43%
Ardmore to Wynnewood, OK	31	100%	90,000	54,193	60%
El Paso, TX to Kinder Morgan	12	67%	40,000	28,165	70%
Other refined product pipeline (3)	289	50%	N/A	N/A	N/A
	2,846		535,812	295,456	58%

(1) This pipeline transports barrels relating to two tariff routes, one of which begins at this pipeline's origin and ends at this pipeline's destination and one of which is a longer tariff route with an origin or destination on another pipeline of the Partnership's that connects to this pipeline. Throughput disclosed above for this pipeline reflects only the barrels subject to the tariff route beginning at this pipeline's origin and ending at this pipeline's destination. To accurately determine the actual capacity utilization of the pipeline, as well as aggregate capacity utilization, all barrels passing through the pipelines have been taken into account.

(2) The throughput, capacity, and capacity utilization information listed opposite the McKee to Amarillo 6-inch pipeline includes both McKee to Amarillo pipelines on a combined basis.

(3) Represents the idled 6-inch sections of the Amarillo to Albuquerque refined product pipeline.

Storage and Terminalling Operations

The Partnership owns a total of five crude oil storage facilities in Texas and Oklahoma. These facilities have a total of 15 tanks with a capacity of 3,326,000 barrels. The Partnership also owns 12 refined products terminals in Texas, Colorado, New Mexico and California, including an asphalt terminal in Pittsburg, California that it acquired in January 2003. See Items 1. and 2. Business and Properties, "Recent Developments in 2000." These terminals have a total of 136 tanks with a combined capacity of 3,192,000 barrels.

Crude Oil Storage Facilities

The Partnership's crude oil storage facilities serve the needs of Valero Energy's McKee, Three Rivers and Ardmore refineries.

The following table sets forth information about the crude oil storage facilities:

Location	Capacity	Number of Tanks	Mode of Receipt	Mode of Delivery	Year Ended December 31, 2002 Average Throughput
	(barrels)				(barrels/day)
Corpus Christi, TX (1)	1,600,000	4	Marine	Pipeline	68,701
Dixon, TX	240,000	3	Pipeline	Pipeline	43,753
Ringgold, TX	600,000	2	Pipeline	Pipeline	34,602
Wichita Falls, TX (2)	660,000	4	Pipeline	Pipeline	72,091
Wasson, OK	226,000	2	Pipeline	Pipeline	74,778
	3,326,000	15			293,925

(1) The Partnership owns the Corpus Christi crude oil storage facility and the land underlying the facility is subject to a long-term operating lease.

(2) On February 1, 2002, the Partnership acquired the Wichita Falls crude oil storage facility from Valero Energy. The throughput for the month ended January 31, 2002, of 2,000,000 barrels is included in the above throughput barrels.

Refined Product Terminals

The Partnership's 12 refined product terminals have automated loading facilities available 24 hours a day. Billing of Valero Energy's customers is electronically accomplished by the Fuels Automation and Nomination System (FANS). This automatic system provides for control of allocations, credit and carrier certification by remote input of data by customers. All terminals have an electronic monitoring and control system that monitors the effectiveness of the ground protection and vapor control and will cause an automated shutdown of the terminal operations if necessary. For environmental and safety protection, all terminals have primary vapor control systems consisting of flares, vapor combustors or carbon absorption vapor recovery units.

The following table sets forth information about each of the Partnership's refined product terminals:

Terminal Location	Capacity	Number of Tanks	Mode of Receipt	Mode of Delivery	Average Throughput Year Ended December 31, 2002
	(barrels)				(barrels/day)
Abernathy, TX	171,000	11	Pipeline	Truck	7,215
Amarillo, TX	271,000	4	Pipeline	Truck/Pipeline	20,731
Albuquerque, NM	193,000	10	Pipeline	Truck/Pipeline	10,494
Denver, CO	111,000	10	Pipeline	Truck	17,019
Colorado Springs, CO (1)	324,000	8	Pipeline	Truck/Pipeline	11,426
El Paso, TX (2)	347,000	22	Pipeline	Truck/Pipeline	39,756
Southlake, TX	286,000	6	Pipeline	Truck	21,806
Corpus Christi, TX (1)	371,000	15	Pipeline	Marine/Pipeline	7,290
San Antonio, TX	221,000	10	Pipeline	Truck	18,160
Laredo, TX	203,000	6	Pipeline	Truck	12,908
Harlingen, TX (1)	314,000	7	Marine	Truck	8,754
Pittsburg, CA (asphalt terminal)(3)	380,000	17	Rail	Truck	N/A
	3,192,000	136			175,559

(1) The Partnership owns the Colorado Springs, Corpus Christi and Harlingen refined products terminals and the land underlying these facilities is subject to long-term operating leases.

(2) The Partnership has a 66.67% ownership interest in the El Paso refined product terminal. The capacity and throughput amounts represent the proportionate share of capacity and throughput attributable to the Partnership's ownership interest. The throughput represents barrels distributed from the El Paso refined product terminal and deliveries to a third-party refined product pipeline.

(3) The Partnership acquired the asphalt terminal in Pittsburg, California from Telfer Oil Company in January 2003.

Pipeline, Storage Facility, and Terminal Control Operations

All of the Partnership's crude oil and refined product pipelines are operated via satellite communication systems from one of two central control rooms located in San Antonio and Dumas, Texas near Valero Energy's McKee refinery. Each control center can provide backup capability for the other, and each center is capable of monitoring and controlling all of the pipelines. There is also a backup control center located at the San Antonio refined product terminal approximately 25 miles from the primary control center in San Antonio.

The control centers operate with modern, state-of-the-art System Control and Data Acquisition systems (SCADA). The control centers are equipped with computer systems designed to continuously monitor real time operational data, including crude oil and refined product throughput, flow rates and pressures. In addition, the control centers monitor alarms and throughput balances. The control centers operate remote pumps, motors, engines and valves associated with the delivery of crude oil and refined products. The computer systems are designed to enhance leak-detection capabilities, sound automatic alarms if operational conditions outside pre-established parameters occur and provide for remote-controlled shutdown of pump stations on the pipelines. Pump stations, crude oil storage facilities and meter-measurement points along the pipelines are linked by satellite or telephone communication systems for remote monitoring and control.

A number of the Partnership's crude oil storage facilities and refined product terminals are also operated through the central control centers. Other crude oil storage facilities and refined product terminals are modern, automated facilities but are locally controlled.

The Partnership's Relationship with Valero Energy

General

Valero Energy owns and operates 12 refineries, three of which are served by the Partnership's pipelines and terminals:

- the McKee refinery, which has a current total capacity to process approximately 170,000 barrels per day of crude oil and other feedstocks, making it the largest refinery located between the Texas Gulf Coast and the West Coast;
- the Three Rivers refinery, which has a current total capacity to process approximately 98,000 barrels per day of crude oil and other feedstocks; and
- the Ardmore refinery, which has a current total capacity to process approximately 85,000 barrels per day of crude oil and other feedstocks.

Valero Energy markets the refined products produced by these three refineries primarily in Texas, Oklahoma, Colorado, New Mexico, Arizona and other mid-continent states through a network of company-operated and dealer-operated convenience stores, and through wholesale and spot market sales and exchange agreements.

During the year ended December 31, 2002, the Partnership generated revenues of $118,458,000, with Valero Energy accounting for 99% of this amount. Although the Partnership intends to pursue strategic third-party acquisitions as opportunities may arise, management expects to continue to derive most of the Partnership's revenues from Valero Energy for the foreseeable future.

Pipelines and Terminals Usage Agreement

The Partnership's operations are strategically located within Valero Energy's refining and marketing supply chain, but the Partnership does not own or operate any refining or marketing assets. Valero Energy is dependent upon the Partnership to provide transportation services that support the refining and marketing operations in the markets served by Valero Energy's McKee, Three Rivers and Ardmore refineries. Under a Pipelines and Terminals Usage Agreement, Valero Energy has agreed through April 2008:

- to transport in the Partnership's crude oil pipelines at least 75% of the aggregate volumes of the crude oil shipped to the McKee, Three Rivers and Ardmore refineries;
- to transport in the Partnership's refined product pipelines at least 75% of the aggregate volumes of the refined products (excluding residual oils, primarily asphalt and fuel oil) shipped from these refineries; and
- to use the Partnership's refined product terminals for terminalling services for at least 50% of the refined products (excluding residual oils, primarily asphalt and fuel oil) shipped from these refineries.

Valero Energy met and exceeded its obligations under the Pipelines and Terminals Usage Agreement during the year ended December 31, 2002. In addition, Valero Energy has agreed to remain the shipper for crude oil and refined products owned by it that are transported through the Partnership pipelines, and neither challenge, nor cause others to challenge, the Partnership's interstate or intrastate tariff rates for the transportation of crude oil and refined products until at least April 1, 2008.

Valero Energy's obligation to use the Partnership's crude oil and refined product pipelines and terminals may be suspended if Valero Energy ceases to own the refineries, if material changes in the market conditions occur for the transportation of crude oil and refined products, or in the markets served by these refineries, that have a material adverse effect on Valero Energy, or if the Partnership is unable to handle the volumes Valero Energy requests to be transported due to operational difficulties with the pipelines or terminals. In the event Valero Energy does not transport in the Partnership's pipelines or use the Partnership's terminals to store and ship the minimum volume requirements and its obligation to do so has not been suspended under the terms of the agreement, it is required to make a cash payment determined by multiplying the shortfall in volume by the weighted average tariff rate or terminal fee charged.

Services Agreement

The Partnership does not have any employees. Under a Services Agreement with Valero Energy, employees of Valero Energy perform services on the Partnership's behalf, and Valero Energy is reimbursed for the services rendered by its employees. In addition, the Partnership pays Valero Energy and its affiliates an annual fee of $5,200,000 under the Services Agreement to perform and provide other services, including legal, accounting, treasury, engineering and information technology. The fee is adjustable annually based on the Consumer Price Index published by the U.S. Department of Labor and may be adjusted to take into account additional service levels required by the acquisition or construction of additional assets.

Omnibus Agreement

The Omnibus Agreement governs potential competition between Valero Energy and the Partnership. Under the Omnibus Agreement, Valero Energy has agreed, for so long as Valero Energy controls the general partner, not to engage in, whether by acquisition or otherwise, the business of transporting crude oil and other feedstocks or refined products, including petrochemicals, or operating crude oil storage facilities or refined product terminalling assets in the United States. This restriction does not apply to:

- any business retained by UDS (and now part of Valero Energy) as of April 16, 2001, the closing of the Partnership's initial public offering, or any business owned by Valero Energy at the date of its acquisition of UDS on December 31, 2001;
- any business with a fair market value of less than $10 million;
- any business acquired by Valero Energy in the future that constitutes less than 50% of the fair market value of a larger acquisition, provided the Partnership has been offered and declined the opportunity to purchase the business; and
- any newly constructed pipeline, terminalling or storage assets that the Partnership has not offered to purchase at fair market value within one year of construction.

Also under the Omnibus Agreement, Valero Energy has agreed to indemnify the Partnership for environmental liabilities related to the assets transferred to the Partnership in connection with the Partnership's initial public offering that arose prior to April 16, 2001 and are discovered within 10 years after April 16, 2001 (excluding liabilities resulting from a change in law after April 16, 2001).

Significant Developments in 2002

Senior Note Offering

On July 15, 2002, Valero Logistics completed the sale of $100,000,000 aggregate principal amount of its 6.875% senior notes due 2012 for net proceeds of $98,207,000, of which $91,000,000 was used to pay off the then outstanding balance under the revolving credit facility. For a more detailed description of the senior notes, please read Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations- Liquidity and Capital Resources-Financing."

Reorganization of General Partner Ownership.

On May 30, 2002, Valero L.P. and Valero GP, LLC, the general partner of Riverwalk Logistics, L.P. (Riverwalk Logistics) (at that time the general partner of each of Valero L.P. and Valero Logistics), reorganized the general partner ownership interest in Valero Logistics. As a result of the reorganization, Riverwalk Logistics is the general partner of Valero L.P., owning a 2% general partnership interest, and Valero L.P. now holds a 99.99% limited partnership interest in Valero Logistics. Valero L.P. formed Valero GP, Inc., a Delaware corporation wholly owned by Valero L.P., which is Valero Logistics' new general partner with a 0.01% general partner interest. As a result of the reorganization, Valero Logistics is a 100%-owned subsidiary of Valero L.P.

Acquisition of the Crude Hydrogen Pipeline

In May 2002, Valero Energy completed the construction of a 30-mile pure hydrogen pipeline, which originates at Valero Energy's Texas City refinery in Texas City, Texas and ends at Praxair, Inc.'s plant in La Porte, Texas. The cost of the pipeline construction was $11,000,000. On May 29, 2002, the Partnership purchased the newly constructed pipeline from Valero Energy for $11,000,000 and exchanged that pipeline for a 25-mile crude hydrogen pipeline owned by Praxair, Inc. under an asset exchange agreement previously negotiated between Valero Energy and Praxair, Inc. The crude hydrogen pipeline originates at a chemical facility of BOC (successor to Celanese Ltd.) in Clear Lake, Texas and ends at Valero

Energy's Texas City refinery. The pipeline supplies crude hydrogen to the refinery under a long-term supply arrangement between Valero Energy and BOC.

In conjunction with the exchange, the Partnership entered into a Hydrogen Tolling Agreement with Valero Energy for the transportation of crude hydrogen for a fixed annual fee. In addition, the Partnership assumed an operating agreement with Praxair, Inc. whereby Praxair, Inc. will operate the crude hydrogen pipeline. The Partnership may terminate the operating agreement upon 180 days notice.

Acquisition of the Wichita Falls Business

On February 1, 2002, the Partnership acquired the Wichita Falls Crude Oil Pipeline and Storage Business (the Wichita Falls Business) from Valero Energy for $64,000,000. The Wichita Falls Business owns and operates the Wichita Falls to McKee crude oil pipeline and the Wichita Falls crude oil storage facility, which the Partnership had an option to purchase from Valero Energy under the Omnibus Agreement.

Because of Valero L.P.'s affiliate relationship with the Wichita Falls Business, the acquisition of the Wichita Falls Business on February 1, 2002 constituted a reorganization of entities under common control. Accordingly, the acquisition was recorded at Valero Energy's historical net book value related to the Wichita Falls Business, which approximated fair value as a result of Valero Energy's acquisition of UDS on December 31, 2001. In addition, the consolidated financial statements and notes thereto of Valero L.P. as of December 31, 2001 have been restated to include the Wichita Falls Business as if it had been combined with Valero L.P. effective December 31, 2001.

Recent Developments in 2003

Acquisition of the Telfer Asphalt Terminal

In January 2003, the Partnership purchased an asphalt terminal in Pittsburg, California from Telfer Oil Company (Telfer) for $15,000,000. The asphalt terminal assets include two storage tanks with a combined storage capacity of 350,000 barrels, six 5,000-barrel polymer modified asphalt tanks, a truck rack, rail facilities, various other tanks and equipment. In conjunction with the Telfer acquisition, the Partnership entered into a six-year terminal storage and throughput agreement with Valero Energy. The agreement includes (a) an exclusive lease by Valero Energy of the asphalt storage tanks and related equipment for a monthly fee per barrel of storage capacity, (b) Valero Energy's right to move asphalt through the terminal for a per barrel throughput fee with a guaranteed minimum annual throughput of 280,000 barrels, and (c) Valero Energy's reimbursement of the Partnership for certain costs, including utilities.

Amended Revolving Credit Facility

On March 6, 2003, Valero Logistics amended its five-year revolving credit facility, increasing its limit to$175,000,000. The revolving credit facility, as amended, expires January 15, 2006.

Borrowings under the credit facility may be used for working capital and general partnership purposes; however, borrowings to fund distributions to the Partnership's unitholders are limited to $40,000,000. The revolving credit facility also allows Valero Logistics to issue letters of credit for an aggregate amount of $75,000,000. The borrowings under the revolving credit facility are unsecured and rank equally with all of Valero Logistics' outstanding unsecured and unsubordinated debt.

For a more detailed description of Valero Logistics' amended revolving credit facility, please read Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources."

Crude Oil Tank Contribution

The Partnership has entered into two contribution agreements with Valero Energy pursuant to which, upon satisfaction of the closing conditions, Valero Energy will contribute 58 crude oil and intermediate feedstock storage tanks and related assets to the Partnership for $200,000,000 in cash.

The tank assets consist of all of the tank shells, foundations, tank valves, tank gauges, pressure equipment, temperature equipment, corrosion protection, leak detection, tank lighting and related equipment and appurtenances associated with the specified crude oil tanks and intermediate feedstock tanks located at Valero Energy's:

- West plant of the Corpus Christi refinery in Corpus Christi, Texas, which has a current total capacity to process 225,000 barrels per day of crude oil and other feedstocks;
- Texas City refinery in Texas City, Texas, which has a current total capacity to process 243,000 barrels per day of crude oil and other feedstocks; and
- Benicia refinery in Benicia, California, which has a current total capacity to process 180,000 barrels per day of crude oil and other feedstocks.

The Corpus Christi refinery consists of two plants, the West plant and the East plant, with a combined total capacity to process 340,000 barrels per day of crude oil and other feedstocks. Since June 1, 2001 (the date Valero Energy began operating the East plant), Valero Energy has operated both plants as one refinery. Unless otherwise indicated, references to the Corpus Christi refinery include both the West and the East plants.

Historically, nearly all of the crude oil and intermediate feedstocks that are used in the West plant of the Corpus Christi refinery, the Texas City refinery and the Benicia refinery have passed through these tanks. These feedstocks are held in the tanks or are segregated and blended to meet the refineries' process requirements. These tanks have approximately 11,000,000 barrels of storage capacity in the aggregate.

The following table reflects the number of crude oil and intermediate feedstock tanks and storage capacity, as well as mode of receipt and delivery, for each of the West plant of the Corpus Christi refinery, the Texas City refinery and the Benicia refinery.

Tank Location	Capacity	Number of Tanks	Mode of Receipt	Mode of Delivery
	(barrels)			
Corpus Christi, TX (West Plant)	4,023,000	26	Marine	Pipeline
Texas City, TX	3,199,000	16	Marine	Pipeline
Benicia, CA	3,815,000	16	Marine/Pipeline	Pipeline
Total	11,037,000	58		

The tanks are, on average, approximately 25 years old. The tank assets have been well maintained and the Partnership estimates that they have remaining useful lives of 25 to 30 years. The crude oil tank contribution does not include a transfer of the refined product tanks or the land underlying the tank assets at these three refineries nor does it include any of the crude oil and other feedstock or refined product tankage currently owned by Valero Energy at the East plant of Valero Energy's Corpus Christi refinery or its other nine refineries. The land on which the tank assets are located will be leased to Valero Logistics by Valero Energy for an aggregate of $700,000 per year. The initial term of each lease will be 25 years, subject to automatic renewal for successive one-year periods thereafter. The Partnership may terminate any of these leases upon 30 days notice after the initial term or at the end of the renewal period. In addition, the Partnership may terminate any of these leases upon 180 days notice prior to the expiration of the current term if the Partnership ceases to operate the tank assets or ceases business operations.

The following table sets forth the average daily throughput of the specified feedstocks (crude oil, gas oil, residual fuel oil, vacuum gas oil, vacuum tower bottoms and light cycle oil) for each of the West plant of the Corpus Christi refinery, the Texas City refinery and the Benicia refinery for the five-year period ended December 31, 2002.

	Years Ended December 31,				
Tank Location	2002	2001	2000	1999	1998
			(barrels/day)		
Corpus Christi, TX (West plant)	150,809	157,452	157,684	140,013	148,501
Texas City, TX	146,068	185,109	158,183	156,448	156,389
Benicia, CA (1)	136,603	141,934	141,353	—	—
Total Average Throughput	433,480	484,495	457,220	296,461	304,890

(1) Valero Energy acquired the Benicia refinery on May 15, 2000. The throughput volumes for 2000 are based on the period from May 16, 2000 through December 31, 2000.

Throughputs of the specified feedstocks at these refineries vary from year to year as a result of market conditions and maintenance turnarounds, as well as increases in refinery capacities resulting from capital expenditures. In 2002, refined product inventories industry-wide were high and imports of refined products were at record levels, resulting in unfavorable refining and marketing conditions. According to the Energy Information Agency, U.S. refinery utilization in 2002 was 89.9% of capacity compared to an average utilization of 93.6% for the period of 1997 through 2001. As a result of these conditions, Valero Energy initiated economic-based refinery production cuts, by as much as 25% during certain times of the year, at certain of its refineries. As refining margins increased in the latter half of 2002, the refineries returned to normal operating levels; however, full year 2002 throughput levels were lower than in 2001. Volumes at the West plant of the Corpus Christi refinery were negatively impacted by market conditions in 1999 and 2002. Additionally, the West plant of the Corpus Christi refinery underwent maintenance turnaround for a period of 20 days in 2002 that involved its heavy oil cracker.

Volumes at the Texas City refinery were adversely impacted in 2002 by market conditions and a 45-day plant-wide turnaround in which major units at the facility were expanded and upgraded. However, in 2001, volumes benefited from above-average refining margins and high refinery production rates. Additionally, 2000 volumes were adversely impacted by maintenance and construction activities related to the expansion of two crude units.

Volumes at the Benicia refinery were adversely impacted by unplanned downtimes in 2002. There have been no major turnarounds needed since Valero Energy purchased this refinery in 2000. Although this refinery is completing a capital project to convert its gasoline production to meet stricter California gasoline standards by the end of 2003, the Partnership does not believe that this project will materially impact volumes at this refinery.

Valero Energy does not have any significant turnarounds planned for 2003 at any of these refineries.

Throughput Fee. In connection with the crude oil tank contribution, Valero Logistics and Valero Energy will enter into a handling and throughput agreement pursuant to which Valero Energy will agree to pay Valero Logistics a fee, for an initial period of ten years, for 100% of specified feedstocks delivered to each of the West plant of the Corpus Christi refinery, the Texas City refinery and the Benicia refinery and to use Valero Logistics for handling all deliveries to these refineries as long as Valero Logistics is able to provide the handling and throughput services. Subject to force majeure and other exceptions, Valero Logistics will reimburse Valero Energy for the cost of substitute services should Valero Logistics not be able to provide these services. Valero Logistics and Valero Energy will agree, pursuant to the handling and throughput agreement, to the following initial throughput fee per barrel for each barrel of the specified feedstocks received by these refineries:

Refinery	Throughput Fee Per Barrel for the Year 2003
West plant of Corpus Christi	$0.203
Texas City	0.121
Benicia	0.296

For specified feedstocks delivered by Valero Logistics to these refineries after December 31, 2003, the throughput fee per barrel will be adjusted annually, generally based on 75% of the regional consumer price index applicable to the location of each refinery. The initial term of the handling and throughput agreement will be ten years and may be extended by Valero Energy for up to an additional five years.

Operating Expenses. Valero Logistics will enter into services and secondment agreements with Valero Energy pursuant to which the Partnership anticipates that 25 employees, on a full-time equivalent basis, of Valero Energy will be seconded to Valero Logistics to provide operating and routine maintenance services with respect to the tank assets under the direction, supervision and control of a designated employee of Valero GP, LLC performing services for Valero Logistics. Valero Logistics will reimburse Valero Energy for the costs and expenses of the employees providing these operating and routine maintenance services. The annual reimbursement for services is an aggregate $3,500,000 for the year following closing and will be subject to adjustment for the actual operating and routine maintenance costs and expenses incurred and increases in the regional consumer price index. In addition, the Partnership has agreed to pay Valero Energy $700,000 a year for the lease of the real property on which the tank assets are located. In addition, the annual services reimbursement may be adjusted downward if the actual costs for the services provided by Valero Energy are lower. The initial terms of the services and secondment agreements will be ten years with an option to extend for an additional five years. Valero Logistics may terminate these agreements upon 30 days written notice.

In addition to the fees the Partnership has agreed to pay Valero Energy under the services and secondment agreement, the Partnership will be responsible for operating expenses and specified capital expenditures related to the tank assets that are not addressed in the services and secondment agreement. These operating expenses and capital expenditures include tank safety inspections, maintenance and repairs, certain environmental expenses, insurance premiums and ad valorem taxes. Based on the Partnership's experience operating and maintaining similar assets and the Partnership's knowledge of these assets, the Partnership estimates that:

- tank safety inspections, maintenance and repairs will initially cost approximately $4,500,000 per year;
- environmental expenses, insurance premiums and ad valorem taxes will initially be approximately $1,200,000 per year; and
- maintenance capital expenditures will initially be approximately $600,000 per year.

The operating expenses and maintenance capital expenditures that are not addressed in the services and secondment agreement are estimates only, even though they are based on assumptions made by the Partnership based on its experience operating and maintaining similar assets and the Partnership's knowledge of these assets. Should the Partnership's assumptions and expectations related to these operating expenses differ materially from actual future results, the Partnership may not be able to generate net income sufficient to sustain an increase in available cash per unit at the currently expected levels or at all.

Environmental Indemnification. In connection with the crude oil tank contribution, Valero Energy has agreed to indemnify the Partnership from environmental liabilities related to:

- the tank assets that arose as a result of events occurring or conditions existing prior to the closing of the crude oil tank contribution,
- any real or personal property on which the tank assets are located that arose prior to the closing of the crude oil tank contribution, and
- any actions taken by Valero Energy before, on or after the closing of the crude oil tank contribution, in connection with the ownership, use or operation of the West plant of the Corpus Christi refinery, the Texas City

refinery and the Benicia refinery or the property on which the tank assets are located, or any accident or occurrence in connection therewith.

No Historical Financial Information. Historically, the tank assets have been operated as part of Valero Energy's refining operations and, as a result, no separate fee has been charged related to these assets and, accordingly, no revenues related to these assets have been recorded. The tank assets have not been accounted for separately and have not been operated as an autonomous business unit. Instead, they have been operated as part of business units that comprise part of Valero Energy's refining operations, and operating decisions have been made to maximize the overall profits of the refining businesses rather than the profits of any individual refinery asset such as the tank assets. The Partnership intends to manage and operate the tank assets to maximize revenues and cash available for distribution to its unitholders by charging Valero Energy and third parties a market-based throughput fee.

Financial Impact. Based on historical throughput volumes for the year ended December 31, 2002 and throughput fees for the year 2003 as agreed upon with Valero Energy, our aggregate revenues for the tank assets would have been approximately $32.4 million for the year ended December 31, 2002. Many factors could cause future results to differ from expected results, including a decline in Valero Energy's refining throughput, due to market conditions or otherwise, at the West plant of the Corpus Christi refinery, the Texas City refinery or the Benicia refinery.

Conflicts Committee Approval. The crude oil tank contribution has been approved by a conflicts committee of the board of directors of Valero GP, LLC based on an opinion from its independent financial advisor that the consideration to be paid by the Partnership pursuant to the contribution agreement related to the crude oil tank contribution is fair, from a financial point of view, to the Partnership and its public unitholders.

Under the terms of the contribution agreements, the crude oil tank contribution is subject to customary closing conditions, including the absence of any material adverse change in the condition of the tank assets, the Partnership's ability to obtain financing and consummation of the redemption transaction.

South Texas Pipeline Contribution

The Partnership has entered into a contribution agreement with Valero Energy pursuant to which, upon satisfaction of the closing conditions, Valero Energy will contribute the South Texas pipeline system, comprised of the Houston pipeline system, the San Antonio pipeline system and the Valley Pipeline system and related terminalling assets, to the Partnership for $150,000,000 in cash. The three pipeline systems that make up the South Texas pipeline assets are intrastate common carrier refined product pipelines that connect Valero Energy's Corpus Christi refinery to the Houston and Rio Grande Valley, Texas markets and connect Valero Energy's Three Rivers refinery to the San Antonio, Texas market and to Valero Energy's Corpus Christi refinery. The San Antonio pipeline system (the Pettus to San Antonio and the Pettus to Corpus Christi refined product pipelines) connects with the Three Rivers to Pettus refined product pipelines already owned by the Partnership. The San Antonio pipeline system delivers refined products to the San Antonio and Corpus Christi, Texas markets that it receives through the two existing pipelines. Each of the three intrastate pipelines is subject to the regulatory jurisdiction of the Texas Railroad Commission.

On June 1, 2001, Valero Energy and subsidiaries of El Paso Corporation consummated two capital leases with an associated purchase option with respect to the East plant of the Corpus Christi refinery and the related South Texas pipeline and terminal assets. Valero Energy has been operating these assets since that date. On February 28, 2003, Valero Energy exercised the purchase option for approximately $289,300,000 in cash.

The following table sets forth the average daily throughput of gasoline, distillate and blendstocks volumes transported from the Corpus Christi refinery and the Three Rivers refinery and the mode of transportation for these volumes for the period from June 1, 2001 through December 31, 2001 and for the year ended December 31, 2002.

	Average Throughput	
	Year Ended December 31, 2002	June 1, 2001 Through December 31, 2001
	(barrels/day)	
Corpus Christi Refinery:		
South Texas pipeline system(1)	114,947	113,896
Other(2)	113,236	132,888
Total	228,183	246,784
Three Rivers Refinery:		
South Texas pipeline system(3)	26,153	25,240
Other pipelines owned by Valero L.P.	43,199	44,774
Other(4)	9,649	10,206
Total	79,001	80,220

(1) Represents throughput in the Corpus Christi to Houston and Corpus Christi to Edinburg refined product pipelines.

(2) Represents volumes that were transported by truck, marine and rail.

(3) All volumes transported through the South Texas pipeline system are first transported in the Three Rivers to Pettus refined product pipelines. These volumes have been excluded from the volumes included under “Other pipelines owned by Valero L.P.”

(4) Represents volumes that were delivered via Valero Energy’s truck loading rack at this refinery.

The Houston pipeline system and the Valley pipeline system provide the primary pipeline access for refined products from Valero Energy’s Corpus Christi refinery. Other than pipelines, marine transportation has historically been the primary mode of transportation for refined products from this refinery. The San Antonio pipeline system, in conjunction with existing refined product pipelines the Partnership owns, provide essentially the only pipeline access to end markets from Valero Energy’s Three Rivers refinery. Refined products are also delivered via Valero Energy’s truck loading rack at this refinery.

Houston Pipeline System. The Houston pipeline system includes the Corpus Christi to Houston refined product pipeline, which is a 12-inch refined product pipeline that runs approximately 204 miles from Valero Energy’s Corpus Christi refinery located in Corpus Christi, Texas, to Placedo, Texas and on to Pasadena, Texas. This pipeline interconnects with major third party pipelines with delivery points throughout the eastern United States. In October 2002, the Corpus Christi to Houston refined product pipeline was expanded from 95,000 per day to 105,000 barrels per day. At present, the Partnership is transporting over 100,000 barrels per day of refined product in this pipeline. In 2002, the Corpus Christi refinery provided 88% of the pipeline’s throughput and third party shippers provided the remaining 12%. In addition, this pipeline system includes the following four refined product terminals:

- Hobby Airport refined product terminal located at the Hobby airport in Houston, Texas, which includes 107,100 barrels of jet fuel storage and associated truck rack and re-fueler facilities;
- Placedo refined product terminal located near Victoria, Texas, which includes 98,000 barrels of refined product storage and associated truck loading rack;
- Houston asphalt terminal located on the Houston ship channel, which includes 75,000 barrels of asphalt storage, truck loading facilities and a barge dock; and

- Almeda refined product terminal located in south Houston, which includes 105,800 barrels of refined product storage and associated truck-loading rack, which is currently idle.

San Antonio Pipeline System. The San Antonio pipeline system is comprised of two segments: the north segment, which runs from Pettus to San Antonio and the south segment, which runs from Pettus to Corpus Christi. The north segment originates in Pettus, Texas, where it connects to the Partnership's existing 12-inch Three Rivers to Pettus refined product pipeline and terminates in San Antonio, Texas at the San Antonio refined product terminal. This San Antonio refined product terminal, which has approximately 148,200 barrels of storage capacity and an associated truck loading rack, is separate from the San Antonio terminal currently owned by the Partnership. The north segment is 74 miles long and consists of 6-inch and 12-inch pipeline segments with a capacity of approximately 24,000 barrels per day. This pipeline segment transports refined products from the Three Rivers refinery, located between Corpus Christi and San Antonio to the San Antonio refined product terminal.

The south segment originates in Pettus, Texas, where it connects to the Partnership's existing 8-inch Three Rivers to Pettus refined product pipeline and terminates in Corpus Christi, Texas at Valero Energy's Corpus Christi refinery. The south segment is 60 miles long and consists of 6-inch, 8-inch, 10-inch and 12-inch pipeline segments with a capacity of approximately 15,000 barrels per day. This pipeline segment transports distillates and blendstocks, primarily raffinate, from the Three Rivers refinery to the Corpus Christi refinery. Valero Energy is the only shipper in both segments of the San Antonio Pipeline System. Although it is possible to operate the two segments of the San Antonio pipeline as a continuous pipeline from Corpus Christi to San Antonio, this is rarely done and the Partnership has no present intention to do so.

Valley Pipeline System. The Valley pipeline system contains the Corpus Christi to Edinburg refined product pipeline and the Edinburg refined product terminal. This pipeline is a refined product pipeline that consists of 6-inch and 8-inch segments and extends 130 miles from Corpus Christi, Texas to Edinburg, Texas. The capacity of the Corpus Christi to Edinburg refined product pipeline was expanded in 2002 from 24,000 barrels per day to approximately 27,100 barrels per day. Refined products shipped on the Valley pipeline system are distributed in the Southern Rio Grande Valley area of Texas, which includes the cities of Edinburg and McAllen, Texas with occasional spot sales to Petróleos Mexicanos ("Pemex") for distribution in Mexico. Valero Energy is the only shipper in this pipeline. The Edinburg refined product terminal includes approximately 184,600 barrels of refined product storage and an associated truck loading rack.

The following table sets forth the origin and destination, length in miles, ownership percentage, capacity and average throughput for the period from June 1, 2001 (the date Valero Energy began operating the South Texas pipelines and terminals) through December 31, 2001 and the year ended December 31, 2002, for each refined product pipeline associated with the South Texas pipeline contribution.

Origin and Destination	Length	Ownership	Capacity	Average Throughput: Year Ended December 31, 2002	Average Throughput: June 1, 2001 through December 31, 2001
	(miles)		(barrels/day)	(barrels/day)	
Houston Pipeline System:					
Corpus Christi refinery to Pasadena, TX(1)	204	100%	105,000	92,591	94,292
San Antonio Pipeline System:					
Pettus, TX to San Antonio, TX	74	100%	24,000	19,747	19,021
Pettus, TX to Corpus Christi, TX	60	100%	15,000	6,406	6,219
Valley Pipeline System:					
Corpus Christi refinery to Edinburg, TX	130	100%	27,100	22,356	19,604
	468		171,100	141,100	139,136

(1) Including volumes delivered to Placedo and Pasadena, Texas.

The following table outlines the location, capacity, number of tanks, mode of receipt and delivery and average throughput for the period from June 1, 2001 (the date Valero Energy began operating the South Texas pipelines and terminals) through December 31, 2001 and the year ended December 31, 2002 for each refined product terminal associated with the South Texas pipeline contribution.

Terminal Location	Capacity	Number of Tanks	Mode of Receipt	Mode of Delivery	Average Throughput: Year Ended December 31, 2002	Average Throughput: June 1, 2001 through December 31, 2001
	(barrels)				(barrels/day)	
Houston Pipeline System:						
Houston, TX						
Hobby Airport	107,100	6	Pipeline	Truck/Pipeline	4,436	4,524
Placedo (Victoria)	98,000	4	Pipeline	Truck	3,030	4,113
Asphalt	75,000	3	Marine	Truck	1,453	2,019
Almeda(1)	105,800	6	Pipeline	Truck	969	2,724
San Antonio Pipeline System:						
San Antonio, TX	148,200	8	Pipeline	Truck/Pipeline	19,747	19,021
Valley Pipeline System:						
Edinburg, TX	184,600	7	Pipeline	Truck	22,356	19,604
	718,700	34			51,991	52,005

(1) The Almeda terminal is currently idle.

The following table sets forth the tariff rate for each pipeline and the throughput fee for each terminal for 2003. In addition, the table reflects the overall impact, if any, to the historical revenues for the year ended December 31, 2002 for each of the Houston, San Antonio and Valley pipeline systems had the 2003 tariff rates and throughput fees been in effect beginning January 1, 2002 and if 2002 throughput volumes were unchanged.

	2003 Tariff Rates and Throughput Fees	Year Ended December 31, 2002		
		Historical Revenues	As Adjusted Revenues	(Decrease) or Increase
	(perbarrel)		(in thousands)	
Pipelines:				
Houston Pipeline System:				
Corpus Christi refinery to Pasadena, TX	$0.485	$15,854	$15,854	$ —
Corpus Christi refinery to Placedo, TX	0.375	415	415	—
San Antonio Pipeline System:				
Pettus, TX to San Antonio, TX	0.150	2,196	1,177	(1,019)
Pettus, TX to San Antonio, TX to Union Pacific Railroad	0.600	248	248	—
Pettus, TX to Corpus Christi, TX	0.315	737	737	—
Valley Pipeline System:				
Corpus Christi refinery to Edinburg, TX	0.705	5,753	5,753	—
Total Pipelines		25,203	24,184	(1,019)
Terminals(1):				
Houston Pipeline System:				
Houston, TX				
Hobby Airport	0.28	340	456	116
Placedo (Victoria)	0.31	216	339	123
Asphalt	1.75	530	928	398
Almeda(2)	—	75	75	—
San Antonio Pipeline System:				
San Antonio, TX(3)	0.34	106	2,473	2,367
Valley Pipeline System:				
Edinburg, TX	0.35	1,427	2,844	1,417
Total Terminals		2,694	7,115	4,421
Total Pipelines and Terminals		$27,897	$31,299	$ 3,402

(1) The 2003 terminal throughput fees are based on the contractual fee of $0.252 per barrel for terminalling gasoline and distillates, $1.75 per barrel for terminalling asphalt, $0.122 per barrel for gasoline additive blending and $0.03 per barrel for filtering jet fuel. The 2003 throughput fees in the table above are based on actual 2002 refined products terminalled and the impact of blending and filtering.

(2) The Almeda terminal is currently idle.

(3) Historical revenues for the San Antonio terminal for the year ended December 31, 2002 were based primarily on a monthly amount per a contractual arrangement. Effective March 1, 2003, Valero Energy began charging a terminal fee and an additive blending fee for all throughput volumes terminalled at the San Antonio terminal. If the current terminal and additive blending fees had been implemented effective January 1, 2002, revenues for the year ended December 31, 2002 would have been increased by $1,400,000.

Environmental and Other Indemnification. In connection with the South Texas pipeline contribution, Valero Energy has agreed to indemnify the Partnership from environmental liabilities related to:

- the South Texas pipelines and terminals that arose as a result of events occurring or conditions existing prior to the closing of the South Texas pipeline contribution; and
- any real or personal property on which the South Texas pipelines and terminals are located that arose prior to the closing of the South Texas pipeline contribution;

that are known at closing or are discovered within 10 years after the closing of the South Texas pipeline contribution.

Valero Energy is currently addressing soil or groundwater contamination at 11 sites associated with the South Texas pipelines and terminals through assessment, monitoring and remediation programs with oversight by the applicable state agencies. In the aggregate, the Partnership has estimated that the total liability for remediating these sites will not exceed $3,500,000, although there can be no guarantee that the actual remedial costs or associated liabilities will not exceed this amount. Valero Energy has agreed to indemnify the Partnership for these liabilities.

Valero Energy has indicated to the Partnership that the segment of the Corpus Christi to Edinburg refined product pipeline that runs approximately 60 miles south from Corpus Christi to Seeligson Station may require repair and, in some places, replacement. Valero Energy has agreed to indemnify the Partnership for any costs the Partnership incurs to repair and replace this segment in excess of $1,500,000, which is approximately the amount of capital expenditures the Partnership expects to spend on this segment for the next three years.

Throughput Commitment Agreement. Pursuant to the South Texas pipelines and terminals throughput commitment agreement, Valero Energy will commit, during each quarterly measurement period, for an initial period of seven years:

- to transport in the Houston and Valley pipeline systems an aggregate of 40% of the Corpus Christi gasoline and distillate production but only if the combined throughput on these pipelines is less than 110,000 barrels per day;
- to transport in the Pettus to San Antonio refined product pipeline 25% of the Three Rivers gasoline and distillate production and in the Pettus to Corpus Christi refined product pipeline 90% of the Three Rivers raffinate production;
- to use the Houston asphalt terminal for an aggregate of 7% of the asphalt production of the Corpus Christi refinery;
- to use the Edinburg refined product terminal for an aggregate of 7% of the gasoline and distillate production of the Corpus Christi refinery, but only if the throughput at this terminal is less than 20,000 barrels per day; and
- to use the San Antonio terminal for 75% of the throughput in the Pettus to San Antonio refined product pipeline.

The minimum commitment percentages detailed above are lower than the percentages of refined products transported through each of these assets in 2002. With the exception of the Houston asphalt terminal, Valero Energy's commitments reflect 75% or more of the actual percentages in 2002. Valero Energy's commitment at the Houston asphalt terminal reflects approximately 50% of the actual throughput of this terminal in 2002.

In the event Valero Energy does not transport in the Partnership's pipelines or use the Partnership's terminals to handle the minimum volume requirements and if its obligation has not been suspended under the terms of the agreement, it will be required to make a cash payment determined by multiplying the shortfall in volume by the applicable weighted average tariff rate or terminal fee. Also, Valero Energy agreed to allow the Partnership to increase its tariff to compensate for any revenue shortfall in the event the Partnership has to curtail throughput on the Corpus Christi to Edinburg refined product pipeline as a result of repair and replacement activities.

Terminalling Agreement. Pursuant to the terminalling agreement, Valero Energy will pay the Partnership a terminalling fee of:

- $0.252 per barrel for all diesel fuel, motor fuel and jet fuel;
- $1.75 per barrel for all conventional asphalt; and
- $2.20 per barrel for all modified grade asphalt

stored or handled by or on behalf of Valero Energy at the terminals associated with the South Texas pipeline systems.

In addition to the terminalling fee, Valero Energy will pay the Partnership a $0.122 per barrel additive fee for generic gasoline additives should Valero Energy elect to receive these additives in the products. If Valero Energy or its customers elect to directly supply a proprietary additive, Valero Energy will pay the Partnership an additive handling fee of $0.092 per barrel. This additive fee applies to all terminals associated with the South Texas pipeline systems other than the Hobby Airport refined products terminal and the Houston asphalt terminal. Valero Energy will pay the Partnership a $0.0298 per barrel filtering fee for products stores or handled at the Hobby Airport refined product terminal.

The initial term of the terminalling agreement will be five years, subject to automatic renewal for successive one-year periods thereafter. Either party may terminate the terminalling agreement after the initial term upon 30 days notice at the end of a renewal term.

Conflicts Committee Approval. The South Texas pipeline contribution has been approved by a conflicts committee of the board of directors of Valero GP, LLC based on an opinion from its independent financial advisor that the consideration to be paid by the Partnership pursuant to the contribution agreement related to the South Texas pipeline contribution is fair, from a financial point of view, to the Partnership and its public unitholders.

Under the terms of the contribution agreement, the South Texas pipeline contribution is subject to customary closing conditions, including the absence of any material adverse change in the condition of the pipelines and terminals and the Partnership's ability to obtain financing.

Redemption of Common Units Owned by Valero Energy and Amendment to Partnership Agreement

Common Unit Redemption. The Partnership intends to redeem from Valero Energy as many common units as is sufficient to reduce Valero Energy's aggregate ownership percentage in the Partnership to 49.5% or less. The redemption transaction is conditioned upon the Partnership's ability to obtain financing for the proposed redemption, the crude oil tank contribution and the South Texas pipeline contribution. If the Partnership is able to obtain financing for each these transactions, the common units will be redeemed prior to the closing of the asset transactions. Immediately following the redemption, the Partnership will cancel the common units redeemed from Valero Energy.

Amendment to Partnership Agreement. Immediately upon closing of the redemption transaction, the Partnership will amend its partnership agreement to provide that its general partner may be removed by the vote of the holders of at least 58% of the Partnership's outstanding common units and subordinated units, excluding the common units and subordinated units held by affiliates of its general partner. The Partnership will also amend its partnership agreement to provide that the election of a successor general partner upon any such removal be approved by the holders of a majority of the common units, excluding the common units held by affiliates of the Partnership's general partner.

Currently, the partnership agreement provides that the Partnership's general partner may be removed by the vote of the holders of at least 66 2/3% of the outstanding common units and subordinated units, including the common units and subordinated units held by affiliates of the Partnership's general partner, which effectively allows Valero Energy to block removal of the general partner by virtue of its indirect ownership of approximately 73% of the Partnership's outstanding common units and subordinated units. Furthermore, the partnership agreement currently provides that any removal is conditioned upon the election of a successor general partner by the holders of a majority of the common units, voting as a separate class, and by the holders of a majority of the subordinated units, voting as a separate class, *including* the units held by affiliates of the Partnership's general partner.

If the Partnership's general partner is removed without cause during the subordination period and units held by the general partner or its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically be converted into common units and any existing arrearages on the common units will extinguished. Cause is narrowly defined to mean that a court of competent jurisdiction has entered into a final, non-appealable judgment finding the general partner liable for actual fraud, gross negligence, or willful or wanton misconduct in its capacity as the Partnership's general partner.

Maintenance

The Partnership performs scheduled maintenance on all of its pipelines, terminals and related equipment and makes repairs and replacements when necessary or appropriate. The Partnership believes that all of its pipelines, terminals and related equipment have been constructed and are maintained in all material respects in accordance with applicable federal, state and local laws and the regulations and standards prescribed by the American Petroleum Institute, the Department of Transportation and accepted industry practice.

Competition

As a result of the Partnership's physical integration with Valero Energy's McKee, Three Rivers and Ardmore refineries and its contractual relationship with Valero Energy, the Partnership believes that it will not face significant competition for barrels of crude oil transported to, and barrels of refined products transported from, the McKee, Three Rivers and Ardmore refineries, particularly during the term of the Pipelines and Terminals Usage Agreement with Valero Energy. However, the Partnership faces competition from other pipelines that may be able to supply Valero Energy's end-user markets with refined products on a more competitive basis. If Valero Energy reduced its retail sales of refined products or its wholesale customers reduced their purchases of refined products, the volumes transported through the Partnership's pipelines would be reduced, which would cause a decrease in cash and revenues generated from its operations.

Valero Energy owns or leases certain pipelines that deliver crude oil and refined products to markets served by the Partnership's pipelines and terminals. Specifically, Valero Energy owns a refined product pipeline that runs from its Corpus Christi, Texas refinery to Edinburg, Texas. Valero Energy's Edinburg refined product terminal serves markets that are also served by the Partnership's Harlingen refined product terminal. Also, Valero Energy owns two refined product pipelines that run from Pettus to Corpus Christi and from Pettus to San Antonio. As discussed above in Items 1. and 2. Business and Properties, "Recent Developments (2003)- *South Texas Pipeline contributions*," the Partnership has an agreement to acquire the Corpus Christi to Edinburg refined products pipeline, the Edinburg refined product terminal, the Pettus to San Antonio refined product pipeline, the Pettus to Corpus Christi refined product pipeline and the San Antonio refined product terminal. In addition, Valero Energy owns certain crude oil gathering systems that deliver crude oil to the McKee refinery.

The Texas and Oklahoma markets served by the refined product pipelines originating at the Three Rivers and Ardmore refineries are accessible by Texas Gulf Coast refiners through common carrier pipelines, with the exception of the Laredo, Texas and Nuevo Laredo, Mexico markets. The Nuevo Laredo, Mexico market is accessible by refineries operated by Pemex. In addition, the markets served by the refined product pipelines originating at the McKee refinery are also accessible by Texas Gulf Coast and Midwestern refiners through common carrier pipelines.

The Partnership believes that high capital requirements, environmental and safety considerations and the difficulty in acquiring rights-of-way and related permits make it difficult for other entities to build competing pipelines in areas served by its pipelines. As a result, competing pipelines are likely to be built only in those cases in which strong market demand and attractive tariff rates support additional capacity in an area. The Partnership knows of two refined product pipelines that are in various stages of completion that may serve its market areas:

- The Longhorn Pipeline is a common carrier refined product pipeline with an initial capacity of 70,000 barrels per day. It will be capable of delivering refined products from the Texas Gulf Coast to El Paso, Texas. Most of the pipeline has been constructed and startup is expected to occur before the end of 2003. The Partnership expects that a portion of the refined products transported into the El Paso area in the Longhorn Pipeline will ultimately be transported into the Phoenix and Tucson, Arizona markets via SFPP, L.P.'s east pipeline (the " SFPP East Line"), which is currently capacity constrained. As a result of these constraints, Valero Energy's allocated capacity in the SFPP East Line may be reduced. SFPP, L.P. has proposed to expand the SFPP East Line, and if it proceeds with the expansion, the expanded pipeline should alleviate the existing capacity constraints and could increase demand for transportation of refined products from McKee to El Paso. However, the increased supply of refined products entering the El Paso and Arizona markets through the Longhorn Pipeline and the likely increase in the cost of shipping product on SFPP East Line could also cause a decline in the demand for refined products from Valero Energy. In either case, the demand for transportation of refined products from McKee to El Paso might be reduced.

- Shell Pipeline Company (“Shell”) previously announced a refined product pipeline project from Odessa, Texas to Bloomfield, New Mexico. Refined products would be transported from West Texas to the Bloomfield, New Mexico area. The project would also require new pipeline connections on the southern and northern ends of the project. This project also includes a new refined product terminal near Albuquerque, New Mexico. This proposed Odessa to Bloomfield refined product pipeline could cause a reduction in demand for the transportation of refined products to the Albuquerque market in the Partnership’s refined product pipeline. This proposed Shell refined product pipeline would also cross two of the Partnership’s refined product pipelines, the McKee to El Paso refined product pipeline and the Amarillo to Albuquerque refined product pipeline. Although construction has not yet commenced on this project, it is anticipated to be completed in 2005.

Given the expected increase in demand for refined products in the southwestern and Rocky Mountain market regions, the Partnership does not believe that these new refined product pipelines, when fully operational, will have a material adverse effect on its financial condition or results of operations.

General Rate Regulation

Prior to July 2000, affiliates of Valero Energy owned and operated the Partnership’s pipelines. These affiliates were the only shippers in most of the pipelines, including the common carrier pipelines. In preparation for Valero L.P.’s initial public offering, Valero L.P. filed revised tariff rates with the appropriate regulatory commissions to adjust the tariff rates on many of its pipelines to better reflect current throughput volumes and market conditions or cost-based pricing. Also in connection with its initial public offering, Valero L.P. obtained the agreement of Valero Energy, which is the only shipper in most of the pipelines, not to challenge the validity of the tariff rates until at least April 1, 2008.

Interstate Rate Regulation

The Federal Energy Regulatory Commission (“FERC”) regulates the rates and practices of common carrier petroleum pipelines, which include crude oil, petroleum product and petrochemical pipelines, engaged in interstate transportation under the Interstate Commerce Act. The Interstate Commerce Act and its implementing regulations require that the tariff rates and practices for interstate oil pipelines be just and reasonable and non-discriminatory. The Interstate Commerce Act permits challenges to proposed new or changed rates or practices by protest and challenges to rates and practices that are already on file and in effect by complaint. Upon the appropriate showing, a successful complainant may obtain damages or reparations for generally up to two years prior to the filing of a complaint. Valero Energy has agreed to be responsible for any Interstate Commerce Act liabilities with respect to activities or conduct occurring during periods prior to April 16, 2001, and the Partnership will be responsible for Interstate Commerce Act liabilities with respect to activities or conduct occurring after April 16, 2001.

The FERC is authorized to suspend the effectiveness of a new or changed tariff rate for a period of up to seven months and to investigate the rate. The FERC may also place into effect a new or changed tariff rate on at least one days’ notice, subject to refund and investigation. If upon the completion of an investigation the FERC finds that the rate is unlawful, it may require the pipeline operator to refund to shippers, with interest, any difference between the rates the FERC determines to be lawful and the rates under investigation. In addition, the FERC will order the pipeline to change its rates prospectively to the lawful level. In general, petroleum pipeline rates must be cost-based, although settlement rates, which are rates that have been agreed to by all shippers, are permitted, and market-based rates may be permitted in certain circumstances.

Energy Policy Act of 1992 and Subsequent Developments

The Energy Policy Act deemed certain interstate petroleum pipeline rates that were in effect on the date of enactment of the Energy Policy Act, to be just and reasonable (i.e., “grandfathered”) under the Interstate Commerce Act. Some of the Partnership’s pipeline rates were grandfathered under the Energy Policy Act, which has the benefit of making those rates more difficult to challenge.

The Energy Policy Act further required FERC to issue rules establishing a simplified and generally applicable ratemaking methodology for interstate petroleum pipelines and to streamline procedures in petroleum pipeline proceedings. FERC responded to this mandate by adopting a new indexing rate methodology for interstate petroleum pipelines. Under these regulations, effective January 1, 1995, petroleum pipelines are able to change their rates within prescribed ranges that are tied to changes in the Producer Price Index for Finished Goods (PPI), minus one percent. The new indexing methodology

is applicable to any existing rates, including grandfathered rates, and the scope of any challenges to rate increases made under the indexing methodology are limited. As a result of FERC's reassessment of this index and certain court litigation, on February 24, 2003, FERC changed the index to equal the PPI. Under FERC's February 24, 2003 Order, pipelines may file to change their tariff rates to reflect the applicable ceiling levels bases on the PPI, calculated as though this index had been in effect from July 1, 2001.

Intrastate Rate Regulation

The rates and practices for the Partnership's intrastate common carrier pipelines are subject to regulation by the Texas Railroad Commission and the Colorado Public Utility Commission. The applicable state statutes and regulations generally require that pipeline rates and practices be reasonable and non-discriminatory.

The Partnership's Pipelines Rates

Neither the FERC nor the state commissions have investigated the Partnership's rates or practices. The Partnership does not believe that it is likely that there will be a challenge to its rates by a current shipper that would materially affect its revenues or cash flows because Valero Energy is the only current shipper in substantially all of the Partnership's pipelines. Valero Energy has committed not to challenge the Partnership's rates until at least April 2008. However, the FERC or a state regulatory commission could investigate the Partnership's tariff rates at the urging of a third party. Also, because the Partnership's pipelines are common carrier pipelines, the Partnership may be required to accept new shippers who wish to transport in its pipelines. It is possible that any new shippers may decide to challenge the Partnership's tariff rates. If a rate were challenged, the Partnership would seek to either rely on a cost of service justification or to establish that, due to the presence of competing alternatives to its pipeline, the tariff rate should be a market-based rate. Although no assurance can be given that the Partnership's intrastate rates would ultimately be upheld if challenged, it believes that the tariffs now in effect are not likely to be challenged. However, if any rate challenge or challenges were successful, cash available for distribution to unitholders could be materially reduced.

Environmental Regulation

General

The Partnership's 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 and pollution prevention measures, and to environmental regulation by several federal, state and local authorities. The principal environmental risks associated with the Partnership's operations relate to unauthorized emissions into the air and unauthorized releases into soil, surface water or groundwater. The Partnership's operations are also subject to extensive federal and state health and safety laws and regulations, including those relating to pipeline safety. Compliance with these laws, regulations and permits increases the Partnership's capital expenditures and its overall costs of business. However, violations of these laws, regulations and/or permits can result in significant civil and criminal liabilities, injunctions or other penalties. Accordingly, the Partnership has adopted policies, practices and procedures in the areas of pollution control, product safety, occupational health and the handling, storage, use and disposal of hazardous materials in an effort to prevent material environmental or other damage, and to ensure the safety of its pipelines, its employees, the public and the environment. Future governmental action and regulatory initiatives could result in changes to expected operating permits, additional remedial actions or increased capital expenditures and operating costs that cannot be assessed with certainty at this time. In addition, contamination resulting from spills of crude oil and refined products occurs within the industry. Risks of additional costs and liabilities are inherent within the industry, and there can be no assurances that significant costs and liabilities will not be incurred in the future.

In connection with the initial public offering of Valero L.P. on April 16, 2001 and the Partnership's acquisition of crude oil and refined products pipeline and terminalling assets from Valero Energy's predecessor, Valero Energy agreed to indemnify the Partnership for environmental liabilities that arose prior to April 16, 2001 and are discovered within 10 years after April 16, 2001. Excluded from this indemnification are costs that arise from changes in environmental law after April 16, 2001. In addition, as an operator or owner of the assets, the Partnership could be held liable for pre-April 16, 2001 environmental damage should Valero Energy be unable to fulfill its obligation. As of December 31, 2002, the Partnership has not incurred any material environmental liabilities that were not covered by the environmental indemnification.

Water

The Oil Pollution Act was enacted in 1990 and amends provisions of the Federal Water Pollution Control Act of 1972, also referred to as the Clean Water Act, and other statutes as they pertain to prevention and response to petroleum spills. The Oil Pollution Act subjects owners of facilities to strict, joint and potentially unlimited liability for removal costs and other consequences of a petroleum spill, where the spill is into navigable waters, along shorelines or in the exclusive economic zone of the U.S. In the event of a petroleum spill into navigable waters, substantial liabilities could be imposed upon the Partnership. States in which the Partnership operates have also enacted similar laws. Regulations developed under the Oil Pollution Act and state laws may also impose additional regulatory burdens on the Partnership's operations. Spill prevention control and countermeasure requirements of federal laws and some state laws require diking, booms and similar structures to help prevent contamination of navigable waters in the event of a petroleum overflow, rupture or leak. In addition, these laws require, in some instances, the development of spill prevention control and countermeasure plans. Additionally, the United States Department of Transportation's Office of Pipeline Safety (OPS) has approved the Partnership's petroleum spill emergency response plans.

The Clean Water Act imposes restrictions and strict controls regarding the discharge of pollutants into navigable waters. Permits must be obtained to discharge pollutants into federal and state waters. The Clean Water Act imposes substantial potential liability for the costs of removal, remediation and damages. In addition, some states maintain groundwater protection programs that require permits for discharges or operations that may impact groundwater conditions.

Air Emissions

The Partnership's operations are subject to the Federal Clean Air Act and comparable state and local statutes. Amendments to the Federal Clean Air Act enacted in late 1990 require most industrial operations in the U.S. to incur capital expenditures in order to meet air emission control standards developed by the Environmental Protection Agency and state environmental agencies. In addition, Title V of the 1990 Federal Clean Air Act Amendments created a new operating permit program for major sources, which applies to some of the Partnership's facilities. The Partnership will be required to incur certain capital expenditures in the next several years for air pollution control equipment in connection with maintaining or obtaining permits and approvals addressing air emission related issues.

Solid Waste

The Partnership generates non-hazardous solid wastes that are subject to the requirements of the Federal Resource Conservation and Recovery Act and comparable state statutes. The Federal Resource Conservation and Recovery Act also governs the disposal of hazardous wastes. The Partnership is not currently required to comply with a substantial portion of the Federal Resource Conservation and Recovery Act requirements because its operations generate minimal quantities of hazardous wastes. However, it is possible that additional wastes, which could include wastes currently generated during operations, will in the future be designated as "hazardous wastes." Hazardous wastes are subject to more rigorous and costly disposal requirements than are non-hazardous wastes.

Hazardous Substances

The Comprehensive Environmental Response, Compensation and Liability Act, referred to as CERCLA, also known as Superfund, imposes liability, without regard to fault or the legality of the original act, on some classes of persons that contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of the site and entities that disposed or arranged for the disposal of the hazardous substances found at the site. CERCLA also authorizes the Environmental Protection Agency and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs that they incur. In the course of the Partnership's ordinary operations, it may generate waste that falls within CERCLA's definition of a "hazardous substance." While the Partnership responsibly manages the hazardous substances that it controls, the intervening acts of third parties may expose the Partnership to joint and several liability under CERCLA for all or part of the costs required to clean up sites at which these hazardous substances have been disposed of or released into the environment.

The Partnership currently owns or leases, and has in the past owned or leased, properties where hydrocarbons are being or have been handled. Although the Partnership has utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties owned or leased by the Partnership or on or under other locations where these wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under the Partnership's control. These properties and wastes disposed thereon may be subject to CERCLA, the Federal Resource Conservation and Recovery Act and analogous state laws. Under these

laws, the Partnership could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater) or to perform remedial operations to prevent future contamination.

Endangered Species Act

The Endangered Species Act restricts activities that may affect endangered species or their habitats. The discovery of previously unidentified endangered species could cause the Partnership to incur additional costs or operational restrictions or bans in the affected area.

Hazardous Materials Transportation Requirements

OPS has promulgated extensive regulations governing pipeline safety. These regulations generally require pipeline operators to implement measures designed to reduce the environmental impact from onshore crude oil and refined product pipeline releases and to maintain comprehensive spill response plans, including extensive spill response training certifications for pipeline personnel. These regulations also require pipeline operators to develop qualification programs for individuals performing “covered tasks” on pipeline facilities to ensure there is a qualified work force and to reduce the risk of accidents from human error. In addition, OPS regulations contain detailed specifications for pipeline operation and maintenance, such as the implementation of integrity management programs that continually assess the integrity of pipelines in high consequence areas (such as areas with concentrated populations, navigable waterways or other unusually sensitive areas). In addition to federal regulations, some states, including Texas and Oklahoma, have certified state pipeline safety programs governing intrastate pipelines. Other states, such as New Mexico, have entered into agreements with OPS to help implement safety regulations on intrastate pipelines.

Pipeline Safety Improvement Act of 2002

In December 2002, the Pipeline Safety Improvement Act of 2002 (the “Act”) was enacted. The Act expands the government’s regulatory authority over pipeline safety and, among other things, requires pipeline operators to maintain qualification programs for key pipeline operating personnel, to review and update their existing pipeline safety public education programs, and to provide information for the National Pipeline Mapping System. The Act also strengthens the national “One-call” system, which is intended to minimize the risk of pipelines being damaged by third-party excavators and provides “whistleblower” protection to pipeline employees and contractors who identify pipeline safety risks. Some of the Act’s requirements are effective immediately, while other requirements will become effective during 2003 and 2004. The Partnership believes that it is in substantial compliance with the Act, and will continue to be in substantial compliance with the Act following the effectiveness of these other requirements. In addition, while this Act may affect the Partnership’s maintenance capital expenditures and operating expenses, the Partnership believes that the Act does not affect its competitive position and will not have a material affect on its financial conditions or results of operations.

OSHA

The Partnership is subject to the requirements of the Federal Occupational Safety and Health Act and comparable state statutes that regulate the protection of the health and safety of workers. In addition, the Federal Occupational Safety and Health Act hazard communication standard requires that information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities and citizens.

Title to Properties

The Partnership believes that it has satisfactory title to all of its assets. Although title to these properties is subject to encumbrances in some cases, such as customary interests generally retained in connection with acquisition of real property, liens related to environmental liabilities associated with historical operations, liens for current taxes and other burdens and minor easements, restrictions and other encumbrances to which the underlying properties were subject at the time of acquisition by the Partnership or its predecessors, the Partnership believes that none of these burdens will materially detract from the value of these properties or from its interest in these properties or will materially interfere with their use in the operation of the Partnership’s business. In addition, the Partnership believes that it has obtained sufficient rights-of-way grants and permits from public authorities and private parties for it to operate its business in all material respects as described in this report.

Employees

Riverwalk Logistics, the general partner, is responsible for the management of Valero L.P. Valero GP, LLC, the general partner of Riverwalk Logistics, is responsible for managing the affairs of the Riverwalk Logistics, and through it, the affairs of Valero L.P. and Valero Logistics. As of January 1, 2003, Valero GP, LLC, on the Partnership's behalf, employed approximately 200 individuals that perform services for the Partnership. Prior to January 1, 2003, these employees were employed by Valero Energy. The Partnership also receives administrative services from other Valero Energy employees under the Services Agreement, which is described in more detail in Items 1. and 2. Business and Properties, "The Partnership's Relationship with Valero Energy- *Services Agreement*."

Available Information

The Partnership's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are made available free of charge on the Partnership's internet website at http://www.valerolp.com as soon as reasonably practicable after the Partnership electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

Item 3. Legal Proceedings

The Partnership is a party to various legal actions that have arisen in the ordinary course of its business. The Partnership believes it is unlikely that the final outcome of any claims or proceedings to which it is a party would have a material adverse effect on its financial position, results of operations or liquidity; however, due to the inherent uncertainty of litigation, the range of any possible loss cannot be estimated with a reasonable degree of precision and the Partnership cannot provide assurance that the resolution of any particular claim or proceeding would not have an adverse effect on its results of operations, financial position or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the unitholders, through solicitation of proxies or otherwise, during the fourth quarter of the year ended December 31, 2002.

PART II

Item 5. Market for Registrant's Common Units and Related Unitholder Matters

Market Information, Holders and Distributions

Valero L.P.'s common units are listed and traded on the New York Stock Exchange under the symbol "VLI." From its initial public offering on April 16, 2001 through December 31, 2001, its common units were listed and traded on the New York Stock Exchange under the symbol "UDL." At the close of business on February 1, 2003, the Partnership had 65 holders of record of its common units. The high and low closing sales price ranges (composite transactions) by quarter for the year ended December 31, 2002 and the period from April 16, 2001 through December 31, 2001 were as follows:

	Price Range of Common Unit	
	High	Low
Year 2002		
4th Quarter	$39.75	$35.10
3rd Quarter	37.48	33.15
2nd Quarter	39.50	36.10
1st Quarter	42.10	37.00
Year 2001		
4th Quarter	$40.40	$33.10
3rd Quarter	35.60	30.00
2nd Quarter	31.95	27.66

The quarterly cash distributions applicable to 2002 and 2001 were as follows:

	Record Date	Payment Date	Amount Per Unit
Year 2002			
4th Quarter	February 5, 2003	February 14, 2003	$0.70
3rd Quarter	November 1, 2002	November 14, 2002	0.70
2nd Quarter	August 1, 2002	August 14, 2002	0.70
1st Quarter	May 1, 2002	May 15, 2002	0.65
Year 2001			
4th Quarter	February 1, 2002	February 14, 2002	$0.60
3rd Quarter	November 1, 2001	November 14, 2001	0.60
2nd Quarter	August 1, 2001	August 14, 2001	0.50

Valero L.P. has also issued 9,599,322 subordinated units, all of which are held by UDS Logistics, LLC, the limited partner of Riverwalk Logistics, for which there is no established public trading market. The issuance of subordinated units was exempt from registration with the Securities and Exchange Commission under Section 4(2) of the Securities Act of 1933. During the subordination period, the holders of the common units are entitled to receive each quarter a minimum quarterly distribution of $0.60 per unit ($2.40 annualized) prior to any distribution of available cash to holders of the subordinated units. The subordination period is defined generally as the period that will end on the first day of any quarter beginning after March 31, 2006 if (1) Valero L.P. has distributed at least the minimum quarterly distribution on all outstanding units with respect to each of the immediately preceding three consecutive, non-overlapping four-quarter periods and (2) Valero L.P.'s adjusted operating surplus, as defined in its partnership agreement, during such periods equals or exceeds the amount that would have been sufficient to enable it to distribute the minimum quarterly distribution on all outstanding units on a fully diluted basis and the related distribution on the 2% general partner interest during those periods. If the subordination period ends, the rights of the holders of subordinated units will no longer be subordinated to the rights of the holders of common units and the subordinated units may be converted into common units, on a one-for-one basis.

During the subordination period, Valero L.P.'s cash is distributed first 98% to the holders of common units and 2% to the general partner until there has been distributed to the holders of common units an amount equal to the minimum quarterly distribution and arrearages in the payment of the minimum quarterly distribution on the common units for any prior quarter. Secondly, cash is distributed 98% to the holders of subordinated units and 2% to the general partner until there has been distributed to the holders of subordinated units an amount equal to the minimum quarterly distribution. Thirdly, cash in excess of the minimum quarterly distributions is distributed to the unitholders and the general partner based on the percentages shown below.

The general partner, Riverwalk Logistics, is entitled to incentive distributions if the amount Valero L.P. distributes with respect to any quarter exceeds specified target levels shown below:

	Percentage of Distribution	
Quarterly Distribution Amount per Unit	Unitholders	General Partner
Up to $0.60	98%	2%
Above $0.60 up to $0.66	90%	10%
Above $0.66 up to $0.90	75%	25%
Above $0.90	50%	50%

The general partner's incentive distributions for the year ended December 31, 2002 totaled $1,103,000. There were no general partner incentive distributions for the period from April 16, 2001 through December 31, 2001.

Item 6. Selected Financial Data

The following table provides selected financial data that was derived from the audited financial statements of the Partnership (successor) and its predecessor, as well as selected operating data. This data does not include any results from the crude oil tank contribution or the South Texas pipeline contribution, nor does it give effect to the redemption of common units owned by Valero Energy or related financings associated with these transactions discussed in Item 1 and 2. Business. The following table should be read together with the consolidated and combined 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.

Prior to July 1, 2000, the Partnership's pipeline, terminalling and storage assets were owned and operated by UDS (now part of Valero Energy), and such assets serviced UDS' McKee and Three Rivers refineries located in Texas, and the Ardmore refinery located in Oklahoma. These assets and their related operations are referred to herein as the Ultramar Diamond Shamrock Logistics Business. Effective July 1, 2000, UDS transferred the Ultramar Diamond Shamrock Logistics Business, along with certain liabilities to Shamrock Logistics Operations, L.P. (Shamrock Logistics Operations), a wholly owned subsidiary of Shamrock Logistics, L.P. (Shamrock Logistics). Shamrock Logistics was also wholly owned by UDS. Data in the following table prior to the July 1, 2000 transfer is indicated as "Predecessor" and data subsequent thereto is indicated as "Successor."

On April 16, 2001, Shamrock Logistics closed on its initial public offering of common units, which represented 26.4% of its outstanding partnership interests.

On May 7, 2001, Valero Energy announced that it had entered into an Agreement and Plan of Merger with UDS whereby UDS agreed to be acquired by Valero Energy for total consideration of approximately $4.3 billion and the assumption of approximately $2.0 billion of debt. The acquisition of UDS by Valero Energy became effective on December 31, 2001. This acquisition included the acquisition of UDS' majority ownership interest in Shamrock Logistics and subsidiary. The consolidated balance sheet of Shamrock Logistics and subsidiary as of December 31, 2001 was not adjusted to fair value due to the significant level of public ownership interest in Shamrock Logistics. Effective January 1, 2002, Shamrock Logistics changed its name to Valero L.P., and Shamrock Logistics Operations changed its name to Valero Logistics Operations, L.P. (Valero Logistics).

The selected financial data and operating data for the years ended December 31, 1998 and 1999, and for the six months ended June 30, 2000, reflect the operations of the Ultramar Diamond Shamrock Logistics Business (the predecessor to Shamrock Logistics Operations) as if it had existed as a single separate entity from UDS. The transfer of the Ultramar Diamond Shamrock Logistics Business to Shamrock Logistics Operations represented a reorganization of entities under common control and was recorded at historical cost. The selected financial data and operating data for the six months ended December 31, 2000, and for the years ended December 31, 2001 and 2002, represent the consolidated operations of Valero L.P. and Valero Logistics (the Partnership). The selected financial data as of December 31, 2001, includes the acquisition of the Wichita Falls Business, which the Partnership acquired on February 1, 2002 from Valero Energy for $64,000,000. Because the Partnership and the Wichita Falls Business came under the common control of Valero Energy commencing on December 31, 2001, the acquisition represented a reorganization of entities under common control. The selected financial data and operating data for the year ended December 31, 2002, reflects the operations of the Wichita Falls Business for the entire year.

	Successor			Predecessor		
	Years Ended December 31,		Six Months Ended December 31, 2000	Six Months Ended June 30, 2000	Years Ended December 31,	
	2002	2001			1999	1998
	(in thousands, except per unit data and barrel/day information)					
Statement of Income Data:						
Revenues (1)	$118,458	$ 98,827	$ 47,550	$ 44,503	$109,773	$ 97,883
Costs and expenses:						
Operating expenses	37,838	33,583	15,593	17,912	29,013	32,179
General and administrative expenses	6,950	5,349	2,549	2,590	4,698	4,552
Depreciation and amortization	16,440	13,390	5,924	6,336	12,318	12,451
Total costs and expenses	61,228	52,322	24,066	26,838	46,029	49,182
Gain on sale of property, plant and equipment (2)	—	—	—	—	2,478	7,005
Operating income	57,230	46,505	23,484	17,665	66,222	55,706
Equity income from Skelly-Belvieu Pipeline Company	3,188	3,179	1,951	1,926	3,874	3,896
Interest expense, net	(4,880)	(3,811)	(4,748)	(433)	(777)	(796)
Income before income tax expense (benefit)	55,538	45,873	20,687	19,158	69,319	58,806
Income tax expense (benefit) (3)	395	—	—	(30,812)	26,521	22,517
Net income	$ 55,143	$ 45,873	$ 20,687	$ 49,970	$ 42,798	$ 36,289
Basic and diluted net income per unit applicable to limited partners (4)	$ 2.72	$ 1.82				
Cash distributions per unit applicable to limited partners	$ 2.75	$ 1.70				
Other Financial Data:						
EBITDA (5)	$ 76,858	$ 63,074	$ 31,359	$ 25,927	$ 82,414	$ 72,053
Distributable cash flow (5)	68,437	56,172	26,393	25,091	77,841	62,258
Distributions from Skelly-Belvieu Pipeline Company	3,590	2,874	2,352	2,306	4,238	3,692
Net cash provided by operating activities	77,656	77,132	1,870	20,247	54,054	48,642
Net cash provided by (used in) investing activities	(80,607)	(17,926)	(1,736)	(4,505)	2,787	14,703
Net cash provided by (used in) financing activities	28,688	(51,414)	(133)	(15,742)	(56,841)	(63,345)
Maintenance capital expenditures	3,943	2,786	619	1,699	2,060	2,345
Expansion capital expenditures	1,761	4,340	1,518	3,186	7,313	9,952
Acquisitions	75,000	10,800	—	—	—	—
Total capital expenditures	80,704	17,926	2,137	4,885	9,373	12,297
Operating Data (barrels/day)**:**						
Crude oil pipeline throughput	348,023	303,811	295,524	294,037	280,041	265,243
Refined product pipeline throughput	295,456	308,047	306,877	312,759	297,397	268,064
Refined product terminal throughput	175,559	176,771	162,904	168,433	161,340	144,093

	Successor			Predecessor	
	December 31,			December 31,	
	2002	2001	2000	1999	1998
			(in thousands)		
Balance Sheet Data:					
Property, plant and equipment, net	$349,276	$349,012	$280,017	$284,954	$297,121
Total assets	415,508	387,070	329,484	308,214	321,002
Long-term debt, including current portion and debt due to parent	109,658	26,122	118,360	11,102	11,455
Partners' equity/net parent investment (6)	293,895	342,166	204,838	254,807	268,497

(1) Effective January 1, 2000, the Ultramar Diamond Shamrock Logistics Business (predecessor) filed revised tariff rates on many of its crude oil and refined product pipelines to reflect the total cost of the pipeline, the current throughput capacity, the current throughput utilization and other market conditions. Prior to 1999, the Ultramar Diamond Shamrock Logistics Business did not charge a separate terminalling fee for terminalling services at its refined product terminals. These costs were charged back to the related refinery. Beginning January 1, 1999, the Ultramar Diamond Shamrock Logistics Business began charging a separate terminalling fee at its refined product terminals. If the revised tariff rates and the terminalling fee had been implemented effective January 1, 1998, revenues would have been as follows for the years presented. The revised tariff rates and terminalling fee were in effect throughout the years ended December 31, 2002, 2001 and 2000.

	Years Ended December 31,	
	1999	1998
	(in thousands)	
Revenues — historical	$109,773	$ 97,883
Decrease in tariff revenues	(21,892)	(17,067)
Increase in terminalling revenues	—	1,649
Net decrease	(21,892)	(15,418)
Revenues — as adjusted	$ 87,881	$ 82,465

(2) In March 1998, the Ultramar Diamond Shamrock Logistics Business recognized a gain on the sale of a 25% interest in the McKee to El Paso refined product pipeline and the El Paso refined product terminal to ConocoPhillips (previously Phillips Petroleum Company). In August of 1999, the Ultramar Diamond Shamrock Logistics Business recognized a gain on the sale of an additional 8.33% interest in the McKee to El Paso refined product pipeline and terminal to ConocoPhillips.

(3) Income tax expense for the year ended December 31, 2002 represents income tax expense incurred by the Wichita Falls Business during the month ended January 31, 2002, prior to the acquisition of the Wichita Falls Business by the Partnership on February 1, 2002.

Effective July 1, 2000, UDS transferred the Ultramar Diamond Shamrock Logistics Business (predecessor) to Valero Logistics. As a limited partnership, Valero Logistics is not subject to federal or state income taxes. Due to this change in tax status, the deferred income tax liability of $38,217,000 as of June 30, 2000 was written off in the statement of income of the Ultramar Diamond Shamrock Logistics Business for the six months ended June 30, 2000. The resulting income tax benefit of $30,812,000 for the six months ended June 30, 2000, includes the write-off of the deferred income tax liability less the income tax expense of $7,405,000 for the six months ended June 30, 2000. The income tax expense for periods prior to July 1, 2000 was based on the effective income tax rate for the Ultramar Diamond Shamrock Logistics Business of 38%. The effective income tax rate exceeds the U.S. federal statutory income tax rate due to state income taxes.

(4) Net income per unit applicable to limited partners is computed by dividing net income applicable to limited partners, after deduction of the general partner's 2% interest and incentive distributions, by the weighted average number of limited partnership units outstanding for each class of unitholder. Basic and diluted net income per unit applicable to

limited partners is the same. Net income per unit applicable to limited partners for the periods prior to April 16, 2001 is not shown as units had not been issued.

	Year Ended December 31, 2002	For the Period April 16, 2001 through December 31, 2001
	(in thousands)	
Net income	$ 55,143	$ 45,873
Less net income applicable to the period January 1, 2001 through April 15, 2001	—	(10,126)
Less net income applicable to the Wichita Falls Business for the month ended January 31, 2002	(650)	—
Less net income applicable to general partner's interest, including incentive distributions	(2,187)	(715)
Net income applicable to limited partners' interest	$ 52,306	$ 35,032
Basic and diluted net income per unit applicable to limited partners	$ 2.72	$ 1.82
Weighted average number of units outstanding, basic and diluted	19,250,867	19,198,644

(5) The following is a reconciliation of income before income tax expense (benefit) to EBITDA and distributable cash flow. Beginning July 1, 2000, the impact of volumetric expansions, contractions and measurement discrepancies in the pipelines has been borne by the shippers in the Partnership's pipelines and is therefore not reflected in operating expenses subsequent to July 1, 2000. The effect of volumetric expansions, contractions and measurement discrepancies in the pipelines was a net reduction to income before income tax expense (benefit).

	Successor			Predecessor		
	Years Ended December 31,		Six Months Ended December 31, 2000	Six Months Ended June 30, 2000	Years Ended December 31,	
	2002	2001			1999	1998
	(in thousands)					
Income before income tax expense (benefit)	$55,538	$45,873	$20,687	$19,158	$69,319	$58,806
Plus interest expense, net	4,880	3,811	4,748	433	777	796
Plus depreciation and amortization	16,440	13,390	5,924	6,336	12,318	12,451
EBITDA	76,858	63,074	31,359	25,927	82,414	72,053
Less equity income from Skelly-Belvieu Pipeline Company	(3,188)	(3,179)	(1,951)	(1,926)	(3,874)	(3,896)
Less interest expense, net	(4,880)	(3,811)	(4,748)	(433)	(777)	(796)
Less maintenance capital expenditures	(3,943)	(2,786)	(619)	(1,699)	(2,060)	(2,345)
Less gain on sale of property, plant and equipment	—	—	—	—	(2,478)	(7,005)
Plus distributions from Skelly-Belvieu Pipeline Company	3,590	2,874	2,352	2,306	4,238	3,692
Plus impact of volumetric variances	—	—	—	916	378	555
Distributable cash flow	$68,437	$56,172	$26,393	$25,091	$77,841	$62,258

The Partnership utilizes two financial measures, earnings before income taxes, depreciation and amortization (EBITDA) and distributable cash flow, which are not defined in United States generally accepted accounting principles. Management presents both EBITDA and distributable cash flow in its filings under the Securities Exchange Act of 1934 and in its press release. Management uses these financial measures because they are widely accepted financial indicators used by some investors and analysts to analyze and compare partnerships on the basis of operating performance. In addition, distributable cash flow is used by the Partnership to determine the amount of cash distributions to its unitholders. Neither EBITDA nor distributable cash flow are intended to represent cash flows for the period, nor are they presented as an alternative to operating income or income before income tax. They should not be considered in isolation or as substitutes for a measure of performance prepared in accordance with United States generally accepted accounting principles. Our method of computation for both EBITDA and distributable cash flow may or may not be comparable to other similarly titled measures used by other partnerships.

(6) The partners' equity amount as of December 31, 2001 includes $50,631,000 of net parent investment resulting from the Partnership's acquisition of the Wichita Falls Business on February 1, 2002, which represented a transfer between entities under common control and therefore required a restatement of the December 31, 2001 consolidated balance sheet of the Partnership to include the Wichita Falls Business as if it had been combined with the Partnership as of December 31, 2001. Upon execution of the acquisition on February 1, 2002, partners' equity/net parent investment was reduced by $51,281,000.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following discussion and analysis of the Partnership's results of operations and financial condition should be read in conjunction with Items 1. and 2. Business and Properties, Item 6. Selected Financial Data and Item 8. Financial Statements and Supplementary Data. However, the results of operations and financial condition of the Partnership do not include any results from the crude oil tank contribution or the South Texas pipeline contribution, nor do they give effect to the redemption of common units owned by Valero Energy, all three of which are discussed in Items 1. and 2. Business and Properties.

The introduction to Item 6. Selected Financial Data and Note 1: Organization, Business and Basis of Presentation to the consolidated and combined financial statements included in Item 8. Financial Statements and Supplementary Data provide a description of the Partnership's current and prior organization.

Seasonality

The operating results of the Partnership are affected by factors affecting the business of Valero Energy, including refinery utilization rates, crude oil prices, the demand for refined products and industry refining capacity.

The throughput of crude oil that the Partnership transports is directly affected by the level of, and refiner demand for, crude oil in markets served directly by the Partnership's crude oil pipelines. Crude oil inventories tend to increase due to overproduction of crude oil by producing companies and countries and planned maintenance turnaround activity by refiners.

The throughput of the refined products that the Partnership transports is directly affected by the level of, and user demand for, refined products in the markets served directly or indirectly by the Partnership's refined product pipelines. Demand for gasoline in most markets peaks during the summer driving season, which extends from May through September, and declines during the fall and winter months. Demand for gasoline in the Arizona market, however, generally is higher in the winter months than summer months due to greater tourist activity and second home usage in the winter months.

Results of Operations

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

The results of operations for the year ended December 31, 2002 presented in the following table are derived from the consolidated statement of income for Valero L.P. and subsidiaries for the year ended December 31, 2002, which includes the Wichita Falls Business for the month ended January 31, 2002 prior to its actual acquisition on February 1, 2002. The results of operations for the year ended December 31, 2001 presented in the following table are derived from the consolidated statement of income for Valero L.P. and subsidiaries for the period from April 16, 2001 through December 31, 2001 and the combined statement of income for Valero L.P. and Valero Logistics for the period from January 1, 2001 through April 15, 2001, which in this discussion are combined and referred to as the year ended December 31, 2001.

Financial Data:

	Years Ended December 31,	
	2002	2001
	(in thousands)	
Statement of Income Data:		
Revenues	$118,458	$ 98,827
Costs and expenses:		
Operating expenses	37,838	33,583
General and administrative expenses	6,950	5,349
Depreciation and amortization	16,440	13,390
Total costs and expenses	61,228	52,322
Operating income	57,230	46,505
Equity income from Skelly-Belvieu Pipeline Company	3,188	3,179
Interest expense, net	(4,880)	(3,811)
Income before income tax expense	55,538	45,873
Income tax expense	395	—
Net income	55,143	45,873
Less net income applicable to general partner	(2,187)	(715)
Less net income related to the Wichita Falls Business for the month ended January 31, 2002 and net income related to the period from January 1, 2001 through April 15, 2001	(650)	(10,126)
Net income applicable to the limited partners' interest	$ 52,306	$ 35,032

Operating Data:

The following table reflects throughput barrels for the Partnership's crude oil and refined product pipelines and the total throughput for all of its refined product terminals for the years ended December 31, 2002 and 2001.

	Years Ended December 31,		
	2002	2001	% Change
	(in thousands of barrels)		
Crude oil pipeline throughput:			
Dixon to McKee	15,970	20,403	(22)%
Wichita Falls to McKee	26,313	—	—
Wasson to Ardmore	27,294	29,612	(8)%
Ringgold to Wasson	12,630	13,788	(8)%
Corpus Christi to Three Rivers	25,075	28,689	(13)%
Other crude oil pipelines	19,746	18,399	7%
Total crude oil pipelines	127,028	110,891	15%
Refined product pipeline throughput:			
McKee to Colorado Springs to Denver	7,405	8,838	(16)%
McKee to El Paso	24,121	24,285	(1)%
McKee to Amarillo to Abernathy	13,304	13,747	(3)%
Amarillo to Albuquerque	4,022	4,613	(13)%
McKee to Denver	4,303	4,370	(2)%
Ardmore to Wynnewood	19,780	20,835	(5)%
Three Rivers to Laredo	4,711	4,479	5%
Three Rivers to San Antonio	9,322	10,175	(8)%
Other refined product pipelines	20,873	21,095	(1)%
Total refined product pipelines	107,841	112,437	(4)%
Refined product terminal throughput	64,079	64,522	(1)%

Net income for the year ended December 31, 2002 was $55,143,000 as compared to $45,873,000 for the year ended December 31, 2001. The increase of $9,270,000 was primarily attributable to the additional net income generated from the four acquisitions completed since July of 2001 (the Southlake refined product terminal, the Ringgold crude oil storage facility, the Wichita Falls Business and the crude hydrogen pipeline). The increase in net income was partially offset by the impact of lower throughput barrels in 2002 resulting from economic-based refinery production cuts at the three Valero Energy refineries served by the Partnership's pipelines and terminals. Valero Energy initiated economic-based refinery production cuts as a result of significantly lower refinery margins industry-wide in the first half of 2002.

Revenues for the year ended December 31, 2002 were $118,458,000 as compared to $98,827,000 for the year ended December 31, 2001, an increase of 20% or $19,631,000. This increase was due primarily to the addition of the Wichita Falls crude oil pipeline revenues, the Southlake refined product terminal revenues and the crude hydrogen revenues, partially offset by decreases in revenues on most of the Partnership's other pipelines. The following discusses significant revenue increases and decreases by pipeline:

- revenues for the year ended December 31, 2002 include $22,894,000 of revenues related to the Wichita Falls to McKee crude oil pipeline, including $1,740,000 of revenues (2,000,000 barrels of throughput) related to the month ended January 31, 2002, which was included in the Partnership's revenues for 2002 as a result of the common control transfer between Valero Energy and the Partnership;

- revenues for the McKee to Colorado Springs to Denver refined product pipeline and the Amarillo to Albuquerque refined product pipeline decreased $2,630,000 due to a combined 15% decrease in throughput barrels, resulting from reduced production at the McKee refinery. During the first quarter of 2002, Valero Energy completed several planned refinery turnaround projects at the McKee refinery which significantly reduced production and thus reduced throughput barrels in the Partnership's pipelines;

- revenues for the Corpus Christi to Three Rivers crude oil pipeline decreased $2,392,000 due to a 13% decrease in throughput barrels, as a result of reduced production at the Three Rivers refinery. During the first half of 2002, Valero Energy initiated economic-based refinery production cuts at the Three Rivers refinery. In addition, during the first quarter of 2002, Valero Energy completed several refinery turnaround projects resulting in a partial shutdown of the refinery and reduced throughput barrels in the Partnership's pipelines;

- revenues for the crude hydrogen pipeline, which was acquired on May 29, 2002, were $828,000 for the seven months ended December 31, 2002;

- revenues for the Ringgold to Wasson crude oil pipeline increased $749,000, despite an 8% decrease in throughput barrels resulting from reduced production at the Ardmore refinery, due to a tariff rate increase effective December 1, 2001 related to the Ringgold crude oil storage facility acquisition;

- revenues for the Dixon to McKee crude oil pipeline decreased $430,000 due to a 22% decrease in throughput barrels, as a result of Valero Energy supplying greater quantities of crude oil to the McKee refinery from the Wichita Falls to McKee crude oil pipeline during 2002 instead of gathering crude oil barrels near Dixon; and

- revenues for the refined product terminals, excluding the Southlake terminal, decreased $665,000 primarily due to a decrease in revenues for the Corpus Christi refined product terminal. In 2002, as a result of Valero Energy's economic-based refinery production cuts at the Three Rivers refinery, lower volumes of benzene, toluene and xylene were transported to Corpus Christi. Revenues for the Southlake terminal, which was acquired on July 1, 2001, were $2,327,000 and throughput was 7,959,000 barrels for the year ended December 31, 2002 as compared to revenues of $1,341,000 and throughput of 4,601,000 barrels for the six months ended December 31, 2001.

Operating expenses increased $4,255,000 for the year ended December 31, 2002 as compared to the year ended December 31, 2001 primarily due to the following items:

- the acquisitions of the Wichita Falls Business, the Southlake refined product terminal and the crude hydrogen pipeline increased operating expenses by $6,565,000;

- insurance expense, excluding the impact of acquisitions, increased by $292,000, or 45%, due to higher rates charged for the property and liability policies the Partnership has in place;

- utility expenses, excluding the impact of acquisitions, decreased by $2,300,000, or 22%, due to lower electricity rates as a result of lower natural gas prices, participation in Texas deregulation, negotiating lower rates with utility providers and implementation of power optimization software; and

- maintenance expenses, excluding the impact of acquisitions, decreased $499,000, or 14%, due primarily to fewer pipeline and terminal inspections being required during 2002 as compared to 2001.

General and administrative expenses were as follows:

	Years Ended December 31,	
	2002	2001
	(in thousands)	
Services Agreement	$5,200	$5,200
Third party expenses	1,650	730
Compensation expense related to contractual rights to receive common units	721	—
General and administrative expenses related to the Wichita Falls Business for the month ended January 31, 2002	40	—
Reimbursement from partners on jointly owned pipelines	(661)	(581)
	$6,950	$5,349

General and administrative expenses increased 30% for the year ended December 31, 2002 as compared to 2001 due primarily to an increase in general and administrative costs related to Valero L.P. being a publicly held entity and the recognition of compensation expense related to the award of common units to officers and directors in January of 2002 (see Note 14: Employee Benefit Plans, Long-Term Incentive Plan). In addition to the annual fee charged by Valero Energy to the Partnership for general and administrative services, the Partnership incurs costs (e.g., unitholder annual reports, preparation and mailing of income tax reports to unitholders and director fees) as a result of being a publicly held entity.

Depreciation and amortization expense increased $3,050,000 for the year ended December 31, 2002 as compared to the year ended December 31, 2001 due to the additional depreciation related to the acquisitions of the Southlake refined product terminal, the Ringgold crude oil storage facility, the Wichita Falls Business and the crude hydrogen pipeline. Included in 2002 is $160,000 of depreciation expense related to the Wichita Falls Business for the month ended January 31, 2002.

Equity income from Skelly-Belvieu Pipeline Company for the year ended December 31, 2002 was comparable to equity income recognized in 2001 as throughput barrels in the Skellytown to Mont Belvieu refined product pipeline increased 2% during 2002.

Interest expense for the year ended December 31, 2002 was $4,880,000, net of interest income of $248,000 and capitalized interest of $255,000, as compared to $3,811,000 of interest expense for 2001. Interest expense was higher in 2002 due to additional borrowings to fund the acquisitions of the Southlake refined product terminal, the Ringgold crude oil storage facility, the Wichita Falls Business and the crude hydrogen pipeline. Included in interest expense for 2002 was interest expense related to the fixed-rate senior notes issued in July of 2002, the proceeds of which were used to repay borrowings under the variable-rate revolving credit facility. Included in interest expense for 2001 was interest expense of $2,513,000 for the period from January 1, 2001 through April 15, 2001 related to the $107,676,000 of debt due to parent that the Partnership assumed on July 1, 2000 and paid off on April 16, 2001 upon the closing of its initial public offering.

Income tax expense for the year ended December 31, 2002 represents income tax expense incurred by the Wichita Falls Business during the month ended January 31, 2002, prior to the transfer of the Wichita Falls Business to the Partnership.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

The results of operations for the year ended December 31, 2001 presented in the following table are derived from the consolidated statement of income for Valero L.P. and subsidiaries for the period from April 16, 2001 through December 31, 2001 and the combined statement of income for Valero L.P. and Valero Logistics for the period from January 1, 2001 through April 15, 2001, which in this discussion are combined and referred to as the year ended December 31, 2001. The results of operations for the year ended December 31, 2000 presented in the following table are derived from the statement of income of the Ultramar Diamond Shamrock Logistics Business for the six months ended June 30, 2000 and the combined statement of income of Valero L.P. and Valero Logistics for the six months ended December 31, 2000, which in this discussion are combined and referred to as the year ended December 31, 2000.

Financial Data:

	Years Ended December 31,	
	2001	2000
	(in thousands)	
Statement of Income Data:		
Revenues	$98,827	$ 92,053
Costs and expenses:		
Operating expenses	33,583	33,505
General and administrative expenses	5,349	5,139
Depreciation and amortization	13,390	12,260
Total costs and expenses	52,322	50,904
Operating income	46,505	41,149
Equity income from Skelly-Belvieu Pipeline Company	3,179	3,877
Interest expense, net	(3,811)	(5,181)
Income before income tax benefit	45,873	39,845
Income tax benefit	—	(30,812)
Net income	$45,873	$ 70,657

Operating Data:

The following table reflects throughput barrels for the Partnership's crude oil and refined product pipelines and the total throughput for all of its refined product terminals for the years ended December 31, 2001 and 2000. The throughput barrels for the year ended December 31, 2000 combine the barrels transported by the Ultramar Diamond Shamrock Logistics Business for the six months ended June 30, 2000 with the barrels transported by Valero Logistics for the six months ended December 31, 2000.

	Years Ended December 31,		
	2001	2000	% Change
	(in thousands of barrels)		
Crude oil pipeline throughput:			
Dixon to McKee	20,403	22,736	(10)%
Wasson to Ardmore	29,612	28,003	6%
Ringgold to Wasson	13,788	10,724	29%
Corpus Christi to Three Rivers	28,689	31,271	(8)%
Other crude oil pipelines	18,399	15,157	21%
Total crude oil pipelines	110,891	107,891	3%
Refined product pipeline throughput:			
McKee to Colorado Springs to Denver	8,838	8,982	(2)%
McKee to El Paso	24,285	22,277	9%
McKee to Amarillo to Abernathy	13,747	13,219	4%
Amarillo to Albuquerque	4,613	4,714	(2)%
McKee to Denver	4,370	4,307	1%
Ardmore to Wynnewood	20,835	20,705	1%
Three Rivers to Laredo	4,479	5,886	(24)%
Three Rivers to San Antonio	10,175	9,761	4%
Other refined product pipelines	21,095	23,537	(10)%
Total refined product pipelines	112,437	113,388	(1)%
Refined product terminal throughput	64,522	60,629	6%

Revenues for the year ended December 31, 2001 were $98,827,000 as compared to $92,053,000 for the year ended December 31, 2000, an increase of 7% or $6,774,000. This increase in revenues is due to the following items:

- revenues for the Ringgold to Wasson and the Wasson to Ardmore crude oil pipelines increased $1,400,000 due to a combined 12% increase in throughput barrels, resulting from Valero Energy purchasing greater quantities of crude oil from third parties near Ringgold instead of gathering crude oil barrels near Wasson. In March 2001, UDS sold its Oklahoma crude oil gathering operation which was located near Wasson;

- revenues for the Corpus Christi to Three Rivers crude oil pipeline increased $1,390,000 despite the 8% decrease in throughput barrels for the year ended December 31, 2001 as compared to 2000. The Corpus Christi to Three Rivers crude oil pipeline was temporarily converted into a refined product pipeline during the third quarter of 2001 due to the alkylation unit shutdown at Valero Energy's Three Rivers refinery. The increase in revenues is primarily due to the increased tariff rate charged to transport refined products during the third quarter of 2001. In addition, effective May of 2001, the crude oil tariff rate was increased to cover the additional costs (dockage and wharfage fees) associated with operating a marine-based crude oil storage facility in Corpus Christi;

- revenues for the McKee to El Paso refined product pipeline increased $1,187,000 primarily due to a 9% increase in throughput barrels resulting from an increase in Valero Energy's sales into the Arizona market. The McKee to El Paso refined product pipeline connects with a third party pipeline which runs to Arizona;

- revenues for the Three Rivers to Laredo refined product pipeline decreased by $464,000 due to a 24% decrease in throughput barrels partially offset by an increase in the tariff rate effective July 1, 2001. The Laredo refined product terminal revenues also decreased by $290,000 due to the 24% decrease in throughput barrels. The lower throughput barrels were a result of Pemex's expansion of its Monterrey, Mexico refinery that increased the supply of refined products to Nuevo Laredo, Mexico, which is across the border from Laredo, Texas;

- revenues for the Southlake refined product terminal, acquired on July 1, 2001, were $1,341,000 and throughput was 4,601,000 barrels for the six months ended December 31, 2001; and

- revenues for all refined product terminals, excluding the Southlake and Laredo refined product terminals, increased $1,343,000 primarily due to an increase in the terminalling fee charged at the Partnership's marine-based refined product terminals to cover the additional costs (dockage and wharfage fees) associated with operating a marine-based refined product terminal and the additional fee of $0.042 per barrel charged for blending additives into certain refined products.

Operating expenses increased $78,000 for the year ended December 31, 2001 as compared to the year ended December 31, 2000 primarily due to the following items:

- during the year ended December 31, 2000, a loss of $916,000 was recognized due to the impact of volumetric expansions, contractions and measurement discrepancies in the pipelines related to the six months ended June 30, 2000. Beginning July 1, 2000, the impact of volumetric expansions, contractions and measurement discrepancies in the pipelines is borne by the shippers and is therefore no longer reflected in operating expenses;

- utility expenses increased by $1,538,000, or 17%, due to higher electricity rates during the year ended December 31, 2001 as compared to the year ended December 31, 2000 resulting from higher natural gas costs;

- the acquisition of the Southlake refined product terminal increased operating expenses by $308,000;

- employee-related expenses increased due to higher accruals for incentive compensation; and

- other operating expenses decreased due to lower rental expenses for fleet vehicles, satellite communications and safety equipment as a result of more favorable leasing arrangements.

General and administrative expenses were as follows:

	Years Ended December 31,	
	2001	2000
	(in thousands)	
Services Agreement	$5,200	$2,600
Allocation of UDS general and administrative expenses for the six months ended June 30, 2000	—	2,839
Third party expenses	730	200
Reimbursement from partners on jointly owned pipelines	(581)	(500)
	$5,349	$5,139

General and administrative expenses increased 4% for the year ended December 31, 2001 as compared to 2000 due to increased general and administrative costs related to Valero L.P. being a publicly held entity. Prior to July 1, 2000, UDS allocated approximately 5% of its general and administrative expenses incurred in the United States to its pipeline, terminalling and storage operations to cover costs of centralized corporate functions such as legal, accounting, treasury, engineering, information technology and other corporate services. Effective July 1, 2000, UDS entered into a Services Agreement with the Partnership to provide the general and administrative services noted above for an annual fee of $5,200,000, payable monthly. This annual fee is in addition to the incremental general and administrative costs incurred from third parties as a result of Valero L.P. being a publicly held entity.

Depreciation and amortization expense increased $1,130,000 for the year ended December 31, 2001 as compared to the year ended December 31, 2000 due to the additional depreciation related to the Southlake refined product terminal and Ringgold crude oil storage facility acquired during 2001 and additional depreciation related to completed capital projects.

Equity income from Skelly-Belvieu Pipeline Company for the year ended December 31, 2001 decreased $698,000, or 18%, as compared to 2000 due primarily to a 13% decrease in throughput barrels in the Skellytown to Mont Belvieu refined product pipeline. The decreased throughput in 2001 is due to both Valero Energy and ConocoPhillips utilizing greater quantities of natural gas to run their refining operations instead of selling the natural gas to third parties in Mont Belvieu.

Interest expense for the year ended December 31, 2001 was $3,811,000 as compared to $5,181,000 for 2000. During the period from January 1, 2001 through April 15, 2001, the Partnership incurred $2,513,000 of interest expense related to the $107,676,000 of debt due to parent that Valero Logistics assumed on July 1, 2000 and paid off on April 16, 2001. In addition, beginning April 16, 2001, Valero Logistics borrowed funds under its revolving credit facility resulting in $738,000 of interest expense for the eight and a half months ended December 31, 2001. Interest expense prior to July 1, 2000 relates only to the debt due to the Port of Corpus Christi Authority of Nueces County, Texas. Interest expense from July 1, 2000 through April 15, 2001 relates to the debt due to parent and the debt due to the Port of Corpus Christi Authority. Interest expense subsequent to April 16, 2001 relates to the borrowings under the revolving credit facility and the debt due to the Port of Corpus Christi Authority.

Effective July 1, 2000, UDS transferred the assets and certain liabilities of the Ultramar Diamond Shamrock Logistics Business to Valero Logistics. As a limited partnership, Valero Logistics is not subject to federal or state income taxes. Due to this change in tax status, the deferred income tax liability of $38,217,000 as of June 30, 2000 was written off in the statement of income of the Ultramar Diamond Shamrock Logistics Business for the six months ended June 30, 2000. The resulting net benefit for income taxes of $30,812,000 for the six months ended June 30, 2000, includes the write-off of the deferred income tax liability less the income tax expense of $7,405,000 for the six months ended June 30, 2000. The income tax expense for the six months ended June 30, 2000 was based upon the effective income tax rate for the Ultramar Diamond Shamrock Logistics Business of 38%. The effective income tax rate exceeds the U.S. federal statutory income tax rate due to state income taxes.

Income before income tax benefit for the year ended December 31, 2001 was $45,873,000 as compared to $39,845,000 for the year ended December 31, 2000. The increase of $6,028,000 is primarily due to the increase in revenues resulting from higher tariff rates and higher throughput barrels in the Partnership's pipelines and terminals for 2001 as compared to 2000.

Financial Outlook

Due to a combination of circumstances in the first two months of 2003, Valero Energy reduced its production at several of its refineries, including the McKee, Three Rivers and Ardmore refineries, by as much as 15%, for economic reasons. The primary reason for the reduction was the unfavorable impact the oil workers' strike in Venezuela had on crude oil and other feedstock supplies in the market, which caused sweet crude oil and other feedstock processing economics to be unfavorable. The oil workers' strike in Venezuela has reduced the amount of Venezuelan crude oil received by the Three Rivers refinery under its purchase agreement with PDVSA, the national oil company of Venezuela. In addition, in mid-March of 2003, a twenty-day plant-wide turnaround of the Ardmore refinery will lower pipeline throughputs related to that refinery.

As a result of Valero Energy's reduction in refinery production during the first quarter of 2003, throughput in the Partnership's pipelines and terminals in the first quarter of 2003 is expected to be lower than throughput levels in the fourth quarter of 2002 and comparable to throughput levels in the first quarter of 2002. Accordingly, net income per unit applicable to limited partners for the first quarter of 2003 is expected to be in the range of $0.55 per unit, which compares to $0.50 per unit in the first quarter of 2002 and $0.74 per unit in the fourth quarter of 2002. Based on the net income expected to be generated during the first quarter of 2003, the Partnership expects to have sufficient distributable cash flow to distribute $0.70 per unit for the first quarter of 2003.

More recently, however, a combination of strong refining and marketing fundamentals and increased crude oil availability have improved conditions substantially from earlier this year. If these improved conditions continue, the Partnership expects average pipeline and terminal throughput levels for the remainder of 2003 to return to historical levels.

Liquidity and Capital Resources

The Partnership's primary cash requirements, in addition to normal operating expenses, are for capital expenditures (both maintenance and expansion), business and asset acquisitions, distributions to partners and debt service. The Partnership expects to fund its short-term needs for such items as maintenance capital expenditures and quarterly distributions to the partners from operating cash flows. Capital expenditures for long-term needs resulting from future expansion projects and acquisitions are expected to be funded by a variety of sources including cash flows from operating activities, borrowings under the amended revolving credit facility and the issuance of additional common units, debt securities and other capital market transactions.

Amended Revolving Credit Facility

On March 6, 2003, Valero Logistics amended its five-year revolving credit facility increasing its credit limit to $175,000,000. The revolving credit facility expires on January 15, 2006. At Valero Logistics' option, borrowings under the revolving credit facility bear interest based on either an alternative base rate or LIBOR. Valero Logistics also incurs a facility fee on the aggregate commitments of lenders under the revolving credit facility, whether used or unused. Borrowings under the revolving credit facility may be used for working capital and general partnership purposes; however borrowings to fund distributions to unitholders is limited to $40,000,000. All borrowings designated as borrowings subject to the $40,000,000 sublimit must be reduced to zero for a period of at least 15 consecutive days during each fiscal year. The credit facility also allows Valero Logistics to issue letters of credit for an aggregate of $75,000,000. The borrowings under the revolving credit facility are unsecured and rank equally with all of Valero Logistics' outstanding unsecured and unsubordinated debt. The revolving credit facility is irrevocably and unconditionally guaranteed by Valero L.P. Valero L.P.'s guarantee ranks equally with all of its existing and future unsecured senior obligations.

The revolving credit facility requires that Valero Logistics maintain certain financial ratios, including a consolidated debt coverage ratio (debt to EBITDA) as defined in the revolving credit facility not exceed 4.0 to 1.0. The revolving credit facility includes other restrictive covenants, including a prohibition on distributions by Valero Logistics to Valero L.P. if any default, as defined in the revolving credit facility, exist or would result from the distribution. The revolving credit facility also includes a change-in-control provision, which requires that Valero Energy owns, directly or indirectly, 51% of Valero L.P.'s general partner or Valero Energy and/or the Partnership owns at least 100% of the general partner interest in Valero Logistics or at least 100% of the outstanding limited partner interests in Valero Logistics. Management believes that Valero Logistics is in compliance with all of these ratios and covenants.

During the first quarter of 2002, Valero Logistics borrowed $64,000,000 under the revolving credit facility to purchase the Wichita Falls Business from Valero Energy and during the second quarter of 2002, Valero Logistics borrowed an additional $11,000,000 to purchase a hydrogen pipeline from Valero Energy. During the third quarter of 2002, the outstanding balance under the revolving credit facility of $91,000,000 was paid off with proceeds from the senior notes issued in July of 2002 under the shelf registration statement. As of December 31, 2002, Valero Logistics had no outstanding borrowings under the revolving credit facility.

Shelf Registration Statement

On June 6, 2002, Valero L.P. and Valero Logistics filed a $500,000,000 universal shelf registration statement with the Securities and Exchange Commission. On July 15, 2002, Valero Logistics completed the sale of $100,000,000 of 6.875% senior notes, issued under its shelf registration, for total proceeds of $99,686,000. The net proceeds of $98,207,000, after deducting underwriters' commissions and offering expenses of $1,479,000, were used to pay off the $91,000,000 outstanding under the revolving credit facility.

Interest Rate Swap

On February 14, 2003, Valero Logistics entered into an interest rate swap agreement to manage its exposure to changes in interest rates. The interest rate swap has a notional amount of $60,000,000 and is tied to the maturity of the 6.875% senior notes discussed below. Under the terms of the interest rate swap agreement, the Partnership will receive a fixed 6.875% rate and will pay a floating rate based on LIBOR plus 2.45%.

6.875% Senior Notes

The senior notes are due July 15, 2012 with interest payable on January 15 and July 15 of each year. The senior notes do not have sinking fund requirements. The senior notes rank equally with all other existing senior unsecured indebtedness of Valero Logistics, including indebtedness under the revolving credit facility. The senior notes contain restrictions on Valero Logistics' ability to incur secured indebtedness unless the same security is also provided for the benefit of holders of the senior notes. In addition, the senior notes limit Valero Logistics' ability to incur indebtedness secured by certain liens and to engage in certain sale-leaseback transactions. The senior notes are irrevocably and unconditionally guaranteed on a senior unsecured basis by Valero L.P. The guarantee by Valero L.P. ranks equally with all of its existing and future unsecured senior obligations.

At the option of Valero Logistics, the senior notes may be redeemed in whole or in part at any time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest to the redemption date. The senior notes also include a change-in-control provision, which requires that an investment grade entity own and control the general partner of Valero L.P. and Valero Logistics. Otherwise Valero Logistics must offer to purchase the senior notes at a price equal to 100% of their outstanding principal balance plus accrued interest through the date of purchase.

Initial Public Offering

On April 16, 2001, Valero L.P. completed its initial public offering of 5,175,000 common units at a price of $24.50 per unit. Total proceeds were $126,787,000 before offering costs and underwriters' commissions. In addition, Valero Logistics borrowed $20,506,000 under its revolving credit facility. The Partnership used $143,504,000 of the total proceeds to repay the debt due to parent ($107,676,000), reimburse affiliates of UDS for previous capital expenditures ($20,517,000), pay offering costs and underwriters' commissions ($14,875,000) and pay debt issuance costs ($436,000). The net remaining proceeds of $3,789,000 were used for working capital and general partnership purposes.

Distributions

Valero L.P.'s partnership agreement, as amended, sets forth the calculation to be used to determine the amount and priority of cash distributions that the common unitholders, subordinated unitholders and the general partner will receive. During the subordination period, the holders of Valero L.P.'s common units are entitled to receive each quarter a minimum quarterly distribution of $0.60 per unit ($2.40 annualized) prior to any distribution of available cash to holders of Valero L.P.'s subordinated units. The subordination period is defined generally as the period that will end on the first day of any quarter beginning after March 31, 2006 if (1) Valero L.P. has distributed at least the minimum quarterly distribution on all outstanding units with respect to each of the immediately preceding three consecutive, non-overlapping four-quarter periods and (2) Valero L.P.'s adjusted operating surplus, as defined in the partnership agreement, during such periods equals or exceeds the amount that would have been sufficient to enable Valero L.P. to distribute the minimum quarterly distribution on all outstanding units on a fully diluted basis and the related distribution on the 2% general partner interest during those periods. If the subordination period ends, the rights of the holders of subordinated units will no longer be subordinated to the rights of the holders of common units and the subordinated units may be converted into common units, on a one-for-one basis. The general partner is entitled to incentive distributions if the amount Valero L.P. distributes with respect to any quarter exceeds $0.60 per unit.

The following table reflects the allocation of the total cash distributions to the general and limited partners applicable to the period in which the distributions are earned:

	Years Ended December 31,	
	2002	2001
	(in thousands, except per unit data)	
General partner interest	$ 1,103	$ 667
General partner incentive distribution	1,103	—
Total general partner distribution	2,206	667
Limited partnership units	52,969	32,692
Total cash distributions	$55,175	$33,359
Cash distributions per unit applicable to limited partners	$ 2.75	$ 1.70

The distributions for the year ended December 31, 2001, represent the minimum quarterly distribution for the period subsequent to Valero L.P.'s initial public offering, the period from April 16, 2001 through December 31, 2001. In February 2003, Valero L.P. paid a quarterly cash distribution of $0.70 per unit for the fourth quarter of 2002.

Capital Requirements

The petroleum pipeline industry is capital-intensive, requiring significant investments to maintain, upgrade or enhance existing operations and to comply with environmental and safety regulations. The Partnership's capital expenditures consist primarily of:

- maintenance capital expenditures, such as those required to maintain equipment reliability and safety and to address environmental regulations; and

- expansion capital expenditures, such as those to expand and upgrade pipeline capacity and to construct new pipelines, terminals and storage facilities. In addition, expansion capital expenditures may include acquisitions of pipelines, terminals or storage assets.

For 2003, the Partnership expects to incur approximately $41,099,000 of capital expenditures including approximately $3,322,000 for maintenance capital expenditures and approximately $37,777,000 for expansion capital expenditures. The 2003 expansion capital expenditures include the $15,000,000 the Partnership incurred in January 2003 to for the Telfer asphalt terminal acquisition discussed below. The Partnership expects to fund its capital expenditures from cash provided by operations and to the extent necessary, from proceeds of borrowings under the revolving credit facility or debt and equity offerings.

During the year ended December 31, 2002, the Partnership incurred maintenance capital expenditures of $3,943,000 primarily related to tank and automation upgrades at both the refined product terminals and the crude oil storage facilities and corrosion protection and automation upgrades for refined product pipelines. Also during the year ended December 31, 2002, the Partnership incurred expansion capital expenditures of $76,761,000 for acquisitions and capital projects. Effective February 1, 2002, the Partnership exercised its option to purchase the Wichita Falls Business from Valero Energy at a cost of $64,000,000. The Wichita Falls Business consisted of the following assets:

- A 272-mile crude oil pipeline originating in Wichita Falls, Texas and ending at Valero Energy's McKee refinery in Dumas, Texas. The pipeline has the capacity to transport 110,000 barrels per day of crude oil gathered or acquired by Valero Energy at Wichita Falls. The Wichita Falls crude oil pipeline connects to third party pipelines that originate along the Texas Gulf Coast.

- Four crude oil storage tanks located in Wichita Falls, Texas with a total capacity of 660,000 barrels.

During the year ended December 31, 2002, capital projects included $1,278,000 for completion of the Amarillo to Albuquerque refined product pipeline expansion, which is net of ConocoPhillips' 50% share of costs.

On May 29, 2002, the Partnership purchased a 30-mile pure hydrogen pipeline from Valero Energy for $11,000,000 and subsequently exchanged that pipeline for a 25-mile crude hydrogen pipeline owned by Praxair, Inc. The crude hydrogen pipeline originates at Celanese Ltd.'s chemical facility in Clear Lake, Texas and ends at Valero Energy's Texas City refinery in Texas City, Texas. The pipeline supplies crude hydrogen to the refinery under a long-term supply arrangement between Valero Energy and BOC (successor to Celanese Ltd.).

During the year ended December 31, 2001, the Partnership incurred maintenance capital expenditures of $2,786,000 primarily related to tank and automation upgrades at the refined product terminals and cathodic (corrosion) protection and automation upgrades for both refined product and crude oil pipelines. Also during the year ended December 31, 2001, the Partnership incurred expansion capital expenditures of $15,140,000 for various acquisitions and capital projects. Acquisitions included the July of 2001 purchase of the Southlake refined product terminal from Valero Energy for $5,600,000 and the December of 2001 purchase of the Ringgold crude oil storage facility from Valero Energy for $5,200,000. Capital projects included $1,813,000 for rights-of-way related to the expansion of the Amarillo to Albuquerque refined product pipeline, which is net of ConocoPhillips' 50% share of such costs.

During the year ended December 31, 2000, the Partnership incurred $7,022,000 of capital expenditures, including $4,704,000 relating to expansion capital projects and $2,318,000 related to maintenance projects. Expansion capital projects included the project to expand the capacity of the McKee to Colorado Springs refined product pipeline from 32,000 barrels per day to 52,000 barrels per day, which was completed in the fourth quarter of 2000.

On January 7, 2003, the Partnership purchased an asphalt terminal from Telfer Oil Company (Telfer) for $15,000,000, which included two storage tanks with a combined storage capacity of 350,000 barrels, six 5,000-barrel polymer modified asphalt tanks, a truck rack, rail facilities and various other tanks and equipment. In conjunction with the Telfer acquisition, the Partnership entered into a six-year Terminal Storage and Throughput Agreement with Valero Energy.

The Partnership believes it has sufficient funds from operations, and to the extent necessary, from public and private capital markets and bank markets, to fund its ongoing operating requirements. The Partnership expects that, to the extent necessary, it can raise additional funds from time to time through equity or debt financings. However, there can be no assurance regarding the availability of any future financings or whether such financings can be made available on terms acceptable to the Partnership.

Long-Term Contractual Obligations

The following table presents long-term contractual obligations and commitments of the Partnership and the related payments due, in total and by period, as of December 31, 2002. The Partnership has no unconditional purchase obligations as of December 31, 2002.

	Payments Due by Period				
	Less Than 1 Year	1-3 Years	4-5 Years	Over 5 Years	Total
	(in thousands)				
Long-term debt (stated maturities)	$747	$1,575	$1,272	$106,064	$109,658
Operating leases	227	664	342	1,266	2,499
Right-of-way payments	6	18	12	65	101

The operating lease amounts in the above table include minimum rentals due under the various land leases for the refined product terminals and the Corpus Christi crude oil storage facility.

The Partnership does not have any long-term contractual obligations related to the Skelly-Belvieu Pipeline Company, an equity method investment, other than the requirement to operate the pipeline on behalf of the members and to fund the Partnership's share of capital expenditures as they arise. Skelly-Belvieu Pipeline Company does not have any outstanding debt as of December 31, 2002.

Related Party Transactions

Services Agreement

Effective July 1, 2000, UDS entered into the Services Agreement with the Partnership, whereby UDS agreed to provide the corporate functions of legal, accounting, treasury, engineering, information technology and other services for an annual fee of $5,200,000 for a period of eight years. As a result of the acquisition of UDS by Valero Energy, Valero Energy assumed UDS' obligation under the Services Agreement. The $5,200,000 is adjustable annually based on the Consumer Price Index published by the U.S. Department of Labor, and may also be adjusted to take into account additional service levels necessitated by the acquisition or construction of additional assets. Management believes that the $5,200,000 is a reasonable approximation of the general and administrative costs related to the Partnership's current pipeline, terminalling and storage operations. This annual fee is in addition to the incremental general and administrative costs incurred from third parties as a result of Valero L.P. being a publicly held entity.

The Services Agreement also requires that the Partnership reimburse Valero Energy for various recurring costs of employees who work exclusively within the pipeline, terminalling and storage operations and for certain other costs incurred by Valero Energy relating solely to the Partnership. These employee costs include salary, wage and benefit costs.

Prior to July 1, 2000, UDS allocated approximately 5% of its general and administrative expenses incurred in the United States to its pipeline, terminalling and storage operations to cover costs of centralized corporate functions and other corporate services. A portion of the allocated general and administrative costs is passed on to third parties, which jointly own certain pipelines and terminals with the Partnership. Also, prior to July 1, 2000, the Ultramar Diamond Shamrock

Logistics Business participated in UDS' centralized cash management program, wherein all cash receipts were remitted to UDS and all cash disbursements were funded by UDS. Other related party transactions include intercompany tariff and terminalling revenues and related expenses, administrative and support expenses incurred by UDS and allocated to the Ultramar Diamond Shamrock Logistics Business and income taxes.

Pipelines and Terminals Usage Agreement

On April 16, 2001, UDS entered into the Pipelines and Terminals Usage Agreement with the Partnership, whereby UDS agreed to use the Partnership's pipelines to transport at least 75% of the crude oil shipped to and at least 75% of the refined products shipped from the McKee, Three Rivers and Ardmore refineries and to use the Partnership's refined product terminals for terminalling services for at least 50% of all refined products shipped from these refineries until at least April of 2008. Valero Energy also assumed the obligation under the Pipelines and Terminals Usage Agreement in connection with the acquisition of UDS by Valero Energy. For the year ended December 31, 2002, Valero Energy used the Partnership pipelines to transport 97% of its crude oil shipped to and 80% of the refined products shipped from the McKee, Three Rivers and Ardmore refineries, and used the Partnership's terminalling services for 59% of all refined products shipped from these refineries.

Hydrogen Tolling Agreement

In conjunction with the Partnership's acquisition of the crude hydrogen pipeline, the Partnership and Valero Energy entered into a Hydrogen Tolling Agreement. The Hydrogen Tolling Agreement provides that Valero Energy will pay the Partnership minimum annual revenues of $1,400,000 for transporting crude hydrogen from Celanese Ltd.'s chemical facility in Clear Lake, Texas to Valero Energy's Texas City refinery.

Equity Ownership

As of December 31, 2002, UDS Logistics, LLC, an indirect wholly owned subsidiary of Valero Energy, owns 4,424,322 of Valero L.P.'s outstanding common units and all 9,599,322 of Valero L.P.'s outstanding subordinated units. In addition, Valero GP, LLC, also an indirect wholly owned subsidiary of Valero Energy, owns 55,250 of Valero L.P.'s outstanding common units. As a result, Valero Energy owns a 71.6% limited partner interest in Valero L.P. and Riverwalk Logistics owns a 2% general partner interest in Valero L.P. Valero Logistics' 99.99% limited partner interest is owned by Valero L.P. and Valero L.P.'s wholly owned subsidiary, Valero GP, Inc., owns the 0.01% general partner interest of Valero Logistics.

In addition, prior to its acquisition by Valero L.P. on February 1, 2002, the Wichita Falls Business was wholly owned by Valero Energy, and such ownership interest is reflected as net parent investment in the consolidated balance sheet as of December 31, 2001.

Environmental

In connection with the transfer of assets and liabilities from the Ultramar Diamond Shamrock Logistics Business to Shamrock Logistics Operations on July 1, 2000, UDS agreed to indemnify Shamrock Logistics for environmental liabilities that arose prior to July 1, 2000. In connection with the initial public offering of Shamrock Logistics on April 16, 2001, UDS agreed to indemnify Shamrock Logistics for environmental liabilities that arose prior to April 16, 2001 and are discovered within 10 years after April 16, 2001. Excluded from this indemnification are liabilities that result from a change in environmental law after April 16, 2001. In conjunction with the acquisitions of the Southlake refined product terminal on July 1, 2001 and the Ringgold crude oil storage facility on December 1, 2001, UDS agreed to indemnify the Partnership for environmental liabilities that arose prior to the acquisition dates and are discovered within 10 years after acquisition. Effective with the acquisition of UDS by Valero Energy, Valero Energy assumed these environmental indemnifications. In conjunction with the sale of the Wichita Falls Business to Valero L.P., Valero Energy has agreed to indemnify Valero L.P. for any environmental liabilities that arose prior to February 1, 2002 and are discovered by April 15, 2011. As an operator or owner of the assets, the Partnership could be held liable for pre-acquisition environmental damage should Valero Energy be unable to fulfill its obligation. However, the Partnership believes that such a situation is remote given Valero Energy's financial condition. As of December 31, 2002, the Partnership is not aware of any material environmental liabilities that were not covered by the environmental indemnifications.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to select appropriate accounting policies and to make estimates and assumptions that affect the amounts reported in the consolidated and combined financial statements and accompanying notes. Actual results could differ from those estimates. See Note 2: Summary of Significant Accounting Policies on page 56 for the Partnership's significant accounting policies.

On an ongoing basis, management reviews its estimates based on currently available information. Changes in facts and circumstances may result in revised estimates. Any effects on the Partnership's financial position or results of operations resulting from revisions to estimates are recorded in the period in which the facts and circumstances that give rise to the revision become known. The Partnership deems the following estimates and accounting policies to be critical:

Revenue Recognition

Revenues are derived from interstate and intrastate pipeline transportation, storage and terminalling of crude oil and refined products. Transportation revenues are based on tariff rates that are subject to extensive federal and/or state regulation. Terminalling revenues, including revenues for blending additives, are based on fees which the Partnership believes are market based. Reductions to the current tariff rates or terminalling fees charged could have a material adverse effect on the Partnership's results of operations. Currently, 99% of the Partnership's revenues are derived from Valero Energy and Valero Energy has agreed not to challenge the Partnership's tariff rates or terminalling fees until at least April of 2008. See Note 13: Related Party Transactions for a discussion of the Partnership's relationship with Valero Energy.

Depreciation

Depreciation expense is calculated using the straight-line method over the estimated useful lives of the Partnership's property, plant and equipment. Because of the expected long useful lives of the property, plant and equipment, the Partnership depreciates them over a 3-year to 40-year period. Changes in the estimated useful lives of the property, plant and equipment could have a material adverse effect on the Partnership's results of operations.

Goodwill

Goodwill is the excess of cost over the fair value of net assets acquired in September of 1997. Effective January 1, 2002, with the adoption of Financial Accounting Standards Board (FASB) Statement No. 142, "Goodwill and Other Intangible Assets," amortization of goodwill ceased and the unamortized balance will be tested annually for impairment. Management's estimates will be crucial in determining whether an impairment exists and, if so, the effect of such impairment. The Partnership believes that future reported net income may be more volatile because impairment losses related to goodwill are likely to occur irregularly and in varying amounts.

Income Allocation

The Partnership's net income for each quarterly reporting period is first allocated to the general partner in an amount equal to the general partner's incentive distribution declared for the respective reporting period. The remaining net income is allocated among the limited and general partners in accordance with their respective 98% and 2% interests, respectively.

Recent Accounting Pronouncement

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations." This statement establishes standards for accounting for an obligation associated with the retirement of a tangible long-lived asset. An asset retirement obligation should be recognized in the financial statements in the period in which it meets the definition of a liability as defined in FASB Concepts Statement No. 6, "Elements of Financial Statements." The amount of the liability would initially be measured at fair value. Subsequent to initial measurement, an entity would recognize changes in the amount of the liability resulting from (a) the passage of time and (b) revisions to either the timing or amount of estimated cash flows. Statement No. 143 also establishes standards for accounting for the cost associated with an asset retirement obligation. It requires that, upon initial recognition of a liability for an asset retirement obligation, an entity capitalize that cost by recognizing an increase in the carrying amount of the related long-lived asset. The capitalized asset retirement cost would then be allocated to expense using a systematic and rational method. Statement No. 143 will be effective for financial statements issued for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Partnership is currently evaluating the impact of adopting this new statement, however, at the present time does not believe the statement will have a material impact on its financial position or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Historically, the Partnership did not engage in interest rate, foreign currency exchange rate or commodity price hedging transactions. However, in February 2003, the Partnership entered into an interest rate swap agreement to manage its exposure to changes in interest rates.

The principal market risk (i.e., the risk of loss arising from adverse changes in market rates and prices) to which the Partnership is exposed is interest rate risk on its debt. The Partnership manages its debt considering various financing alternatives available in the market and manages its exposure to changing interest rates principally through the use of a combination of fixed and floating rate debt. Borrowings under the revolving credit facility expose the Partnership to increases in the benchmark interest rate underlying its floating rate revolving credit facility.

As of December 31, 2002, the Partnership's fixed rate debt consisted of the 6.875% senior notes with a carrying value of $99,700,000 and an estimated fair value of $99,780,000, and the 8% Port of Corpus Christi Authority note payable with a carrying value of $9,958,000 and an estimated fair value of $10,142,000. As of December 31, 2001, the Partnership's fixed rate debt consisted of the 8% Port of Corpus Christi Authority note payable with a carrying value of $10,122,000 and an estimated fair value of $11,240,000. The fair values were estimated using discounted cash flow analysis, based on the Partnership's current incremental borrowing rates for similar types of borrowing arrangements.

Item 8. Financial Statements and Supplementary Data

Report of Independent Auditors

To the Board of Directors and Unitholders of Valero L.P.

We have audited the accompanying consolidated balance sheets of Valero L.P. and subsidiaries (a Delaware limited partnership, the Partnership) as of December 31, 2002 and 2001, and the related consolidated statements of income, cash flows and partners' equity for the year ended December 31, 2002. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Valero L.P. for the years ended December 31, 2001 and 2000 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated May 14, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Valero L.P. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

San Antonio, Texas
March 6, 2003

THIS IS A COPY OF THE AUDIT REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP IN CONNECTION WITH THEIR AUDITS OF VALERO L.P. AS OF DECEMBER 31, 2001 AND 2000 AND FOR THE THREE YEARS ENDED DECEMBER 31, 2001. THIS AUDIT REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP AS THEY HAVE CEASED OPERATIONS. THE "(as restated – see Note 2)" REFERENCE BELOW RELATES TO THE RESTATEMENT OF THE DECEMBER 31, 2001 BALANCE SHEET FOR THE WICHITA FALLS BUSINESS ACQUISITION DISCLOSED IN NOTE 4 OF NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS.

Report of Independent Public Accountants

To the Board of Directors and Unitholders of Valero L.P.:

We have audited the accompanying consolidated and combined balance sheets of Valero L.P., formerly Shamrock Logistics, L.P. (a Delaware limited partnership) and Valero Logistics Operations, L.P., formerly Shamrock Logistics Operations, L.P. successor to the Ultramar Diamond Shamrock Logistics Business (a Delaware limited partnership) (collectively, the Partnerships) as of December 31, 2001 and 2000 (successor), and the related consolidated and combined statements of income, cash flows (as restated – see Note 2), partners' equity/net parent investment for the year ended December 31, 2001 and the six months ended December 31, 2000 (successor) and the related combined statements of income, cash flows (as restated – see Note 2), partners' equity/net parent investment for the six months ended June 30, 2000 and the year ended December 31, 1999 (predecessor). These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 financial statements referred to above present fairly, in all material respects, the consolidated and combined financial position of the Partnerships as of December 31, 2001 and 2000, and the results of their operations and their cash flows (as restated) for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

San Antonio, Texas
May 14, 2002

VALERO L.P. AND SUBSIDIARIES
(formerly Shamrock Logistics, L.P. and Subsidiary)
(successor to the Ultramar Diamond Shamrock Logistics Business)
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31,	
	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	$ 33,533	$ 7,796
Receivable from parent	8,482	5,816
Accounts receivable	1,502	2,855
Other current assets	177	—
Total current assets	43,694	16,467
Property, plant and equipment	486,939	470,401
Less accumulated depreciation and amortization	(137,663)	(121,389)
Property, plant and equipment, net	349,276	349,012
Goodwill, net of accumulated amortization of $1,279 as of 2002 and 2001	4,715	4,715
Investment in Skelly-Belvieu Pipeline Company	16,090	16,492
Other noncurrent assets, net of accumulated amortization of $250 and $90 as of 2002 and 2001, respectively	1,733	384
Total assets	$ 415,508	$ 387,070
Liabilities and Partners' Equity		
Current liabilities:		
Current portion of long-term debt	$ 747	$ 462
Accounts payable and accrued liabilities	8,133	4,175
Taxes other than income taxes	3,797	1,458
Total current liabilities	12,677	6,095
Long-term debt, less current portion	108,911	25,660
Other long-term liabilities	25	2
Deferred income tax liabilities	—	13,147
Commitments and contingencies (see note 10)		
Partners' equity:		
Common units (9,654,572 and 9,599,322 outstanding as of 2002 and 2001, respectively)	170,655	169,305
Subordinated units (9,599,322 outstanding as of 2002 and 2001)	117,042	116,399
General partner's equity	6,198	5,831
Net parent investment in the Wichita Falls Business	—	50,631
Total partners' equity	293,895	342,166
Total liabilities and partners' equity	$ 415,508	$ 387,070

See accompanying notes to consolidated and combined financial statements.

VALERO L.P. AND SUBSIDIARIES
(formerly Shamrock Logistics, L.P. and Subsidiary)
(successor to the Ultramar Diamond Shamrock Logistics Business)
CONSOLIDATED AND COMBINED STATEMENTS OF INCOME
(in thousands, except unit and per unit data)

	Successor			Predecessor
	Years Ended December 31,		Six Months Ended December 31, 2000	Six Months Ended June 30, 2000
	2002	2001		
Revenues	$ 118,458	$ 98,827	$47,550	$ 44,503
Costs and expenses:				
Operating expenses	37,838	33,583	15,593	17,912
General and administrative expenses	6,950	5,349	2,549	2,590
Depreciation and amortization	16,440	13,390	5,924	6,336
Total costs and expenses	61,228	52,322	24,066	26,838
Operating income	57,230	46,505	23,484	17,665
Equity income from Skelly-Belvieu Pipeline Company	3,188	3,179	1,951	1,926
Interest expense, net	(4,880)	(3,811)	(4,748)	(433)
Income before income tax expense (benefit)	55,538	45,873	20,687	19,158
Income tax expense (benefit)	395	—	—	(30,812)
Net income	$ 55,143	$ 45,873	$20,687	$ 49,970
Allocation of net income:				
Net income	$ 55,143	$ 45,873		
Less net income applicable to the period January 1, 2001 through April 15, 2001	—	(10,126)		
Less net income applicable to the Wichita Falls Business for the month ended January 31, 2002	(650)	—		
Net income applicable to the general and limited partners' interest	54,493	35,747		
General partner's interest in net income	(2,187)	(715)		
Limited partners' interest in net income	$ 52,306	$ 35,032		
Basic and diluted net income per unit applicable to limited partners	$ 2.72	$ 1.82		
Weighted average number of basic and diluted units outstanding	19,250,867	19,198,644		

See accompanying notes to consolidated and combined financial statements.

VALERO L.P. AND SUBSIDIARIES
(formerly Shamrock Logistics, L.P. and Subsidiary)
(successor to the Ultramar Diamond Shamrock Logistics Business)
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(in thousands)

	Successor			Predecessor
	Years Ended December 31,		Six Months Ended December 31, 2000	Six Months Ended June 30, 2000
	2002	2001		
Cash Flows from Operating Activities:				
Net income	$ 55,143	$ 45,873	$ 20,687	$ 49,970
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	16,440	13,390	5,924	6,336
Equity income from Skelly-Belvieu Pipeline Company	(3,188)	(3,179)	(1,951)	(1,926)
Distributions of equity income from Skelly-Belvieu Pipeline Company	3,493	2,874	1,951	1,926
Provision (benefit) for deferred income taxes	54	—	—	(36,677)
Changes in operating assets and liabilities:				
Decrease (increase) in receivable from parent	(2,666)	16,532	(22,347)	—
Decrease (increase) in accounts receivable	1,353	(469)	(1,676)	263
Decrease (increase) in other current assets	(177)	3,528	(3,528)	—
Increase (decrease) in accounts payable and accrued liabilities	3,958	1,359	1,481	(106)
Increase (decrease) in taxes other than income taxes	2,369	(2,394)	1,329	598
Other, net	877	(382)	—	(137)
Net cash provided by operating activities	77,656	77,132	1,870	20,247
Cash Flows from Investing Activities:				
Maintenance capital expenditures	(3,943)	(2,786)	(619)	(1,699)
Expansion capital expenditures	(1,761)	(4,340)	(1,518)	(3,186)
Acquisitions	(75,000)	(10,800)	—	—
Distributions in excess of equity income from Skelly-Belvieu Pipeline Company	97	—	401	380
Net cash used in investing activities	(80,607)	(17,926)	(1,736)	(4,505)
Cash Flows from Financing Activities:				
Proceeds from senior note offering, net of issuance costs	98,207	—	—	—
Proceeds from other long-term debt borrowings	75,000	25,506	—	—
Repayment of long-term debt	(91,164)	(10,068)	(134)	(284)
Distributions to unitholders and general partner	(52,843)	(21,571)	—	—
Distributions to parent and affiliates	(512)	(29,000)	—	(15,458)
Partners' contributions	—	—	1	—
Net proceeds from sale of common units to the public	—	111,912	—	—
Distribution to parent and affiliates for reimbursement of capital expenditures	—	(20,517)	—	—
Repayment of debt due to parent	—	(107,676)	—	—
Net cash provided by (used in) financing activities	28,688	(51,414)	(133)	(15,742)
Net increase in cash and cash equivalents	25,737	7,792	1	—
Cash and cash equivalents as of the beginning of period	7,796	4	3	3
Cash and cash equivalents as of the end of period	$ 33,533	$ 7,796	$ 4	$ 3
Non-Cash Activities – Adjustment related to the transfer of the Wichita Falls Business to Valero L.P. by Valero Energy:				
Property, plant and equipment	$ 64,160	$ (64,160)	$ —	$ —
Accrued liabilities and taxes other than income taxes	(382)	382	—	—
Deferred income tax liabilities	(13,147)	13,147	—	—
Net parent investment	(50,631)	50,631	—	—

See accompanying notes to consolidated and combined financial statements.

SHAMROCK LOGISTICS, L.P. AND SHAMROCK LOGISTICS OPERATIONS, L.P.
(successor to the Ultramar Diamond Shamrock Logistics Business)
COMBINED STATEMENTS OF PARTNERS' EQUITY/NET PARENT INVESTMENT
Six Months Ended December 31, 2000 and Six Months Ended June 30, 2000
(in thousands)

Balance as of January 1, 2000	$ 254,807
Net income	49,970
Net change in parent advances	(15,458)
Formalization of the terms of debt due to parent	(107,676)
Balance as of June 30, 2000	181,643
Net income	20,687
Partners' contributions	1
Environmental liabilities as of June 30, 2000 retained by Ultramar Diamond Shamrock Corporation	2,507
Balance as of December 31, 2000	$ 204,838

VALERO L.P. AND SUBSIDIARIES
(formerly Shamrock Logistics, L.P. and Subsidiary)
CONSOLIDATED AND COMBINED STATEMENTS OF PARTNERS' EQUITY
Years Ended December 31, 2002 and 2001
(in thousands)

	Limited Partners		General Partner	Net Parent Investment	Total Partners' Equity
	Common	Subordinated			
Combined balance as of January 1, 2001	$ 202,790	$ —	$ 2,048	$ —	$204,838
Net income applicable to the period January 1, 2001 through April 15, 2001	10,025	—	101	—	10,126
Distributions to affiliates of Ultramar Diamond Shamrock Corporation of net income applicable to the period July 1, 2000 through April 15, 2001	(28,710)	—	(290)	—	(29,000)
Distribution to affiliates of Ultramar Diamond Shamrock Corporation for reimbursement of capital expenditures of capital expenditures	(20,517)	—	—	—	(20,517)
Issuance of common and subordinated units for the contribution of Valero Logistics Operations' limited partner interest	(113,141)	109,453	3,688	—	—
Sale of common units to the public	111,912	—	—	—	111,912
Net income applicable to the period from April 16, 2001 through December 31, 2001	17,516	17,516	715	—	35,747
Cash distributions to partners	(10,570)	(10,570)	(431)	—	(21,571)
Adjustment for the Wichita Falls Business transaction	—	—	—	50,631	50,631
Consolidated balance as of December 31, 2001	169,305	116,399	5,831	50,631	342,166
Net income	26,225	26,081	2,187	650	55,143
Cash distributions to partners	(25,585)	(25,438)	(1,820)	—	(52,843)
Adjustment resulting from the acquisition of the Wichita Falls Business on February 1, 2002	—	—	—	(51,281)	(51,281)
Other	710	—	—	—	710
Consolidated balance as of December 31, 2002	$ 170,655	$117,042	$ 6,198	$ —	$293,895

See accompanying notes to consolidated and combined financial statements.

VALERO L.P. AND SUBSIDIARIES
(formerly Shamrock Logistics, L.P. and Subsidiary)
(successor to the Ultramar Diamond Shamrock Logistics Business)
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
Years Ended December 31, 2002 and 2001 and Six Months Ended December 31, 2000 and Six Months Ended June 30, 2000

NOTE 1: Organization, Business and Basis of Presentation

Organization and Business

Valero L.P. (formerly Shamrock Logistics, L.P.), a Delaware limited partnership, through its wholly owned subsidiary, Valero Logistics Operations, L.P. (Valero Logistics) owns and operates most of the crude oil and refined product pipeline, terminalling and storage assets that service three of Valero Energy Corporation's (Valero Energy) refineries. These refineries consist of the McKee and Three Rivers refineries located in Texas, and the Ardmore refinery located in Oklahoma. The pipeline, terminalling and storage assets provide for the transportation of crude oil and other feedstocks to the refineries and the transportation of refined products from the refineries to terminals or third-party pipelines for further distribution. The Partnership's revenues are earned primarily from providing these services to Valero Energy (see Note 13: Related Party Transactions).

As used in this report, the term Partnership may refer, depending on the context, to Valero L.P., Valero Logistics, or both of them taken as a whole. Riverwalk Logistics, L.P., a wholly owned subsidiary of Valero Energy, is the 2% general partner of Valero L.P. Valero Energy, through various affiliates, is also a limited partner in Valero L.P., resulting in a combined ownership of 73.6%. The remaining 26.4% limited partnership interest is held by public unitholders.

Valero Energy is an independent refining and marketing company. Its operations consist of 12 refineries with a total throughput capacity of 1,900,000 barrels per day and an extensive network of company-operated and dealer-operated convenience stores. Valero Energy's refining operations rely on various logistics assets (pipelines, terminals, marine dock facilities, bulk storage facilities, refinery delivery racks and rail car loading equipment) that support its refining and retail operations, including the logistics assets owned and operated by the Partnership. Valero Energy markets the refined products produced at the McKee, Three Rivers and Ardmore refineries primarily in Texas, Oklahoma, Colorado, New Mexico, Arizona and several mid-continent states through a network of company-operated and dealer-operated convenience stores, as well as through other wholesale and spot market sales and exchange agreements.

The Partnership's Operations

The Partnership's operations include interstate and intrastate pipelines, which are subject to extensive federal and state environmental and safety regulations. In addition, the tariff rates and practices under which the Partnership offers interstate and intrastate transportation services in its pipelines are subject to regulation by the Federal Energy Regulatory Commission (FERC), the Texas Railroad Commission or the Colorado Public Utility Commission, depending on the location of the pipeline. Tariff rates and practices for each pipeline are required to be filed with the respective commission upon completion of a pipeline and when a tariff rate is being revised. In addition, the regulations include annual reporting requirements for each pipeline.

The Partnership has an ownership interest in 9 crude oil pipelines with an aggregate length of approximately 783 miles and 19 refined product pipelines with an aggregate length of approximately 2,846 miles. In addition, the Partnership owns a 25-mile crude hydrogen pipeline. The Partnership operates all but three of the pipelines.

The Partnership also owns 5 crude oil storage facilities with a total storage capacity of 3,326,000 barrels and 12 refined product terminals (including the asphalt terminal acquired on January 7, 2003) with a total storage capacity of 3,192,000 barrels.

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS — (Continued)

Basis of Presentation

Prior to July 1, 2000, the Partnership's pipeline, terminalling and storage assets were owned and operated by Ultramar Diamond Shamrock Corporation (UDS), and such assets serviced the three refineries discussed above, which were also owned by UDS at that time. These assets and their related operations are referred to herein as the Ultramar Diamond Shamrock Logistics Business (predecessor). Effective July 1, 2000, UDS transferred the Ultramar Diamond Shamrock Logistics Business, along with certain liabilities, to Shamrock Logistics Operations, L.P. (Shamrock Logistics Operations), a wholly owned subsidiary of Shamrock Logistics, L.P. (Shamrock Logistics). Shamrock Logistics was wholly owned by UDS. On April 16, 2001, Shamrock Logistics closed on an initial public offering of its common units, which represented 26.4% of its outstanding partnership interests.

On May 7, 2001, Valero Energy announced that it had entered into an Agreement and Plan of Merger with UDS whereby UDS agreed to be acquired by Valero Energy for total consideration of approximately $4.3 billion and the assumption of approximately $2.0 billion of debt. The acquisition of UDS by Valero Energy became effective on December 31, 2001. This acquisition included the acquisition of UDS's majority ownership interest in Shamrock Logistics. Effective January 1, 2002, Shamrock Logistics changed its name to Valero L.P., and Shamrock Logistics Operations changed its name to Valero Logistics.

On February 1, 2002, the Partnership acquired the Wichita Falls Crude Oil Pipeline and Storage Business (the Wichita Falls Business) from Valero Energy for $64,000,000.

The accompanying financial statements for the six months ended June 30, 2000, reflect the operations of the Ultramar Diamond Shamrock Logistics Business (the predecessor to Shamrock Logistics) as if it had existed as a single separate entity from UDS. The transfer of the Ultramar Diamond Shamrock Logistics Business to Shamrock Logistics Operations represented a reorganization of entities under common control and was recorded at historical cost. The consolidated and combined financial statements for the six months ended December 31, 2000, and for the years ended December 31, 2001 and 2002, represent the consolidated operations of Valero L.P., formerly known as Shamrock Logistics. The consolidated balance sheet as of December 31, 2001 has been restated to reflect the acquisition of the Wichita Falls Business because the Partnership and the Wichita Falls Business came under the common control of Valero Energy commencing on that date and thus, represented a reorganization of entities under common control. Similarly, the statements of income and cash flows for the year ended December 31, 2002 reflect the operations of the Wichita Falls Business for the entire year.

NOTE 2: Summary of Significant Accounting Policies

Consolidation: All interpartnership transactions have been eliminated in the consolidation of Valero L.P. and its subsidiaries. In addition, the operations of certain of the crude oil and refined product pipelines and refined product terminals that are jointly owned with other companies are proportionately consolidated in the accompanying financial statements.

Use of 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 financial statements and accompanying notes. Actual results could differ from those estimates. On an ongoing basis, management reviews its estimates, including those related to commitments, contingencies and environmental liabilities, based on currently available information. Changes in facts and circumstances may result in revised estimates.

Cash and Cash Equivalents: All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

Property, Plant and Equipment: Property, plant and equipment is stated at cost. Additions to property, plant and equipment, including maintenance and expansion capital expenditures and capitalized interest, are recorded at cost. Maintenance capital expenditures represent capital expenditures to replace partially or fully depreciated assets to maintain the existing operating capacity of existing assets and extend

their useful lives. Expansion capital expenditures represent capital expenditures to expand the operating capacity of existing assets, whether through construction or acquisition. Repair and maintenance expenses associated with existing assets that are minor in nature and do not extend the useful life of existing assets are charged to operating expenses as incurred. Depreciation is provided principally using the straight-line method over the estimated useful lives of the related assets. When property, plant and equipment is retired or otherwise disposed of, the difference between the carrying value and the net proceeds is recognized as gain or loss in the statement of income in the year retired.

Impairment of Long-Lived Assets: Long-lived assets, including property, plant and equipment and the investment in Skelly-Belvieu Pipeline Company, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation of recoverability is performed using undiscounted estimated net cash flows generated by the related asset. If an asset is deemed to be impaired, the amount of impairment is determined as the amount by which the net carrying value exceeds discounted estimated net cash flows.

Goodwill: Goodwill represents the excess of cost over the fair value of net assets acquired in 1997. The Partnership adopted Financial Accounting Standards Board (FASB) Statement No. 142, “Goodwill and Other Intangible Assets” effective January 1, 2002 resulting in the cessation of goodwill amortization beginning January 1, 2002. For the years ended December 31, 2001 and 2000, goodwill amortization expense totaled $299,000 and $301,000, respectively, or approximately $0.02 per unit per year, assuming 19,198,644 common and subordinated units outstanding. In addition to the cessation of amortization, Statement No. 142 requires that goodwill be tested initially upon adoption and annually thereafter to determine whether an impairment has occurred. An impairment occurs when the carrying amount exceeds the fair value of the recognized goodwill asset. If impairment has occurred, the difference between the carrying value and the fair value is recognized as a loss in the statement of income in that period. Based on the results of the impairment tests performed upon initial adoption of Statement No. 142 as of January 1, 2002, and the annual impairment test performed as of October 1, 2002, no impairment had occurred.

Investment in Skelly-Belvieu Pipeline Company, LLC: Formed in 1993, the Skelly-Belvieu Pipeline Company, LLC (Skelly-Belvieu Pipeline Company) owns a natural gas liquids pipeline that begins in Skellytown, Texas and extends to Mont Belvieu, Texas near Houston. Skelly-Belvieu Pipeline Company is owned 50% by Valero Logistics and 50% by ConocoPhillips (previously Phillips Petroleum Company). The Partnership accounts for this investment under the equity method of accounting (see Note 6: Investment in Skelly-Belvieu Pipeline Company).

Deferred Financing Costs: Deferred financing costs are amortized using the effective interest method.

Environmental Remediation Costs: Environmental remediation costs are expensed and an associated accrual established when site restoration and environmental remediation and cleanup obligations are either known or considered probable and can be reasonably estimated. Accrued liabilities are not discounted to present value and are not reduced by possible recoveries from third parties; however, they are net of any recoveries expected from Valero Energy related to the environmental indemnifications. Environmental costs include initial site surveys, costs for remediation and restoration and ongoing monitoring costs, as well as fines, damages and other costs, when estimable. Adjustments to initial estimates are recorded, from time to time, to reflect changing circumstances and estimates based upon additional information developed in subsequent periods.

Revenue Recognition: Revenues are derived from interstate and intrastate pipeline transportation, storage and terminalling of refined products and crude oil. Transportation revenues (based on pipeline tariff rates) are recognized as refined product or crude oil is transported through the pipelines. In the case of crude oil pipelines, the cost of the storage operations are included in the crude oil pipeline tariff rates. Terminalling revenues (based on a terminalling fee) are recognized as refined products are moved into the terminal and as additives are blended with refined products (see Note 13: Related Party Transactions).

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS — (Continued)

Operating Expenses: Operating expenses consist primarily of fuel and power costs, telecommunication costs, labor costs of pipeline field and support personnel, maintenance, utilities, insurance and taxes other than income taxes. Such expenses are recognized as incurred (see Note 13: Related Party Transactions).

Federal and State Income Taxes: Valero L.P. and Valero Logistics are limited partnerships and are not subject to federal or state income taxes. Accordingly, the taxable income or loss of Valero L.P. and Valero Logistics, which may vary substantially from income or loss reported for financial reporting purposes, is generally includable in the federal and state income tax returns of the individual partners. For transfers of publicly held units subsequent to the initial public offering, Valero L.P. has made an election permitted by section 754 of the Internal Revenue Code to adjust the common unit purchaser's tax basis in Valero L.P.'s underlying assets to reflect the purchase price of the units. This results in an allocation of taxable income and expense to the purchaser of the common units, including depreciation deductions and gains and losses on sales of assets, based upon the new unitholder's purchase price for the common units.

The Wichita Falls Business was included in UDS' (now Valero Energy's) consolidated federal and state income tax returns. Deferred income taxes were computed based on recognition of future tax expense or benefits, measured by enacted tax rates that were attributable to taxable or deductible temporary differences between financial statement and income tax reporting bases of assets and liabilities. No recognition will be given to federal or state income taxes associated with the Wichita Falls Business for financial statement purposes for periods subsequent to its acquisition by Valero L.P. The deferred income tax liabilities related to the Wichita Falls Business as of February 1, 2002 were retained by Valero Energy and were credited to net parent investment upon the transfer of the Wichita Falls Business to Valero L.P.

For the periods prior to July 1, 2000, the Ultramar Diamond Shamrock Logistics Business was included in the consolidated federal and state income tax returns of UDS. Deferred income taxes were computed based on recognition of future tax expense or benefits, measured by enacted tax rates that were attributable to taxable or deductible temporary differences between financial statement and income tax reporting bases of assets and liabilities. The current portion of income taxes payable prior to July 1, 2000 was due to UDS and has been included in the net parent investment amount.

Partners' Equity: Effective April 16, 2001, Valero L.P. completed its initial public offering of common units by selling 5,175,000 common units to the public. After the offering, outstanding partners' equity included 9,599,322 common units (4,424,322 of which are held by an affiliate of Valero Energy), 9,599,322 subordinated units held by an affiliate of Valero Energy and a 2% general partner interest held by Riverwalk Logistics, L.P. In addition, Valero GP, LLC, the general partner of Riverwalk Logistics, L.P. and an affiliate of Valero Energy, holds 55,250 common units to settle awards of contractual rights to receive common units previously issued to officers and directors of Valero GP, LLC. The common units held by the public represent a 26.4% ownership interest in the Partnership as of December 31, 2002.

Net Parent Investment: The net parent investment as of December 31, 2001 represents the historical cost to Valero Energy, net of deferred income tax liabilities and certain other accrued liabilities, related to the Wichita Falls Business. The Wichita Falls Business was consolidated with the Partnership as of December 31, 2001 due to a reorganization of entities under common control resulting from the acquisition of the Wichita Falls Business by the Partnership (see Note 1: Organization, Business and Basis of Presentation).

The net parent investment prior to July 1, 2000, represented a net balance as the result of various transactions between the Ultramar Diamond Shamrock Logistics Business and UDS. There were no terms of settlement or interest charges associated with this balance. The balance was the result of the Ultramar Diamond Shamrock Logistics Business' participation in UDS's central cash management program, wherein all of the Ultramar Diamond Shamrock Logistics Business' cash receipts were remitted to UDS and all cash disbursements were funded by UDS. Other transactions included intercompany transportation, storage and terminalling revenues and related expenses, administrative and support expenses incurred by UDS and allocated to the Ultramar Diamond Shamrock Logistics Business, and income taxes. In conjunction with the

transfer of the assets and liabilities of the Ultramar Diamond Shamrock Logistics Business to Shamrock Logistics Operations on July 1, 2000, Shamrock Logistics and Shamrock Logistics Operations issued limited and general partner interests to various UDS subsidiaries (see Note 1: Organization, Business and Basis of Presentation).

Income Allocation: The Partnership's net income for each quarterly reporting period is first allocated to the general partner in an amount equal to the general partner's incentive distribution declared for the respective reporting period. The remaining net income is allocated among the limited and general partners in accordance with their respective 98% and 2% interests, respectively.

Net Income per Unit Applicable to Limited Partners: The computation of basic net income per unit applicable to limited partners is based on the weighted-average number of common and subordinated units outstanding during the year. Net income per unit applicable to limited partners is computed by dividing net income applicable to limited partners, after deducting the general partner's 2% interest and incentive distributions, by the weighted-average number of limited partnership units outstanding. The general partner's incentive distribution allocation for the year ended December 31, 2002 was $1,103,000 and there were no incentive distributions for the period April 16 through December 31, 2001. In addition, the Partnership generated sufficient net income such that the amount of net income allocated to common units was equal to the amount allocated to the subordinated units.

Segment Disclosures: The Partnership operates in only one segment, the petroleum pipeline segment of the oil and gas industry.

Derivative Instruments: The Partnership currently does not hold or trade derivative instruments.

Recent Accounting Pronouncement

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations." This statement establishes standards for accounting for an obligation associated with the retirement of a tangible long-lived asset. An asset retirement obligation should be recognized in the financial statements in the period in which it meets the definition of a liability as defined in FASB Concepts Statement No. 6, "Elements of Financial Statements." The amount of the liability would initially be measured at fair value. Subsequent to initial measurement, an entity would recognize changes in the amount of the liability resulting from (a) the passage of time and (b) revisions to either the timing or amount of estimated cash flows. Statement No. 143 also establishes standards for accounting for the cost associated with an asset retirement obligation. It requires that, upon initial recognition of a liability for an asset retirement obligation, an entity capitalize that cost by recognizing an increase in the carrying amount of the related long-lived asset. The capitalized asset retirement cost would then be allocated to expense using a systematic and rational method. Statement No. 143 will be effective for financial statements issued for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Partnership is currently evaluating the impact of adopting this new statement, however, at the present time does not believe it will have a material impact on its financial or results of operations.

NOTE 3: Initial Public Offering

As discussed in Note 1, on April 16, 2001, Shamrock Logistics completed its initial public offering of common units, by selling 5,175,000 common units to the public at $24.50 per unit. Total proceeds before offering costs and underwriters' commissions were $126,787,000. Concurrent with the closing of the initial public offering, Shamrock Logistics Operations borrowed $20,506,000 under its existing revolving credit facility. The net proceeds from the initial public offering and the borrowings under the revolving credit facility were used to repay the debt due to parent, make a distribution to affiliates of UDS for reimbursement of previous capital expenditures incurred with respect to the assets transferred to the Partnership, and for working capital purposes.

A summary of the proceeds received and use of proceeds is as follows (in thousands):

Proceeds received:	
Sale of common units to the public	$126,787
Borrowings under the revolving credit facility	20,506
Total proceeds	147,293
Use of proceeds:	
Underwriters' commissions	8,875
Professional fees and other costs	6,000
Debt issuance costs	436
Repayment of debt due to parent	107,676
Reimbursement of capital expenditures	20,517
Total use of proceeds	143,504
Net proceeds used for working capital and general partnership purposes	$ 3,789

NOTE 4: Acquisitions

Business Acquisition **- Wichita Falls Business**

On February 1, 2002, the Partnership acquired the Wichita Falls Business from Valero Energy for a total cost of $64,000,000, which the Partnership had an option to purchase pursuant to the Omnibus Agreement between the Partnership and Valero Energy (see Note 13: Related Party Transaction – Omnibus Agreement). The purchase price was funded with borrowings under the Partnership's revolving credit facility.

The Wichita Falls Business consists of the following assets:

- A 272-mile crude oil pipeline originating in Wichita Falls, Texas and ending at Valero Energy's McKee refinery in Dumas, Texas. The pipeline has the capacity to transport 110,000 barrels per day of crude oil gathered or acquired by Valero Energy at Wichita Falls. The Wichita Falls crude oil pipeline connects to third party pipelines that originate along the Texas Gulf Coast.

- Four crude oil storage tanks located in Wichita Falls, Texas with a total capacity of 660,000 barrels.

Since the acquisition of the Wichita Falls Business represented the transfer of a business between entities under the common control of Valero Energy, the consolidated balance sheet as of December 31, 2001 and the statements of income and cash flows for the month ended January 31, 2002 (preceding the acquisition date) have been restated to include the Wichita Falls Business. The balance sheet of the Wichita Falls Business as of December 31, 2001, which is included in the consolidated balance sheet of the Partnership as of December 31, 2001, is summarized below, as well as, a reconciliation to the adjustment recorded when the acquisition was consummated on February 1, 2002.

	Wichita Falls Business
	(in thousands)
Balance Sheet as of December 31, 2001:	
Property, plant and equipment	$ 64,160
Accounts payable and accrued liabilities	(131)
Taxes other than income taxes	(251)
Deferred income tax liabilities	(13,147)
Net parent investment as of December 31, 2001	50,631
Net income for the month ended January 31, 2002	650
Adjustment resulting from the acquisition of the Wichita Falls Business on February 1, 2002	$ 51,281

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS — (Continued)

The following unaudited pro forma financial information for the year ended December 31, 2001 assumes that the Wichita Falls Business was acquired on January 1, 2001 with borrowings under the revolving credit facility.

	Pro Forma Year Ended December 31, 2001
	(in thousands)
Pro Forma Income Statement Information:	
Revenues	$117,312
Total costs and expenses	(59,993)
Operating income	57,319
Net income	53,686

Since Shamrock Logistics did not complete its IPO until April 16, 2001, pro forma net income applicable to the period from April 16, 2001 through December 31, 2001 would have been $41,844,000, of which $41,007,000 would have related to the limited partners. Pro forma net income per unit applicable to the period after April 15, 2001 would have been $2.14 per unit.

Asset Acquisitions

Crude Hydrogen Pipeline Acquisition

In May of 2002, Valero Energy completed the construction of a 30-mile pure hydrogen pipeline, which originates at Valero Energy's Texas City refinery and ends at Praxair, Inc.'s La Porte, Texas plant. The total cost to construct the pipeline was $11,000,000.

On May 29, 2002, the Partnership acquired the 30-mile pure hydrogen pipeline from Valero Energy for $11,000,000, which was funded with borrowings under the Partnership's revolving credit facility. The Partnership then exchanged, on May 29, 2002, this 30-mile pure hydrogen pipeline for Praxair, Inc.'s 25-mile crude hydrogen pipeline, which originates at BOC's (successor to Celanese Ltd.) chemical facility in Clear Lake, Texas and ends at Valero Energy's Texas City refinery in Texas City, Texas, under an exchange agreement previously negotiated between Valero Energy and Praxair, Inc. In conjunction with the exchange, the Partnership entered into an operating agreement with Praxair, Inc. whereby Praxair, Inc. will operate the pipeline for an annual fee of $92,000, plus reimbursement of repair, replacement and relocation costs.

Valero Energy owns the crude hydrogen transported in the pipeline, and the transportation services provided by the Partnership to Valero Energy are subject to a hydrogen tolling agreement. The hydrogen tolling agreement provides that Valero Energy will pay the Partnership minimum annual revenues of $1,400,000 for transporting crude hydrogen.

Southlake Refined Product Terminal and Ringgold Crude Oil Storage Facility Acquisitions

On July 2, 2001, the Partnership acquired the Southlake refined product terminal located in Dallas, Texas from UDS for $5,600,000, which was funded with available cash on hand. On December 1, 2001, the Partnership acquired the crude oil storage facility at Ringgold, Texas from UDS for $5,200,000, which was funded with borrowings under the revolving credit facility. The Partnership had options to purchase both of these assets pursuant to the Omnibus Agreement between the Partnership and UDS.

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS — (Continued)

NOTE 5: Property, Plant and Equipment

Property, plant and equipment, at cost, consisted of the following:

	Estimated Useful Lives	December 31, 2002	December 31, 2001
	(years)	(in thousands)	
Land	–	$ 820	$ 820
Land improvements	20	68	68
Buildings	35	5,647	5,392
Pipeline and equipment	3 – 40	442,681	427,227
Rights of way	20 – 35	29,860	29,857
Construction in progress	–	7,863	7,037
Total		486,939	470,401
Accumulated depreciation and amortization		(137,663)	(121,389)
Property, plant and equipment, net		$ 349,276	$ 349,012

Capitalized interest costs included in property, plant and equipment were $255,000 and $298,000 for the years ended December 31, 2002 and 2001, respectively. No interest was capitalized in the six months ended December 31, 2000 or in the six months ended June 30, 2000.

NOTE 6: Investment in Skelly-Belvieu Pipeline Company

The Partnership owns a 50% interest in Skelly-Belvieu Pipeline Company, which is accounted for under the equity method. The following presents summarized unaudited financial information related to Skelly-Belvieu Pipeline Company as of December 31, 2002 and 2001, for the years ended December 31, 2002 and 2001 and for the six months ended December 31, 2000 and the six months ended June 30, 2000:

	Years Ended December 31,		Six Months Ended	
	2002	2001	December 31, 2000	June 30, 2000
	(in thousands)			
Statement of Income Information:				
Revenues	$12,849	$12,287	$6,883	$6,902
Income before income tax expense	5,605	5,587	3,517	3,469
The Partnership’s share of net income	3,188	3,179	1,951	1,926
The Partnership’s share of distributions	3,590	2,874	2,352	2,306

	December 31, 2002	December 31, 2001
	(in thousands)	
Balance Sheet Information:		
Current assets	$ 1,572	$ 1,653
Property, plant and equipment, net	48,739	50,195
Total assets	$50,311	$51,848
Current liabilities	$ 150	$ 111
Members’ equity	50,161	51,737
Total liabilities and members’ equity	$50,311	$51,848

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS — (Continued)

The excess of the Partnership's 50% share of members' equity over the carrying value of its investment is attributable to the step-up in basis to fair value of the initial contribution to Skelly-Belvieu Pipeline Company. This excess, which totaled $8,990,000 as of December 31, 2002 and $9,376,000 as of December 31, 2001, is being accreted into income over 33 years.

NOTE 7: Long-term Debt

Long-term debt consisted of the following:

	December 31,	
	2002	2001
	(in thousands)	
6.875% senior notes, net of unamortized discount of $300	$ 99,700	$ —
Port Authority of Corpus Christi note payable	9,958	10,122
$120,000,000 revolving credit facility	—	16,000
Total debt	109,658	26,122
Less current portion	(747)	(462)
Long-term debt, less current portion	$108,911	$25,660

The long-term debt repayments are due as follows (in thousands):

2003	$ 747
2004	485
2005	524
2006	566
2007	611
Thereafter	106,725
Total repayments	$109,658

Interest payments, excluding related party interest payments, totaled $1,988,000, $1,559,000, $441,000 and $433,000 for the years ended December 31, 2002 and 2001, the six months ended December 31, 2000 and the six months ended June 30, 2000, respectively.

Valero L.P. has no operations and its only asset is its investment in Valero Logistics, which owns and operates the Partnership's pipelines and terminals. Valero L.P. has fully and unconditionally guaranteed the senior notes issued by Valero Logistics and any obligations under Valero Logistics' revolving credit facility.

6.875% Senior Notes

On July 15, 2002, Valero Logistics completed the sale of $100,000,000 of 6.875% senior notes due 2012, issued under the Partnership's shelf registration statement, for total proceeds of $99,686,000. The net proceeds of $98,207,000, after deducting underwriters' commissions and offering expenses of $1,479,000, were used to repay the $91,000,000 outstanding under the revolving credit facility. The senior notes do not have sinking fund requirements. Interest on the senior notes is payable semiannually in arrears on January 15 and July 15 of each year.

The senior notes rank equally with all other existing senior unsecured indebtedness of Valero Logistics, including indebtedness under the revolving credit facility. The senior notes contain restrictions on Valero Logistics' ability to incur secured indebtedness unless the same security is also provided for the benefit of holders of the senior notes. In addition, the senior notes limit Valero Logistics' ability to incur indebtedness secured by certain liens and to engage in certain sale-leaseback transactions. The senior notes are irrevocably and unconditionally guaranteed on a senior unsecured basis by Valero L.P. The guarantee by Valero L.P. ranks equally with all of its existing and future unsecured senior obligations.

At the option of Valero Logistics, the senior notes may be redeemed in whole or in part at any time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest to the redemption date. The senior notes also include a change-in-control provision, which requires that an investment grade entity own and control the general partner of Valero L.P. and Valero Logistics. Otherwise Valero Logistics must offer to purchase the senior notes at a price equal to 100% of their outstanding principal balance plus accrued interest through the date of purchase.

$120,000,000 Revolving Credit Facility

On December 15, 2000, Valero Logistics (formerly Shamrock Logistics Operations) entered into a five-year $120,000,000 revolving credit facility. The revolving credit facility expires on January 15, 2006 and borrowings under the revolving credit facility bear interest based on either an alternative base rate or LIBOR at the option of Valero Logistics. Valero Logistics also incurs a facility fee on the aggregate commitments of lenders under the revolving credit facility, whether used or unused. Borrowings under the revolving credit facility may be used for working capital and general partnership purposes. Borrowings to fund distributions to unitholders, however, is limited to $25,000,000 and such borrowings must be reduced to zero for a period of at least 15 consecutive days during each fiscal year. The amounts available to the Partnership under the revolving credit facility are not subject to a borrowing base computation; therefore as of December 31, 2002, the entire $120,000,000 was available.

Borrowings under the revolving credit facility are unsecured and rank equally with all of Valero Logistics' outstanding unsecured and unsubordinated debt. The revolving credit facility requires that Valero Logistics maintain certain financial ratios and includes other restrictive covenants, including a prohibition on distributions by Valero Logistics if any default, as defined in the revolving credit facility, exists or would result from the distribution. The revolving credit facility also includes a change-in-control provision, which requires that Valero Energy and its affiliates own, directly or indirectly, at least 20% of Valero L.P.'s outstanding units or at least 100% of Valero L.P.'s general partner interest and 100% of Valero Logistics' outstanding equity. Management believes that the Partnership is in compliance with all of these ratios and covenants.

See Note 17: Subsequent Events – Amended Revolving Credit Facility for a discussion of an amendment to this revolving credit facility finalized in March of 2003.

Port Authority of Corpus Christi Note Payable

The Ultramar Diamond Shamrock Logistics Business previously entered into a financing agreement with the Port of Corpus Christi Authority of Nueces County, Texas (Port Authority of Corpus Christi) for the construction of a crude oil storage facility. The original note totaled $12,000,000 and is due in annual installments of $1,222,000 through December 31, 2015. Interest on the unpaid principal balance accrues at a rate of 8% per annum. In conjunction with the July 1, 2000 transfer of assets and liabilities to the Partnership, the $10,818,000 outstanding indebtedness owed to the Port Authority of Corpus Christi was assumed by the Partnership. The land on which the crude oil storage facility was constructed is leased from the Port Authority of Corpus Christi (see Note 10: Commitments and Contingencies).

Shelf Registration Statement

On June 6, 2002, Valero L.P. and Valero Logistics filed a $500,000,000 universal shelf registration statement with the Securities and Exchange Commission covering the issuance of an unspecified amount of common units or debt securities or a combination thereof. Valero L.P. may, in one or more offerings, offer and sell common units representing limited partner interests in Valero L.P. Valero Logistics may, in one or more offerings, offer and sell its debt securities, which will be fully and unconditionally guaranteed by Valero L.P. As a result of the July 2002 senior note offering by Valero Logistics, the remaining balance under the universal shelf registration statement is $400,000,000 as of December 31, 2002.

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS — (Continued)

NOTE 8: Debt due to Parent

UDS, through various subsidiaries, constructed or acquired the various crude oil and refined product pipeline, terminalling and storage assets of the Ultramar Diamond Shamrock Logistics Business. In conjunction with the initial public offering of common units of Shamrock Logistics, the subsidiaries of UDS which owned the various assets of the Ultramar Diamond Shamrock Logistics Business formalized the terms under which certain intercompany accounts and working capital loans would be settled by executing promissory notes with an aggregate principal balance of $107,676,000, and this was made effective as of June 30, 2000. The promissory notes required that the principal be repaid no later than June 30, 2005 and bear interest at a rate of 8% per annum on the unpaid balance. Effective July 1, 2000, the $107,676,000 of debt due to parent was assumed by Shamrock Logistics Operations. Interest expense accrued and recorded as a reduction of receivable from parent totaled $4,307,000 for the six months ended December 31, 2000 and $2,513,000 for the period from January 1, 2001 through April 15, 2001.

Concurrent with the closing of Shamrock Logistics' initial public offering on April 16, 2001, the Partnership repaid these promissory notes using a portion of the net proceeds from the initial public offering and borrowings under the $120,000,000 revolving credit facility (see Note 3: Initial Public Offering).

NOTE 9: Environmental Matters

The Partnership's operations are subject to extensive federal, state and local environmental laws and regulations. Although the Partnership believes its operations are in substantial compliance with applicable environmental laws and regulations, risks of additional costs and liabilities are inherent in pipeline, terminalling and storage operations, and there can be no assurance that significant costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations, could result in substantial costs and liabilities. Accordingly, the Partnership has adopted policies, practices and procedures in the areas of pollution control, product safety, occupational health and the handling, storage, use and disposal of hazardous materials to prevent material environmental or other damage, and to limit the financial liability which could result from such events. However, some risk of environmental or other damage is inherent in pipeline, terminalling and storage operations, as it is with other entities engaged in similar businesses.

In connection with the transfer of assets and liabilities from the Ultramar Diamond Shamrock Logistics Business to Shamrock Logistics Operations on July 1, 2000, UDS agreed to indemnify Shamrock Logistics Operations for environmental liabilities that arose prior to July 1, 2000. In connection with the initial public offering of Shamrock Logistics, UDS agreed to indemnify Shamrock Logistics for environmental liabilities that arose prior to April 16, 2001 and that are discovered within 10 years after April 16, 2001. In conjunction with the acquisitions of the Southlake refined product terminal on July 2, 2001 and the Ringgold crude oil storage facility on December 1, 2001, UDS agreed to indemnify the Partnership for environmental liabilities that arose prior to the acquisition dates and are discovered within 10 years after acquisition. Excluded from this indemnification are liabilities that result from a change in environmental law after April 16, 2001. Effective with the acquisition of UDS, Valero Energy has assumed these environmental indemnifications. In addition, as an operator or owner of the assets, the Partnership could be held liable for pre-acquisition environmental damage should Valero Energy be unable to fulfill its obligation. However, the Partnership believes that such a situation is remote given Valero Energy's financial condition.

In conjunction with the sale of the Wichita Falls Business to the Partnership, Valero Energy agreed to indemnify the Partnership for any environmental liabilities that arose prior to February 1, 2002 and that are discovered by April 15, 2011.

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS — (Continued)

Environmental exposures and liabilities are difficult to assess and estimate due to unknown factors such as the magnitude of possible contamination, the timing and extent of remediation, the determination of the Partnership's liability in proportion to other parties, improvements in cleanup technologies and the extent to which environmental laws and regulations may change in the future. Although environmental costs may have a significant impact on the results of operations for any single period, the Partnership believes that such costs will not have a material adverse effect on its financial position. As of December 31, 2002, the Partnership has not incurred any material environmental liabilities that were not covered by the environmental indemnifications.

NOTE 10: Commitments and Contingencies

The Ultramar Diamond Shamrock Logistics Business previously entered into several agreements with the Port Authority of Corpus Christi including a crude oil dock user agreement, a land lease agreement and a note agreement. The crude oil dock user agreement, which renews annually in May, allows the Partnership to operate and manage a crude oil dock in Corpus Christi. The Partnership shares use of the crude oil dock with two other users, and operating costs are split evenly among the three users. The crude oil dock user agreement requires that the Partnership collect wharfage fees, based on the quantity of barrels offloaded from each vessel, and dockage fees, based on vessels berthing at the dock. These fees are remitted to the Port Authority of Corpus Christi monthly. The wharfage and one-half of the dockage fees that the Partnership pays for the use of the crude oil dock reduces the annual amount it owes to the Port Authority of Corpus Christi under the note agreement discussed in Note 7: Long Term Debt. The wharfage and dockage fees for the Partnership's use of the crude oil dock totaled $1,092,000, $1,449,000, $692,000 and $698,000 for the years ended December 31, 2002 and 2001, the six months ended December 31, 2000 and the six months ended June 30, 2000, respectively.

The Ultramar Diamond Shamrock Logistics Business previously entered into a refined product dock user agreement, which renews annually in April, with the Port Authority of Corpus Christi to use a refined product dock. The Partnership shares use of the refined product dock with one other user, and operating costs are split evenly between the two users. The refined product dock user agreement requires that the Partnership collect and remit the wharfage and dockage fees to the Port Authority of Corpus Christi. The wharfage and dockage fees for the Partnership's use of the refined product dock totaled $174,000, $166,000, $86,000 and $114,000 for the years ended December 31, 2002 and 2001, the six months ended December 31, 2000 and the six months ended June 30, 2000, respectively.

The crude oil and the refined product docks provide Valero Energy's Three Rivers refinery access to marine facilities to receive crude oil and deliver refined products. For the years ended December 31, 2002, 2001 and 2000, the Three Rivers refinery received 86%, 92% and 93%, respectively, of its crude oil requirements from crude oil received at the crude oil dock. Also, for each of the years ended December 31, 2002, 2001 and 2000, 6% of the refined products produced at the Three Rivers refinery were transported via pipeline to the Corpus Christi refined product dock.

The Partnership has the following land leases related to refined product terminals and crude oil storage facilities:

- Corpus Christi crude oil storage facility: a 20-year noncancellable operating lease on 31.35 acres of land through 2014, at which time the lease is renewable every five years, for a total of 20 renewable years.

- Corpus Christi refined product terminal: a 5-year noncancellable operating lease on 5.21 acres of land through 2006, and a 5-year noncancellable operating lease on 8.42 acres of land through 2007, at which time the agreements are renewable for at least two five-year periods.

- Harlingen refined product terminal: a 13-year noncancellable operating lease on 5.88 acres of land through 2008, and a 30-year noncancellable operating lease on 9.04 acres of land through 2008.

- Colorado Springs airport terminal: a 50-year noncancellable operating lease on 46.26 acres of land through 2043, at which time the lease is renewable for another 50-year period.

All of the Partnership's land leases, including the above leases, require monthly payments totaling $19,000 and are adjustable every five years based on changes in the Consumer Price Index.

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS — (Continued)

In addition, the Partnership leases certain equipment and vehicles under operating lease agreements expiring through 2003. Future minimum rental payments applicable to noncancellable operating leases as of December 31, 2002, are as follows (in thousands):

2003	$ 227
2004	226
2005	226
2006	212
2007	186
Thereafter	1,422
Future minimum lease payments	$2,499

Rental expense for all operating leases totaled $326,000, $281,000, $53,000 and $203,000 for the years ended December 31, 2002 and 2001, the six months ended December 31, 2000 and the six months ended June 30, 2000, respectively.

The Partnership is involved in various lawsuits, claims and regulatory proceedings incidental to its business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Partnership's financial position or results of operations.

NOTE 11: Income Taxes

As discussed in "Note 2: Summary of Significant Accounting Policies," Valero L.P. and Valero Logistics are limited partnerships and are not subject to federal or state income taxes. However, the operations of the Ultramar Diamond Shamrock Logistics Business were subject to federal and state income taxes and the results of operations prior to July 1, 2000 were included in UDS' consolidated federal and state income tax returns. The amounts presented below relate only to the Ultramar Diamond Shamrock Logistics Business prior to July 1, 2000 and were calculated as if the Business filed a separate federal and state income tax return. The transfer of assets and liabilities from the Ultramar Diamond Shamrock Logistics Business to Shamrock Logistics Operations was deemed a change in tax status. Accordingly, the deferred income tax liability as of June 30, 2000 of $38,217,000 was written off through the statement of income in the caption, income tax expense (benefit).

Income tax expense (benefit) consisted of the following:

	Six Months Ended June 30, 2000
	(in thousands)
Current:	
Federal	$ 5,132
State	733
Deferred:	
Federal	1,415
State	125
Write-off of the deferred income tax liability	(38,217)
Income tax expense (benefit)	$(30,812)

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS — (Continued)

The differences between the Ultramar Diamond Shamrock Logistics Business' effective income tax rate and the U.S. federal statutory rate is reconciled as follows:

	Six Months Ended June 30, 2000
U.S. federal statutory rate	35.0%
State income taxes, net of federal taxes	3.1
Non-deductible goodwill	0.3
Effective income tax rate	38.4%

Income taxes paid to UDS totaled $5,865,000 for the six months ended June 30, 2000.

In addition, the Wichita Falls Business was subject to federal and state income taxes prior to its acquisition on February 1, 2002. The $395,000 of income tax expense included in the consolidated statement of income for the year ended December 31, 2002 represents the Wichita Falls Business' income tax expense for the month ended January 31, 2002, which was calculated as if the Business filed a separate federal and state income tax return.

NOTE 12: Financial Instruments and Concentration of Credit Risk

The estimated fair value of the Partnership's fixed rate debt as of December 31, 2002 and 2001 was $109,922,000 and $11,240,000, respectively, as compared to the carrying value of $109,658,000 and $10,122,000, respectively. These fair values were estimated using discounted cash flow analysis, based on the Partnership's current incremental borrowing rates for similar types of borrowing arrangements. The Partnership has not utilized derivative financial instruments related to these borrowings. Interest rates on borrowings under the revolving credit facility float with market rates and thus the carrying amount approximates fair value.

Substantially all of the Partnership's revenues are derived from Valero Energy and its subsidiaries. Valero Energy transports crude oil to three of its refineries using the Partnership's various crude oil pipelines and storage facilities and transports refined products to its company-owned retail operations or wholesale customers using the Partnership's various refined product pipelines and terminals. Valero Energy and its subsidiaries are investment grade customers; therefore, the Partnership does not believe that the trade receivable from Valero Energy represents a significant credit risk. However, the concentration of business with Valero Energy, which is a large refining and retail marketing company, has the potential to impact the Partnership's overall exposure, both positively and negatively, to changes in the refining and marketing industry.

NOTE 13: Related Party Transactions

The Partnership has related party transactions with Valero Energy for pipeline tariff and terminalling fee revenues, certain employee costs, insurance costs, administrative costs and interest expense (for the period from July 1, 2000 through April 15, 2001) on the debt due to parent. The receivable from parent as of December 31, 2002 and 2001 represents the net amount due from Valero Energy for these related party transactions and the net cash collected under Valero Energy's centralized cash management program on the Partnership's behalf.

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS — (Continued)

The following table summarizes transactions with Valero Energy:

	Years Ended December 31,		Six Months Ended	
	2002	2001	December 31, 2000	June 30, 2000
		(in thousands)		
Revenues	$117,804	$98,166	$47,210	$44,187
Operating expenses	13,795	11,452	5,718	5,393
General and administrative expenses	5,921	5,200	2,600	2,839
Interest expense on debt due to parent	—	2,513	4,307	—

Services Agreement

Effective July 1, 2000, UDS entered into a Services Agreement with the Partnership, whereby UDS agreed to provide the corporate functions of legal, accounting, treasury, engineering, information technology and other services for an annual fee of $5,200,000 for a period of eight years. The $5,200,000 is adjustable annually based on the Consumer Price Index published by the U.S. Department of Labor, and may also be adjusted to take into account additional service levels necessitated by the acquisition or construction of additional assets. Concurrent with the acquisition of UDS by Valero Energy, Valero Energy became the obligor under the Services Agreement. Management believes that the $5,200,000 is a reasonable approximation of the general and administrative costs related to the pipeline, terminalling and storage operations. This annual fee is in addition to the incremental general and administrative costs to be incurred from third parties for services Valero Energy does not provide under the Services Agreement (see Note 14: Employee Benefit Plans).

The Services Agreement also requires that the Partnership reimburse Valero Energy for various recurring costs of employees who work exclusively within the pipeline, terminalling and storage operations and for certain other costs incurred by Valero Energy relating solely to the Partnership. These employee costs include salary, wage and benefit costs.

Prior to July 1, 2000, UDS allocated approximately 5% of its general and administrative expenses incurred in the United States to its pipeline, terminalling and storage operations to cover costs of centralized corporate functions and other corporate services. A portion of the allocated general and administrative costs is passed on to third parties, which jointly own certain pipelines and terminals with the Partnership. The net amount of general and administrative costs allocated to partners of jointly owned pipelines totaled $661,000, $581,000, $251,000 and $249,000 for the years ended December 31, 2002 and 2001, the six months ended December 31, 2000 and the six months ended June 30, 2000, respectively.

Pipelines and Terminals Usage Agreement

On April 16, 2001, UDS entered into a Pipelines and Terminals Usage Agreement with the Partnership, whereby UDS agreed to use the Partnership’s pipelines to transport at least 75% of the crude oil shipped to and at least 75% of the refined products shipped from Valero Energy’s McKee, Three Rivers and Ardmore refineries and to use the Partnership’s refined product terminals for terminalling services for at least 50% of all refined products shipped from these refineries until at least April of 2008. Valero Energy also assumed the obligation under the Pipelines and Terminals Usage Agreement in connection with the acquisition of UDS by Valero Energy. For the year ended December 31, 2002, Valero Energy used the Partnership’s pipelines to transport 97% of its crude oil shipped to and 80% of the refined products shipped from the McKee, Three Rivers and Ardmore refineries, and Valero Energy used the Partnership’s terminalling services for 59% of all refined products shipped from these refineries.

If market conditions change with respect to the transportation of crude oil or refined products, or to the end markets in which Valero Energy sells refined products, in a material manner such that Valero Energy would suffer a material adverse effect if it were to continue to use the Partnership's pipelines and terminals at the required levels, Valero Energy's obligation to the Partnership will be suspended during the period of the change in market conditions to the extent required to avoid the material adverse effect.

Omnibus Agreement

The Omnibus Agreement governs potential competition between Valero Energy and the Partnership. Under the Omnibus Agreement, Valero Energy has agreed, and will cause its controlled affiliates to agree, for so long as Valero Energy controls the general partner, not to engage in the business of transporting crude oil and other feedstocks or refined products, including petrochemicals, or operating crude oil storage facilities or refined product terminalling assets in the United States. This restriction does not apply to:

- any business retained by UDS (and now part of Valero Energy) as of April 16, 2001, the closing of the Partnership's initial public offering, or any business owned by Valero Energy at the date of its acquisition of UDS on December 31, 2001;
- any business with a fair market value of less than $10 million;
- any business acquired by Valero Energy in the future that constitutes less than 50% of the fair market value of a larger acquisition, provided the Partnership has been offered and declined the opportunity to purchase the business; and
- any newly constructed pipeline, terminalling or storage assets that the Partnership has not offered to purchase at fair market value within one year of construction.

Also under the Omnibus Agreement, Valero Energy has agreed to indemnify the Partnership for environmental liabilities related to the assets transferred to the Partnership in connection with the Partnership's initial public offering, provided that such liabilities arose prior to and are discovered within 10 years after that date (excluding liabilities resulting from a change in law after April 16, 2001).

NOTE 14: Employee Benefit Plans

The Partnership, which has no employees, relies on employees of Valero Energy and its affiliates to provide the necessary services to operate the Partnership's assets. The Valero Energy employees who operate the Partnership's assets are included in the various employee benefit plans of Valero Energy and its affiliates. These plans include qualified, non-contributory defined benefit retirement plans, defined contribution 401(k) plans, employee and retiree medical, dental and life insurance plans, long-term incentive plans (i.e. unit options and bonuses) and other such benefits.

The Partnership's share of allocated Valero Energy employee benefit plan expenses, excluding the compensation expense related to the contractual rights to receive common units, was $1,698,000, $1,346,000, $662,000 and $702,000 for the years ended December 31, 2002 and 2001, the six months ended December 31, 2000 and the six months ended June 30, 2000, respectively. These employee benefit plan expenses are included in operating expenses with the related payroll costs.

Long-Term Incentive Plan

The Board of Directors of Valero GP, LLC, a wholly owned subsidiary of Valero Energy and the general partner of Riverwalk Logistics, L.P., previously adopted the "2000 Long-Term Incentive Plan" (the LTIP) under which Valero GP, LLC may award up to 250,000 common units to certain key employees of Valero Energy's affiliates providing services to Valero L.P. and to directors and officers of Valero GP, LLC. Awards under the LTIP can include unit options, restricted common units, distribution equivalent rights (DERs), contractual rights to receive common units, etc.

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS — (Continued)

Under the LTIP, in July of 2001, Valero GP, LLC granted 205 restricted common units and DERs to each of its then two outside directors. The restricted common units were to vest at the end of a three-year period and be paid in cash. The DERs were to accumulate equivalent distributions that other Valero L.P. unitholders receive over the vesting period. For the year ended December 31, 2001, the Partnership recognized $2,000 of compensation expense associated with these restricted common units and DERs, which is included in other long-term liabilities as of December 31, 2001. As a result of the change in control related to Valero Energy's acquisition of UDS on December 31, 2001, the restricted common units vested and the accrued amounts were paid to the directors.

In January of 2002, under the LTIP, Valero GP, LLC granted 55,250 contractual rights to receive common units and DERs to its officers, certain employees of its affiliates and its outside directors. In conjunction with the grant of contractual rights to receive common units under the LTIP, Valero L.P. issued 55,250 common units to Valero GP, LLC on January 21, 2002 for total consideration of $2,262,000 (based on the then $40.95 market price per common unit), the receivable for which is classified in equity in the consolidated balance sheet as of December 31, 2002.

One-third of the contractual rights to receive common units awarded by Valero GP, LLC will vest at the end of each year of a three-year vesting period. Accordingly, the Partnership recognized $721,000 of compensation expense associated with these contractual rights to receive common units for the year ended December 31, 2002, including $11,000 related to payroll taxes.

NOTE 15: Partners' Equity, Allocations of Net Income and Cash Distributions

Partners' Equity

In addition to common units, Valero L.P. has issued and outstanding subordinated units that are held by UDS Logistics, LLC, a wholly owned subsidiary of Valero Energy and the limited partner of Riverwalk Logistics, L.P., and there is no established public market for their trading.

In addition, all of the subordinated units may convert to common units on a one-for-one basis on the first day following the record date for distributions for the quarter ending December 31, 2005, if Valero L.P. meets the tests set forth in the partnership agreement. If the subordination period ends, the rights of the holders of subordinated units will no longer be subordinated to the rights of the holders of common units and the subordinated units may be converted into common units.

Allocations of Net Income

Valero L.P.'s partnership agreement, as amended, sets forth the calculation to be used to determine the amount and priority of cash distributions that the common unitholders, subordinated unitholders and general partner will receive. The partnership agreement also contains provisions for the allocation of net income and loss to the unitholders and the general partner. For purposes of maintaining partner capital accounts, the partnership agreement specifies that items of income and loss shall be allocated among the partners in accordance with their respective percentage interests. Normal allocations according to percentage interests are done after giving effect, if any, to priority income allocations in an amount equal to incentive cash distributions allocated 100% to the general partner.

Cash Distributions

During the subordination period, the holders of the common units are entitled to receive each quarter a minimum quarterly distribution of $0.60 per unit ($2.40 annualized) prior to any distribution of available cash to holders of the subordinated units. The subordination period is defined generally as the period that will end on the first day of any quarter beginning after March 31, 2006 if (1) Valero L.P. has distributed at least the minimum quarterly distribution on all outstanding units with respect to each of the immediately preceding three consecutive, non-overlapping four-quarter periods and (2) Valero L.P.'s adjusted operating surplus, as defined in the partnership agreement, during such periods equals or exceeds the amount that would have been sufficient to enable Valero L.P. to distribute the minimum quarterly distribution on all outstanding units on a fully diluted basis and the related distribution on the 2% general partner interest during those periods.

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS — (Continued)

During the subordination period, Valero L.P.'s cash is distributed first 98% to the holders of common units and 2% to the general partner until there has been distributed to the holders of common units an amount equal to the minimum quarterly distribution and arrearages in the payment of the minimum quarterly distribution on the common units for any prior quarter. Secondly, cash is distributed 98% to the holders of subordinated units and 2% to the general partner until there has been distributed to the holders of subordinated units an amount equal to the minimum quarterly distribution. Thirdly, cash in excess of the minimum quarterly distributions is distributed to the unitholders and the general partner based on the percentages shown below.

The general partner is entitled to incentive distributions if the amount Valero L.P. distributes with respect to any quarter exceeds specified target levels shown below:

	Percentage of Distribution	
Quarterly Distribution Amount per Unit	Unitholders	General Partner
Up to $0.60	98%	2%
Above $0.60 up to $0.66	90%	10%
Above $0.66 up to $0.90	75%	25%
Above $0.90	50%	50%

The following table reflects the allocation of total cash distributions to the general and limited partners applicable to the period in which the distributions are earned:

	Year Ended December 31, 2002	April 16 through December 31, 2001
	(in thousands, except per unit data)	
General partner interest	$ 1,103	$ 667
General partner incentive distribution	1,103	—
Total general partner distribution	2,206	667
Limited partnership units	52,969	32,692
Total cash distributions	$55,175	$33,359
Total cash distributions per unit applicable to partners	$ 2.75	$ 1.70

NOTE 16: Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(in thousands, except per unit data)				
2002:					
Revenues	$26,024	$30,030	$32,161	$30,243	$118,458
Operating income	10,696	14,891	15,845	15,798	57,230
Net income(1)	10,423	14,939	14,950	14,831	55,143
Net income per unit applicable to limited partners	0.50	0.76	0.72	0.74	2.72
Cash distributions per unit applicable to limited partners	0.65	0.70	0.70	0.70	2.75

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS — (Continued)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(in thousands, except per unit data)				
2001:					
Revenues	$23,422	$23,637	$26,857	$24,911	$98,827
Operating income	10,361	10,319	13,430	12,395	46,505
Net income	8,786	10,356	13,771	12,960	45,873
Net income per unit applicable to limited partners(2)	—	0.46	0.70	0.66	1.82
Pro forma net income per unit applicable to limited partners(3)	0.45	0.53	0.70	0.66	2.34
Cash distributions per unit applicable to limited partners(2)	—	0.50	0.60	0.60	1.70

(1) Net income for the first quarter of 2002 includes $650,000 (net of income taxes of $395,000) for the Wichita Falls Business for the month ended January 31, 2002, which was allocated entirely to the general partner.

(2) Net income and cash distributions for the first quarter of 2001 and through April 15, 2001 were allocated entirely to the general partner. Net income per unit applicable to limited partners and cash distributions per unit applicable to limited partners for the second quarter of 2001 are based on net income and cash distributions from April 16, 2001 through June 30, 2001.

(3) Pro forma net income per unit applicable to limited partners for 2001 is determined by dividing net income that would have been allocated to the common and subordinated unitholders, which is 98% of net income, by the weighted average number of common and subordinated units outstanding for the period from April 16, 2001 through December 31, 2001. The 2% general partner allocation of pro forma net income did not assume the effect of incentive distributions as none were declared in 2001.

NOTE 17: Subsequent Events

Acquisition of Telfer Asphalt Terminal and Storage Facility

On January 7, 2003, the Partnership completed its acquisition of Telfer Oil Company's (Telfer) California asphalt terminal and storage facility for $15,000,000. The asphalt terminal and storage facility assets include two storage tanks with a combined storage capacity of 350,000 barrels, six 5,000-barrel polymer modified asphalt tanks, a truck rack, rail facilities and various other tanks and equipment. In conjunction with the Telfer asset acquisition, the Partnership entered into a six-year Terminal Storage and Throughput Agreement with Valero Energy. The agreement includes (a) a lease of the asphalt storage tanks and related equipment for a monthly fee of $0.60 per barrel of storage capacity, (b) the right to move asphalt through the terminal during the term of the Terminal Storage and Throughput Agreement in consideration for $1.25 per barrel of throughput with a guaranteed minimum annual throughput of 280,000 barrels, and (c) reimbursement to the Partnership of certain costs, including utilities.

The Partnership will account for the Telfer acquisition as a purchase of a business in accordance with FASB Statement No. 141 and allocate the purchase price to the individual asset and liabilities acquired based on their fair value on January 7, 2003. A portion of the purchase price represented payment to the principal owner of Telfer for a non-compete agreement and for the lease of certain facilities adjacent to the terminal operations.

Units Issued Under LTIP

On January 24, 2003, under the LTIP, Valero GP, LLC granted 30,000 contractual rights to receive common units and DERs to its officers and directors, excluding the outside directors. In conjunction with the grant of contractual rights to receive common units under the LTIP, Valero GP, LLC purchased 30,000 newly issued Valero L.P. common units from Valero L.P. for total consideration of $1,149,000. Also in January of 2003, one-third of the previously issued contractual rights vested and Valero GP, LLC distributed actual Valero L.P. common units to the

officers and directors. Certain of the officers and directors settled their tax withholding on the vested common units by delivering 6,491 common units to Valero GP, LLC. As of February 1, 2003, Valero GP, LLC owns 73,319 common units of Valero L.P.

Distributions

On January 24, 2003, the Partnership declared a quarterly distribution of $0.70 per unit payable on February 14, 2003 to unitholders of record on February 5, 2003. This distribution related to the fourth quarter of 2002 and totaled $14,121,000, of which $622,000 represented the general partner's share of such distribution. The general partner's distribution included a $340,000 incentive distribution.

Interest Rate Swap

On February 14, 2003, Valero Logistics entered into an interest rate swap agreement to manage its exposure to changes in interest rates. The interest rate swap has a notional amount of $60,000,000 and is tied to the maturity of the 6.875% senior notes. Under the terms of the interest rate swap agreement, the Partnership will receive a fixed 6.875% rate and will pay a floating rate based on LIBOR plus 2.45%. The Partnership will account for the interest rate swap as a fair value hedge, with changes in the fair value recorded as an adjustment to interest expense in the consolidated statement of income.

Amended Revolving Credit Facility

On March 6, 2003, Valero Logistics entered into an amended revolving credit facility with the various banks included in the existing revolving credit facility and from a group of new banks to increase the revolving credit facility to $175,000,000. In addition to increasing the aggregate amount available under the facility, the amount that may be borrowed to fund distributions to unitholders was increased from $25,000,000 to $40,000,000. No other significant terms and conditions of the revolving credit facility were changed, except that the "Total Debt to EBITDA Ratio" as defined in the revolving credit facility was changed such that the ratio may not exceed 4.0 to 1.0 (as opposed to 3.0 to 1.0 in the original facility), and Valero L.P. is now irrevocably and unconditionally guaranteeing the revolving credit facility. This guarantee by Valero L.P. ranks equally with all of its existing and future unsecured senior obligations.

Redemption of Common Units and Amendment to the Partnership Agreement

Valero L.P. intends to redeem from UDS Logistics a number of Valero L.P. common units sufficient to reduce Valero Energy's aggregate ownership interest in Valero L.P. to 49.5% or less, including Riverwalk Logistics' 2% general partner interest. Valero L.P. intends to redeem the common units with proceeds from debt financings expected to be completed in 2003.

In addition to the redemption of common units, Valero L.P. intends to amend its partnership agreement to provide that the general partner may be removed by the vote of the holders of at least 58% of its outstanding units, excluding the common and subordinated units held by affiliates of the general partner.

Asset Contribution Transactions

On March 6, 2003, the Partnership entered into the following agreements:

- Affiliates of Valero Energy will contribute to the Partnership certain crude oil and other feedstock tank assets located at Valero Energy's West plant of the Corpus Christi refinery, Texas City refinery and Benicia refinery in exchange for an aggregate amount of $200,000,000 in cash; and

- Affiliates of Valero Energy will contribute to the Partnership certain refined product pipelines and refined product terminals connected to Valero Energy's Corpus Christi and Three Rivers refineries (referred to as the South Texas Pipelines and Terminals) in exchange for an aggregate amount of $150,000,000 in cash.

The contribution transactions are expected to close in March 2003 and are conditioned upon the ability of the Partnership to obtain equity and debt financing in sufficient amounts.

PART II — OTHER INFORMATION

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have not been any changes in or disagreements with Valero L.P.'s independent accountants since the date of Valero L.P.'s dismissal of Arthur Andersen LLP and appointment of Ernst & Young LLP as Valero L.P.'s independent accountants on March 22, 2002. That change was reported by Valero L.P. in its Annual Report on Form 10-K/A for the year ended December 31, 2001 and filed with the SEC on April 4, 2002. The change in independent accountants became effective upon the completion by Arthur Andersen LLP of its audit of the consolidated and combined balance sheet of Riverwalk Logistics, L.P., the general partner of Valero L.P., which audit was completed on June 7, 2002. Because the change in independent accountants was "previously reported" (as that term is defined in Rule 12b-2 under the Securities Exchange Act of 1934) on Form 10-K, the matter is not further disclosed in this report (per Instruction 1 to Item 304 of Regulation S-K).

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors and Executive Officers of Valero GP, LLC

Valero L.P. does not have directors or officers. The directors and officers of Valero GP, LLC, the general partner of the Partnership's general partner, Riverwalk Logistics, L.P., perform all management functions for Valero L.P. Diamond Shamrock Refining and Marketing Company, a subsidiary of Valero Energy and the sole member of Valero GP, LLC, selects the directors of Valero GP, LLC. Officers of Valero GP, LLC are appointed by its directors.

Valero GP, LLC's First Amended and Restated Limited Liability Company Agreement provides for an audit committee of the board of directors, and permits Diamond Shamrock Refining and Marketing Company, acting as sole member of Valero GP, LLC, to appoint additional committees by resolution. Diamond Shamrock Refining and Marketing Company has created a compensation committee.

Valero L.P.'s partnership agreement also provides for a conflicts committee composed of Valero GP, LLC independent directors. The conflicts committee consists of three members of the board of directors of Valero GP, LLC who are not employed by the Partnership or its affiliates. When called upon to do so, the conflicts committee reviews and makes recommendations relating to potential conflicts of interest between the Partnership, on the one hand, and Valero Energy, on the other hand.

Set forth below is certain information concerning the directors and executive officers of Valero GP, LLC.

Name	Age	Position Held with Valero GP, LLC
William E. Greehey	66	Chairman of the Board
Curtis V. Anastasio	46	President, Chief Executive Officer and Director
William R. Klesse	56	Executive Vice President and Director
Gregory C. King	42	Director
H. Frederick Christie	69	Director
Rodman D. Patton	59	Director
Robert A. Profusek	53	Director
Steven A. Blank	48	Senior Vice President and Chief Financial Officer
Rodney L. Reese	52	Vice President-Operations

Mr. Greehey became Chairman of the Board of Valero GP, LLC on January 1, 2002, effective with the acquisition of UDS by Valero Energy. He served as Chief Executive Officer and a director of Valero Energy's former parent from 1979, and as Chairman of the board of directors of that company from 1983. He retired from his position as Chief Executive Officer of Valero Energy in June 1996 but, upon request of the board, resumed this position in November 1996. Mr. Greehey has served as Valero Energy's Chairman of the Board and Chief Executive Officer since it was separated from its former parent in July 1997, positions he also held with Valero Energy prior to the separation, and was elected President of Valero Energy upon the retirement of Edward Benninger at the end of 1998.

Mr. Anastasio became the President and a director of Valero GP, LLC in December 1999, and became its President and Chief Executive Officer in June 2000 coincident with Valero Logistics Operations, L.P.'s commencement of operations. He served as Vice President, General Counsel, and Secretary of UDS from 1997 until that time.

Mr. Klesse has been a director of Valero GP, LLC since December 1999, and served as the Chairman of its Board until January 1, 2002. He was elected Executive Vice President and Chief Operating Officer of Valero Energy in January 2003. He previously served as Executive Vice President - Refining and Commercial Operations of Valero Energy since the closing of the UDS acquisition. He had served as Executive Vice President, Operations of UDS from January 1999 through December 2001. Prior to that he served as an Executive Vice President for UDS since February 1995, overseeing Operations, Refining, Product Supply and Logistics.

Mr. King became a director of Valero GP, LLC effective January 1, 2002. He was elected President of Valero Energy in January 2003. He previously served as Executive Vice President and General Counsel of Valero Energy since the closing of the UDS Acquisition, and prior to that time he served as Valero Energy's Executive Vice President and Chief Operating Officer since January 2001. Mr. King was Senior Vice President and Chief Operating Officer of Valero Energy from 1999 to January 2001. He was elected Vice President and General Counsel of Valero Energy in 1997. He joined Valero Energy's former parent in 1993 as Associate General Counsel and prior to that was a partner in the Houston law firm of Bracewell and Patterson.

Mr. Christie became a director of Valero GP, LLC effective January 1, 2002. He is a consultant specializing in strategic and financial planning. In 1991 he retired as Chief Executive Officer from the Mission Group, the non-utility subsidiary of SCE Corp. He had previously served as President of Southern California Edison Company. Mr. Christie is a director or trustee of 19 mutual funds under the Capital Research and Management Company. He is a director of International House of Pancakes, Inc., Ducommon, Incorporated, and Southwest Water Company.

Mr. Patton became a director of Valero GP, LLC in June 2001. He retired from Merrill Lynch & Co. in 1999 where he had served as Managing Director in the Energy Group since 1993. Prior to that he served in oil and gas oriented investment banking and corporate finance positions with Credit Suisse First Boston (1981-1993) and Blyth Eastman Paine Webber (1971-1981). He is a director of Apache Corporation.

Mr. Profusek became a director of Valero GP, LLC in June 2001. He is a partner in the New York office of Jones Day, one of the largest law firms in the United States. He is also a director of CTS Corporation. He served as Executive Vice President, responsible for growth and investment activities, of Omnicom Group Inc. from May 2000 to August 2002. Prior to May 2000, he was a partner at Jones Day.

Mr. Blank became Chief Accounting and Financial Officer and a director of Valero GP, LLC in December 1999. He resigned his position as director and became Senior Vice President and Chief Financial Officer of Valero GP, LLC effective January 1, 2002. He served as UDS' Vice President and Treasurer from December 1996 until January 1, 2002, when he became Vice President-Finance of Valero Energy.

Mr. Reese has served as Vice President-Operations of Valero GP, LLC since December 1999. He has been employed for 20 years in various pipeline engineering and operations positions by Valero Energy and its predecessor UDS. He served as Director, Pipelines and Terminals for UDS from October 1999 to December 2001. Prior to that he was Director, Product Pipeline Operations for UDS from October 1997 to October 1999, and prior to that served in various managerial capacities with UDS' pipeline group.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934 requires directors, executive officers and persons who beneficially own more than 10% of Valero L.P.'s units to file certain reports with the Securities and Exchange Commission and New York Stock Exchange concerning their beneficial ownership of Valero L.P.'s equity securities. The Securities and Exchange Commission regulations also require that a copy of all such Section 16(a) reports filed must by furnished to Valero L.P. by the persons and entities filing them. Based solely upon the Partnership's review of copies of such reports, Valero L.P. believes that its officers, directors and 10% unitholders are in compliance with applicable requirements of Section 16(a).

Audit Committee

Valero GP, LLC's audit committee is composed of three directors who are not officers or employees of Valero Energy or any of its subsidiaries or Valero L.P. Under currently applicable rules of the New York Stock Exchange, all members are independent. The board of directors of Valero GP, LLC has adopted a written charter for the audit committee, which is included as Exhibit 99.1.

The audit committee makes recommendations to the board regarding the selection of the Partnership's independent auditor and reviews the professional services they provide. It reviews the scope of the audit performed by the independent auditor, the audit report issued by the

independent auditor, the Partnership's annual and quarterly financial statements, any material comments contained in the auditor's letters to management, the Partnership's internal accounting controls and such other matters relating to accounting, auditing and financial reporting as it deems appropriate. In addition, the audit committee reviews the type and extent of non-audit work being performed by the independent auditor and its compatibility with their continued objectivity and independence.

Report of the Audit Committee for the Year Ended December 31, 2002

Management of Valero GP, LLC is responsible for the Partnership's internal controls and the financial reporting process. Ernst & Young LLP, the Partnership's independent auditors for the year ended December 31, 2002, is responsible for performing an independent audit of the Partnership's consolidated financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The audit committee monitors and oversees these processes. The audit committee recommends to the board of directors the selection of the Partnership's independent auditors.

The audit committee has reviewed and discussed the Partnership's audited consolidated financial statements with management and the independent auditors. The audit committee has discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standards No. 61, "*Communications with Audit Committees*." The audit committee has received the written disclosures and the letter from Ernst & Young LLP required by Independence Standards Board Standard No. 1, "*Independence Discussions with Audit Committees*," and has discussed with Ernst & Young LLP that firm's independence.

Based on the foregoing review and discussions and such other matters the audit committee deemed relevant and appropriate, the audit committee recommended to the board of directors that the audited consolidated financial statements of the Partnership be included in Valero L.P.'s Annual Report on Form 10-K for the year ended December 31, 2002.

Members of the Audit Committee
H. Frederick Christie
Rodman D. Patton
Robert A. Profusek

Item 11. Executive Compensation

Summary Compensation Table

The following sets forth the compensation for the year ended December 31, 2002 of the Valero GP, LLC's Chief Executive Officer and the executive officer in office on December 31, 2002 whose annual salary and bonus paid during the year ended December 31, 2002 exceeded $100,000. Valero GP, LLC's other executive officers are employed by Valero Energy, and, under the Services Agreement (see Footnote (2) below and Items 1. and 2. "The Partnership's Relationship with Valero Energy—Services Agreement"), the Partnership pays Valero Energy an annual fee for general and administrative services rendered by Valero Energy employees for the benefit of the Partnership.

		Annual Compensation		Long-Term Compensation Awards			
Name and Principal Position(1)	Year	Salary(2)	Bonus(2)	Restricted Unit Awards	Number of Securities Underlying Options Granted	LTIP Payouts	All Other Compensation
Curtis V. Anastasio,	2002	$300,008	$ 97,000(3)	$204,750(4)	—	—	$ 43,545(5)
President and Chief	2001	$263,062	$184,100	—	—	—	$284,727(6)
Executive Officer							
Rodney L. Reese, Vice	2002	$154,988	$ 35,900(3)				$ 14,551(7)
President-Operations	2001	$147,944	$ 81,400	—	—	—	$106,706(6)

(1) The named executive officers hold the indicated offices in Valero GP, LLC, the general partner of Riverwalk Logistics, L.P., Valero L.P.'s general partner. Valero L.P. does not have any officers or directors.

(2) The Partnership had no employees in 2002 or 2001. The Partnership received services under a Services Agreement that was put in place at the time Valero Logistics Operations began operations in July 2000. Under that Services Agreement, Valero Energy was paid $5,200,000 for general and administrative services that indirectly benefited the Partnership, and the cost of employees performing services directly for the Partnership were reimbursed by the Partnership as they were incurred.

(3) For 2002, executive bonuses were paid 75% in cash and 25% in Valero Energy Common Stock.

(4) Dividends are paid on restricted units at the same rate as on Valero L.P.'s unrestricted common units. Restricted units reported vest 1/3 annually over a three-year period. On December 31, 2002, Mr. Anastasio held 5,000 restricted units, all of which were unvested, and the market value of such units on that date was $198,500.

(5) Amount includes: vesting of Valero Energy performance restricted stock issued under its long-term incentive plan valued at $18,069, contributions pursuant to Valero Energy's Thrift Plan and Excess Thrift Plan, which totaled $25,161, and life insurance premiums paid in the amount of $315.

(6) Valero Energy made cash payments under its intermediate-term incentive plan, and performance restricted stock issued under its long-term incentive plans vested, at the time of the acquisition of UDS by Valero Energy on December 31, 2001. All such costs were reimbursed by Valero Logistics under the Services Agreement described in Items 1. and 2. Business and Properties, "The Partnership's Relationship with Valero Energy." The portion of Mr. Anastasio's cash payment under UDS' intermediate term incentive plan reimbursed under the Services Agreement was $103,961, and the portion of the cost of Mr. Anastasio's vesting of UDS' performance restricted stock reimbursed under the Services Agreement was $118,752. The portion of Mr. Reese's cash payment under UDS' intermediate term incentive plan reimbursed under the Services Agreement was $36,092, and the portion of the cost of Mr. Reese's vesting of UDS' performance restricted stock reimbursed under the Services Agreement was $39,584. Portions of expenses incurred by UDS relating to 401(k) matching payments, pension and retirement plans and life and disability insurance for Mr. Anastasio and Mr. Reese passed through to Valero Logistics under the Services Agreement, were $62,014 related to Mr. Anastasio and $31,030 related to Mr. Reese.

(7) Amounts include: contributions made to Valero Energy's Thrift Plan and Excess Thrift Plan, which totaled $14,323, and life insurance premiums paid in the amount of $228.

Option Grants and Related Information

Option Grants The following table sets forth further information regarding the grants of Valero L.P. unit options and Valero Energy stock options to the named executive officers reflected in the Summary Compensation Table.

Option Grants in the Last Fiscal Year

Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Security)	Market Price at Grant Date ($/Security)	Expiration Date	Grant Date Present Value ($)
Curtis V. Anastasio	15,000 units	8.51%	38.22(1)	38.22	03/22/2012	2.90(3)
	10,000 units	5.68%	36.30(1)	36.30	09/23/2012	2.12(3)
	5,000 shares	0.22%	30.06(2)	30.06	09/18/2012	9.22(4)
Rodney L. Reese	4,900 units	2.78%	38.22(1)	38.22	03/22/2012	2.90(3)

(1) All options reported vest in equal increments over a three-year period from the date of grant, unless otherwise noted. Under the terms of Valero GP, LLC's unit option plan, a participant may satisfy the tax withholding obligations related to exercise by tendering cash payment, by authorizing Valero GP, LLC to withhold Units otherwise issuable to the participant or by delivering to Valero GP, LLC already owned and unencumbered Units, subject to certain conditions.

(2) All options for shares of Valero Energy reported vest in equal increments over a three-year period from the date of grant, unless otherwise noted. Under the terms of Valero Energy's stock option plans, the exercise price and tax withholding obligations related to exercise may be paid by delivery of already owned shares or by offset of the underlying option shares, subject to certain conditions.

(3) A variation of the Black-Scholes option pricing model was used to determine grant date present value. This model is designed to value publicly traded options. Options issued under Valero GP, LLC's option plan are not freely traded, and the exercise of such options is subject to substantial restrictions. Moreover, the Black-Scholes model does not give effect to either risk of forfeiture or lack of transferability. The estimated values under the Black-Scholes model are based on assumptions as to variables such as interest rates, stock price volatility and future dividend yield. The estimated grant date present values presented in this table were calculated using an expected average option life of 3.32 years, risk-free rate of return of 2.24%, average volatility rate of 18.70% based on daily volatility rates from the initial public offering by Valero L.P. through December 31, 2002, and dividend yield of 7.50, which is the expected annualized quarterly dividend rate in effect at the date of grant expressed as a percentage of the market value of the Common Units at the date of grant. The actual value of unit options could be zero; realization of any positive value depends upon the actual future performance of the Common Units, the continued employment of the option holder throughout the vesting period and the timing of the exercise of the option. Accordingly, the values set forth in this table may not be achieved.

(4) A variation of the Black-Scholes option pricing model was used to determine grant date present value. This model is designed to value publicly traded options. Options issued under Valero Energy's option plan are not freely traded, and the exercise of such options is subject to substantial restrictions. Moreover, the Black-Scholes model does not give effect to either risk of forfeiture or lack of transferability. The estimated values under the Black-Scholes model are based on assumptions as to variables such as interest rates, stock price volatility and future dividend yield. The estimated grant date present value presented in this table was calculated using an expected average option life of 3.32 years, risk-free rate of return of 2.38%, average volatility rate of 44.50% based on daily volatility factors for the three years ended December 31, 2002, and dividend yield of 1.05%, which is the expected annualized quarterly dividend rate in effect at the date of grant expressed as a percentage of the market value of the Valero Energy Common Stock at the date of grant. The actual value of stock options could be zero; realization of any positive value depends upon the actual future performance of the Valero Energy Common Stock, the continued employment of the option holder throughout the vesting period and the timing of the exercise of the option. Accordingly, the values set forth in this table may not be achieved.

Valero Energy Long-Term Incentive Plan

Long Term Incentive Plans — Awards in Last Fiscal Year(1)

Name	Number of Shares, Units or Other Rights	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plan		
			Threshold (# Shares)	Target (# Shares)	Maximum (# Shares)
Curtis V. Anastasio	1,000	12/31/02	—	1,000	2,000
	1,000	12/31/03	—	1,000	2,000
	1,000	12/31/04	—	1,000	2,000
Rodney L. Reese	—	—	—	—	—

(1) Valero Energy long-term incentive awards are grants of Performance Shares made under Valero Energy's Executive Stock Incentive Plan. Total shareholder return, or TSR, during a specified "performance period" was established as the performance measure for determining what portion of an award may vest. TSR is measured by dividing the sum of (a) the net change in the price of a share of Valero Energy's Common Stock between the beginning of the performance period and the end of the performance period, and (b) the total dividends paid on the Common Stock during the performance period, by (c) the price of a share of Valero Energy's Common Stock at the beginning of the performance period. Each Performance Share award is subject to vesting in three equal increments, based upon Valero Energy's TSR during rolling three-year periods that end on December 31, 2002, 2003 and 2004, respectively. At the end of each performance period, Valero Energy's TSR is compared to the TSR for a target group of comparable companies. Valero Energy and the companies in the target group are then ranked by quartile. Participants then earn 0%, 50%, 100% or 150% of that portion of the initial grant amount that is vesting for such period, depending on whether Valero Energy's TSR is in the last, 3rd, 2nd or 1st quartile of the target group; 200% will be earned if Valero Energy ranks highest in the group. Amounts not earned in the given performance period can be carried forward for one additional performance period and up to 100% of the carried-forward amount can still be earned, depending upon the quartile achieved for such subsequent period.

The following table sets forth information regarding securities underlying options exercisable at December 31, 2002, and options exercised during 2002, for the executive officers named in the Summary Compensation Table:

Aggregated Option Exercises in Last Fiscal Year and FY-End Option Values

Name	Securities Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at FY-End(#)		Value of Unexercised In-the-Money Options at FY-End ($)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Curtis V. Anastasio						
VLO Stock	—	—	31,950	20,000	$343,256	$34,400
VLI Units	—	—	—	25,000	—	$56,200
Rodney L. Reese						
VLO Stock	—	—	6,886	—	$116,065	—
VLI Units	—	—	—	4,900	—	$ 7,252

(1) Represents the dollar value obtained by multiplying the number of unexercised options by the difference between the stated exercise price per share or unit of the options and the closing market price per share of Valero Energy's Common Stock on December 31, 2002 or the closing market price per unit of Valero L.P.'s Common Units on December 31, 2002 (as applicable).

Retirement Benefits

The following table sets forth the estimated annual gross benefits payable under Valero Energy's Pension Plan, Excess Pension Plan and Supplemental Executive Retirement Plan, or SERP, upon retirement at age 65, based upon the assumed compensation levels and years of service indicated and assuming an election to have payments continue for the life of the participant only.

Estimated Annual Pension Benefits at Age 65

Covered Compensation	Years of Service				
	15	20	25	30	35
$ 200,000	$ 54,000	$ 72,000	$ 90,000	$ 108,000	$ 126,000
300,000	84,000	111,000	139,000	167,000	194,000
400,000	113,000	150,000	188,000	225,000	263,000
500,000	142,000	189,000	236,000	284,000	331,000
600,000	171,000	228,000	285,000	342,000	399,000
700,000	200,000	267,000	334,000	401,000	467,000
800,000	230,000	306,000	383,000	459,000	536,000
900,000	259,000	345,000	431,000	518,000	604,000
1,000,000	288,000	384,000	480,000	576,000	672,000
1,100,000	317,000	423,000	529,000	635,000	740,000
1,200,000	347,000	462,000	578,000	693,000	809,000
1,300,000	376,000	501,000	626,000	752,000	877,000
1,400,000	405,000	540,000	675,000	810,000	945,000
1,500,000	434,000	579,000	724,000	869,000	1,013,000
1,600,000	464,000	618,000	773,000	927,000	1,082,000
1,700,000	493,000	657,000	821,000	986,000	1,150,000
1,800,000	522,000	696,000	870,000	1,044,000	1,218,000
1,900,000	551,000	735,000	919,000	1,103,000	1,286,000
2,000,000	581,000	774,000	968,000	1,161,000	1,355,000

Valero Energy maintains a noncontributory defined benefit Pension Plan in which virtually all employees of Valero Energy, including those providing services for the Partnership, are eligible to participate and under which contributions by individual participants are neither required nor permitted. Valero Energy also maintains a noncontributory, non-qualified Excess Pension Plan and a non-qualified SERP, which provide supplemental pension benefits to certain highly compensated employees. The Pension Plan (supplemented, as necessary, by the Excess Pension Plan) provides a monthly pension at normal retirement equal to 1.6% of the participant's average monthly compensation (based upon the participant's earnings during the three consecutive calendar years during the last 10 years of the participant's credited service affording the highest such average) times the participant's years of credited service. The SERP provides an additional benefit equal to .35% times the product of the participant's years of credited service (maximum 35 years) multiplied by the excess of the participant's average monthly compensation over the lesser of 1.25 times the monthly average (without indexing) of the social security wage bases for the 35-year period ending with the year the participant attains social security retirement age, or the monthly average of the social security wage base in effect for the year that the participant retires. For purposes of the SERP, the participant's most highly compensated consecutive 36 months of service during the participant's last 10 years of employment are considered. Compensation for purposes of the Pension Plan, Excess Pension Plan and SERP includes salary and bonus as reported in the Summary Compensation Table. Pension benefits are not subject to any deduction for social security or other offset amounts.

Credited years of service for the period ended December 31, 2002 for the executive officers named in the Summary Compensation Table are as follows: Mr. Anastasio- 15 years and Mr. Reese- 22 years.

Compensation of Directors

Valero GP, LLC directors who are not employees of it or its affiliates receive a $20,000 annual retainer, a $1,000 fee for each committee meeting they attend, and a grant of restricted units under the Valero GP, LLC 2000 Long-Term Incentive Plan every third year during the director's term of service with an aggregate value of $30,000 at the time of grant. Such restricted units vest in equal annual increments over the three years following the grant date.

Compensation Committee Interlocks and Insider Participation

Mr. Profusek (Chairman), Mr. Christie and Mr. Patton served on the compensation committee in 2002. Neither of them has ever been an officer or employee of Valero GP, LLC or any of its affiliates. No executive officer of Valero GP, LLC has served as a member of the board of directors or on the compensation committee of any company whose executive officers include a member of Valero GP, LLC's compensation committee.

The compensation committee administers the incentive plans, and makes awards under them, in consultation with management, that create appropriate incentives for employees of the Partnership's affiliates that provide services to the Partnership. Insofar as the Partnership has no employees, the compensation committee currently has no other functions.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Matters

Directors and Executive Officers

The following table sets forth ownership of Valero L.P. common units and Valero Energy common stock by directors and executive officers of Valero GP, LLC as of February 1, 2003. Unless otherwise indicated in the notes to such table, each of the named persons and members of the group has sole voting and investment power with respect to the common units and common stock shown:

Name of Beneficial Owner(1)	Units Beneficially Owned(2)(3)	Units under Exercisable Options(4)	Percentage of Outstanding Units	Shares of Valero Energy Stock Beneficially Owned(6)(7)	Shares of Valero Energy Stock under Exercisable Options(9)	Percentage of Outstanding Shares
Curtis V. Anastasio	15,600	5,000	*	14,464	31,950	*
H. Frederick Christie	2,250	—	*	6,594(8)	9,679	*
William E. Greehey	45,663	—	*	1,324,775	2,620,691	3.7%
Gregory C. King	7,966	—	*	54,479	116,706	*
William R. Klesse	21,833	—	*	67,702	371,851	*
Rodman D. Patton	3,750	—	*	—	—	*
Robert A. Profusek(5)	1,665	—	*	—	—	*
Rodney L. Reese	4,000	1,634	*	7,668	6,886	*
All directors and executive officers as a group (9 persons)	110,960	8,301	1.2%	1,484,501	3,171,856	4.3%

* Indicates that the percentage of beneficial ownership does not exceed 1% of the class.

(1) The business address for all beneficial owners listed above is One Valero Place, San Antonio, Texas 78212.

(2) As of February 1, 2003, 9,684,672 common units were issued and outstanding. No executive officer or director owns any class of equity securities of the Partnership other than common units. The calculation for Percent of Class includes common units listed under the captions "Common Units Beneficially Owned" and "Common Units under Exercisable Options."

(3) Includes restricted common units issued under the Partnership's long-term incentive plans. Restricted units granted under Valero GP, LLC's long-term incentive plans may not be disposed of until vested. Does not include common units that could be acquired under options, which information is set forth in the next column.

(4) Consisting of common units that may be acquired within 60 days of February 1, 2003 through the exercise of common unit options.

(5) Includes 1,000 common units registered in the name of Kathryn A. Profusek as to which Mr. Profusek shares voting and investment power.

(6) As of February 1, 2003, 107,329,880 shares of Valero Energy's common stock were issued and outstanding. No executive officer or director owns any class of equity securities of Valero Energy other than common stock. The calculation for Percent of Class includes shares listed under the captions "Shares Beneficially Owned" and "Shares under Exercisable Options."

(7) Includes shares allocated pursuant to the Valero Energy Corporation Thrift Plan through January 31, 2003, as well as shares of restricted stock granted under Valero Energy's Executive Stock Incentive Plan and Valero Energy's Restricted Stock Plan for Non-Employee Directors. Except as otherwise noted, each person named in the table, and each other executive officer, has sole power to vote or direct the vote and to dispose or direct the disposition of all such shares beneficially owned by him. Restricted stock granted under Valero Energy's Executive Stock Incentive Plan and Valero Energy's Restricted Stock Plan for Non-Employee Directors may not be disposed of until vested. Does not include shares that could be acquired under options, which information is set forth in the next column.

(8) Includes 4,960 shares of common stock registered in the name of the Christie Family Trust as to which H. Frederick Christie shares voting and investment power.

(9) Consisting of shares subject to stock options that are exercisable within 60 days of February 1, 2003 through the exercise of stock options. Such shares may not be voted unless the stock options are exercised. Stock options that may become exercisable within such 60-day period only in the event of a change of control of Valero Energy are excluded. Except as set forth herein, none of the current executive officers or directors of the Partnership hold any rights to acquire Valero Energy Common Stock, except through exercise of stock options.

Certain Beneficial Owners

The following table sets forth certain information regarding persons or entities whom Valero L.P. has been advised are beneficial owners of 5% or more of Valero L.P.'s outstanding units as of the dates indicated in the notes to the table.

Name and Address of Beneficial Owner	Common Units	Percentage of Common Units(3)	Sub-ordinated Units	Percentage of Subordinated Units
Valero Energy Corporation(1) One Valero Place San Antonio, Texas 78212	4,497,641	46.4%	9,599,322	100%
Goldman, Sachs & Co.(2) The Goldman Sachs Group, Inc. 85 Broad Street New York, NY 10004	1,375,505	14.2%	—	—

(1) Valero Energy owns the common and subordinated units through its wholly owned subsidiaries, UDS Logistics, LLC and Valero GP, LLC. Valero Energy shares voting and investment power with certain of its wholly owned subsidiaries with respect to the common and subordinated units.

(2) According to a Schedule 13G filed with the Securities and Exchange Commission on February 11, 2003, Goldman Sachs & Co. and The Goldman Sachs Group, Inc. share voting and dispositive power with respect to these common units.

(3) Assumes 9,684,572 common units outstanding.

The following table sets forth information about Valero GP, LLC's equity compensation plans:

Equity Compensation Plan Information

Plan categories	Number of Securities to be issued upon exercise of outstanding unit options, warrants and rights	Weighted-Average exercise price of outstanding unit options, warrants and rights	Number of securities remaining for future issuance under equity compensation plans
Equity Compensation Plans approved by security holders	(1)		(1)
Equity Compensation Plans not approved by security holders	176,200	$37.08	23,800

(1) As of December 31, 2002, grants of 55,250 Valero L.P. restricted common units had been made under the Valero GP, LLC 2000 Long-Term Incentive Plan, and 194,750 units remained available for grant as restricted common units.

Item 13. Certain Relationships and Related Transactions

Rights of the Partnership's General Partner

UDS Logistics, LLC, the limited partner of Riverwalk Logistics, L.P., owns 4,424,322 common units and 9,599,322 subordinated units representing an aggregate 71.4% limited partner interest in Valero L.P. Riverwalk Logistics, L.P. owns a 2% general partner interest in Valero L.P. and also owns the incentive distribution rights giving it higher percentages of Valero L.P.'s cash distributions as various target distribution levels are met.

The subordinated units may convert to common units on a one-for-one basis on the first day following the record date for distributions for the quarter ending December 31, 2005, if Valero L.P. meets the tests set forth in its partnership agreement. If the subordination period ends, the rights of the holders of subordinated units will no longer be subordinated to the rights of the holders of common units and the subordinated units may be converted into common units.

Riverwalk Logistics, L.P. is responsible for the management of Valero L.P.

Relationship with Valero Energy

For a detailed discussion of the Partnership's relationship with Valero Energy, see Part I, Items 1. and 2. Business and Properties, "The Partnership's Relationship with Valero Energy."

Summary of Transactions with Valero Energy

The Partnership has related party transactions with Valero Energy (formerly UDS) for pipeline tariff and terminalling fee revenues, certain employee costs, insurance costs, administrative costs and interest expense on the debt due to parent (for the period July 1, 2000 through April 15, 2001). The receivable from parent, reflected in the consolidated and combined financial statements as of December 31, 2002 and 2001, represents the net amount due from Valero Energy for these related party transactions and the net cash collected under Valero Energy's centralized cash management program on the Partnership's behalf.

The following table sets forth information summarizing transactions with Valero Energy:

	Years Ended December 31,		Six Months Ended	
	2002	2001	December 31, 2000	June 30, 2000
	(in thousands)			
Revenues	$117,804	$98,166	$47,210	$44,187
Operating expenses	13,795	11,452	5,718	5,393
General and administrative expenses	5,921	5,200	2,600	2,839
Interest expense on debt due to parent	—	2,513	4,307	—

Item 14. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The principal executive officer and principal financial officer of Valero GP, LLC have evaluated Valero L.P.'s disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934) as of a date within 90 days of the filing date of this Annual Report on Form 10-K. Based on that evaluation, these officers concluded that the design and operation of Valero L.P.'s disclosure controls and procedures are effective in ensuring that information required to be disclosed by Valero L.P. in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in internal controls.

There have been no significant changes in Valero L.P.'s internal controls, or in other factors that could significantly affect internal controls, subsequent to the date the principal executive officer and principal financial officer of Valero L.P. completed their evaluation.

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(A) (1) and (2) – List of financial statements and financial statement schedules The following consolidated and combined financial statements of Valero L.P. and subsidiaries (successor to the Ultramar Diamond Shamrock Logistics Business) are included under Part II, Item 8 of this Form 10-K:

(B) Reports on Form 8-K

None.

(C) Exhibits

Filed as part of this Form 10-K are the following:

Exhibit Number		Description	Incorporated by Reference to the Following Document
3.1	—	Certificate of Limited Partnership of Valero L.P.	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.1
3.2	—	Certificate of Amendment to Certificate of Limited Partnership of Valero L.P.	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.2
3.3	—	Amended and Restated Certificate of Limited Partnership of Valero L.P.	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
3.4	—	Second Amended and Restated Agreement of Limited Partnership of Valero L.P.	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
3.5	—	First Amendment to Second Amended and Restated Agreement of Limited Partnership of Valero L.P	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
3.6	—	Certificate of Limited Partnership of Valero Logistics Operations, L.P.	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.4
3.7	—	Certificate of Amendment to Certificate of Limited Partnership of Valero Logistics Operations, L.P.	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.5
3.8	—	Amended and Restated Certificate of Limited Partnership of Valero Logistics Operations, L.P.	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001

3.9	—	Second Amended and Restated Agreement of Limited Partnership of Valero Logistics Operations, L.P.	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
3.10	—	Second Amendment to Second Amended and Restated Agreement of Limited Partnership of Valero Logistics Operations, L.P	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
3.11	—	Certificate of Limited Partnership of Riverwalk Logistics, L.P.	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.7
3.12	—	Agreement of Limited Partnership of Riverwalk Logistics, L.P.	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.8
3.13	—	Certificate of Formation of Valero GP, LLC	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.9
3.14	—	Certificate of Amendment to Certificate of Formation of Valero GP, LLC	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
3.15	—	First Amendment to First Amended and Restated Limited Liability Company Agreement of Valero GP, LLC	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
3.16	—	First Amended and Restated Limited Partnership Agreement of Riverwalk Logistics, L.P.	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.1	—	Amended and Restated Credit Agreement dated as of December 15, 2000, as amended March 6, 2003, among Valero Logistics Operations, L.P., the Lenders party thereto, and JPMorgan Chase Manhattan Bank, as Administrative Agent, Royal Bank of Canada, as Syndication Agent, Suntrust Bank and Mizuho Corporate Bank, Ltd., as Co-Documentation Agents, JPMorgan Securities Inc., as Arranger	*
10.2	—	Valero GP, LLC 2002 Unit Option Plan	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.3	—	Valero GP, LLC 2000 Long-Term Incentive Plan	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 10.3

10.4	——	Valero GP, LLC Short-Term Incentive Plan	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 10.4
10.5	——	Pipelines and Terminals Usage Agreement	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.6	——	Omnibus Agreement	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.7	——	Services Agreement	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.8	——	Form of Valero GP, LLC Intermediate-Term Incentive Plan	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 10.9
10.9	——	First Amendment to Credit Agreement dated as of February 23, 2001	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 10.10
10.10	——	First Amendment to Omnibus Agreement	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.11	——	Restricted Unit Agreement	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.12	——	Operating Agreement	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.13	——	Contribution Agreement by and among Valero Refining Company—California, UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. dated as of March 6, 2003.	*
10.14	——	Contribution Agreement by and among Valero Refining—Texas, L.P., UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. dated as of March 6, 2003.	*
10.15	——	Contribution Agreement by and among Valero Pipeline Company, UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. dated as of March 6, 2003.	*
12.1	——	Statement regarding computation of ratio	*
21.1	——	List of subsidiaries of Valero L.P.	*
23.1	——	Consent of Ernst & Young LLP	*
23.2	——	Consent of Ernst & Young LLP	*
24.1	——	Powers of Attorney (included in signature page of this Form 10-K)	*
99.1	——	Revised Audit Committee of the Board of Directors Charter	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
99.2	——	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
99.3	——	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
99.4	——	Report of Independent Auditors, Consolidated Balance Sheet— December 31, 2002 and Notes to Consolidated Balance Sheet— December 31, 2002 of Riverwalk Logistics, L.P. and subsidiaries	*

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 L.P.
(Registrant)
By: Riverwalk Logistics, L.P., its general partner
By: Valero GP, LLC, its general partner

By: /s/ Curtis V. Anastasio

(Curtis V. Anastasio)
President and Chief Executive Officer
March 7, 2003

By: /s/ Steven A. Blank

(Steven A. Blank)
Chief Financial Officer
March 7, 2003

By: /s/ Clayton E. Killinger

(Clayton E. Killinger)
Vice President and Controller
March 7, 2003

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Curtis V. Anastasio, Steven A. Blank and Bradley C. Barron, 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 E. Greehey*	Chairman of the Board and Director	March 6, 2003
(William E. Greehey)		
/s/ Curtis V. Anastasio*	President, Chief Executive Officer and Director (Principal Executive Officer)	March 6, 2003
(Curtis V. Anastasio)		
/s/ Steven A. Blank*	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 6, 2003
(Steven A. Blank)		
/s/ Clayton E. Killinger*	Vice President and Controller (Principal Accounting Officer)	March 6, 2003
(Clayton E. Killinger)		
/s/ William R. Klesse*	Executive Vice President and Director	March 6, 2003
(William R. Klesse)		
/s/ Gregory C. King*	Director	March 6, 2003
(Gregory C. King)		
/s/ H. Frederick Christie*	Director	March 6, 2003
(H. Frederick Christie)		
/s/ Rodman D. Patton*	Director	March 6, 2003
(Rodman D. Patton)		
/s/ Robert A. Profusek*	Director	March 6, 2003
(Robert A. Profusek)		

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Curtis V. Anastasio, the principal executive officer of Valero GP, LLC, certify that:

1. I have reviewed this annual report on Form 10-K of Valero L.P. (the "registrant");

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 7, 2003

/s/ CURTIS V. ANASTASIO

Curtis V. Anastasio
President, Chief Executive Officer and Director

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Steven A. Blank, the principal financial officer of Valero GP, LLC, certify that:

1. I have reviewed this annual report on Form 10-K of Valero L.P. (the "registrant");

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 7, 2003

/s/ STEVEN A. BLANK

Steven A. Blank
Senior Vice President and Chief Financial Officer

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EXHIBIT INDEX

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3.9	—	Second Amended and Restated Agreement of Limited Partnership of Valero Logistics Operations, L.P.	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
3.10	—	Second Amendment to Second Amended and Restated Agreement of Limited Partnership of Valero Logistics Operations, L.P	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
3.11	—	Certificate of Limited Partnership of Riverwalk Logistics, L.P.	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.7
3.12	—	Agreement of Limited Partnership of Riverwalk Logistics, L.P.	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.8
3.13	—	Certificate of Formation of Valero GP, LLC	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.9
3.14	—	Certificate of Amendment to Certificate of Formation of Valero GP, LLC	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
3.15	—	First Amendment to First Amended and Restated Limited Liability Company Agreement of Valero GP, LLC	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
3.16	—	First Amended and Restated Limited Partnership Agreement of Riverwalk Logistics, L.P.	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.1	—	Amended and Restated Credit Agreement dated as of December 15, 2000, as amended March 6, 2003, among Valero Logistics Operations, L.P., the Lenders party thereto, and JPMorgan Chase Manhattan Bank, as Administrative Agent, Royal Bank of Canada, as Syndication Agent, Suntrust Bank and Mizuho Corporate Bank, Ltd., as Co-Documentation Agents, JPMorgan Securities Inc., as Arranger	*
10.2	—	Valero GP, LLC 2002 Unit Option Plan	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.3	—	Valero GP, LLC 2000 Long-Term Incentive Plan	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 10.3

10.4	——	Valero GP, LLC Short-Term Incentive Plan	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 10.4
10.5	——	Pipelines and Terminals Usage Agreement	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.6	——	Omnibus Agreement	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.7	——	Services Agreement	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.8	——	Form of Valero GP, LLC Intermediate-Term Incentive Plan	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 10.9
10.9	——	First Amendment to Credit Agreement dated as of February 23, 2001	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 10.10
10.10	——	First Amendment to Omnibus Agreement	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.11	——	Restricted Unit Agreement	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.12	——	Operating Agreement	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
10.13	——	Contribution Agreement by and among Valero Refining Company—California, UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. dated as of March 6, 2003.	*
10.14	——	Contribution Agreement by and among Valero Refining—Texas, L.P., UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. dated as of March 6, 2003.	*
10.15	——	Contribution Agreement by and among Valero Pipeline Company, UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. dated as of March 6, 2003.	*
12.1	——	Statement regarding computation of ratio	*
21.1	——	List of subsidiaries of Valero L.P.	*
23.1	——	Consent of Ernst & Young LLP	*
23.2	——	Consent of Ernst & Young LLP	*
24.1	——	Powers of Attorney (included in signature page of this Form 10-K)	*
99.1	——	Revised Audit Committee of the Board of Directors Charter	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001
99.2	——	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
99.3	——	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
99.4	——	Report of Independent Auditors, Consolidated Balance Sheet— December 31, 2002 and Notes to Consolidated Balance Sheet— December 31, 2002 of Riverwalk Logistics, L.P. and subsidiaries	*

* Filed herewith

EXHIBIT 10.1
Execution Copy

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AMENDED AND RESTATED CREDIT AGREEMENT

DATED AS OF DECEMBER 15, 2000

AS AMENDED AND RESTATED THROUGH
MARCH 6, 2003

AMONG

VALERO LOGISTICS OPERATIONS, L.P.

THE LENDERS PARTY HERETO

AND

JPMORGAN CHASE BANK,
AS ADMINISTRATIVE AGENT

ROYAL BANK OF CANADA,
AS SYNDICATION AGENT

SUNTRUST BANK AND MIZUHO CORPORATE BANK LTD.,
AS CO-DOCUMENTATION AGENTS

J.P. MORGAN SECURITIES INC.,
AS ARRANGER

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SCHEDULES:

EXHIBITS:

CREDIT AGREEMENT dated as of December 15, 2000 as amended and restated through March 6, 2003, among VALERO LOGISTICS OPERATIONS, L.P., a Delaware limited partnership formerly known as Shamrock Logistics Operations, L.P., the LENDERS party hereto, JP MORGAN CHASE BANK, formerly known as The Chase Manhattan Bank, as Administrative Agent, ROYAL BANK OF CANADA, as Syndication Agent (the "Syndication Agent"), and SUNTRUST BANK and MIZUHO CORPORATE BANK LTD., as Co-Documentation Agents (the "Co-Documentation Agents").

The parties hereto agree as follows:

ARTICLE I
Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"ABR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Adjusted LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"Administrative Agent" means JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, in its capacity as administrative agent for the Lenders hereunder.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Agreement" means this Credit Agreement, dated as of December 15, 2000, as amended and restated through March 6, 2003 among the Borrower, the Lenders, the Administrative Agent, the Syndication Agent, and the Co-Documentation Agents, as the same may be amended, waived or otherwise modified from time to time in accordance herewith.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate, respectively.

"Applicable Percentage" means, with respect to any Lender, the percentage of the total Commitments represented by such Lender's Commitment. If the Commitments have terminated

or expired, the Applicable Percentages shall be determined based upon the Commitments most recently in effect, giving effect to any assignments.

"Applicable Rate" means with respect to any ABR Loan or Eurodollar Loan, or with respect to the facility fees payable hereunder, as the case may be, the applicable rate per annum set forth below under the caption "ABR Spread", "Eurodollar Spread" or "Facility Fee Rate", as the case may be, based upon the ratings by Moody's and/or S&P, respectively, applicable on such date to the Index Debt:

INDEX DEBT RATINGS:	ABR SPREAD	EURODOLLAR SPREAD	FACILITY FEE RATE
Tier 1 Greater than or equal to BBB/Baa2	0.00%	0.950%	0.300%
Tier 2 Equal to BBB-/Baa3	0.00%	1.125%	0.375%
Tier 3 Less than BBB-/Baa3	0.250%	1.250%	0.500%

For purposes of the foregoing, (i) if either Moody's or S&P shall not have in effect a rating for the Index Debt (after having established such a rating and other than by reason of the circumstances referred to in the last sentence of this definition), then such rating agency shall be deemed to have established a rating in Tier 3; (ii) if both Moody's and S&P have established a rating for the Index Debt and such ratings established or deemed to have been established by Moody's and S&P shall fall within different Tiers, the Applicable Rate shall be based on the higher of the two ratings unless one of the two ratings is two or more Tiers lower than the other, in which case the Applicable Rate shall be determined by reference to the Tier next below that of the higher of the two ratings; and (iii) if the ratings established or deemed to have been established by Moody's and S&P for the Index Debt shall be changed (other than as a result of a change in the rating system of Moody's or S&P), such change shall be effective as of the date on which it is first announced by the applicable rating agency. Each change in the Applicable Rate shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Lenders shall negotiate in good faith to amend this definition to reflect such changed rating system or the unavailability of ratings from such rating agency and, pending the effectiveness of any such amendment, the Applicable Rate shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Assessment Rate" means, for any day, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund classified as "well-capitalized" and

within supervisory subgroup "B" (or a comparable successor risk classification) within the meaning of 12 C.F.R. Part 327 (or any successor provision) to the Federal Deposit Insurance Corporation for insurance by such Corporation of time deposits made in dollars at the offices of such member in the United States; provided that if, as a result of any change in any law, rule or regulation, it is no longer possible to determine the Assessment Rate as aforesaid, then the Assessment Rate shall be such annual rate as shall be determined by the Administrative Agent to be representative of the cost of such insurance to the Lenders.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Availability Period" means the period from and including the Original Effective Date to but excluding the earlier of the Maturity Date and the date of termination of the Commitments.

"Base CD Rate" means the sum of (a) the Three-Month Secondary CD Rate multiplied by the Statutory Reserve Rate plus (b) the Assessment Rate.

"Benefit Arrangement" means at any time an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by any ERISA Affiliate.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America.

"Borrower" means Valero Logistics Operations, L.P., a Delaware limited partnership, formerly known as Shamrock Logistics Operations, L.P.

"Borrowing" means Loans of the same Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

"Borrowing Request" means a request by the Borrower for a Borrowing in accordance with Section 2.03.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Capital Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Change in Control" means any of the following events:

(a) (i) Valero shall cease, indirectly or directly, to own at least 51% of the issued and outstanding Equity Interests of, or shall cease to Control, the general partner(s) of the MLP, or (ii) 100% (and not less than 100%) of the issued and outstanding Equity Interest of the general partner(s) of the Borrower shall cease to be owned, directly or indirectly, or the Borrower shall cease to be Controlled, by Valero and/or the MLP;

(b) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), excluding Valero and its Wholly-Owned Subsidiaries, shall become, or obtain rights (whether by means of warrants, options or otherwise) to become, the "beneficial owner" (as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act), directly or indirectly, of twenty percent or more of the outstanding voting Units; or

(c) 100% (and not less than 100%) of the limited partnership interests of the Borrower shall cease to be owned in the aggregate, directly or indirectly, by the MLP and/or Valero.

"Change in Law" means (a) the adoption of any law, rule or regulation after the Restatement Agreement Date, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the Restatement Agreement Date or (c) compliance by any Lender or the Issuing Bank (or, for purposes of Section 2.13(b), by any lending office of such Lender or by such Lender's or the Issuing Bank's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the Restatement Agreement Date.

"Class", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are General Revolving Loans or Working Capital Revolving Loans.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Commitment" means, with respect to each Lender, such Lender's General Revolving Commitment and Working Capital Revolving Sub-Commitment. As of the Restatement Effective Date, the aggregate amount of the Lenders' Commitments is $175,000,000. The Working Capital Revolving Sub-Commitments are a subset of the General Revolving Commitments and the maximum amount of the Commitments is equal to the maximum amount of the General Revolving Commitments.

"Commitment Increase Effective Date" has the meaning assigned such term in Section 2.18.

"Common Units" means the common units of limited partner interests in the MLP.

"Consolidated Debt Coverage Ratio" means, for any day, the ratio of (a) all Indebtedness of the Borrower and its Subsidiaries, on a consolidated basis, as of the last day of the then most recent Rolling Period over (b) Consolidated EBITDA for such Rolling Period.

"Consolidated EBITDA" means, without duplication, as to the Borrower and its Subsidiaries, on a consolidated basis for each Rolling Period, the amount equal to Consolidated Operating Income for such period plus (a) depreciation and amortization for such period, and (b) cash distributions received by the Borrower from Skelly-Belvieu Pipeline Company, and similar joint ventures, during such period; provided that Consolidated EBITDA shall be adjusted from time to time as necessary to give pro forma effect to permitted acquisitions or Investments (other than Joint Venture Interests) or sales of property by the Borrower and its Subsidiaries.

"Consolidated Interest Coverage Ratio" means, for any day, the ratio of (i) Consolidated EBITDA for the then most recent Rolling Period to (ii) Consolidated Interest Expense for such Rolling Period.

"Consolidated Interest Expense" means, for any Rolling Period, total interest expense (including that attributable to Capital Lease Obligations) of the Borrower and its Subsidiaries for such period with respect to all outstanding Indebtedness of the Borrower and its Subsidiaries (including, without limitation, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing and net costs under any Hedging Agreements to the extent such net costs are allocable to such period in accordance with GAAP).

"Consolidated Operating Income" means, as to the Borrower and its Subsidiaries on a consolidated basis for each Rolling Period, the amount equal to gross income minus operating expenses, general and administrative expenses, depreciation and amortization, and taxes other than income taxes, in each case for such period.

"Consolidated Tangible Net Worth" means, at any time, an amount equal to (a) the consolidated partners' equity of the Borrower and its Subsidiaries, plus (b) the aggregate amount of any non-cash write downs, on a consolidated basis, of the Borrower and its Subsidiaries during the term hereof, less (c) the sum of the amount of consolidated intangible assets of the Borrower and its Subsidiaries as of the date of determination plus the aggregate amount of any non-cash write ups, on a consolidated basis, of the Borrower and its Subsidiaries during the term hereof.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Disclosed Matters" means the actions, suits and proceedings and the environmental matters disclosed in Schedule 3.06.

"dollars" or "$" refers to lawful money of the United States of America.

"Environmental Approvals" means any Governmental Approvals required under applicable Environmental Laws.

"Environmental Laws" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"Equity Interest" means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any member interests in a limited liability company, and general or limited partnership interests in a partnership, any and all equivalent ownership interests in a Person and any and all warrants, options or other rights to purchase any of the foregoing. In addition, "Equity Interest" shall include, without limitation, with respect to the Borrower, the limited partner interests of the Borrower and the General Partner Interests and, with respect to the MLP, the Units and the general partner interest of the MLP.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower

or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"Eurodollar", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Event of Default" has the meaning assigned to such term in Article VII.

"Excluded Taxes" means, with respect to the Administrative Agent, any Lender, the Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.17(b)), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender's failure to comply with Section 2.15(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.15(a).

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Financial Officer" means the chief accounting and financial officer, treasurer or controller of the Borrower.

"First Amendment" means that certain First Amendment to Credit Agreement, dated as of February 23, 2001, by and among the Borrower, the Lenders (as defined in the Original Agreement) party thereto, the Administrative Agent (as defined in the Original Agreement), Royal Bank of Canada, as syndication agent, and SunTrust Bank, as documentation agent.

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"GAAP" means generally accepted accounting principles in the United States of America.

"General Partner" means Valero GP, Inc., a Delaware corporation.

"General Partner Interest" means all general partner interests in the Borrower.

"General Revolving Commitment" means, with respect to each Lender, the commitment of such Lender to make General Revolving Loans and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's General Revolving Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.07, (b) increased from time to time pursuant to Section 2.18 and (c) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The amount of each Lender's General Revolving Commitment as of the Restatement Effective Date is set forth on Schedule 2.01, or the initial amount of each assignee Lender is set forth in the Assignment and Acceptance pursuant to which such Lender shall have assumed its General Revolving Commitment, as applicable. The aggregate amount of the Lenders' General Revolving Commitments as of the Restatement Effective Date is $175,000,000.

"General Revolving Credit Exposure" means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender's General Revolving Loans and its LC Exposure at such time.

"General Revolving Loan" has the meaning assigned to such term in Section 2.01(b).

"Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee" of or by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

"Guarantor" means each of the MLP and each Person that from time to time executes and delivers a Subsidiary Guaranty.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"Increasing Lender" has the meaning assigned to such term in Section 2.18.

"Indebtedness" of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments or by any other securities providing for the mandatory payment of money (including, without limitation, preferred stock subject to mandatory redemption or sinking fund provisions), (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty, (j) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances, (k) all obligations of such Person with respect to any arrangement, directly or indirectly, whereby such Person or its Subsidiaries shall sell or transfer any material asset, and whereby such Person or any of its Subsidiaries shall then or immediately thereafter rent or lease as lessee such asset or any part thereof, (l) all recourse and support obligations of such Person or any of its Subsidiaries with respect to the sale or discount of any of its accounts receivable, and (m) all obligations of such Person or any of its Subsidiaries with respect to any arrangement for the purchase of materials, supplies, other property or services if such arrangement by its express terms requires that payment be made by the Borrower or such Subsidiary regardless of whether such materials, supplies, other property or services are delivered or furnished to it. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Indenture" means the Indenture, dated as of July 15, 2002, between the Borrower, as Issuer, the MLP, as Guarantor, and The Bank of New York, as Trustee, relating to the issuance

of senior debt securities, as amended, modified and supplemented from time to time in accordance herewith.

"Index Debt" means senior, unsecured, long-term indebtedness for borrowed money of the Borrower that is not guaranteed by any other Person or subject to any other credit enhancement.

"Information Memorandum" means the Confidential Information Memorandum dated December 2002 relating to the Borrower and the Transactions.

"Initial Notice of Commitment Increase" has the meaning assigned to such term in Section 2.18.

"Interest Election Request" means a request by the Borrower to convert or continue a Borrowing in accordance with Section 2.06.

"Interest Payment Date" means (a) with respect to any ABR Loan, the last day of each March, June, September and December and (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period.

"Interest Period" means with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six-months thereafter, as the Borrower may elect; provided, that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period pertaining to a Eurodollar Borrowing that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and, in the case of a Borrowing, thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

"Investment" means, as applied to any Person, any direct or indirect purchase or other acquisition by such Person of any Equity Interests in any other Person, or any direct or indirect loan, advance or capital contribution by such Person to any other Person, including all Indebtedness and receivables from such other Person which are not current assets or did not arise from sales to such other Person in the ordinary course of business, and any direct or indirect purchase or other acquisition by such Person of any assets (other than any acquisition of assets in the ordinary course of business).

"Issuing Bank" means JPMorgan Chase Bank, in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.04(i). The Issuing

Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

"Joint Venture Interest" means an acquisition of or Investment in Equity Interests in another Person, held directly or indirectly by the Borrower, that will not be a Subsidiary after giving effect to such acquisition or Investment.

"LC Disbursement" means a payment made by the Issuing Bank pursuant to a Letter of Credit.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Lender at any time shall be its Applicable Percentage of the total LC Exposure at such time.

"Lenders" means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance.

"Letter of Credit" means any letter of credit issued pursuant to this Agreement.

"LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Page 3750 of the Telerate Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "LIBO Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of $5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Loan" means each General Revolving Loan or each Working Capital Revolving Loan.

"Loan Documents" means this Agreement, the Subsidiary Guaranty, any notes issued pursuant to Section 2.08(e), any Letter of Credit, any Hedging Agreement executed in connection with the Loans, as each such agreement may be amended, supplemented or otherwise modified from time to time as permitted hereby, and any and all instruments, certificates, or other agreements delivered in connection with the foregoing.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations or condition (financial or otherwise) of the Borrower and its Subsidiaries taken as a whole, (b) the ability of the Borrower to perform any of its obligations under this Agreement or (c) the rights of or benefits available to the Lenders under this Agreement.

"Material Agreements" means the Partnership Agreement (Borrower), the Transportation Agreement, the Omnibus Agreement, and the Indenture as each such agreement may be amended, supplemented or otherwise modified from time to time as permitted hereby.

"Material Indebtedness" means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Hedging Agreements, of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding $10,000,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of the Borrower or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Borrower or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"Maturity Date" means January 15, 2006.

"MLP" means Valero, L.P., a Delaware limited partnership formerly known as Shamrock Logistics, L.P.

"MLP Guaranty" means the Guarantee made by the MLP in favor of the Administrative Agent for the benefit of the Lenders, substantially in the form of Exhibit C-1 hereto, as the same may be amended, supplemented or otherwise modified from time to time.

"Moody's" means Moody's Investors Service, Inc. (or any successor rating organization).

"Multiemployer Plan" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"New Funds Amount" means the amount by which a New Lender's or an Increasing Lender's outstanding Loans increase as of a Commitment Increase Effective Date (without regard to any such increase as a result of Borrowings made on such Commitment Increase Effective Date).

"New Lender" has the meaning assigned to such term in Section 2.18.

"Non-U.S. Subsidiary" means any Subsidiary organized under the laws of any jurisdiction outside of the United States of America.

"Notice of Confirmation of Commitment Increase" has the meaning assigned to such term in Section 2.18.

"Omnibus Agreement" means the Omnibus Agreement among Valero (as successor by merger to UDS), the General Partner, the MLP and the Borrower in the form previously provided to the Lenders, as amended, modified and supplemented from time to time in accordance herewith.

"Original Agreement" means the Credit Agreement, dated as of December 15, 2000, by and among Shamrock Logistics Operations, L.P., the Lenders (as defined therein) party thereto, The Chase Manhattan Bank, as Administrative Agent, Royal Bank of Canada, as syndication agent, and SunTrust Bank, as documentation agent, as amended by the First Amendment and the Second Amendment.

"Original Agreement Date" means December 15, 2000.

"Original Effective Date" means the date on which the conditions specified in Section 4.01 of the Original Agreement were satisfied (or waived in accordance with Section 9.02).

"Other Taxes" means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement.

"Partially Increasing Lender" has the meaning assigned to such term in Section 2.18.

"Partnership Agreement (Borrower)" means the Agreement of Limited Partnership of the Borrower among the General Partner and the MLP in the form previously provided to the Lenders, as amended, modified and supplemented from time to time in accordance herewith.

"Partnership Agreement (MLP)" means the Amended and Restated Agreement of Limited Partnership of the MLP among its general partner and Todd Walker, as the organizational limited partner, together with any other Persons who become partners in such partnership, as amended, modified and supplemented from time to time in accordance herewith.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Permitted Encumbrances" means:

(a) Liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 5.04;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 30 days or are being contested in compliance with Section 5.04;

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations;

(d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;

(e) judgment liens in respect of judgments that do not constitute an Event of Default under clause (k) of Article VII; and

(f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Borrower or any Subsidiary;

provided that the term "Permitted Encumbrances" shall not include any Lien securing Indebtedness.

"Permitted Investments" means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

(b) investments in commercial paper maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, the highest credit rating obtainable from S&P or from Moody's;

(c) investments in certificates of deposit, banker's acceptances and time deposits maturing within 180 days from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits of not less than $500,000,000; and

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (c) above.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were

terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Prime Rate" means the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"Reducing Lender" has the meaning assigned to such term in Section 2.18.

"Reduction Amount" means the amount by which a Reducing Lender's or a Partially Increasing Lender's outstanding Loans decrease as of a Commitment Increase Effective Date (without regard to any such increase as a result of Borrowings made on such Commitment Increase Effective Date).

"Refinery Assets" means the refineries and related assets of Valero or its Affiliates commonly referred to as the McKee, Three Rivers and Ardmore refineries.

"Register" has the meaning set forth in Section 9.04.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"Required Lenders" means, at any time, Lenders having Revolving Credit Exposures and unused Commitments representing at least 66 2/3% of the sum of the total Revolving Credit Exposures and unused Commitments at such time.

"Restatement Agreement Date" means March 6, 2003.

"Restatement Effective Date" means the date on which the conditions set forth in Section 4.01 are first satisfied or waived, which shall occur on or prior to March 6, 2003.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property, with the exception of a Unit split, combination, or dividend, in each case so long as the only consideration paid in connection therewith is an in-kind payment of additional Units) with respect to any Equity Interest of the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property, with the exception of a Unit split, combination, or dividend, in each case so long as the only consideration paid in connection therewith is an in-kind payment of additional Units), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such Equity Interest of the Borrower or any option, warrant or other right to acquire any such Equity Interest of the Borrower.

"Revolving Credit Exposure" means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender's Working Capital Revolving Loans and its General Revolving Credit Exposure at such time.

"Rolling Period" means any period of four consecutive fiscal quarters.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw-Hill Companies, Inc. (or any successor rating organization).

"Second Amendment" means that certain Second Amendment to Credit Agreement, dated as of May 21, 2002, by and among the Borrower, the Lenders (as defined in the Original Agreement), the Administrative Agent, Royal Bank of Canada, as syndication agent and SunTrust Bank, as documentation agent.

"Statutory Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject (a) with respect to the Base CD Rate, for new negotiable nonpersonal time deposits in dollars of over $100,000 with maturities approximately equal to three months, in the case of the Base CD Rate, and (b) with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Subordinated Units" means the subordinated units of limited partner interests in the MLP.

"Subsidiary Guaranty" means any guaranty executed and delivered pursuant to Section 5.11, as from time to time amended, modified, or supplemented.

"subsidiary" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" means any subsidiary of the Borrower; provided that the Skelly-Belvieu Pipeline Company shall not be a Subsidiary.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Transactions" means the execution, delivery and performance by the Borrower of the Original Agreement, this Agreement, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder, and the execution, delivery and performance of the Subsidiary Guaranty (if any).

"Transportation Agreement" means the Pipeline and Terminals Usage Agreement by and among UDS and certain of its Affiliates and the Borrower dated effective July 1, 2000.

"Type", when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

"UDS" means Ultramar Diamond Shamrock Corporation, a Delaware corporation.

"Units" means the collective reference to the Common Units and the Subordinated Units.

"Valero" means Valero Energy Corporation, a Delaware corporation.

"Valero Asset Transaction" means a single aggregate transaction consummated on or before the 60th day after the Restatement Effective Date, whereby the Borrower will incur Loans and other Indebtedness some or all of the proceeds of which will be used to make Restricted Payments to the MLP, the MLP will raise cash through a public offering of Common Units, and the MLP will use the proceeds of such Restricted Payments and such offering to redeem certain Common Units and to enable the Borrower to have assets contributed to it by Valero or its Affiliates. The Valero Asset Transaction must meet the following criteria: (a) before and after such transaction, no Default shall have occurred or be continuing or would result therefrom, (b) the transaction shall be at prices and on terms and conditions no less favorable to the Borrower than could be obtained on an arms length basis from unrelated third parties, (c) the Loans incurred in connection with such transaction shall not exceed $100,000,000, (d) the fair market value of assets contributed to the Borrower or its Subsidiaries pursuant to such transaction must equal or exceed the amount of the Restricted Payments made by the Borrower in connection with such transaction, and (e) the public offering of Common Units pursuant to the transaction will be completed prior to or simultaneously with the redemption of Common Units pursuant to the transaction.

"Wholly-Owned Subsidiary" means, in respect of any Person, any subsidiary of such Person, all of the Equity Interests of which (other than director's qualifying shares, as may be required by law) is owned by such Person, either directly or indirectly through one or more Wholly-Owned Subsidiaries of such Person.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

"Working Capital Revolving Sub-Commitment" means, with respect to each Lender, the commitment of such Lender to make Working Capital Revolving Loans hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Working Capital Loans hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.07, (b) reduced or increased from time to time pursuant to Section 2.18, and (c) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial aggregate amount of the Lenders' Working Capital Revolving Sub-Commitments is $40,000,000. The Working Capital Revolving Sub-Commitments are a subset of the General Revolving Commitments and the aggregate amount of the Commitments is equal

to the aggregate amount of the total General Revolving Commitments. Each Lender's Working Capital Revolving Sub-Commitment shall be pro rata to its Applicable Percentage of the total Commitments.

"Working Capital Revolving Loan" has the meaning assigned to such term in Section 2.01.

SECTION 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a "General Revolving Loan") or by Type (e.g., a "Eurodollar Loan"). Borrowings also may be classified and referred to by Class (e.g., a "General Revolving Borrowing") or by Type (e.g., a "Eurodollar Borrowing").

SECTION 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

ARTICLE II
The Credits

SECTION 2.01. Commitments. (a) Subject to the terms and conditions set forth herein, each Lender agrees to make revolving credit loans (the "General Revolving Loans") to the

Borrower from time to time during the Availability Period, in an aggregate principal amount that will not result in (i) such Lender's Revolving Credit Exposure exceeding such Lender's General Revolving Commitment or (ii) the sum of the total Revolving Credit Exposures exceeding the total General Revolving Commitments.

(b) Subject to the terms and conditions set forth herein, including, without limitation, Section 5.08, each Lender agrees to make revolving credit loans (the "Working Capital Revolving Loans") to the Borrower from time to time during the Availability Period, in an aggregate principal amount that will not result in (i) such Lender's Working Capital Revolving Loans exceeding such Lender's Working Capital Revolving Sub-Commitment, (ii) the sum of the total Working Capital Revolving Loans exceeding the total Working Capital Revolving Sub-Commitments, or (iii) the sum of the total Revolving Credit Exposure exceeding the total General Revolving Commitments.

(c) The Working Capital Revolving Sub-Commitment of each Lender constitutes a subset of such Lender's General Revolving Commitment such that the availability of (i) the General Revolving Commitment of such Lender shall be reduced by the outstanding principal amount of such Lender's Working Capital Revolving Loans as of the time of determination and (ii) the Working Capital Revolving Sub-Commitment of each Lender shall be reduced by the amount, if any, by which (A) the outstanding principal amount of such Lender's General Revolving Credit Exposure as of the time of determination exceeds (B) the amount equal to such Lender's General Revolving Commitment minus such Lender's Working Capital Revolving Sub-Commitment. The sum of the total Revolving Credit Exposures shall not exceed at any time the total General Revolving Commitments.

(d) Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Loans during the Availability Period.

SECTION 2.02. Loans and Borrowings. (a) Each Loan shall be made as part of a Borrowing comprised entirely of General Revolving Loans or Working Capital Revolving Loans as the Borrower may request in accordance herewith and made by the Lenders ratably in accordance with their respective Commitments. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.12, each Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request in accordance herewith. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Eurodollar Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of $1,000,000 and not less than $5,000,000. At the time that each ABR Borrowing is made, such

Borrowing shall be in an aggregate amount that is an integral multiple of $500,000 and not less than $1,000,000; provided that an ABR Borrowing may be in an aggregate amount that is equal to (i) with respect to Working Capital Revolving Borrowings, the entire unused and available balance of the Working Capital Revolving Sub-Commitments, (ii) with respect to General Revolving Borrowings, (A) the total General Revolving Commitments less total Revolving Credit Exposure, or (B) the amount that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.04(e). Borrowings of more than one Type and Class may be outstanding at the same time; provided that there shall not at any time be more than a total of five Eurodollar Borrowings outstanding.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

SECTION 2.03. Requests for Borrowings. To request a Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing or (b) in the case of an ABR Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of the proposed Borrowing; provided that any such notice of an ABR Borrowing to finance the reimbursement of an LC Disbursement as contemplated by Section 2.04(e) may be given not later than 10:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

(i) the aggregate amount of the requested Borrowing;

(ii) the date of such Borrowing, which shall be a Business Day;

(iii) whether such Borrowing is to be comprised of Working Capital Revolving Loans or General Revolving Loans;

(iv) whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing;

(v) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and

(vi) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.05.

If no election as to the Type of Borrowing is specified, then the requested Borrowing shall be an ABR Borrowing. If no election as to the Class of Borrowing is specified, then the requested Borrowing shall be a General Revolving Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Borrowing, then the Borrower shall be deemed to have

selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

SECTION 2.04. Letters of Credit.

(a) General. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit for its own account, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, at any time and from time to time during the Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the LC Exposure shall not exceed $75,000,000 and (ii) the sum of the total Revolving Credit Exposures shall not exceed the total General Revolving Commitments.

(c) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the date that is five Business Days prior to the Maturity Date.

(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Lender, and each Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Applicable Percentage of each LC Disbursement made by the Issuing Bank and not reimbursed by the Borrower on the date due as provided in paragraph (e) of this Section,

or of any reimbursement payment required to be refunded to the Borrower for any reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 12:00 noon, New York City time, on (i) the Business Day that the Borrower receives such notice, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 that such payment be financed with an ABR Borrowing in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Borrowing. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Lender shall pay to the Administrative Agent its Applicable Percentage of the payment then due from the Borrower, in the same manner as provided in Section 2.05 with respect to Loans made by such Lender (and Section 2.05 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Loans as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance

whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. Neither the Administrative Agent, the Lenders nor the Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.11(c) shall apply. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced

Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.10(b). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Lenders with LC Exposure representing greater than 66 2/3% of the total LC Exposure) demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Lenders, an amount in cash equal to the LC Exposure as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Article VII. Such deposit shall be held by the Administrative Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of Lenders with LC Exposure representing greater than 66 2/3% of the total LC Exposure), be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

SECTION 2.05. Funding of Borrowings. (a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 12:00 noon, New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in New

York City and designated by the Borrower in the applicable Borrowing Request; provided that ABR Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.04(e) shall be remitted by the Administrative Agent to the Issuing Bank.

(a) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

SECTION 2.06. Interest Elections. (a) Each Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

SECTION 2.07. Termination and Reduction of Commitments. (a) Unless previously terminated, the Commitments shall terminate on the Maturity Date.

(b) The Borrower may at any time terminate, or from time to time reduce, the Commitments; provided that (i) each reduction of the Commitments shall be in an amount that is an integral multiple of $1,000,000 and not less than $5,000,000, (ii) any such reduction shall apply only to the General Revolving Commitments until such time that the amount of the General Revolving Commitments equals the amount of the Working Capital Revolving Sub-Commitments and, thereafter, shall reduce both the General Revolving Commitments and the Working Capital Revolving Sub-Commitments, and (iii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.09, the sum of the Revolving Credit Exposures would exceed the total Commitments.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Commitments

delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments shall be permanent. Each reduction of the Commitments shall be made ratably among the Lenders in accordance with their respective Commitments.

SECTION 2.08. Repayment of Loans; Evidence of Debt. (a) The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Loan on the Maturity Date.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after an increase in such Lender's Commitment pursuant to Section 2.18 or an increase or reduction in such Lender's Commitment pursuant to an assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.09. Prepayment of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to prior notice in accordance with paragraph (b) of this Section.

(b) The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days

before the date of prepayment, or (ii) in the case of prepayment of an ABR Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid; provided that, if a notice of prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.07, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.07. Promptly following receipt of any such notice relating to a Borrowing, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Borrowing shall be in an amount that would be permitted in the case of an advance of a Borrowing of the same Type as provided in Section 2.02. Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.11 and any break funding payments required by Section 2.14.

SECTION 2.10. Fees. (a) The Borrower agrees to pay the Administrative Agent for the account of each Lender a facility fee which shall accrue at the Applicable Rate on the daily amount of the Commitments of such Lender (whether used or unused) during the period from and including the Restatement Effective Date to but excluding the date on which such Commitment terminates; provided that, if such Lender continues to have any Revolving Credit Exposure after its Commitment terminates, then such facility fee shall continue to accrue on the daily amount of such Lender's Revolving Credit Exposure from and including the date on which its Commitment terminates to but excluding the date on which such Lender ceases to have any Revolving Credit Exposure. Accrued facility fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the Original Agreement Date; provided that any facility fees accruing after the date on which the Commitments terminate shall be payable on demand. All facility fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(b) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at the same Applicable Rate as that applicable to Eurodollar loans on the average daily amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Restatement Effective Date to but excluding the later of the date on which such Lender's Commitment terminates and the date on which such Lender ceases to have any LC Exposure, and (ii) to the Issuing Bank a fronting fee, which shall accrue at the rate of 0.125% per annum on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Original Effective Date to but excluding the later of the date of termination of the Commitments and the date on which there ceases to be any LC Exposure, as well as the Issuing Bank's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including the last day of March, June, September and December of each year shall be payable on the third Business Day following such last day, commencing on the first such date to occur after the Original Effective Date; provided that all such fees shall be payable on the date on which the Commitments

terminate and any such fees accruing after the date on which the Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(d) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, in the case of facility fees and participation fees, to the Lenders. Fees paid shall not be refundable under any circumstances.

SECTION 2.11. Interest. (a) The Loans comprising each ABR Borrowing shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest in the case of a Eurodollar Loan, at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section or (ii) in the case of any other amount, 2% plus the rate applicable to ABR Loans as provided in paragraph (a) of this Section.

(d) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and upon termination of the Commitments; provided that (i) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Loan prior to the end of the Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurodollar Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate or Adjusted LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.12. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Loans (or its Loan) included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing shall be made as an ABR Borrowing.

SECTION 2.13. Increased Costs. (a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or the Issuing Bank; or

(ii) impose on any Lender or the Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or the Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or the Issuing Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's

or the Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or the Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or the Issuing Bank or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or the Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or the Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 270 days prior to the date that such Lender or the Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Bank's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 270-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.14. Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.09(b) and is revoked in accordance therewith), or (d) the assignment of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.17, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate (in the case of a Eurodollar Loan) that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the Eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.15. Taxes. (a) Any and all payments by or on account of any obligation of the Borrower hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Bank, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent, such Lender or the Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Bank, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

SECTION 2.16. Payments Generally; Pro Rata Treatment; Sharing of Set-offs. (a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.13, 2.14 or 2.15, or otherwise) prior to 12:00 noon, New York City time, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All

such payments shall be made to the Administrative Agent at its offices at 270 Park Avenue, New York, New York, except payments to be made directly to the Issuing Bank as expressly provided herein and except that payments pursuant to Sections 2.13, 2.14, 2.15 and 9.03 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, towards payment of principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans or participations in LC Disbursements resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans and participations in LC Disbursements and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans and participations in LC Disbursements of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and participations in LC Disbursements; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the

Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to Sections 2.04(d) or (e), 2.05(b) or 2.16(d), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.17. Mitigation Obligations; Replacement of Lenders. (a) If any Lender requests compensation under Section 2.13, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.15, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.13 or 2.15, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.13, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.15, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Commitment is being assigned, the Issuing Bank), which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.13 or payments required to be made pursuant to Section 2.15, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

SECTION 2.18. Procedures Regarding Increases to the Commitments. (a) So long as no Default or Event of Default has occurred and is continuing, the Borrower may request from time to time, subject to the terms and conditions hereinafter set forth, that the aggregate amount of the Lenders' Commitments be increased. Any such request shall be made by written notice to the Administrative Agent; provided, however, that any such notice must be given no later than 60 days prior to the Maturity Date. Each such notice (a "Initial Notice of Commitment Increase") shall be in the form of Exhibit D-1 and specify therein:

(i) the proposed effective date of such increase, which date (the requested "Commitment Increase Effective Date") shall be no earlier than forty-five days after receipt by the Administrative Agent of such notice; and

(ii) the amount of the requested increase; provided, however, that (A) such increase must be at least $10,000,000, (B) after giving effect to such requested increase, the aggregate amount of the Lenders' Commitments shall not exceed $225,000,000, (C) such increase shall be applied in full to the General Revolving Commitments, and (D) the aggregate amount of the Working Capital Revolving Sub-Commitments, which are a subset of the General Revolving Commitments, shall not change (notwithstanding that the Working Capital Revolving Sub-Commitment of a given Lender may change pursuant to the last sentence of the definition of "Working Capital Revolving Sub-Commitment" herein).

The Administrative Agent shall deliver a copy of such Initial Notice of Commitment Increase to each Lender via facsimile transmission on or before the third Business Day next succeeding the date the Administrative Agent receives such Initial Notice of Commitment Increase. After receipt of the Initial Notice of Commitment Increase, each Lender shall determine, in its sole discretion, whether to participate, and to what extent, if any, in such Commitment increase and shall communicate such decision in writing to the Administrative Agent and the Borrower on or before the eleventh day prior to the proposed Commitment Increase Effective Date.

(b) On the tenth day prior to the proposed Commitment Increase Effective Date, so long as no Default or Event of Default has occurred and is continuing, the Borrower shall deliver to the Administrative Agent a written notice confirming the requested increase in the aggregate amount of the Lenders' Commitments. Each such notice (a "Notice of Confirmation of Commitment Increase") shall be in the form of Exhibit D-2 and specify therein:

(i) the proposed Commitment Increase Effective Date, which date shall be no earlier than five Business Days after receipt by the Administrative Agent of such Notice of Confirmation of Commitment Increase;

(ii) the amount of the requested increase; provided, however, that (A) such increase must be at least $10,000,000, (B) after giving effect to such requested increase, the aggregate amount of the Lenders' Commitments shall not exceed $225,000,000, (C) such increase shall be applied in full to the General Revolving Commitments, and (D) the aggregate amount of the Working Capital Revolving Sub-Commitments, which are a subset of the General Revolving Commitments, shall not change (notwithstanding that the Working Capital Revolving Sub-Commitment of a given Lender may change pursuant to the last sentence of the definition of "Working Capital Revolving Sub-Commitment" herein);

(iii) the identity of each of the then Lenders, if any, which has agreed with the Borrower to increase its Commitment in an amount such that its Applicable Percentage after giving effect to such requested increase will be the same or greater than its Applicable Percentage prior to giving effect to such requested increase (each such Lender being an "Increasing Lender"), each of the other then Lenders, if any, which has agreed to increase its Commitment in an amount such that its Applicable Percentage after giving effect to such a requested increase will be less than its Applicable Percentage prior to giving effect to such requested increase (each such Lender being a "Partially Increasing Lender") and the identity of each financial institution not already a Lender, if any, which has agreed with the Borrower to become a Lender to effect such requested increase in the aggregate amount of the Lenders' Commitments (each such financial institution shall be reasonably acceptable to the Administrative Agent and each such financial institution being a "New Lender" and each of the other then Lenders, if any, which has not agreed to increase its Commitment being a "Reducing Lender"); and

(iv) the amount of the respective Commitments of the then existing Lenders, such Increasing Lenders, such Partially Increasing Lenders, such Reducing Lenders and such New Lenders from and after the effective date of such increase.

(c) On or before each Commitment Increase Effective Date:

(i) the Borrower, each Increasing Lender, each Partially Increasing Lender and each then New Lender shall execute and deliver to the Administrative Agent for its acceptance, as to form, documentation embodying the provisions of the Notice of Commitment Increase relating to the increase in the aggregate amount of the Lenders' Commitments to be effected on such Commitment Increase Effective Date; and

(ii) upon acceptance of such documentation by the Administrative Agent, which acceptance shall not be unreasonably withheld, and so long as no Default or Event of Default has occurred and is continuing, (A) the Administrative Agent shall give prompt notice of such acceptance to each Lender, (B) it shall become effective, and each Increasing Lender's and Partially Increasing Lender's Commitment shall be increased to the amount specified therein, on such Commitment Increase Effective Date and (C) the Administrative Agent shall record each New Lender's information in the Register.

(d) On each Commitment Increase Effective Date:

(i) each then New Lender and each then Increasing Lender shall, by wire transfer of immediately available funds, deliver to the Administrative Agent such Lenders' New Funds Amount for such Commitment Increase Effective Date, which amount, for each such Lender, shall constitute Loans made by such Lender to the Borrower pursuant to Section 2.01 on such Commitment Increase Effective Date; and

(ii) the Administrative Agent shall, by wire transfer of immediately available funds, pay to each then Reducing Lender and to each Partially Increasing Lender its Reduction Amount for such Commitment Increase Effective Date, which amount, for each such Lender, shall constitute a prepayment by the Borrower pursuant to Section 2.09, ratably in

accordance with the respective principal amounts thereof, of the principal amounts of all then outstanding Loans of such Lender.

The Administrative Agent shall record each then New Lender's, each then Increasing Lender's and each then Partially Increasing Lender's information in the Register. Also effective as of each Commitment Increase Effective Date, each then New Lender and each then Increasing Lender shall be deemed to have purchased and had transferred to it, and each then Reducing Lender and each Partially Increasing Lender shall be deemed to have sold and transferred as provided in Section 2.04(d) to such New Lenders and Increasing Lenders, such undivided interest and participation in such Reducing Lender's and such Partially Increasing Lender's interest and participation in all then outstanding Letters of Credit, to the extent necessary so that such undivided interests and participations of all Lenders (including each New Lender) shall accord with their respective Applicable Percentages after giving effect to the increase in the aggregate amount of the Lenders' Commitments on such Commitment Increase Effective Date.

ARTICLE III
Representations and Warranties

The Borrower represents and warrants to the Lenders that:

SECTION 3.01. Organization; Powers. Each of the Borrower and its Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

SECTION 3.02. Authorization; Enforceability. The Transactions are within the Borrower's partnership powers and have been duly authorized by all necessary corporate, limited liability company or partnership and, if required, stockholder, member or limited partner action. This Agreement has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.03. Governmental Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of the Borrower or any of its Subsidiaries or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon the Borrower or any of its Subsidiaries or its assets, or give rise to a right thereunder to require any payment to be made by the Borrower or any of its Subsidiaries, and (d) will not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries.

SECTION 3.04. Financial Condition; No Material Adverse Change. (a) The Borrower has heretofore furnished to the Lenders its consolidated balance sheet and statements of income, partners equity and cash flows (i) as of and for the fiscal year ended December 31, 2001, reported on by independent public accountants, and (ii) as of and for the fiscal quarter and the portion of the fiscal year ended September 30, 2002, certified by its chief financial officer. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the Borrower and its consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP, subject to year-end audit adjustments and the absence of footnotes in the case of the statements referred to in clause (ii) above.

(b) Since December 31, 2001, there has been no material adverse change in the business, assets, operations, prospects or condition, financial or otherwise, of the Borrower and its Subsidiaries, taken as a whole.

SECTION 3.05. Properties. (a) Each of the Borrower and its Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business, free and clear of all Liens except Permitted Encumbrances and Liens otherwise permitted or contemplated by this Agreement.

(b) Each of the Borrower and its Subsidiaries owns, or is licensed to use, or has made all required federal filings (and has not been notified of any contest) with respect to, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and the use thereof by the Borrower and its Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.06. Litigation and Environmental Matters. (a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any of its Subsidiaries (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect (other than the Disclosed Matters) or (ii) that involve this Agreement or the Transactions.

(b) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, neither the Borrower nor any of its Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability.

(c) Since the Restatement Effective Date, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

SECTION 3.07. Compliance with Laws and Agreements. Each of the Borrower and its Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

SECTION 3.08. Investment and Holding Company Status. Neither the Borrower nor any of its Subsidiaries is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935. The Borrower is not subject to regulation under any Federal or State statute or regulation which limits its ability to incur Indebtedness.

SECTION 3.09. Taxes. Each of the Borrower and its Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10. ERISA. Each ERISA Affiliate has fulfilled its obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Code with respect to each Plan. No ERISA Affiliate has (i) sought a waiver of the minimum funding standard under Section 412 of the Code in respect of any Plan, (ii) failed to make any contribution or payment to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement or made any amendment to any Plan or Benefit Arrangement, which has resulted or could reasonably be expected to result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Code or (iii) incurred any liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

SECTION 3.11. Disclosure. The Borrower has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. Neither the Information Memorandum nor any of the other reports, financial statements, certificates or other information furnished by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

SECTION 3.12. Investments and Guarantees. As of the Restatement Effective Date, neither the Borrower nor any Subsidiary has any Investments or has outstanding any Guarantees,

except as permitted by this Agreement or reflected in the financial statements described in Section 3.04(a).

SECTION 3.13. Subsidiaries. As of the Restatement Effective Date, the Borrower has no Subsidiaries.

SECTION 3.14. Casualties; Taking of Property. Neither the business nor the assets of the Borrower or any Subsidiary have been materially and adversely affected as a result of any fire, explosion, earthquake, flood, drought, windstorm, accident, strike or other labor disturbance, embargo, requisition or taking of any assets or cancellation of contracts, permits or concessions by any domestic or foreign government or any agency thereof, riot, activities of armed forces or acts of God or of any public enemy.

ARTICLE IV
Conditions

SECTION 4.01. Conditions to Restatement. The closing and effectiveness of this Agreement is subject to the satisfaction, immediately prior to or concurrently with such closing on the Restatement Effective Date, of the following conditions precedent:

(a) The Administrative Agent (or its counsel) shall have received (i) this Agreement, executed and delivered by a duly authorized officer of the Borrower, by the Required Lenders under the Original Agreement, by each Lender with a greater Commitment under this Agreement than under the Original Agreement, and by each Lender on the Restatement Effective Date not a party to the Original Agreement, and (ii) the MLP Guaranty, executed and delivered by a duly authorized officer of the MLP and satisfactory in form and substance to the Administrative Agent.

(b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Restatement Effective Date) of (i) Andrews & Kurth L.L.P., counsel for the Borrower and the MLP and (ii) Bradley C. Barron, in-house counsel of Valero, collectively providing the opinions set forth in Exhibit B, and each such opinion covering such other matters relating to the Borrower, the General Partner, the MLP, this Agreement or the Transactions as the Lenders shall reasonably request. The Borrower hereby requests each such counsel to deliver its applicable opinion to the Administrative Agent and the Lenders.

(c) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Borrower, the General Partner, the MLP, the authorization of the Transactions, and any other legal matters relating to the Borrower, the General Partner, the MLP, the Agreement or the Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

(d) The Administrative Agent shall have received a certificate, dated the Restatement Effective Date and signed by the President, Vice President or a Financial Officer of the Borrower, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 4.02.

(e) The Administrative Agent shall have received (i) counterpart originals of the Partnership Agreement (MLP) substantially in the form filed as Exhibit 3.4 to the MLP's annual report on Form 10-K for the fiscal year ended December 31, 2001, as amended by the First Amendment (filed as Exhibit 3.5 to the 10-K) and the Reorganization Agreement, dated as of May 30, 2002, filed as Exhibit 99.1 to the MLP's current report on Form 8-K on June 6, 2002, the Omnibus Agreement, the Transportation Agreement, the Indenture and the Partnership Agreement (Borrower) in form and substance acceptable to the Lenders, in each case duly executed by each of the parties thereto and (ii) evidence satisfactory to the Lenders that the Partnership Agreement (Borrower), the Omnibus Agreement, the Transportation Agreement, the Indenture and the Partnership Agreement (MLP) are in full force and effect and have not been amended or modified except to the extent such amendments or modifications have been delivered to the Administrative Agent, which evidence may be in the form of a certificate of the President or a Vice President (or equivalent officer) of the Borrower.

(f) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Restatement Effective Date (including all fees due and payable on or prior to such time pursuant to Section 2.10 of the Original Agreement), including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(g) The Administrative Agent shall have received satisfactory evidence regarding the scope and materiality of any environmental risks affecting the properties of the Borrower and its subsidiaries.

The Administrative Agent shall notify the Borrower and the Lenders of the Restatement Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit under this Agreement shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 9.02) at or prior to 3:00 p.m., New York City time, on March 6, 2003.

SECTION 4.02. Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of the Issuing Bank to issue, amend, renew or extend any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) The representations and warranties of the Borrower set forth in this Agreement shall be true and correct on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable (unless such representations and warranties are stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct as of such earlier date).

(b) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

(c) The Administrative Agent shall have received each additional document, instrument, legal opinion or item of information reasonably requested by the Administrative

Agent, including, without limitation, a copy of any debt instrument, security agreement or other material contract to which the Borrower or any Subsidiary may be a party.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section 4.02.

ARTICLE V
Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

SECTION 5.01. Financial Statements and Other Information. The Borrower will furnish to the Administrative Agent and each Lender:

(a) within 105 days after the end of each fiscal year of the MLP:

(i) the audited consolidated balance sheet and related statements of income, partners equity and cash flows of the MLP as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by Ernst & Young LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition, results of operations and cash flows of the MLP and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied;

(ii) the consolidating balance sheet and related statements of income, partners equity and cash flows of the MLP as of the end of and for such year, setting forth in each case in comparative form the figures from the previous fiscal year, all certified by one of the Borrower's Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower in accordance with GAAP consistently applied, subject to the absence of footnotes; and

(iii) the consolidated balance sheet and related statements of income, partners equity and cash flows of the Borrower as of the end of and for such year, setting forth in each case in comparative form the figures from the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to the absence of footnotes.

(b) within 60 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, its consolidated balance sheet and related statements of income, partners equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of the Borrower (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Section 6.11 and (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) promptly and in any event within ten (10) Business Days after the existence of any of the following conditions, a certificate of the President or a Vice President (or equivalent officer) of the Borrower, or of the officer of the Borrower primarily responsible for monitoring compliance by the Borrower and its Subsidiaries with Environmental Laws, specifying in detail the nature of such condition and the Borrower's proposed response thereto, in each case if the occurrence of such event could reasonably be expected to have a Material Adverse Effect:

(i) the receipt by the Borrower or the General Partner of any communication (written or oral), whether from a Governmental Authority or other Person that alleges that the Borrower or any Subsidiary is not in compliance with applicable Environmental Laws or Environmental Approvals,

(ii) the President or a Vice President (or equivalent officer) of the Borrower, or the officer of the Borrower primarily responsible for monitoring compliance by the Borrower and its Subsidiaries with Environmental Laws, shall obtain actual knowledge that there exists any Environmental Liability pending or threatened against the Borrower or any Subsidiary, or

(iii) any release, emission, discharge or disposal of any Hazardous Materials that could reasonably be expected to form the basis of any Environmental Liability with respect to the Borrower or any Subsidiary.

The Borrower will also maintain and make available for inspection by the Administrative Agent and the Lenders and their agents and employees accurate and complete records of all investigations, studies, sampling and testing conducted, and any and all remedial actions taken, by the Borrower, any Subsidiary or, to its knowledge and to the extent obtained by the Borrower

and the General Partner, by any Governmental Authority or other Person in respect to Hazardous Materials on or affecting the properties of Borrower and its Subsidiaries.

(e) Prior to the end of each fiscal year, a copy of the projections of the operating budget and cash flows for the next succeeding fiscal year, such projections to be accompanied by a certificate of a Financial Officer to the effect that the projections have been prepared on the basis of sound financial planning practice and that such Financial Officer has no reason to believe that such projections are incorrect or misleading in any material respect; and

(f) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of this Agreement, as the Administrative Agent or any Lender may reasonably request.

SECTION 5.02. Notices of Material Events. The Borrower will furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Borrower or any Affiliate thereof that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) if and when any ERISA Affiliate (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Plan which could reasonably be expected to constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Code, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or Multi-Employer Plan or in respect of any Benefit Arrangement or makes any amendment to any Plan or Benefit Arrangement which has resulted or could reasonably be expected to result in the imposition of a Lien or the posting of a bond or other security, a certificate of a Financial Officer of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable ERISA Affiliate is required or proposes to take.

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect; and

(e) any material amendment to the Partnership Agreement (MLP), the Partnership Agreement (Borrower) or any Material Agreement, together with a certified copy of such amendment.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or President or any Vice President (or equivalent officer) of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.03. Existence; Conduct of Business. The Borrower will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03.

SECTION 5.04. Payment of Obligations. The Borrower will, and will cause each of its Subsidiaries to, pay its obligations, including Tax liabilities, that, if not paid, could result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.05. Maintenance of Properties; Insurance. The Borrower will, and will cause each of its Subsidiaries to, (a) keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted, and (b) maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations.

SECTION 5.06. Books and Records; Inspection Rights. The Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. The Borrower will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested.

SECTION 5.07. Compliance with Laws. The Borrower will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property and the terms and provisions of the Material Agreements, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.08. Use of Proceeds and Letters of Credit. The proceeds of the Working Capital Revolving Loans will be used to finance the working capital requirements of the

Borrower and its Subsidiaries, or to pay, in whole or in part, Restricted Payments permitted pursuant to the terms hereof. The proceeds of the General Revolving Loans that are not Working Capital Revolving Loans will be used to finance the working capital requirements and general partnership purposes of the Borrower and its Subsidiaries, but will not be used to make any Restricted Payment permitted by Section 6.06(b) (except in connection with the Valero Asset Transaction). The Letters of Credit shall be used for general business purposes in the ordinary course of business or for such other purposes as may be approved by the Administrative Agent. No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations T, U and X.

SECTION 5.09. Environmental Laws. The Borrower will, and will cause each of its Subsidiaries to:

(a) comply with, and ensure compliance by all tenants and subtenants, if any, with, all applicable Environmental Laws and obtain and comply with and maintain, and ensure that all tenants and subtenants obtain and comply with and maintain, any and all licenses, approvals, notifications, registrations or permits required by applicable Environmental Laws except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and

(b) conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws and promptly comply with all lawful orders and directives of all Governmental Authorities regarding Environmental Laws except to the extent that the same are being contested in good faith by appropriate proceedings and the pendency of such proceedings could not reasonably be expected to have a Material Adverse Effect.

SECTION 5.10. Clean-Down. The Borrower will cause the aggregate outstanding principal balance of the Working Capital Revolving Loans, the proceeds of which were used to pay Restricted Payments, to be zero for a period of at least 15 consecutive days during each calendar year.

SECTION 5.11. Subsidiaries. The Borrower will, substantially contemporaneously with its formation or acquisition, cause each Subsidiary (other than Non-U.S. Subsidiaries) to become a Guarantor with respect to, and jointly and severally liable with all other Guarantors for, all obligations of the Borrower under this Agreement by executing and delivering to the Administrative Agent, for the benefit of the Lenders, a Subsidiary Guaranty, substantially in the form of Exhibit C-2. The Borrower shall, or shall cause such Subsidiary to, further deliver any and all instruments, documents, approvals, consents or opinions of counsel reasonably requested by the Administrative Agent or the Required Lenders in connection with any such Subsidiary Guaranty.

ARTICLE VI
Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit have

expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

SECTION 6.01. Indebtedness. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness created under this Agreement;

(b) Indebtedness of the Borrower to any Subsidiary and of any Subsidiary to the Borrower or any other Subsidiary;

(c) Guarantees by the Borrower of Indebtedness of any Subsidiary and by any Subsidiary of Indebtedness of the Borrower or any other Subsidiary;

(d) other Indebtedness of the Borrower and any Subsidiary; provided that, both before and after such Indebtedness is created, incurred or assumed, no Default shall exist under this Agreement, including, without limitation, a Default with respect to (i) the Consolidated Interest Coverage Ratio set forth in Section 6.11(a) and (ii) the Consolidated Debt Coverage Ratio set forth in Section 6.11(b).

SECTION 6.02. Liens. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) Permitted Encumbrances;

(b) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary or existing on any property or asset of any Person that becomes a Subsidiary after the date hereof prior to the time such Person becomes a Subsidiary; provided that (i) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary, as the case may be, (ii) such Lien shall not apply to any other property or assets of the Borrower or any Subsidiary and (iii) such Lien shall secure only those obligations which it secures on the date of such acquisition or the date such Person becomes a Subsidiary, as the case may be;

(c) Liens on fixed or capital assets acquired, constructed or improved by the Borrower or any Subsidiary; provided that (i) such security interest secures Indebtedness permitted by clause (d) of Section 6.01, (ii) such security interests and the Indebtedness secured thereby are incurred prior to or within 90 days after such acquisition or the completion of such construction or improvement, (iii) the Indebtedness secured thereby does not exceed the cost of acquiring, constructing or improving such fixed or capital assets and (iv) such security interests shall not apply to any other property or assets of the Borrower or any Subsidiary; and

(d) other Liens securing Indebtedness in an amount that does not at any time exceed 10% of Consolidated Tangible Net Worth.

SECTION 6.03. Fundamental Changes. (a) The Borrower will not, and will not permit any Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or any substantial part of its assets, or all or substantially all of the stock of any of its Subsidiaries (in each case whether now owned or hereafter acquired), or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing (i) any Subsidiary may merge into the Borrower in a transaction in which the Borrower is the surviving corporation or the Borrower may merge with another Person so long as (A) the surviving entity or purchaser, if other than the Borrower, assumes, pursuant to the terms of such transaction, each of the obligations of the Borrower hereunder and under any other documents entered into in connection with the Loans and (B) each such assumption is expressly evidenced by an agreement executed and delivered to the Lenders in a form reasonably satisfactory to the Administrative Agent, (ii) any Subsidiary may merge into any Subsidiary in a transaction in which the surviving entity is a Subsidiary, and (iii) any Subsidiary may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders; provided that any such merger involving a Person that is not a Wholly-Owned Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Section 6.04.

(a) The Borrower will not, and will not permit any of its Subsidiaries to, engage to any material extent in any business other than businesses of the type conducted by the Borrower and its Subsidiaries on the Original Agreement Date and businesses reasonably related thereto.

SECTION 6.04. Investments, Loans, Advances, Guarantees and Acquisitions. The Borrower will not, and will not permit any of its Subsidiaries to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a Wholly-Owned Subsidiary prior to such merger) any Investment in or Guarantee any obligations of, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

(a) Permitted Investments;

(b) Investments by the Borrower in the Equity Interest of its Subsidiaries, so long as each such Subsidiary has Guaranteed the Indebtedness of the Borrower under this Agreement;

(c) loans or advances made by the Borrower to any Subsidiary and made by any Subsidiary to the Borrower or any other Subsidiary, so long as each such Subsidiary has Guaranteed the Indebtedness of the Borrower under this Agreement;

(d) Guarantees constituting Indebtedness permitted by Section 6.01;

(e) the Borrower's interest in the Skelly-Belvieu Pipeline Company, L.L.C.;

(f) Investments in Joint Venture Interests and the purchase or other acquisition of the assets of another Person constituting a business unit; provided, that, both

before and after giving effect to any such Investment, no Default shall exist, including, without limitation, a Default with respect to (i) use of proceeds set forth in Section 5.08, (ii) the Consolidated Interest Coverage Ratio set forth in Section 6.11(a), or (iii) the Consolidated Debt Coverage Ratio set forth in Section 6.11(b);

(g) Investments in Non-U.S. Subsidiaries; provided, however, that, the aggregate amount of such Investments shall not exceed $15,000,000 at any time; and

(h) Investments described in the definition of (and only if made in connection with) the Valero Asset Transaction.

SECTION 6.05. Hedging Agreements. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any Hedging Agreement, other than Hedging Agreements entered into in the ordinary course of business to hedge or mitigate risks to which the Borrower or any Subsidiary is exposed in the conduct of its business or the management of its liabilities.

SECTION 6.06. Restricted Payments. The Borrower will not, and will not permit any of its Subsidiaries to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except (a) any Subsidiary may declare and pay Restricted Payments to the Borrower and (b) as long as no Default has occurred and is continuing or would result therefrom, the Borrower may make Restricted Payments consisting of cash distributions in accordance with the terms of the Partnership Agreement (Borrower); provided, however, that, for the avoidance of doubt, the Lenders and the Borrower agree that the Borrower may make the Restricted Payments described in the definition of (and in connection with the) "Valero Asset Transaction" herein, provided that the making of such Restricted Payments is not prohibited by the Partnership Agreement (Borrower).

SECTION 6.07. Transactions with Affiliates. The Borrower will not, and will not permit any of its Subsidiaries to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (a) in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (b) transactions between or among the Borrower and its Wholly-Owned Subsidiaries not involving any other Affiliate, (c) any Restricted Payment permitted by Section 6.06, (d) pursuant to the agreements listed on Schedule 6.07, which agreements are at prices and on terms and conditions not less favorable to the Borrower than could be obtained on an arm's-length basis from unrelated third parties, and (e) the Valero Asset Transaction.

SECTION 6.08. Restrictive Agreements. The Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon (a) the ability of the Borrower or any Subsidiary to create, incur or permit to exist any Lien upon any of its property or assets, or (b) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that (i) the foregoing shall not apply to restrictions and conditions imposed by law or by this

Agreement, (ii) the foregoing shall not apply to restrictions and conditions (x) existing on the Restatement Agreement Date identified on Schedule 6.08 (but shall apply to any extension or renewal of, or any amendment or modification expanding the scope of, any such restriction or condition so as to cause such restriction or condition to be more restrictive than the restriction or condition in existence on the Restatement Agreement Date) or (y) arising or agreed to after the Restatement Agreement Date; provided that such restrictions or conditions are not more restrictive than the restrictions and conditions existing on the Restatement Agreement Date, (iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, (iv) clause (a) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness and (v) clause (a) of the foregoing shall not apply to customary provisions in leases and other contracts restricting the assignment thereof.

SECTION 6.09. Limitation on Modifications of Other Agreements. The Borrower will not, and will not permit any Subsidiary to, amend, modify or change, or consent to any amendment, modification or change to, any of the terms of, the Material Agreements, except to the extent the same could not reasonably be expected to have a Material Adverse Effect.

SECTION 6.10. Creation of Subsidiaries. The Borrower will not at any time create or acquire any Subsidiary unless Borrower has caused such Subsidiary to comply with the requirements of Section 5.11.

SECTION 6.11. Financial Condition Covenants. The Borrower will not permit at any time (a) its Consolidated Interest Coverage Ratio to be less than 3.50 to 1.00 or (b) its Consolidated Debt Coverage Ratio to be in excess of 4.00 to 1.00.

ARTICLE VII
Events of Default

If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five Business Days;

(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any Subsidiary in or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with the Loan Documents or any

amendment or modification hereof or waiver hereunder, shall prove to have been incorrect when made or deemed made;

(d) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 5.02, 5.03 (with respect to the Borrower's existence), 5.08 or 5.10 or in Article VI;

(e) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in the Loan Documents (other than those specified in clause (a), (b) or (d) of this Article), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(f) the Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable;

(g) a default shall occur in the payment when due (subject to any applicable grace period), whether by acceleration or otherwise, of any Material Indebtedness; or a default shall occur in the performance or observance of any obligation or condition with respect to any Material Indebtedness if the effect of such default is to accelerate the maturity of any such Indebtedness or such default shall continue unremedied for any applicable period of time sufficient to permit the holder or holders of such Indebtedness, or any trustee or agent for such holders, to cause such Indebtedness to become due and payable prior to its expressed maturity.

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the General Partner, the Borrower or any Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the General Partner, the Borrower or any Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the General Partner, the Borrower or any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the General Partner, the Borrower or any Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) the General Partner, the Borrower or any Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount in excess of $10,000,000 and that are not covered by insurance shall be rendered against the Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any Subsidiary to enforce any such judgment;

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and its Subsidiaries in an aggregate amount exceeding $10,000,000;

(m) the Borrower or any Subsidiary shall incur an Environmental Liability requiring payment in any Rolling Period in excess of $10,000,000;

(n) the MLP shall (i) conduct, transact or otherwise engage in, or commit to conduct, transact or otherwise engage in, any business or operations other than (X) those incidental to its ownership of the limited partner interests in the Borrower or of Equity Interests in other Wholly-Owned Subsidiaries and (Y) the incurrence and maintenance of Indebtedness or (ii) own, lease, manage or otherwise operate any properties or assets (including cash and cash equivalents), other than (A) the limited partner interests in the Borrower, (B) ownership interests (not to exceed 1% in each such case) of a Subsidiary, (C) ownership interests in other subsidiaries not Subsidiaries of the Borrower, (D) cash received in connection with dividends made by the Borrower in accordance with Section 6.06(b) pending application to the holders of the Units and the General Partner Interest, (E) cash received in connection with the incurrence of Indebtedness and (F) cash received in connection with dividends made by other subsidiaries;

(o) a Change in Control shall occur; or

(p) the sale by Valero of a material portion of its Refinery Assets unless each purchaser thereof has (i) a debt rating of its senior, unsecured, long-term indebtedness for borrowed money that is not guaranteed by any other Person or subject to any other credit enhancement of at least BBB-/Baa3 and (ii) and has fully assumed, with respect to such purchased Refinery Assets, the rights and obligations of Valero and its Affiliates under the Transportation Agreement.

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times:(i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any

event with respect to the Borrower described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

ARTICLE VIII
The Administrative Agent

Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof, together with such actions and powers as are reasonably incidental thereto.

The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that the Administrative Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and (c) except as expressly set forth herein, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or wilful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement, (ii) the contents of any certificate, report or other document delivered hereunder or in connection herewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Bank, appoint a successor Administrative Agent which shall be a Lender and a commercial bank with an office in New York, New York and having a combined capital and surplus of at least $500,000,000, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder or thereunder.

ARTICLE IX
Miscellaneous

SECTION 9.01. Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrower, to it at One Valero Place, San Antonio, Texas 78212, Attention of Senior Vice President and Chief Financial Officer (Telecopy No. (210) 592-2010);

(b) if to the Administrative Agent, to JPMorgan Chase Bank, Loan and Agency Services Group, 1111 Fannin, 8th Floor, Houston, TX 77002, Attention of Maria Arreola (Telecopy No. (713) 750-2228);

(c) if to the Issuing Bank, to it at JPMorgan Chase Bank, Letter of Credit Group, Global Trade Services, 10420 Highland Manor Dr., Tampa, FL 33610, Attention of James Alonzo (Telecopy No. (813) 432-5161);

(d) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

SECTION 9.02. Waivers; Amendments. (a) No failure or delay by the Administrative Agent, the Issuing Bank or any Lender in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Bank and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders; provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any

fees payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby, (iv) change Section 2.16(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender, or (v) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the Issuing Bank hereunder without the prior written consent of the Administrative Agent or the Issuing Bank, as the case may be.

SECTION 9.03. Expenses; Indemnity; Damage Waiver. (a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of this Agreement or any amendments, modifications or waivers of the provisions hereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all out-of-pocket expenses incurred by the Administrative Agent, the Issuing Bank or any Lender, including the fees, charges and disbursements of any counsel for the Administrative Agent, the Issuing Bank or any Lender, in connection with the enforcement or protection of its rights in connection with this Agreement, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(a) The Borrower shall indemnify the Administrative Agent, the Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby (including the MLP Guaranty), the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such

indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or wilful misconduct of such Indemnitee.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent or the Issuing Bank under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent or the Issuing Bank, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent or the Issuing Bank in its capacity as such.

(d) To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable not later than 5 Business Days after written demand therefor.

SECTION 9.04. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Bank and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided that (i) except in the case of an assignment to a Lender or an Affiliate of a Lender, each of the Borrower and the Administrative Agent (and, in the case of an assignment of all or a portion of a Commitment or any Lender's obligations in respect of its LC Exposure and the Issuing Bank) must give their prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment, the amount of the Commitment of the assigning Lender subject to each such assignment (determined as of the date the Assignment and

Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than $5,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, (iii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement, (iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of $3,500, and (v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire; and provided further that any consent of the Borrower otherwise required under this paragraph shall not be required if an Event of Default has occurred and is continuing. Subject to acceptance and recording thereof pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Acceptance the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.13, 2.14, 2.15 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section. Any assignment of a given percentage of a Lender's General Revolving Commitment shall cover the same percentage of such Lender's Working Capital Revolving Commitment, and vice versa.

(c) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Any Lender may, without the consent of the Borrower, the Administrative Agent or the Issuing Bank, sell participations to one or more banks or other entities (a

"Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (f) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.13, 2.14 and 2.15 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.16(c) as though it were a Lender.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.13 or 2.15 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.15 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.15(e) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05. Survival. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.13, 2.14, 2.15 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of

the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other required parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.09. Governing Law; Jurisdiction; Consent to Service of Process. (a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions

by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against the Borrower or its properties in the courts of any jurisdiction.

(c) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12. Confidentiality. Each of the Administrative Agent, the Issuing Bank and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or

(ii) becomes available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis from a source other than the Borrower. For the purposes of this Section, "Information" means all information received from the Borrower relating to the Borrower or its business, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by the Borrower; provided that, in the case of information received from the Borrower after the Original Agreement Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.13. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 9.14. Limitation of Liability. Neither the General Partner nor the general partner(s) of the MLP shall be liable for (a) the obligations of the Borrower under this Agreement or (b) the obligations of the MLP under the MLP Guaranty, including in each case, without limitation, by reason of any payment obligation imposed by governing state partnership statutes and any provision of the applicable limited partnership agreement of the Borrower or the MLP that requires such General Partner or general partner(s), as the case may be, to restore a capital account deficit.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the Restatement Agreement Date.

VALERO LOGISTICS OPERATIONS, L.P.

By: Valero GP, Inc., its General Partner

By: /s/ Steven A. Blank

Name: Steven A. Blank
Title: Senior Vice President and Chief Financial Officer

JPMORGAN CHASE BANK, individually and as
Administrative Agent

By /s/ Robert C. Mertensotto

Name: Robert C. Mertensotto
Title: Managing Director

ROYAL BANK OF CANADA

By /s/ Linda M. Stephen

Name: Linda M. Stephen
Title: Senior Manager

SUNTRUST BANK

By /s/ David J. Edge

Name: David J. Edge
Title: Director

MIZUHO CORPORATE BANK, LIMITED

THE INDUSTRIAL BANK OF JAPAN TRUST COMPANY

By /s/ Jacques Azagury

Name: Jacques Azagury
Title: Senior Vice President & Manager

BARCLAYS BANK PLC

By /s/ Nicholas A. Bell

Name: Nicholas A. Bell
Title : Director, Loan Transaction Management

SUMITOMO MITSUI BANKING CORPORATION

By /s/ Leo E. Pagarigan

Name: Leo E. Pagarigan
Title: Senior Vice President

AUSTRALIA AND NEW ZEALAND BANKING
GROUP LIMITED

By /s/ R. Scott McInnis

Name: R. Scott McInnis
Title: Head, Global Structured
Finance-Americas

THE BANK OF NOVA SCOTIA

By /s/ N. Bell

Name: N. Bell
Title: Senior Manager

COMPASS BANK

By /s/ Collis Sanders

Name: Collis Sanders
Title: Senior Vice President

By /s/ Ed Jones

Name: Ed Jones
Title: Executive Vice President

SCHEDULE 2.01

LENDER	COMMITMENT
JPMorgan Chase Bank	$20,000,000
Royal Bank of Canada	$20,000,000
SunTrust Bank	$20,000,000
Mizuho Corporate Bank, Limited.	$20,000,000
Barclays Bank PLC	$20,000,000
Sumitomo Mitsui Banking Corporation	$15,000,000
The Bank of Tokyo - Mitsubishi, Ltd.	$15,000,000
Australia and New Zealand Banking Group Limited	$15,000,000
The Bank of Nova Scotia	$15,000,000
Compass Bank	$15,000,000

SCHEDULE 3.06

Disclosed Matters

None.

Schedule 3.06

SCHEDULE 6.07

Affiliate Agreements

None.

Schedule 6.07

SCHEDULE 6.08

Existing Restrictions

The Indenture.

The First Supplemental Indenture to the Indenture, dated as of July 15, 2002.

Schedule 6.08

EXHIBIT A

[FORM OF]

ASSIGNMENT AND ACCEPTANCE

Reference is made to the Credit Agreement dated as of December 15, 2000 as amended and restated through March 6, 2003 (as amended and in effect on the date hereof, the "Credit Agreement"), among Valero Logistics Operations, L.P., the Lenders named therein and JPMorgan Chase Bank, as Administrative Agent for the Lenders. Terms defined in the Credit Agreement are used herein with the same meanings.

The Assignor named on the reverse hereof hereby sells and assigns, without recourse, to the Assignee named on the reverse hereof, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Assignment Date set forth on the reverse hereof, the interests set forth on the reverse hereof (the "Assigned Interest") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the interests set forth on the reverse hereof in the Commitment of the Assignor on the Assignment Date and Loans owing to the Assignor which are outstanding on the Assignment Date, together with the participations in Letters of Credit and LC Disbursements held by the Assignor on the Assignment Date, but excluding accrued interest and fees to and excluding the Assignment Date. The Assignee hereby acknowledges receipt of a copy of the Credit Agreement. From and after the Assignment Date (i) the Assignee shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the Assigned Interest, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent of the Assigned Interest, relinquish its rights and be released from its obligations under the Credit Agreement.

This Assignment and Acceptance is being delivered to the Administrative Agent together with (i) if the Assignee is a Foreign Lender, any documentation required to be delivered by the Assignee pursuant to Section 2.15(e) of the Credit Agreement, duly completed and executed by the Assignee, and (ii) if the Assignee is not already a Lender under the Credit Agreement, an Administrative Questionnaire in the form supplied by the Administrative Agent, duly completed by the Assignee. The Assignee/Assignor shall pay the fee payable to the Administrative Agent pursuant to Section 9.04(b) of the Credit Agreement.

This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the State of New York.

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Effective Date of Assignment
("Assignment Date"):

Percentage Assigned of Facility/Commitment (set forth, to at least 8 decimals, as a percentage of the Facility and the aggregate Commitments Facility Principal Amount Assigned of all Lenders thereunder)	-		
Commitment Assigned:	$	%	
Loans:			

The terms set forth above and on the reverse side hereof are hereby agreed to:

[Name of Assignor] , as Assignor

By:

Name:
Title:

[Name of Assignee] , as Assignee

By:

Name:
Title:

The undersigned hereby consent to the within assignment:

Valero Logistics Operations, L.P.,

By: ----------
Name:
Title:

JPMorgan Chase Bank,
as Administrative Agent,

By: ----------
Name:
Title:

JPMorgan Chase Bank,
as Issuing Bank

By: ----------
Name:
Title:

Exhibit A-3

EXHIBIT B

OPINION OF COUNSEL FOR THE BORROWER

March 6, 2003

To the Lenders and the Administrative
Agent Referred to Below
c/o The Chase Manhattan Bank, as
Administrative Agent
270 Park Avenue
New York, New York 10017

Dear Sirs:

[I/We] have acted as counsel for Valero Logistics Operations, L.P. (the "Borrower") and Valero, L.P. (the "MLP", and together with the Borrower, the "Loan Parties"), in connection with the Credit Agreement dated as of December 15, 2000 as amended and restated through March 6, 2003 (the "Credit Agreement"), among the Borrower, the banks and other financial institutions identified therein as Lenders, and JPMorgan Chase Bank, as Administrative Agent and the other Loan Documents identified below. This opinion is being furnished to you pursuant to Section 4.01(b) of the Agreement. Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

In that connection, we have examined executed copies of the Credit Agreement, the MLP Guaranty, and the notes executed and delivered on the date hereof pursuant to Section 2.08(e) of the Credit Agreement (the "Loan Documents").

In addition, [I, or individuals under my direction,/We] have examined originals or copies, certified or otherwise identified to [my/our] satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as [I/we] have deemed necessary or advisable for purposes of this opinion.

Upon the basis of the foregoing, [I am/we are] of the opinion that:

1. The Loan Documents constitute the legal, valid and binding obligations of the Loan Parties party thereto, enforceable against such Loan Parties under the law of the State of New York in accordance with their respective terms.

2. In a case properly argued and presented, a Texas court or a Federal court sitting in Texas and applying Texas conflict of law principles, as set out in Section 35.51 of the Texas Business and Commerce Code, would give effect to the provisions of the Credit Agreement and the MLP Guaranty selecting New York law as governing, and would apply the substantive laws of the State of New York in construing the Credit Agreement and the MLP Guaranty.

3. Under the circumstances contemplated by the Credit Agreement, the making of the Loans will not violate Section 7 of the Securities Exchange Act of 1934, as amended, or any

regulation issued pursuant thereto, including without limitation, the provisions of Regulation T, U or X of the Board of Governors of the Federal Reserve System.

4. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

5. The Borrower is not subject to, or is exempt from, regulation as a "holding company" under the Public Utility Holding Company Act of 1935, as amended.

6. The Borrower (a) is a limited partnership duly formed and validly existing under the laws of the State of Delaware and (b) has the limited partnership power and authority to (i) own property and conduct the business in which it is currently engaged and in which it proposes, as of the date hereof, to be engaged after the date hereof, (ii) make, deliver and perform the Loan Documents to which it is a party in accordance with the terms and provisions thereof and (iii) borrow under the Credit Agreement.

7. The MLP (a) is a limited partnership duly formed and validly existing under the laws of the State of Delaware and (b) has the limited partnership power and authority to (i) own property and conduct the business in which it is currently engaged and in which it proposes, as of the date hereof, to be engaged after the date hereof, and (ii) make, deliver and perform the MLP Guaranty in accordance with the terms and provisions thereof.

8. The execution, delivery and performance of the Credit Agreement by the Borrower, and of the MLP Guaranty by the MLP, and the borrowings by the Borrower under the Credit Agreement, have been duly authorized by all necessary actions on behalf of the Loan Parties and each other Person whose authorization is relevant to, or constitutes, authorization on behalf of either Loan Party.

9. The Loan Documents have been duly executed and delivered on behalf of the Loan Parties, as applicable.

10. No approvals or consents of any governmental authority of the State of Texas or the United States of America or other consents or approvals by any other Person which have not been obtained on or prior to the date hereof are required (a) in connection with the participation by the Loan Parties in connection with the transactions under the Loan Documents or the execution, delivery and performance by either Loan Party of the Loan Documents to which it is a party, or (b) for the validity and enforceability of the Loan Documents and the exercise by the Lenders of their rights and remedies thereunder.

11. The execution, delivery and performance by the Loan Parties of the Loan Documents will not (a) violate any provision of the Partnership Agreement (Borrower), or the Partnership Agreement (MLP), (b) result in the breach of, or constitute a default under, any indenture or loan or credit agreement or any other material agreement, lease or instrument, known to me after due inquiry, to which either of the Loan Parties is a party or by which its properties may be bound, (c) result in, or require, the creation or imposition of any Lien on any of its properties or revenues pursuant to any requirement of law, rule regulation or order of any governmental authority of the State of Texas or the United States of America or material contractual obligation binding upon either Loan Party, or (d) result in any violation by either Loan Party of any applicable law of the State of Texas or the United States of America.

12. The partnership interests in the Borrower listed on Schedule A hereto constitute all the partnership interests of record in the Borrower and are owned of record by the Persons designated on Schedule A.

13. The Borrower is not subject to regulation under any statute or regulation of the State of Texas or the United States of America that limits its ability to incur indebtedness.

14. To my knowledge (having made due inquiry with respect thereto), no litigation, investigation or proceeding of or before any arbitrator or governmental authority is pending or threatened by or against the MLP or the Borrower or against any of the properties or revenues of either (a) with respect to the Loan Documents or any of the transactions contemplated thereby or (b) which, if adversely determined, could reasonably be expected to have a Material Adverse Effect.

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EXHIBIT C-1

FORM OF
MLP GUARANTY AGREEMENT

MADE BY

VALERO, L.P.

IN FAVOR OF

JPMORGAN CHASE BANK,
AS ADMINISTRATIVE AGENT

DATED AS OF MARCH 6, 2003

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MLP GUARANTY AGREEMENT, dated as of March 6, 2003, made by Valero, L.P., a Delaware limited partnership formerly known as Shamrock Logistics, L.P. (the "Parent Guarantor") in favor of JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, as Administrative Agent (in such capacity, the "Administrative Agent") for the benefit of the banks and other financial institutions or entities (the "Lenders") parties to the Credit Agreement, dated as of December 15, 2000 as amended and restated through March 6, 2003, (the "Credit Agreement"), among Valero Logistics Operations, L.P., a Delaware limited partnership formerly known as Shamrock Logistics Operations, L.P. (the "Borrower"), the Lenders, the Administrative Agent, Royal Bank of Canada, as syndication agent and SunTrust Bank, as documentation agent.

WITNESSETH:

WHEREAS, pursuant to the Credit Agreement, the Lenders have severally agreed to make extensions of credit to the Borrower upon the terms and subject to the conditions set forth therein;

WHEREAS, the Borrower is a member of an affiliated group of companies that includes the Parent Guarantor;

WHEREAS, the proceeds of the extensions of credit under the Credit Agreement may be or have been used in part to enable the Borrower to make valuable transfers to the Parent Guarantor;

WHEREAS, the Parent Guarantor will derive substantial direct and indirect benefit from the making of the extensions of credit under the Credit Agreement; and

WHEREAS, it is a condition precedent to the Credit Agreement that the Parent Guarantor shall have executed and delivered this Agreement to the Administrative Agent for the ratable benefit of the Lenders;

NOW, THEREFORE, in consideration of the premises and to induce the Lenders to agree to make their respective extensions of credit to the Borrower under the Credit Agreement, the Parent Guarantor hereby agrees with the Administrative Agent, for the ratable benefit of the Lenders, as follows:

SECTION 1. DEFINED TERMS

1.1 Definitions. (a) Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

(b) The following terms shall have the following meanings:

"Agreement": means this MLP Guaranty Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

"Borrower Obligations": means the collective reference to all Indebtedness owing by the Borrower pursuant to the Credit Agreement, including, without limitation, the unpaid principal

of and interest on the Loans and LC Disbursements and all other obligations and liabilities of the Borrower (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans and LC Disbursements and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) to the Administrative Agent or any Lender (or, in the case of any Hedging Agreement referred to below, any Affiliate of a Lender), whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, this Agreement, any Letter of Credit, any Hedging Agreement entered into by the Borrower with any Lender (or any Affiliate of a Lender) or the other Loan Documents or any other document made, delivered or given in connection therewith, in each case whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to the Administrative Agent or to the Lenders that are required to be paid by the Borrower pursuant to the terms of any of the foregoing agreements).

"Parent Guarantor Obligations": means the collective reference to (i) the Borrower Obligations and (ii) all obligations and liabilities of the Parent Guarantor which may arise under or in connection with this Agreement, in each case whether on account of guarantee obligations, reimbursement obligations, loan obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to the Administrative Agent or to the Lenders that are required to be paid by the Parent Guarantor pursuant to the terms of this Agreement or any other Loan Document).

1.2 Other Definitional Provisions. (a) The words "hereof," "herein", "hereto" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section and Schedule references are to this Agreement unless otherwise specified.

(b) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

(c) A reference to any Person hereunder shall be deemed to include a reference to such Person's successor's, endorsees, transferees and assigns.

SECTION 2. GUARANTEE

2.1 Guarantee. (a) The Parent Guarantor, to the maximum extent permitted by applicable law, (i) absolutely, unconditionally and irrevocably, guarantees to the Administrative Agent for the ratable benefit of the Lenders and their respective successors, endorsees, transferees and assigns, the prompt and complete payment and performance by the Borrower when due (whether at the stated maturity, by acceleration or otherwise) of the Borrower Obligations and (ii) indemnifies and holds harmless the Administrative Agent and each Lender from, and agrees to pay to the Administrative Agent and each Lender, all reasonable costs and expenses (including reasonable counsel fees and expenses) incurred by the Administrative Agent

or such Lender in enforcing any of its rights under this Agreement. The Parent Guarantor agrees that notwithstanding any stay, injunction or other prohibition preventing the payment by the Borrower of all or any portion of the Borrower Obligations and notwithstanding that all or any portion of the Borrower Obligations may be unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Borrower, to the maximum extent permitted by applicable law, such Borrower Obligations shall nevertheless be due and payable by the Parent Guarantor for the purposes of this Agreement at the time such Borrower Obligations would by payable by the Borrower under the provisions of the Credit Agreement. Notwithstanding the foregoing, any enforcement of this Agreement with respect to the rights of any Lender shall be accomplished by the Administrative Agent acting on behalf of such Lender.

(b) The guarantee contained in this Section 2.1 is a continuing guarantee and shall remain in full force and effect until all the Borrower Obligations and the obligations of the Parent Guarantor under the guarantee contained in this Section 2.1 shall have been satisfied by payment in full, no Letter of Credit shall be outstanding and the Commitments shall be terminated, notwithstanding that from time to time during the term of the Credit Agreement the Borrower may be free from any Borrower Obligations.

(c) No payment made by the Borrower, the Parent Guarantor, any other guarantor or any other Person or received or collected by the Administrative Agent or any Lender from the Borrower, the Parent Guarantor, any other guarantor or any other Person by virtue of any action or proceeding or any set-off or appropriation or application at any time or from time to time in reduction of or in payment of the Borrower Obligations shall be deemed to modify, reduce, release or otherwise affect the liability of the Parent Guarantor hereunder which shall, notwithstanding any such payment (other than any payment made by the Borrower or Parent Guarantor in respect of the Borrower Obligations or any payment received or collected from the Borrower or Parent Guarantor in respect of the Borrower Obligations), remain liable for the Borrower Obligations until, subject to Section 2.5, the Borrower Obligations are paid in full, no Letter of Credit shall be outstanding and the Commitments are terminated.

2.2 Subrogation. The Parent Guarantor shall be subrogated to all the rights of the Administrative Agent or any Lender against the Borrower in respect of any amounts paid by the Parent Guarantor pursuant to the provisions of this Agreement; provided, however, that the Parent Guarantor shall not be entitled to enforce or to receive any payments arising out of, or based upon, such right of subrogation with respect to any of the Borrower Obligations until all of the Borrower Obligations and the Guarantees thereof shall have been indefeasibly paid in full or discharged. A director, officer, employee or stockholder, as such, of the Parent Guarantor shall not have any liability for any obligations of the Guarantor under this Agreement or any claim based on, in respect of or by reason of such obligations or their creation.

2.3 Amendments, etc. with respect to the Borrower Obligations. The Parent Guarantor shall remain obligated hereunder notwithstanding that, without any reservation of rights against the Parent Guarantor and without notice to or further assent by the Parent Guarantor, any demand for payment of any of the Borrower Obligations made by the Administrative Agent or any Lender may be rescinded by the Administrative Agent or such Lender and any of the Borrower Obligations continued, and the Borrower Obligations, or the liability of any other Person upon or for any part thereof, or any collateral security or guarantee

therefor or right of offset with respect thereto, may, from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by the Administrative Agent or any Lender, and the Credit Agreement and the other Loan Documents and any other documents executed and delivered in connection therewith may be amended, modified, supplemented or terminated, in whole or in part, as the Administrative Agent (or the Required Lenders or all Lenders, as the case may be) may deem advisable from time to time, and any collateral security, guarantee or right of offset at any time held by the Administrative Agent or any Lender for the payment of the Borrower Obligations may be sold, exchanged, waived, surrendered or released. Except as required by applicable law, neither the Administrative Agent nor any Lender shall have any obligation to protect, secure, perfect or insure any Lien at any time held by it as security for the Borrower Obligations or for the guarantee contained in this Section 2 or any property subject thereto.

2.4 Guarantee Absolute and Unconditional. To the fullest extent permitted by applicable law, the Parent Guarantor hereby (i) waives diligence, presentment, demand of payment, notice of acceptance, filing of claims with a court in the event of the merger, insolvency or bankruptcy of the Borrower or the Parent Guarantor, and all demands and notices whatsoever, (ii) acknowledges that any agreement, instrument or document evidencing the Parent Guarantor Obligations may be transferred and that the benefit of its obligations hereunder shall extend to each holder of any agreement, instrument or document evidencing the Parent Guarantor Obligations without notice to them and (iii) covenants that the Parent Guarantor Obligations will not be discharged except by complete performance thereof. The Parent Guarantor further agrees that to the fullest extent permitted by applicable law, if at any time all or any part of any payment theretofore applied by any Person to any of the Parent Guarantor Obligations is, or must be, rescinded or returned for any reason whatsoever, including without limitation, the insolvency, bankruptcy or reorganization of the Parent Guarantor, such Parent Guarantor Obligations shall, to the extent that such payment is or must be rescinded or returned, be deemed to have continued in existence notwithstanding such application, and the Parent Guarantor Obligations shall continue to be effective or be reinstated, as the case may be, as though such application had not been made.

To the fullest extent permitted by applicable law, the obligations of the Parent Guarantor under this Agreement shall be as aforesaid full, irrevocable, unconditional and absolute and shall not be impaired, modified, discharged, released or limited by any occurrence or condition whatsoever, including, without limitation, (i) any compromise, settlement, release, waiver, renewal, extension, indulgence or modification of, or any change in, any of the obligations and liabilities of the Borrower or the Parent Guarantor contained in any of the Borrower Obligations or this Agreement, (ii) any impairment, modification, release or limitation of the liability of the Borrower, the Parent Guarantor or any of their estates in bankruptcy, or any remedy for the enforcement thereof, resulting from the operation of any present or future provision of any applicable bankruptcy law, as amended, or other statute or from the decision of any court, (iii) the assertion or exercise by the Borrower or the Parent Guarantor of any rights or remedies under any of the Borrower Obligations or this Agreement or their delay in or failure to assert or exercise any such rights or remedies, (iv) the assignment or the purported assignment of any property as security for any of the Borrower Obligations, including all or any part of the rights of the Borrower or the Parent Guarantor under this Agreement, (v) the extension of the time for payment by the Borrower or the Parent Guarantor of any payments or other sums or any part

thereof owing or payable under any of the terms and provisions of any of the Borrower Obligations or this Agreement or of the time for performance by the Borrower or the Parent Guarantor of any other obligations under or arising out of any such terms and provisions or the extension or the renewal of any thereof, (vi) the modification or amendment (whether material or otherwise) of any duty, agreement or obligation of the Borrower or the Parent Guarantor set forth in this Agreement, (vii) the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all of the assets, marshaling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of, or other similar proceeding affecting, the Borrower or any of the Parent Guarantor or any of their respective assets, or the disaffirmance of any of the Borrower Obligations, or this Agreement in any such proceeding, (viii) the release or discharge of the Borrower or the Parent Guarantor from the performance or observance of any agreement, covenant, term or condition contained in any of such instruments by operation of law, (ix) the unenforceability of any of the Borrower Obligations or this Agreement, (x) any change in the name, business, capital structure, corporate existence, or ownership of the Borrower or the Parent Guarantor, or (xi) any other circumstance which might otherwise constitute a defense available to, or a legal or equitable discharge of, a surety or the Parent Guarantor.

2.5 Reinstatement. To the maximum extent permitted by applicable law, the guarantee contained in this Section 2 shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Borrower Obligations is rescinded or must otherwise be restored or returned by the Administrative Agent or any Lender upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower or the Parent Guarantor, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, the Borrower or the Parent Guarantor or any substantial part of its property, or otherwise, all as though such payments had not been made.

2.6 Payments. The Parent Guarantor hereby guarantees that payments hereunder will be paid to the Administrative Agent without set-off or counterclaim and without deduction for any taxes and in immediately available funds and in Dollars at the Administrative Agent 's payment office at the address provided in Section 2.16 of the Credit Agreement.

SECTION 3. REPRESENTATIONS AND WARRANTIES

To induce the Administrative Agent and the Lenders to enter into the Credit Agreement and to induce the Lenders to make their respective extensions of credit to the Borrower thereunder, the Parent Guarantor hereby represents and warrants to the Administrative Agent and each Lender that:

3.1 Organization; Powers. The Parent Guarantor is duly formed, validly existing and in good standing under the laws of the jurisdiction of its formation, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

3.2 Authorization; Enforceability. The execution, delivery and performance of this Agreement are within the Parent Guarantor's partnership powers and have been duly authorized by all necessary corporate, limited liability company or partnership and, if required, limited partner action. This Agreement has been duly executed and delivered on behalf of the Parent Guarantor and constitutes a legal, valid and binding obligation of the Parent Guarantor, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

3.3 Government Approvals; No Conflicts. The execution, delivery and performance of this Agreement (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect, (b) will not violate any applicable law or regulation or the charter, bylaws or other organizational documents of the Parent Guarantor or any order of any Governmental Authority; (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon the Parent Guarantor or its assets, or give rise to a right thereunder to require any payment to be made by the Parent Guarantor, and (d) will not result in the creation or imposition of any Lien on any asset of the Parent Guarantor.

3.4 Investment and Holding Company Status. The Parent Guarantor is not (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 4. INTENTIONALLY OMITTED

SECTION 5. THE ADMINISTRATIVE AGENT

5.1 Authority of Administrative Agent. The Parent Guarantor acknowledges that the rights and responsibilities of the Administrative Agent under this Agreement with respect to any action taken by the Administrative Agent or the exercise or non-exercise by the Administrative Agent of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement shall, as between the Administrative Agent and the Lenders, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Administrative Agent and the Parent Guarantor, the Administrative Agent shall be conclusively presumed to be acting as agent for the Lenders with full and valid authority so to act or refrain from acting, and the Parent Guarantor shall not be under any obligation, or entitlement, to make any inquiry respecting such authority.

SECTION 6. MISCELLANEOUS

6.1 Amendments in Writing. None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except in accordance with Section 9.02 of the Credit Agreement.

6.2 Notices. All notices, requests and demands to or upon the Administrative Agent or the Parent Guarantor hereunder shall be effected in the manner provided for in Section 9.01 of

the Credit Agreement; provided that any such notice, request or demand to or upon the Parent Guarantor shall be addressed to the Parent Guarantor at its notice address set forth on Schedule 1.

6.3 No Waiver by Course of Conduct; Cumulative Remedies. Neither the Administrative Agent nor any Lender shall by any act (except by a written instrument pursuant to Section 6.1), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default. No failure to exercise, nor any delay in exercising, on the part of the Administrative Agent or any Lender, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Administrative Agent or any Lender of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Administrative Agent or such Lender would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights or remedies provided by law.

6.4 Enforcement Expenses; Indemnification. (a) The Parent Guarantor agrees to pay or reimburse each Lender and the Administrative Agent for all its reasonable costs and expenses incurred in collecting against the Parent Guarantor under the guarantee contained in Section 2 or otherwise enforcing or preserving any rights under this Agreement and which the Parent Guarantor is a party, including, without limitation, the reasonable fees and disbursements of counsel to each Lender and of counsel to the Administrative Agent.

(b) The agreements in this Section 6.4 shall survive repayment of the Parent Guarantor Obligations and all other amounts payable under the Credit Agreement and the other Loan Documents.

6.5 Successors and Assigns. This Agreement shall be binding upon the successors and assigns of the Parent Guarantor and shall inure to the benefit of the Administrative Agent and the Lenders and their successors and assigns; provided that the Parent Guarantor may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Administrative Agent.

6.6 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and the Administrative Agent. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or facsimile shall be effective as delivery of a manually executed counterpart of this Agreement.

6.7 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any

such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

6.8 Integration. This Agreement and the other Loan Documents represent the entire agreement of the Parent Guarantor, the Administrative Agent and the Lenders with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Lender relative to subject matter hereof and thereof not expressly set forth or referred to herein.

6.9 GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK AND TO THE EXTENT CONTROLLING, LAWS OF THE UNITED STATES OF AMERICA.

6.10 Submission To Jurisdiction; Waivers. The Parent Guarantor hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Supreme Court of New York, sitting in New York County and of the United States District Court for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Parent Guarantor at its address referred to in Section 6.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto; and

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section 6.10 any special, exemplary, punitive or consequential damages.

6.11 Acknowledgments. The Parent Guarantor hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents to which it is a party;

(b) neither the Administrative Agent nor any Lender has any fiduciary relationship with or duty to the Parent Guarantor arising out of or in connection with this Agreement or the

relationship between the Administrative Agent and Lenders, on one hand, and the Parent Guarantor, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Lenders or among the Parent Guarantor and the Lenders.

6.12 WAIVERS OF JURY TRIAL. THE PARENT GUARANTOR, AND THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

6.13 Section Headings. The Section headings used in this Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

IN WITNESS WHEREOF, the undersigned has caused this MLP Guaranty Agreement to be duly executed and delivered as of the date first above written.

Valero, L.P.

By: Riverwalk Logistics, L.P.

By: Valero GP, LLC, its General Partner

By: ----------

Name: ----------

Title: ----------

Schedule 1

NOTICE ADDRESS OF PARENT GUARANTOR

Parent Guarantor Address --	
-- Valero, L.P. One Valero Place San Antonio, Texas 78212 Attention: Senior Vice President and Chief Financial Officer Telecopy No.: (210) 592-2010	

Exhibit C-1-11

EXHIBIT C-2

[FORM OF]
SUBSIDIARY GUARANTY AGREEMENT

MADE BY

[SUBSIDIARIES OF THE BORROWER]

IN FAVOR OF

JPMORGAN CHASE BANK,
AS ADMINISTRATIVE AGENT

DATED AS OF [_____], [200_]

TABLE OF CONTENTS

SUBSIDIARY GUARANTY AGREEMENT, dated as of [_____], [200_], made by each of the signatories hereto (together with any other entity that may become a party hereto as provided herein, the "Guarantors"), in favor of JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, as Administrative Agent (in such capacity, the "Administrative Agent") for the benefit of the banks and other financial institutions or entities (the "Lenders") parties to the Credit Agreement, dated as of December 15, 2000 as amended and restated through March 6, 2003, (the "Credit Agreement"), among Valero Logistics Operations, L.P., a Delaware limited partnership formerly known as Shamrock Logistics Operations, L.P. (the "Borrower"), the Lenders, the Administrative Agent, Royal Bank of Canada, as syndication agent and SunTrust Bank, as documentation agent.

WITNESSETH:

WHEREAS, pursuant to the Credit Agreement, the Lenders have severally agreed to make extensions of credit to the Borrower upon the terms and subject to the conditions set forth therein;

WHEREAS, the Borrower is a member of an affiliated group of companies that includes each Guarantor;

WHEREAS, the proceeds of the extensions of credit under the Credit Agreement may be or have been used in part to enable the Borrower to make valuable transfers to one or more of the Guarantors in connection with the operation of their respective businesses;

WHEREAS, the Borrower and the Guarantors are engaged in related businesses, and each Guarantor will derive substantial direct and indirect benefit from the making of the extensions of credit under the Credit Agreement; and

WHEREAS, it is a condition subsequent to the obligation of the Lenders to make their respective extensions of credit to the Borrower under the Credit Agreement that the Guarantors, when and as created or acquired by the Borrower, shall execute and deliver this Agreement to the Administrative Agent for the ratable benefit of the Lenders;

NOW, THEREFORE, in consideration of the premises and to induce the Lenders to continue their respective extensions of credit to the Borrower under the Credit Agreement, each Guarantor hereby agrees with the Administrative Agent, for the ratable benefit of the Lenders, as follows:

SECTION 1. DEFINED TERMS

1.1 Definitions. (a) Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

(b) The following terms shall have the following meanings:

"Agreement": means this Subsidiary Guaranty Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

"Borrower Obligations": means the collective reference to all Indebtedness owing by the Borrower pursuant to the Credit Agreement, including, without limitation, the unpaid principal of and interest on the Loans and LC Disbursements and all other obligations and liabilities of the Borrower (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans and LC Disbursements and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) to the Administrative Agent or any Lender (or, in the case of any Hedging Agreement referred to below, any Affiliate of a Lender), whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, this Agreement, any Letter of Credit, any Hedging Agreement entered into by the Borrower with any Lender (or any Affiliate of a Lender) or the other Loan Documents or any other document made, delivered or given in connection therewith, in each case whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to the Administrative Agent or to the Lenders that are required to be paid by the Borrower pursuant to the terms of any of the foregoing agreements).

"Guarantor Obligations": means with respect to any Guarantor, the collective reference to (i) the Borrower Obligations and (ii) all obligations and liabilities of such Guarantor which may arise under or in connection with this Agreement, in each case whether on account of guarantee obligations, reimbursement obligations, loan obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to the Administrative Agent or to the Lenders that are required to be paid by such Guarantor pursuant to the terms of this Agreement or any other Loan Document).

"Guarantors": means the collective reference to each Guarantor party to this Agreement.

"Obligations": means in the case of each Guarantor, its Guarantor Obligations.

"Solvent": means with respect to each Guarantor as of any date, that (a) the value of the assets of such Guarantor (both at fair value and present fair saleable value) is, on the date of determination, greater than the total amount of liabilities (including contingent and unliquidated liabilities) of such Guarantor as of such date, (b) as of such date, such Guarantor is able to pay all of its liabilities as such liabilities mature and (c) as of such date, such Guarantor does not have unreasonably small capital given the nature of its business. In computing the amount of contingent or unliquidated liabilities at any time, such liabilities shall be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

1.2 Other Definitional Provisions. (a) The words "hereof," "herein", "hereto" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section and Schedule references are to this Agreement unless otherwise specified.

(b) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

(c) A reference to any Person hereunder shall be deemed to include a reference to such Person's successor's, endorsees, transferees and assigns.

SECTION 2. GUARANTEE

2.1 Guarantee. (a) Each of the Guarantors hereby, jointly and severally, (i) absolutely, unconditionally and irrevocably, guarantees to the Administrative Agent for the ratable benefit of the Lenders and their respective successors, endorsees, transferees and assigns, the prompt and complete payment and performance by the Borrower when due (whether at the stated maturity, by acceleration or otherwise) of the Borrower Obligations and (ii) indemnifies and holds harmless the Administrative Agent and each Lender from, and agrees to pay to the Administrative Agent and each Lender, all reasonable costs and expenses (including reasonable counsel fees and expenses) incurred by the Administrative Agent or such Lender in enforcing any of its rights under this Agreement. The guarantee in this Section 2.1 is a continuing guarantee, and shall apply to all Obligations owing at any time whenever arising or incurred and shall remain in full force and effect until the Obligations have been indefeasibly paid in full. Each Guarantor agrees that notwithstanding any stay, injunction or other prohibition preventing the payment by the Borrower of all or any portion of the Borrower Obligations and notwithstanding that all or any portion of the Borrower Obligations may be unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Borrower, such Borrower Obligations shall nevertheless be due and payable by such Guarantor for the purposes of this Agreement at the time such Borrower Obligations would by payable by the Borrower under the provisions of the Credit Agreement. Notwithstanding the foregoing, any enforcement of this Agreement with respect to the rights of any Lender may be accomplished by the Administrative Agent acting on behalf of such Lender.

(b) Anything herein or in any other Loan Document to the contrary notwithstanding, the maximum liability of each Guarantor hereunder shall in no event exceed the amount which can be guaranteed by such Guarantor under applicable federal and state laws relating to the insolvency of debtors (after giving effect to the right of contribution established in Section 2.2).

(c) Each Guarantor agrees that the Borrower Obligations may at any time and from time to time exceed the amount of the liability of such Guarantor hereunder without impairing the guarantee contained in this Section 2 or affecting the rights and remedies of the Administrative Agent or any Lender hereunder.

(d) The guarantee contained in this Section 2.1 shall remain in full force and effect until all the Borrower Obligations and the obligations of each Guarantor under the guarantee contained in this Section 2.1 shall have been satisfied by payment in full, no Letter of Credit shall be outstanding and the Commitments shall be terminated, notwithstanding that from time to time during the term of the Credit Agreement the Borrower may be free from any Borrower Obligations.

(e) No payment made by the Borrower, any of the Guarantors, any other guarantor or any other Person or received or collected by the Administrative Agent or any Lender from the Borrower, any of the Guarantors, any other guarantor or any other Person by virtue of any action or proceeding or any set-off or appropriation or application at any time or from time to time in reduction of or in payment of the Borrower Obligations shall be deemed to modify, reduce, release or otherwise affect the liability of any Guarantor hereunder which shall, notwithstanding any such payment (other than any payment made by such Guarantor in respect of the Borrower Obligations or any payment received or collected from such Guarantor in respect of the Borrower Obligations), remain liable for the Borrower Obligations up to the maximum liability of such Guarantor hereunder until, subject to Section 2.6, the Borrower Obligations are paid in full, no Letter of Credit shall be outstanding and the Commitments are terminated.

2.2 Right of Contribution. Each Guarantor hereby agrees that to the extent that a Guarantor shall have paid more than its proportionate share of any payment made hereunder, such Guarantor shall be entitled to seek and receive contribution from and against any other Guarantor hereunder which has not paid its proportionate share of such payment. Each Guarantor's right of contribution shall be subject to the terms and conditions of Section 2.3. The provisions of this Section 2.2 shall in no respect limit the obligations and liabilities of any Guarantor to the Administrative Agent and the Lenders, and each Guarantor shall remain liable to the Administrative Agent and the Lenders for the full amount guaranteed by such Guarantor hereunder.

2.3 No Subrogation. Notwithstanding any payment made by any Guarantor hereunder or any set-off or application of funds of any Guarantor by the Administrative Agent or any Lender, no Guarantor shall be entitled to be subrogated to any of the rights of the Administrative Agent or any Lender against the Borrower or any other Guarantor or any collateral security or guarantee or right of offset held by the Administrative Agent or any Lender for the payment of the Borrower Obligations, nor shall any Guarantor seek or be entitled to seek any contribution or reimbursement from the Borrower or any other Guarantor in respect of payments made by such Guarantor hereunder, until all amounts owing to the Administrative Agent and the Lenders by the Borrower on account of the Borrower Obligations are indefeasibly paid in full, no Letter of Credit shall be outstanding and the Commitments are terminated. If any amount shall be paid to any Guarantor on account of such subrogation rights at any time when all of the Borrower Obligations shall not have been paid in full, such amount shall be held by such Guarantor in trust for the Administrative Agent and the Lenders, segregated from other funds of such Guarantor, and shall, forthwith upon receipt by such Guarantor, be turned over to the Administrative Agent in the exact form received by such Guarantor (duly indorsed by such Guarantor to the Administrative Agent, if required), to be applied against the Borrower Obligations, whether matured or unmatured, in such order as the Administrative Agent may determine.

2.4 Amendments, etc. with respect to the Borrower Obligations. Each Guarantor shall remain obligated hereunder notwithstanding that, without any reservation of rights against any Guarantor and without notice to or further assent by any Guarantor, any demand for payment of any of the Borrower Obligations made by the Administrative Agent or any Lender may be rescinded by the Administrative Agent or such Lender and any of the Borrower Obligations continued, and the Borrower Obligations, or the liability of any other Person upon or for any part

thereof, or any collateral security or guarantee therefor or right of offset with respect thereto, may, from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by the Administrative Agent or any Lender, and the Credit Agreement and the other Loan Documents and any other documents executed and delivered in connection therewith may be amended, modified, supplemented or terminated, in whole or in part, as the Administrative Agent (or the Required Lenders or all Lenders, as the case may be) may deem advisable from time to time, and any collateral security, guarantee or right of offset at any time held by the Administrative Agent or any Lender for the payment of the Borrower Obligations may be sold, exchanged, waived, surrendered or released. Neither the Administrative Agent nor any Lender shall have any obligation to protect, secure, perfect or insure any Lien at any time held by it as security for the Borrower Obligations or for the guarantee contained in this Section 2 or any property subject thereto.

2.5 Guarantee Absolute and Unconditional. Each Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Borrower Obligations and notice of or proof of reliance by the Administrative Agent or any Lender upon the guarantee contained in this Section 2 or acceptance of the guarantee contained in this Section 2; the Borrower Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended or waived, in reliance upon the guarantee contained in this Section 2; and all dealings between the Borrower and any of the Guarantors, on the one hand, and the Administrative Agent and the Lenders, on the other hand, likewise shall be conclusively presumed to have been had or consummated in reliance upon the guarantee contained in this Section 2. Each Guarantor waives diligence, presentment, protest, demand for payment and notice of default or nonpayment to or upon the Borrower or any of the Guarantors with respect to the Borrower Obligations. Each Guarantor understands and agrees that the guarantee contained in this Section 2 shall be construed as a continuing, absolute and unconditional guarantee of payment without regard to (a) the validity or enforceability of the Credit Agreement or any other Loan Document, any of the Borrower Obligations or any other collateral security therefor or guarantee or right of offset with respect thereto at any time or from time to time held by the Administrative Agent or any Lender, (b) any defense, set-off or counterclaim (other than a defense of payment or performance) which may at any time be available to or be asserted by the Borrower or any other Person against the Administrative Agent or any Lender, (c) any extension, other indulgence, renewal, settlement, discharge, compromise, waiver, subordination or release in respect of any Borrower Obligation, security, Person or otherwise, (d) any modification or amendment of or supplement to the Borrower Obligations, including any increase or decrease in the principal, the rates of interest or other amounts payable thereunder, (e) any release, non-perfection or invalidity of any direct or indirect security for any Borrower Obligation, (f) any change in the existence, structure, constitution, name, objects, powers, business, control or ownership of the Borrower or any other Person, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting the Borrower or any other Person or its assets, (g) any limitation, postponement, prohibition, subordination or other restriction on the rights of the Administrative Agent or the Lenders to payment of the Borrower Obligations, (h) any release, substitution or addition of any cosigner, endorser or other guarantor of the Borrower Obligations, (i) any defense arising by reason of any failure of the Borrower to make any presentment, demand for performance, notice of non-performance, protest, and any other notice, including notice of all of the following: acceptance of this Agreement, partial payment or non-payment of all or any part of the Borrower Obligations and the existence,

creation, or incurring of new or additional Borrower Obligations, (j) any defense arising by reason of any failure of the Administrative Agent to proceed against the Borrower or any other Person, to proceed against, apply or exhaust any security held from the Borrower or any other Person for the Borrower Obligations, to proceed against, apply or exhaust any security held from any Guarantor or any other Person for this Agreement or to pursue any other remedy in the power of the Administrative Agent or the Lenders whatsoever, (k) any law which provides that the obligation of a guarantor must neither be larger in amount nor in other respects more burdensome than that of the principal obligation or which reduces a guarantor's obligation in proportion to the principal obligation, (l) any defense arising by reason of any incapacity, lack of authority, or other defense of the Borrower or any other Person, or by reason of any limitation, postponement, prohibition on the Administrative Agent's or the Lenders' right to payment of the Borrower Obligations or any part thereof, or by reason of the cessation from any cause whatsoever of the liability of the Borrower or any other Person with respect to all or any part of the Borrower Obligations, or by reason of any act or omission of the Administrative Agent or the Lenders which directly or indirectly results in the discharge or release of the Borrower or any other Person of all or any part of the Borrower Obligations or any security or guarantee therefore, whether by contract, operation of law or otherwise, (m) any defense arising by failure by the Administrative Agent or the Lenders to obtain, perfect or maintain a perfected or prior (or any) security interest in or lien or encumbrance upon any property of the Borrower or any other Person, or by reason of any interest of the Borrower in any property, whether as owner thereof or the holder of a security interest therein or lien or encumbrance thereon, being invalidated, voided, declared fraudulent or preferential or otherwise set aside, or by reason of any impairment by the Borrower of any right to recourse or collateral, (n) any defense arising by reason of the failure of the Borrower to marshal any assets, (o) any defense based upon any failure of the Administrative Agent or any Lender to give to the Borrower or any Guarantor notice of any sale or other disposition of any property securing any or all of the Obligations, or any defect in any notice that may be given in connection with any sale or other disposition of any such property, or any failure of the Administrative Agent or any Lender to comply with any provision of applicable law in enforcing any security interest in or lien upon any such property, including any failure of the Administrative Agent or any Lender to dispose of any such property in a commercially reasonable manner, (p) any dealing whatsoever with the Borrower or other Person or any security, whether negligently or not, or any failure to do so, (q) any defense based upon or arising out any bankruptcy, insolvency, reorganization, moratorium, arrangement, readjustment of debt, liquidation or dissolution proceeding commenced by or against the Borrower or any other Person, including any discharge of, or bar against collecting, any of the Borrower Obligations, in or as a result of any such proceeding, (r) or any other act or omission to act or delay of any kind by the Borrower, the Administrative Agent, any Lender, any Guarantor or any other Person or any other circumstance whatsoever, whether similar or dissimilar to the foregoing, which might, but for the provisions of this Section 2.5, constitute a legal or equitable discharge, limitation or reduction of such Guarantor's obligations hereunder (other than the payment in full of all of the Borrower Obligations). The foregoing provisions apply (and the foregoing waivers will be effective) even if the effect of any action (or failure to take any action) by the Administrative Agent or any Lender is to destroy or diminish a Guarantor's subrogation rights, such Guarantor's right to proceed against the Borrower for reimbursement, such Guarantor's right to recover contribution from any other Guarantor or any other right or remedy. When making any demand hereunder or otherwise pursuing its rights and remedies hereunder

against any Guarantor, the Administrative Agent or any Lender may, but shall be under no obligation to, make a similar demand on or otherwise pursue such rights and remedies as it may have against the Borrower, any other Guarantor or any other Person or against any collateral security or guarantee for the Borrower Obligations or any right of offset with respect thereto, and any failure by the Administrative Agent or any Lender to make any such demand, to pursue such other rights or remedies or to collect any payments from the Borrower, any other Guarantor or any other Person or to realize upon any such collateral security or guarantee or to exercise any such right of offset, or any release of the Borrower, any other Guarantor or any other Person or any such collateral security, guarantee or right of offset, shall not relieve any Guarantor of any obligation or liability hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of the Administrative Agent or any Lender against any Guarantor. For the purposes hereof "demand" shall include the commencement and continuance of any legal proceedings.

2.6 Reinstatement. The guarantee contained in this Section 2 shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Borrower Obligations is rescinded or must otherwise be restored or returned by the Administrative Agent or any Lender upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower or any Guarantor, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, the Borrower or any Guarantor or any substantial part of its property, or otherwise, all as though such payments had not been made.

2.7 Payments. Each Guarantor hereby guarantees that payments hereunder will be paid to the Administrative Agent without set-off or counterclaim and without deduction for any taxes and in immediately available funds and in Dollars at the Administrative Agent 's payment office at the address provided in Section 2.16 of the Credit Agreement.

SECTION 3. REPRESENTATIONS AND WARRANTIES

To induce the Administrative Agent and the Lenders to enter into the Credit Agreement and to induce the Lenders to make their respective extensions of credit to the Borrower thereunder, each Guarantor hereby represents and warrants to the Administrative Agent and each Lender that:

3.1 Representations in Credit Agreement. In the case of each Guarantor, the representations and warranties set forth in Article 3 of the Credit Agreement as they relate to such Guarantor or to which such Guarantor is a party, each of which is hereby incorporated herein by reference, are true and correct, and the Administrative Agent and each Lender shall be entitled to rely on each of them as if they were fully set forth herein. Each Guarantor also represents and warrants that it is Solvent.

SECTION 4. COVENANTS

Each Guarantor covenants and agrees with the Administrative Agent and the Lenders that, from and after the date of this Agreement until the Obligations shall have been paid in full, no Letter of Credit shall be outstanding and the Commitments shall have terminated, in the case

of each Guarantor, such Guarantor shall take, or shall refrain from taking, as the case may be, each action that is necessary to be taken or not taken, as the case may be, so that no Default or Event of Default is caused by the failure to take such action or to refrain from taking such action by such Guarantor or any of its Subsidiaries.

SECTION 5. THE ADMINISTRATIVE AGENT

5.1 Authority of Administrative Agent. Each Guarantor acknowledges that the rights and responsibilities of the Administrative Agent under this Agreement with respect to any action taken by the Administrative Agent or the exercise or non-exercise by the Administrative Agent of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement shall, as between the Administrative Agent and the Lenders, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Administrative Agent and the Guarantors, the Administrative Agent shall be conclusively presumed to be acting as agent for the Lenders with full and valid authority so to act or refrain from acting, and no Guarantor shall be under any obligation, or entitlement, to make any inquiry respecting such authority.

SECTION 6. MISCELLANEOUS

6.1 Amendments in Writing. None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except in accordance with Section 9.02 of the Credit Agreement.

6.2 Notices. All notices, requests and demands to or upon the Administrative Agent or any Guarantor hereunder shall be effected in the manner provided for in Section 9.01 of the Credit Agreement; provided that any such notice, request or demand to or upon any Guarantor shall be addressed to such Guarantor at its notice address set forth on Schedule 1.

6.3 No Waiver by Course of Conduct; Cumulative Remedies. Neither the Administrative Agent nor any Lender shall by any act (except by a written instrument pursuant to Section 6.1), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default. No failure to exercise, nor any delay in exercising, on the part of the Administrative Agent or any Lender, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Administrative Agent or any Lender of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Administrative Agent or such Lender would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights or remedies provided by law.

6.4 Enforcement Expenses; Indemnification. (a) Each Guarantor agrees to pay or reimburse each Lender and the Administrative Agent for all its costs and expenses incurred in collecting against such Guarantor under the guarantee contained in Section 2 or otherwise

enforcing or preserving any rights under this Agreement and which such Guarantor is a party, including, without limitation, the reasonable fees and disbursements of counsel (including the allocated fees and expenses of in-house counsel) to each Lender and of counsel to the Administrative Agent.

(b) Each Guarantor agrees to pay, and to save the Administrative Agent and the Lenders harmless from, any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement to the same extent the Borrower would be required to do so pursuant to Section 9.03 of the Credit Agreement.

(c) The agreements in this Section 6.4 shall survive repayment of the Obligations and all other amounts payable under the Credit Agreement and the other Loan Documents.

6.5 Successors and Assigns. This Agreement shall be binding upon the successors and assigns of each Guarantor and shall inure to the benefit of the Administrative Agent and the Lenders and their successors and assigns; provided that no Guarantor may assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Administrative Agent.

6.6 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and the Administrative Agent. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or facsimile shall be effective as delivery of a manually executed counterpart of this Agreement.

6.7 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

6.8 Integration. This Agreement and the other Loan Documents represent the entire agreement of the Guarantors, the Administrative Agent and the Lenders with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Lender relative to subject matter hereof and thereof not expressly set forth or referred to herein.

6.9 GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK AND TO THE EXTENT CONTROLLING, LAWS OF THE UNITED STATES OF AMERICA.

6.10 Submission To Jurisdiction; Waivers. Each Guarantor hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such Guarantor at its address referred to in Section 6.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section 6.10 any special, exemplary, punitive or consequential damages.

6.11 Acknowledgments. Each Guarantor hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents to which it is a party;

neither the Administrative Agent nor any Lender has any fiduciary relationship with or duty to any Guarantor arising out of or in connection with this Agreement or the relationship between the Administrative Agent and Lenders, on one hand, and the Guarantors, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(b) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Lenders or among the Guarantors and the Lenders.

6.12 WAIVERS OF JURY TRIAL. EACH GUARANTOR, AND THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

6.13 Section Headings. The Section headings used in this Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

6.14 Additional Guarantors. Each Subsidiary of the Borrower that is required to become a party to this Agreement pursuant to Section 5.11 of the Credit Agreement shall become a Guarantor for all purposes of this Agreement upon execution and delivery by such Subsidiary of an Assumption Agreement in the form of Annex I hereto.

IN WITNESS WHEREOF, each of the undersigned has caused this Subsidiary Guaranty Agreement to be duly executed and delivered as of the date first above written.

Guarantor

By: [ ]

Title:

[Guarantor]

By: [ ]

Title:

Schedule 1

NOTICE ADDRESSES OF GUARANTORS

Guarantors	Address

Exhibit C-2-13

ACKNOWLEDGMENT AND CONSENT

The undersigned hereby acknowledges receipt of a copy of the Subsidiary Guaranty Agreement dated as of [_____], [200_], (the "Subsidiary Guaranty Agreement"), made by the Guarantors parties thereto for the benefit of JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, as Administrative Agent. The undersigned agrees for the benefit of the Administrative Agent and the Lenders the undersigned will be bound by the terms of the Subsidiary Guaranty Agreement and will comply with such terms insofar as such terms are applicable to the undersigned.

[ ]

By: [ ]

Title:

Address for Notices:

Annex 1 to
Subsidiary Guaranty Agreement

ASSUMPTION AGREEMENT, dated as of [_____], [200_], by [_____], a [_____] corporation (the "Additional Guarantor"), in favor of JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, as Administrative Agent (in such capacity, the "Administrative Agent ") for the banks and other financial institutions (the "Lenders") parties to the Credit Agreement referred to below. All capitalized terms not defined herein shall have the meaning ascribed to them in such Credit Agreement.

WITNESSETH:

WHEREAS, Valero Logistics Operations, L.P., (the "Borrower"), the Lenders and the Administrative Agent have entered into a Credit Agreement, dated as of December 15, 2000 as amended and restated through March 6, 2003, (the "Credit Agreement");

WHEREAS, in connection with the Credit Agreement, the Borrower and certain of its affiliates (other than the Additional Guarantor) have entered into the Subsidiary Guaranty Agreement, dated as of [_____], [200_] (as amended, supplemented or otherwise modified from time to time, the "Subsidiary Guaranty Agreement") in favor of the Administrative Agent for the benefit of the Lenders:

WHEREAS, the Credit Agreement requires the Additional Guarantor to become a party to the Subsidiary Guaranty Agreement; and

WHEREAS, the Additional Guarantor has agreed to execute and deliver this Assumption Agreement in order to become a party to the Subsidiary Guaranty Agreement;

NOW, THEREFORE, IT IS AGREED:

1. Subsidiary Guaranty Agreement. By executing and delivering this Assumption Agreement, the Additional Guarantor, as provided in Section 6.14 of the Subsidiary Guaranty Agreement, hereby becomes a party to the Subsidiary Guaranty Agreement as a Guarantor thereunder with the same force and effect as if originally named therein as a Guarantor and, without limiting the generality of the foregoing, hereby expressly assumes all obligations and liabilities of a Guarantor thereunder. The information set forth in Annex l-A hereto is hereby added to the information set forth in Schedule 1 to the Subsidiary Guaranty Agreement. The Additional Guarantor hereby represents and warrants that each of the representations and warranties contained in Section 3 of the Subsidiary Guaranty Agreement is true and correct on and as the date hereof (after giving effect to this Assumption Agreement) as if made on and as of such date.

2. GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK

AND TO THE EXTENT CONTROLLING, LAWS OF THE UNITED STATES OF AMERICA.

Exhibit C-2-16

IN WITNESS WHEREOF, the undersigned has caused this Assumption Agreement to be duly executed and delivered as of the date first above written.

[ADDITIONAL GUARANTOR]

By: [ ]

Name:
Title:

Exhibit C-2-17

EXHIBIT D-1

FORM OF INITIAL NOTICE OF COMMITMENT INCREASE

[Date]

JPMorgan Chase Bank,
as Administrative Agent
1111 Fannin, 8th Floor
Houston, TX 77002

Attention: _____

Ladies and Gentlemen:

The undersigned, Valero Logistics Operations, L.P., refers to the Credit Agreement dated as of December 15, 2000, as amended and restated through March 6, 2003 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement", with terms defined in the Credit Agreement and not otherwise defined herein being used herein as therein defined) among Valero Logistics Operations, L.P., a Delaware limited partnership (the "Borrower"), the Lenders party thereto, JPMorgan Chase Bank, as Administrative Agent, Royal Bank of Canada, as Syndication Agent and SunTrust Bank and Mizuho Corporate Bank Ltd., as Co-Documentation Agents and hereby gives you notice, pursuant to Section 2.18 of the Credit Agreement that the undersigned hereby requests that (x) the Lenders agree to increase their respective Commitments and/or (y) the New Lenders agree to provide Commitments under the Credit Agreement, and in that connection sets forth below the information relating to such proposed Commitment increase as required by Section 2.18 of the Credit Agreement:

(i) the effective date of such increase of aggregate amount of the Lenders' Commitments is _____; and

(ii) the amount of the requested increase (and/or provision, as applicable) of the aggregate Lenders' Commitments is $_____ [$10,000,000 minimum];

Delivery of an executed counterpart of this Initial Notice of Commitment Increase by telecopier shall be effective as delivery of an original executed counterpart of this Initial Notice of Commitment Increase.

Very truly yours,

VALERO LOGISTICS OPERATIONS, L.P.

By: Valero GP, Inc., its General Partner

By: ----------

Name: Steven A. Blank
Title: Senior Vice President and Chief Financial Officer

EXHIBIT D-2

FORM OF NOTICE OF CONFIRMATION OF COMMITMENT INCREASE

[Date]

JPMorgan Chase Bank,
as Administrative Agent
1111 Fannin, 8th Floor
Houston, TX 77002

Attention: _____

Ladies and Gentlemen:

The undersigned, Valero Logistics Operations, L.P., refers to the Credit Agreement dated as of December 15, 2000, as amended and restated through March 6, 2003 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement", with terms defined in the Credit Agreement and not otherwise defined herein being used herein as therein defined) among Valero Logistics Operations, L.P., a Delaware limited partnership (the "Borrower"), the Lenders party thereto, JPMorgan Chase Bank, as Administrative Agent, Royal Bank of Canada, as Syndication Agent and SunTrust Bank and Mizuho Corporate Bank Ltd., as Co-Documentation Agents and hereby gives you notice, irrevocably, pursuant to Section 2.18 of the Credit Agreement that the undersigned hereby requests that (x) the Lenders agree to increase their respective Commitments and/or (y) the New Lenders agree to provide Commitments under the Credit Agreement, and in that connection sets forth below the information relating to such proposed Commitment increase as required by Section 2.18 of the Credit Agreement:

(i) the effective date of such increase of aggregate amount of the Lenders' Commitments is _____;

(ii) the amount of the requested increase (and/or provision, as applicable) of the aggregate Lenders' Commitments is_____ [$10,000,000 minimum];

(iii) the Increasing Lenders, the Partially Increasing Lenders or the New Lenders, if any, which have agreed with the Borrower to increase (and/or provide, as applicable) their respective Commitments or to provide Commitments, as the case may be, are: [INSERT NAMES OF THE INCREASING LENDERS, THE PARTIALLY INCREASING LENDERS AND/OR NEW LENDERS];

(iv) the Reducing Lenders, if any, which have not agreed to increase their respective Commitments are: [INSERT THE NAMES OF THE REDUCING LENDERS]; and

(v) set forth on Schedule I hereto is the amount of the respective Commitments of all Increasing Lenders, Partially Increasing Lenders, Reducing Lenders and New Lenders after the effective date of such increase.

Delivery of an executed counterpart of this Notice of Confirmation of Commitment Increase by telecopier shall be effective as delivery of an original executed counterpart of this Notice of Confirmation of Commitment Increase.

Very truly yours,

VALERO LOGISTICS OPERATIONS, L.P.

By: Valero GP, Inc., its General Partner

By: ---

Name: Steven A. Blank
Title: Senior Vice President and Chief Financial Officer

EXHIBIT 10.13

CONTRIBUTION AGREEMENT

By and Among

VALERO REFINING COMPANY - CALIFORNIA,

UDS LOGISTICS, LLC, VALERO L.P.,

VALERO GP, INC.

and

VALERO LOGISTICS OPERATIONS, L.P.

March 6, 2003

EXHIBITS AND SCHEDULES

Exhibit A:	Description of Tank Assets
Exhibit A-1:	Description of Land
Exhibit B:	Form of Throughput Agreement
Exhibit C:	Form of Services Agreement
Exhibit D:	Form of Lease Agreement
Exhibit E:	Form of Assignment
Exhibit F:	Form of Closing Tax Certificate
Schedule 1(b)	Permitted Encumbrances
Schedule 3(a)(ii)	Consents (VRC)
Schedule 3(b)(ii)	Consents (The MLP Parties)
Schedule 4(a)	Noncontravention (the Tank Assets)
Schedule 4(b)(ii)	Condition of Tank Assets
Schedule 4(c)	Material Changes
Schedule 4(e)(ii)	Rights of Way
Schedule 4(g)	Environmental Matters
Schedule 4(g)(ii)	Environmental Permits
Schedule 5(c)	Operation of Tank Assets

CONTRIBUTION AGREEMENT

This Contribution Agreement (this "Agreement") dated as of March 6, 2003 (the "Effective Date") is by and among Valero Refining Company - California, a Delaware corporation ("VRC"), UDS Logistics, LLC, a Delaware limited liability company ("UDS Logistics"), Valero L.P., a Delaware limited partnership (the "MLP"), Valero Logistics Operations, L.P., a Delaware limited partnership (the "OLP") and Valero GP, Inc., a Delaware corporation and the general partner of the OLP ("OLP-GP"). VRC, UDS Logistics, the MLP, the OLP and the OLP-GP are sometimes referred to collectively herein as the "Parties" and individually as a "Party."

RECITALS

WHEREAS, VRC owns all of the tank shells, foundations, tank valves, tank gauges, pressure equipment, temperature equipment, cathodic protection, leak detection, and tank lighting associated with the crude and intermediate feedstock tanks listed on Exhibit A, along with the other assets described on Exhibit A hereto (collectively, the "Tank Assets");

WHEREAS, VRC desires to contribute the Tank Assets to the OLP in exchange for a limited partner interest in the OLP representing $95.8 million (the "OLP Limited Partner Interest"), and the OLP desires to accept the contribution of the Tank Assets, subject to the terms and conditions set forth below;

WHEREAS, immediately upon receipt of the OLP Limited Partner Interest, VRC desires to contribute the OLP Limited Partner Interest to UDS Logistics in exchange for a membership interest in UDS Logistics representing $95.8 million (the "UDS Membership Interest"), and UDS Logistics desires to accept the contribution of the OLP Limited Partner Interest, subject to the terms and conditions set forth below; and

WHEREAS, at the Closing, among other things, (i) the OLP and Valero Marketing and Supply Company, a Delaware corporation ("VMSC"), will enter into a Handling and Throughput Agreement in the form of Exhibit B (the "Throughput Agreement") setting forth the rights and obligations of such parties with respect to the handling and delivery of Specified Feedstocks (as such term is defined in the Throughput Agreement) for the Benicia, Corpus Christi West and Texas City refineries (the "Refineries") that are owned by affiliates of VMSC, (ii) the OLP and VRC will enter into a Services and Secondment Agreement in the form of Exhibit C (the "Services Agreement") whereby VRC agrees to second VRC personnel to OLP to provide certain operational and maintenance services to the OLP in connection with the Tank Assets, and (iii) VRC, as lessor, and the OLP, as lessee, will enter into a lease of the land in the form of Exhibit D (the "Lease Agreement") located in Solano County, California, upon which the Tank Assets are situated (the "Land") and as more particularly described on Exhibit A-1 hereto.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows:

1. Definitions.

"Adverse Consequences" means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, amounts paid in settlement, liabilities, obligations, Taxes, liens, losses, expenses, and fees, including court costs and attorneys' fees and expenses, but excluding punitive (except as provided in SECTION 8), exemplary, special or consequential damages.

"Affiliate" has the meaning set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act of 1934, as amended from time to time; provided, however, that (i) with respect to any of the MLP Parties, the term "Affiliate" shall exclude each member of the Valero Group and (ii) with respect to VRC, the term "Affiliate" shall exclude each member of the MLP Group.

"Agreement" has the meaning set forth in the preface.

"Assignment" means the assignment and assumption agreement in the form of Exhibit E pursuant to which all of the Tank Assets will be assigned.

"Basis" means any past or current fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction about which the relevant Person has Knowledge that forms or could form the basis for any specified consequence.

"Best Efforts" means the efforts, time, and costs that a prudent Person desirous of achieving a result would use, expend, or incur in similar circumstances to ensure that such result is achieved as expeditiously as possible; provided, however, that no such use, expenditure, or incurrence shall be required if it could reasonably be expected to have a material adverse effect on such Person or to require an expense of such Person in excess of $1,000,000.

"Cash Amount" means $98,500,000.

"Casualty" has the meaning set forth in SECTION 11(b).

"CERCLA" has the meaning set forth in SECTION 4(g)(i).

"Closing" has the meaning set forth in SECTION 2(b).

"Closing Date" has the meaning set forth in SECTION 2(b).

"Code" means the Internal Revenue Code of 1986, as amended, or any successor Law.

"Commitment" means (a) options, warrants, convertible securities, exchangeable securities, subscription rights, conversion rights, exchange rights or other contracts that could require a Person to issue any of its Equity Interests or to sell any Equity Interest it owns in another Person; (b) any other securities convertible into, exchangeable or exercisable for, or representing the right to subscribe for any Equity Interest of a Person or owned by a Person; (c) statutory pre-emptive rights or pre-emptive rights granted under a Person's Organizational

Documents; and (d) stock appreciation rights, phantom stock, profit participation, or other similar rights with respect to a Person.

"Common Units" has the meaning set forth in the Amended and Restated Agreement of Limited Partnership of Valero L.P.

"Conflicts Committee" means the conflicts committee of the board of directors of Valero GP.

"Contributed OLP Interest" has the meaning set forth in SECTION 2(a)(VIII).

"Crude Oil" means crude petroleum oil and all other hydrocarbons, regardless of gravity, produced at the well in liquid form by ordinary production methods and which are not the result of condensation of gas.

"Effective Date" has the meaning set forth in the preface.

"Encumbrance" means any mortgage, pledge, lien, encumbrance, charge, security interest, Preferential Right or other defect in title.

"Environmental Law" and "Environmental Laws" have the meanings set forth in SECTION 4(g)(i).

"Equity Interest" means (a) with respect to a corporation, any and all shares of capital stock and any Commitments with respect thereto, (b) with respect to a partnership, limited liability company, trust or similar Person, any and all units, interests or other partnership, limited liability company, trust or similar interests, and any Commitments with respect thereto, and (c) any other direct equity ownership or participation in a Person.

"GAAP" means accounting principles generally accepted in the United States consistently applied.

"Governmental Authority" means the United States or any agency thereof and any state, county, city or other political subdivision, agency, court or instrumentality.

"Hazardous Substances" means all materials, substances, chemicals, gas and wastes which are regulated under any Environmental Law or which may form the basis for liability under any Environmental Law.

"Indemnified Party" has the meaning set forth in SECTION 8(d).

"Indemnifying Party" has the meaning set forth in SECTION 8(d)

"Knowledge": an individual shall be deemed to have "Knowledge" of a particular fact or other matter if such individual is consciously aware of such fact or other matter at the time of determination. A Person other than a natural person shall be deemed to have "Knowledge" of a particular fact or other matter if (i) any natural person who is serving as a director, senior executive officer, partner, member, executor, or trustee of such Person (or in any similar

capacity) or (ii) any employee (or any natural person serving in a similar capacity) who is charged with the ultimate responsibility for a particular area of such Person's operations (e.g., the manager of the environmental section with respect to knowledge of environmental matters), at the time of determination had, Knowledge of such fact or other matter.

"Land" has the meaning set forth in the recitals.

"Law" or "Laws" means any statute, code, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any applicable Governmental Authority.

"Lease Agreement" has the meaning set forth in the recitals.

"Material Adverse Effect" means any change or effect relating to the operations relating to the Tank Assets, taken as a whole, that, individually or in the aggregate with other changes or effects, materially and adversely affects the value of the Tank Assets taken as a whole, provided that in determining whether a Material Adverse Effect has occurred, changes or effects relating to (i) the Crude Oil transportation and refining industry generally (including the price of Crude Oil and the costs associated with the storage and/or transportation of Crude Oil), (ii) United States or global economic conditions or hostilities or financial markets in general, or (iii) the transactions contemplated by this Agreement, shall not be considered.

"MLP" has the meaning set forth in the preface.

"MLP-GP" means Riverwalk Logistics, L.P., a Delaware limited partnership and the general partner of the MLP.

"MLP Group" means (i) each of the MLP Parties, (ii) MLP-GP, (iii) Valero GP, (iv) each Affiliate of each of the MLP Parties in which such MLP Party owns (directly or indirectly) an Equity Interest and (v) each natural person that is an Affiliate of any MLP Party solely because of such natural person's position as an officer (or person performing similar functions), director (or person performing similar functions) or other representative of any Person described in (i) - (iv) above, but only to the extent that such natural person is in its capacity as an officer, director or representative of such Person.

"MLP Parties" means each of (i) the MLP, (ii) OLP-GP, (iii) the OLP and (iv) each Affiliate of the entities in (i) - (iii) which is a party to any Transaction Agreement.

"MLP Party Indemnitees" means, collectively, the MLP Parties and their Affiliates and each of their respective officers (or Persons performing similar functions), directors (or Persons performing similar functions), employees, agents and representatives to the extent acting in such capacity.

"NonAffiliate Purchaser" has the meaning set forth in SECTION 2(d).

"Obligations" means duties, liabilities and obligations, whether vested, absolute or contingent, known or unknown, asserted or unasserted, accrued or unaccrued, liquidated or unliquidated, due or to become due, and whether contractual, statutory or otherwise.

"Offer" has the meaning set forth in SECTION 2(d)(i).

"Offered Assets" has the meaning set forth in SECTION 2(d).

"OLP" has the meaning set forth in the preface.

"OLP-GP" has the meaning set forth in the preface.

"OLP Limited Partner Interest" has the meaning set forth in the recitals.

"Ordinary Course" means the ordinary course of business consistent with the applicable Person's past custom and practice (including with respect to quantity and frequency).

"Organizational Documents" means the articles of incorporation, certificate of incorporation, charter, bylaws, articles or certificate of formation, regulations, operating agreement, certificate of limited partnership, partnership agreement, and all other similar documents, instruments or certificates executed, adopted, or filed in connection with the creation, formation, or organization of a Person, including any amendments thereto.

"Party" and "Parties" have the meanings set forth in the preface.

"Permitted Encumbrances" means any of the following: (i) any liens for Taxes and assessments not yet delinquent or, if delinquent, that are being contested in good faith in the Ordinary Course and the Party contesting such assessments indemnifies the Party taking the property subject to such lien from such lien and such contest; (ii) any inchoate liens or other encumbrances (other than mechanic's, materialmen's and similar liens) and any other defect in title created pursuant to any operating, farmout, construction, operation and maintenance, co-owners, cotenancy, lease or similar agreements listed on SCHEDULE 1(b) for which amounts are not due; and (iii) easements, rights-of-way, restrictions and other similar Encumbrances incurred in the Ordinary Course which, in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto as it is currently being used or materially interfere with the Ordinary Course conducted thereon.

"Person" means an individual or entity, including any partnership, corporation, association, joint stock company, trust, joint venture, limited liability company, unincorporated organization, or Governmental Authority (or any department, agency or political subdivision thereof).

"Post-Closing Tax Period" means any Tax period beginning after the Closing Date.

"Post-Closing Tax Return" means any Tax Return that is required to be filed for any of the Tank Assets with respect to a Post-Closing Tax Period.

"Pre-Closing Tax Period" means any Tax periods or portions thereof ending on or before the Closing Date.

"Pre-Closing Tax Return" means any Tax Return that is required to be filed for any of the Tank Assets with respect to a Pre-Closing Tax Period.

"Preferential Rights" has the meaning set forth in SECTION 4(h).

"Prime Rate" means the prime rate reported in the Wall Street Journal at the time such rate must be determined under the terms of this Agreement.

"Private Placement" has the meaning set forth in SECTION 2(a)(i).

"Records" has the meaning set forth in SECTION 6(c).

"Redemption" has the meaning set forth in SECTION 2(a)(III).

"Refineries" has the meaning set forth in the recitals.

"Required Permits" has the meaning set forth in SECTION 4(g)(II).

"Rights of Way" has the meaning set forth in SECTION 4(e).

"Services Agreement" has the meaning set forth in the recitals.

"Specified Feedstocks" has the meaning set forth in the recitals.

"Straddle Period" means a Tax period or year commencing before and ending after the Closing Date.

"Straddle Return" means a Tax Return for a Straddle Period.

"Subject Insurance Policies" means those material policies of insurance that VRC or any of its Affiliates maintain covering any Tank Assets.

"Taking" has the meaning set forth in SECTION 11(b)(C).

"Tank Assets" has the meaning set forth in the recitals.

"Tax" or "Taxes" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), custom duties, capital stock, franchise, profits, withholding, social security (or similar excises), unemployment, disability, ad valorem, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty or addition thereto, whether disputed or not.

"Tax Records" means all Tax Returns and Tax-related work papers relating to the Tank Assets and the Land.

"Tax Return" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Third Party Claim" has the meaning set forth in SECTION 8(d)(i).

"Third Party Offer" has the meaning set forth in SECTION 2(d).

"Throughput Agreement" has the meaning set forth in the recitals.

"Transaction" has the meaning set forth in SECTION 5(b).

"Transaction Agreements" means this Agreement, the Assignment, the Lease and Access Agreement(s), the Throughput Agreement, the Services Agreement and all other agreements, documents, certificates or instruments executed and delivered in connection with the transactions contemplated herein and therein.

"Transfer Taxes" has the meaning set forth in SECTION 9(e).

"UDS Logistics" has the meaning set forth in the preface.

"UDS Membership Interests" has the meaning set forth in the recitals.

"Underwriting Agreement" has the meaning set forth in SECTION 7(a)(vi).

"Unit Offering" has the meaning set forth in SECTION 2(a)(ii).

"Valero GP" means Valero GP, LLC, a Delaware limited liability company and the general partner of MLP-GP.

"Valero Group" means, excluding members of the MLP Group, (i) each Affiliate of Valero Energy Corporation in which Valero Energy Corporation owns (directly or indirectly) an Equity Interest and (ii) each natural person that is an Affiliate of any Person described in (i) above solely because of such natural person's position as an officer (or person performing similar functions), director (or person performing similar functions) or other representative of any Person described in (i) above, but only to the extent that such natural person is acting in its capacity as an officer, director or representative of such Person.

"VRC" has the meaning set forth in the preface.

"VRC Indemnitees" means, collectively, VRC and its Affiliates and each of their respective officers (or Persons performing similar functions), directors (or Persons performing similar functions), employees, agents, and representatives.

"VRC Parties" means each of (i) VRC, (ii) UDS Logistics, (iii) Valero Energy Corporation and (iv) each Affiliate of VRC in which Valero Energy Corporation owns (directly or indirectly) an Equity Interest and which is a party to any Transaction Agreement (but excluding any MLP Parties).

"VMSC" has the meaning set forth in the recitals.

2. Concurrent Transactions.

(a) Contribution of Tank Assets. Subject to the terms and conditions of this Agreement, the Parties agree that the following transactions will occur in the following order:

(i) the MLP will cause the OLP to borrow from its credit facility and the MLP proposes to cause the OLP to issue long-term debt (the "Private Placement") to institutional investors pursuant to Rule 144A promulgated under the Securities Act of 1933 (which indebtedness shall be guaranteed by the MLP);

(ii) the MLP proposes to issue additional Common Units, representing limited partner interests in the MLP, to the public in exchange for cash (the "Unit Offering");

(iii) using a portion of the net proceeds from the Private Placement, the MLP will redeem (the "Redemption") a sufficient number of Common Units owned by UDS Logistics to reduce, in conjunction with the Unit Offering, the aggregate, combined ownership interest of UDS Logistics and Valero GP in the MLP to 49.5% or less;

(iv) except as provided in SECTION 11(d), VRC will contribute to the OLP, in exchange for the OLP Limited Partner Interest, the Tank Assets free and clear of any Encumbrances other than Permitted Encumbrances;

(v) VRC will contribute to UDS Logistics, in exchange for the UDS Membership Interest (or in the alternative, as provided in SECTION 11(d), for cash) the OLP Limited Partner Interest, free and clear of any Encumbrances;

(vi) the OLP, on behalf of the MLP, will pay the Cash Amount to UDS Logistics in exchange for the right to be assigned the OLP Limited Partner Interest from UDS Logistics;

(vii) UDS Logistics will contribute to the MLP, in exchange for the payment of the Cash Amount from the OLP, on behalf of the MLP, the OLP Limited Partner Interest, free and clear of any Encumbrances;

(viii) the MLP will contribute to OLP-GP such portion of the OLP Limited Partner Interest (the "Contributed OLP Interest") as is necessary for OLP-GP to maintain its 0.01% general partner interest in the OLP; and

(ix) the Contributed OLP Interest will be immediately converted into a general partner interest in the OLP.

(b) The Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at One Valero Place, San Antonio, Texas, 78212, commencing at 10:00 a.m., local time, on the fifth business day following the date as of which the satisfaction or waiver of all conditions to the obligations of the Parties to consummate the transactions contemplated hereby has occurred (other than conditions with respect to actions each Party shall take at the Closing itself) or such other date as the Parties may mutually determine (the "Closing Date").

(c) Deliveries at the Closing. At the Closing, (i) VRC shall deliver to the MLP Parties the various certificates, instruments, and documents referred to in SECTIONS 7(a) AND 9(g); (ii) the MLP Parties shall deliver to VRC the various certificates, instruments, and documents referred to in SECTION 7(b); (c) the applicable Parties shall execute and deliver each of (A) the

Assignment; (B) the Throughput Agreement; (C) the Services Agreement; and (D) the Lease Agreement; (iii) UDS Logistics shall issue to VRC the UDS Membership Interest; (iv) the OLP, on behalf of the MLP, shall pay to UDS Logistics the Cash Amount; (v) the applicable Parties shall execute and/or deliver, or cause to be executed and/or delivered, such other consideration, documents, assets and interests as set forth in SECTION 2(a) above; and (vi) the applicable Parties shall execute and/or deliver, or cause to be executed and/or delivered, each other Transaction Agreement not listed above.

(d) Right of First Offer. Should the board of directors of Valero GP determine at any time after the Closing Date (either through an unsolicited bona fide offer from a Person that is not an Affiliate of the Valero Group (a "Third Party Offer") or through an offer solicited by any of the MLP Parties) that it is in the best interests of the MLP Parties to divest any or all of the Tank Assets (the "Offered Assets"), Valero GP shall promptly notify VRC of such determination and deliver to VRC all information prepared by or on behalf of Valero GP relating to the potential divestiture. As soon as practicable but in any event within 30 days after receipt of such notification and information, VRC shall notify Valero GP that either (a) VRC has elected not to pursue the opportunity to acquire the Offered Assets, in which case the MLP shall be free to offer and divest the Offered Assets to (1) the Person that initiated the Third Party Offer (the "Third Party Offeror") or (2) a Person that is not an Affiliate of the Valero Group (a "NonAffiliate Purchaser"), or (b) VRC has elected to pursue the opportunity to acquire the Offered Assets, in which event the following procedures shall be followed:

(i) VRC shall submit a good faith offer to Valero GP to acquire the Offered Assets (the "Offer") on the terms and for the consideration stated in the Offer;

(ii) VRC and Valero GP shall negotiate in good faith for 90 days after receipt of such Offer by Valero GP, the terms on which the Offered Assets will be acquired by VRC. Valero GP shall provide all information concerning the operations and finances of the Offered Assets as may be reasonably requested by VRC.

(A) If VRC and Valero GP agree on such terms within 90 days after the receipt by Valero GP of the Offer, VRC shall acquire the Offered Assets on such terms after such agreement has been reached; provided, however, that the acquisition consideration to be paid by VRC may not be less than the acquisition consideration offered in the Third Party Offer.

(B) If VRC and Valero GP are unable to agree on the terms of an acquisition during such 90-day period, the MLP is free to divest the Offered Assets to (1) the Third Party Offeror within 180 days of the termination of such 90-day period; provided that such Third Party Offer is not less than 95% of the acquisition consideration last offered by VRC or (2) a NonAffiliate Purchaser; provided that any such divestiture to a NonAffiliate Purchaser must be for an acquisition consideration of not less than 95% of the acquisition consideration last offered by VRC and on the same material terms and conditions as last offered by VRC; provided, further, that if such NonAffiliate Purchaser shall offer less than 95% of the acquisition consideration last offered by VRC or offer to purchase the

Tank Assets on terms and conditions materially less favorable to the MLP than those last offered by VRC, the MLP must first give VRC notice and a right to match the offer from the NonAffiliate Purchaser during a 15-day period after notification of same from MLP to VRC.

(C) During such 90-day period Valero GP shall be free to make capital expenditures to maintain the Offered Assets.

(iii) If, after the expiration of the 180-day period referred to in clause (ii)(B) above, no NonAffiliate Purchaser or Third Party Offeror has acquired the Offered Assets and Valero GP confirms its determination that it is in the best interests of the MLP Parties to divest the Offered Assets, Valero GP shall comply with the provisions of this SECTION 2(d) once again; provided that if Valero GP and VRC are unable to reach agreement during the 90-day period referenced in clause (ii)(B) above, the parties will engage an independent investment banking firm of national reputation to determine the value of the Offered Assets and shall furnish VRC and Valero GP with its opinion of such value within 30 days of its engagement. VRC and Valero GP shall share equally the fees and expenses of such investment banking firm. Upon receipt of such opinion, Valero GP will have the option to

(A) cause the MLP to divest the Offered Assets for an amount equal to the value as determined by such investment banking firm on terms substantially similar to the relevant terms of this Agreement or

(B) decline to divest the Offered Assets.

3. Representations and Warranties Concerning the Transaction.

(a) Representations and Warranties of VRC. VRC hereby represents and warrants to the MLP Parties as follows as of the Effective Date:

(i) Organization and Good Standing. VRC is a corporation duly incorporated, validly existing, and in good standing under the Laws of the state of Delaware. VRC is in good standing under the Laws of the state of California and each other jurisdiction which requires such qualification, except where the lack of such qualification would not have a Material Adverse Effect.

(ii) Authorization of Transaction. Each VRC Party has full power and authority (including full entity power and authority) to execute and deliver each Transaction Agreement to which such VRC Party is a party and to perform its obligations thereunder. Each Transaction Agreement to which any VRC Party is a party constitutes the valid and legally binding obligation of such VRC Party, enforceable against such VRC Party in accordance with its terms and conditions, subject, however, to the effects of bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally, and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). Except as set forth on SCHEDULE 3(A)(II), no VRC Party need give any notice to, make any filing with, or obtain any authorization, consent, or approval of any Governmental Authority or any other

Person in order to consummate the transactions contemplated by this Agreement or any other Transaction Agreement to which such VRC Party is a party.

(iii) Noncontravention. Except for filings specified in SCHEDULE 3(a)(ii) and filings and notifications required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (as amended, the "HSR Act"), neither the execution and delivery of any Transaction Agreement, nor the consummation of any of the transactions contemplated thereby, shall (A) violate any Laws to which any VRC Party is subject or any provision of the Organizational Documents of any VRC Party or (B) result in a breach of, constitute a default under, result in the acceleration of, create in any Person the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which any VRC Party is a party or by which it is bound or to which any of its assets or any of the Tank Assets are subject, except for such violations, defaults, breaches, or other occurrences that do not, individually or in the aggregate, have a material adverse effect on the ability of VRC or any other VRC Party to consummate the transactions contemplated by such Transaction Agreement.

(iv) Brokers' Fees. No VRC Party has any liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which any of the MLP Parties could become liable or obligated.

(b) Representations and Warranties of the MLP Parties. Each of the MLP Parties hereby represents and warrants to VRC as follows as of the Effective Date:

(i) Organization of the MLP Parties. Each of the MLP Parties is a limited liability company, limited partnership or corporation duly organized, validly existing, and in good standing under the Laws of the state of Delaware. Each of the MLP Parties is in good standing under the Laws of the state of California, or will be qualified to do business in California prior to the Closing, and each other jurisdiction which requires such qualification, except where the lack of such qualification in each instance would not have a Material Adverse Effect.

(ii) Authorization of Transaction. Each of the MLP Parties has full power and authority (including full entity power and authority) to execute and deliver each Transaction Agreement to which it is a party and to perform its obligations thereunder. Each Transaction Agreement to which such MLP Party is a party constitutes the valid and legally binding obligation of such MLP Party, enforceable against such MLP Party in accordance with its terms and conditions, subject, however, to the effects of bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally, and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). Except for approval by the Conflicts Committee and as set forth on SCHEDULE 3(b)(ii) and any filings under the HSR Act, no MLP Party needs to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any Governmental Authority or any other Person in

order to consummate the transactions contemplated by this Agreement or any other Transaction Agreement.

(iii) Noncontravention. Except for the filings specified in SCHEDULE 3(b)(ii), neither the execution and delivery of any Transaction Agreement to which any MLP Party is a party, nor the consummation of any of the transactions contemplated thereby, shall (A) violate any Laws to which such MLP Party is subject or any provision of its Organizational Documents or (B) result in a breach of, constitute a default under, result in the acceleration of, create in any Person the right to accelerate, terminate, modify, or cancel, or require any notice, approval or consent under any agreement, contract, lease, license, instrument, or other arrangement to which any MLP Party is a party or by which it is bound or to which any of its assets is subject, except for such violations, defaults, breaches, or other occurrences that do not, individually or in the aggregate, have a material adverse effect on the ability of any MLP Party to consummate the transactions contemplated by such Transaction Agreement.

(iv) Brokers' Fees. Other than a customary fee paid to A.G. Edwards & Sons in connection with its assessment of the fairness of the Transaction to the MLP and to the holders of the Common Units (other than any of the Valero Group), no MLP Party has any liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which VRC could become liable or obligated.

(v) Investment. Each of the MLP Parties is familiar with investments of the nature of the Tank Assets, understands that this investment involves substantial risks, has investigated the Tank Assets, and has substantial knowledge and experience in financial and business matters such that it is capable of evaluating, and has evaluated, the merits and risks inherent in purchasing the Tank Assets, and is able to bear the economic risks of such investment. Each of the MLP Parties has had the opportunity to visit with VRC and its applicable Affiliates and meet with their representative officers and other representatives to discuss the operations, assets, liabilities and financial condition of the Tank Assets, has received materials, documents and other information that such MLP Party deems necessary or advisable to evaluate the Tank Assets. Each of the MLP Parties has made its own independent examination, investigation, analysis and evaluation of the Tank Assets, including its own estimate of the value of the Tank Assets. Each of the MLP Parties has undertaken such due diligence (including a review of the assets, properties, liabilities, books, records and contracts constituting part of the Tank Assets) as such MLP Party deems adequate. Notwithstanding the other provisions of this subsection (v), the MLP Parties have relied on the truth and accuracy of the representations and warranties made by VRC in SECTION 4(l) in making the representations and warranties in this subsection (v) and the MLP Parties shall not be considered to have breached any representation or warranty contained in this subsection (v) if any of the representations and warranties made by VRC in SECTION 4(l) are not true or are inaccurate.

4. Representations and Warranties Concerning the Tank Assets. VRC hereby represents and warrants to the MLP Parties as follows as of the Effective Date:

(a) Noncontravention. Except as set forth in SCHEDULE 4(a), neither the execution and delivery of any Transaction Agreement to which any VRC Party is a party, nor the consummation of any of the transactions contemplated thereby, shall (i) violate any Laws to which any of the Tank Assets is subject or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, require any notice or trigger any rights to payment or other compensation, or result in the imposition of any Encumbrance on any of the Tank Assets under, any agreement, contract, lease, license, instrument, or other arrangement to which any of the Tank Assets is subject, except where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice, right to payment or other compensation, or Encumbrance would not have a Material Adverse Effect, or would not materially adversely affect the ability of any VRC Party to consummate the transactions contemplated by such Transaction Agreement.

(b) Title to and Condition of Tank Assets and Land.

(i) VRC has good and marketable title to all of the Tank Assets in each case free and clear of all Encumbrances, except for Permitted Encumbrances. VRC has good and indefeasible title (fee and leasehold, as applicable) to all of the Land.

(ii) To VRC's Knowledge, except as disclosed in SCHEDULE 4(b)(ii), the Tank Assets are in good operating condition and repair (normal wear and tear excepted), are free from patent and latent defects, are suitable for the purposes for which they are currently used and are not in need of maintenance or repairs except for ordinary routine maintenance and repairs that, in the aggregate, do not exceed $250,000.

(iii) There are no borrowings, loan agreements, promissory notes, pledges, mortgages, guaranties, liens and similar liabilities (direct and indirect), or Encumbrances which are secured by or constitute an Encumbrance on the Tank Assets and/or the Land.

(iv) VRC has not caused any work or improvements to be performed upon or made to any of the Tank Assets for which there remains outstanding any payment obligation that would or might serve as the basis for any claim, lien, charge or Encumbrance in favor of the Person which performed the work.

(v) VRC has not leased or subleased any parcel or any portion of the Land to any other Person.

(c) Material Change. Except as set forth in SCHEDULE 4(c), since December 31, 2001:

(i) there has not been any Material Adverse Effect;

(ii) the Tank Assets have been operated and maintained in the Ordinary Course;

(iii) to VRC's Knowledge, there has not been any material damage, destruction or loss to any material portion of the Tank Assets, whether or not covered by insurance;

(iv) there has been no purchase, sale or lease of any material asset included in the Tank Assets;

(v) there is no contract, commitment or agreement to do any of the foregoing, except as expressly permitted hereby.

(d) Legal Compliance. Each VRC Party, with respect to the Tank Assets, has complied with all applicable Laws, except where the failure to comply would not have a Material Adverse Effect. VRC makes no representations or warranties in this SECTION 4(d) with respect to Environmental Laws, for which the sole representations and warranties of VRC are set forth in SECTION 4(g).

(e) Rights of Way. SCHEDULE 4(e) contains a list of all rights-of-way constituting part of or affecting the Tank Assets (the "Rights of Way"). The Rights of Way (together with the Required Permits and the Transaction Documents) constitute all of the agreements, rights of way, licenses, permits, and other documents and instruments necessary for the operation of the Tank Assets consistent with applicable Laws and prior operation. The VRC Parties have performed and are in compliance with all obligations required to be performed by them to date under the Rights of Way, and are not in default under any obligation of any such Right of Way, except when such default would not have a Material Adverse Effect. VRC has not received any notice of cancellation or termination of any Right of Way. VRC has not assigned its interest under any Right of Way to any third party.

(f) Litigation.

(i) VRC is not, with respect to the Tank Assets, (i) subject to any outstanding injunction, judgment, order, decree, ruling, or charge or (ii) the subject of any action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction, or is the subject of any pending or, to VRC's Knowledge, threatened claim, demand, or notice of violation or liability from any Person, except where any of the foregoing would not have a Material Adverse Effect.

(ii) No VRC Party has Knowledge of any Basis for any present or future injunction, judgment, order, decree, ruling, or charge or action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction, against any of them giving rise to any Obligation to which any of the Tank Assets and/or the Land would be subject.

(g) Environmental Matters. Except as set forth in SCHEDULE 4(g):

(i) VRC, with respect to the Tank Assets and the Land, has been in compliance with all applicable local, state, and federal laws, rules, regulations, and orders regulating or otherwise pertaining to (a) the use, generation, migration, storage, removal, treatment, remedy, discharge, release, transportation, disposal, or cleanup of pollutants, contamination, hazardous wastes, hazardous substances, hazardous materials, toxic substances or toxic pollutants, (b) surface waters, ground waters, ambient air and any other environmental medium on or off any lease or (c) the environment or health and safety-related matters; including the following as from time to time amended and all others whether similar or dissimilar: the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (as amended by the Superfund Amendments and Reauthorization Act of 1986 "CERCLA"), the Resource Conservation and Recovery Act of 1976, as amended by the Used Oil Recycling Act of 1980, the Solid Waste Disposal Act Amendments of 1980, and the Hazardous and Solid Waste Amendments of 1984, the Hazardous Materials Transportation Act, as amended, the Toxic Substance Control Act, as amended, the Clean Air Act, as amended, the Clean Water Act, as amended, and all regulations promulgated pursuant thereto, and common law principles, including nuisance, trespass and negligence as applicable to environmental matters described above (collectively, the "Environmental Laws," and, individually, an "Environmental Law"), except for such instances of noncompliance that individually or in the aggregate do not have a Material Adverse Effect.

(ii) VRC has obtained all permits, licenses, franchises, authorities, consents, registrations, orders, certificates, waivers, exceptions, variances and approvals, and have made all filings, paid all fees, and maintained all material information, documentation, and records, as necessary under applicable Environmental Laws for operating the Tank Assets and/or the Land as they are presently operated, and all such permits, licenses, franchises, authorities, consents, approvals, and filings remain in full force and effect, except for such matters that individually or in the aggregate do not have a Material Adverse Effect. SCHEDULE 4(g)(II) sets forth a complete list of all permits, licenses, franchises, authorities, consents, and approvals, as necessary under applicable Environmental Laws for operating the Tank Assets and/or the Land as they are presently operated (the "Required Permits"), each of which is held in the name of the appropriate VRC Party as indicated on such schedule.

(iii) Except as would not have a Material Adverse Effect, (x) there are no pending or, to the knowledge of any VRC Party, threatened claims, demands, actions, administrative proceedings or lawsuits against VRC with respect to the Tank Assets and/or the Land and VRC has not received notice of any of the foregoing and (y) none of the Tank Assets, and none of the Land is, subject to any outstanding injunction, judgment, order, decree or ruling under any Environmental Laws.

(iv) VRC has not received any written notice that VRC, with respect to the Tank Assets and/or the Land, is or may be a potentially responsible party under CERCLA or any analogous state law in connection with any site actually or allegedly containing or used for the treatment, storage or disposal of Hazardous Substances.

(v) All Hazardous Substances or solid wastes generated, transported, handled, stored, treated or disposed by, in connection with or as a result of the operation or possession of VRC or the conduct of VRC, have been transported only by carriers maintaining valid authorizations under applicable Environmental Laws and treated, stored, disposed of or otherwise handled only at facilities maintaining valid authorizations under applicable Environmental Laws and such carriers and facilities have been and are operating in compliance with such authorizations and are not the subject of any existing, pending or threatened action, investigation or inquiry by any Governmental Authority or other Person in connection with any of the Environmental Laws, except for such matters that individually or in the aggregate do not have a Material Adverse Effect.

VRC makes no representation or warranty regarding any compliance or failure to comply with, or any actual or contingent liability under, any Environmental Law, except as expressly set forth in this SECTION 4(g). For purposes of this SECTION 4(g), each reference to VRC or VRC Parties shall be deemed to include VRC Parties and their Affiliates.

(h) Preferential Purchase Rights. Except for the Right of First Offer and the Right of First Refusal set forth in SECTION 2(d), there are no preferential purchase rights, rights of refusal to purchase, purchase options or other rights held by any Person not a party to this Agreement to purchase or acquire any or all of the Tank Assets, in whole or in part, or any or all of the Land, in whole or in part, that would be triggered or otherwise affected as a result of the transactions contemplated by this Agreement ("Preferential Rights").

(i) Prohibited Events. None of the matters described in SECTION 5(c) have occurred since December 31, 2002.

(j) Regulatory Matters No VRC Party is (i) a "holding company," a "subsidiary company" of a "holding company," an "affiliate" of a "holding company," or a "public utility," as each such term is defined in the Public Utility Holding Company Act of 1935, as amended, or (ii) an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder. None of the Tank Assets are subject to regulation by the Federal Energy Regulatory Commission or rate regulation or comprehensive nondiscriminatory access regulation under any federal laws or the laws of any state or other local jurisdiction.

(k) Intercompany Transactions. There are no outstanding receivables, payables and other intercompany agreements between VRC and any of its Affiliates that relate to the Tank Assets. -

(l) Material Information. VRC has provided to the MLP Parties all material information concerning the operations and finances of the Tank Assets as has been requested by any of the MLP Parties to date and such information is complete and correct in all material respects and does not omit to state a material fact necessary to make the statements and information contained therein not misleading in light of the circumstances in which they are made. To VRC's knowledge, there is not any fact that has not been disclosed to the MLP Parties pertaining particularly to any of the Tank Assets (as opposed to public information concerning general industry or economic conditions or governmental policies) which materially and

adversely affect any of the Tank Assets or the use, ownership, financing, operation, maintenance or repair of any of the Tank Assets at any time after the Closing.

(m) Disclaimer of Representations and Warranties Concerning Personal Property, Equipment and Fixtures. Each of the MLP Parties acknowledges that (i) it has had and pursuant to this Agreement shall have before Closing access to the Tank Assets and the Land and the officers and employees of VRC and (ii) in making the decision to enter into this Agreement and consummate the transactions contemplated hereby, each of the MLP Parties has relied solely on the basis of its own independent investigation and upon the express representations, warranties, covenants, and agreements set forth in this Agreement and the other Transaction Agreements. Accordingly, each of the MLP Parties acknowledges that, except as expressly set forth in this Agreement, VRC has not made, and VRC MAKES NO AND DISCLAIMS ANY, REPRESENTATIONS OR WARRANTIES, WHETHER EXPRESS OR IMPLIED, AND WHETHER BY COMMON LAW, STATUTE, OR OTHERWISE, REGARDING (i) THE QUALITY, CONDITION, OR OPERABILITY OF ANY PERSONAL PROPERTY, EQUIPMENT, OR FIXTURES, (ii) THEIR MERCHANTABILITY, (iii) THEIR FITNESS FOR ANY PARTICULAR PURPOSE, OR (iv) THEIR CONFORMITY TO MODELS, SAMPLES OF MATERIALS OR MANUFACTURER DESIGN, AND ALL PERSONAL PROPERTY AND EQUIPMENT IS DELIVERED "AS IS, WHERE IS" IN THE CONDITION IN WHICH THE SAME EXISTS.

5. Pre-Closing Covenants. The Parties agree as follows with respect to the period between the date of this Agreement and the Closing:

(a) General. Each of the MLP Parties shall use its Best Efforts to take all action and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement, including causing the occurrence of VRC's conditions to Closing in SECTION 7(b). VRC shall use its Best Efforts to take all action and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement, including causing the occurrence of the MLP Parties' conditions to Closing in SECTION 7(a).

(b) Notices and Consents. Each of the Parties shall give any notices to, make any filings with, and use its Best Efforts to obtain any authorizations, consents, and approvals of Governmental Authorities and third parties it is required to obtain in connection with the transaction contemplated by this Agreement (the "Transaction"), so as to permit the Closing to occur not later than 9:00 a.m. (San Antonio time) on March 31, 2003.

(c) Operation of Tank Assets. VRC shall not, without the written consent of the OLP (which consent shall not be unreasonably withheld or delayed), except as expressly contemplated by this Agreement or as contemplated by SCHEDULE 5(c), engage in any practice, take any action, omit to take any action or enter into any transaction outside the Ordinary Course that could reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing, without the written consent of the MLP (which consent shall not be unreasonably withheld or delayed), except as expressly contemplated by this Agreement or SCHEDULE 5(c), prior to the Closing VRC shall not do any of the following:

(i) sell, lease or otherwise dispose of any Tank Assets and/or any portion of the Land or cause or allow any part of the Tank Assets and/or the Land to become subject to an Encumbrance, except for Permitted Encumbrances;

(ii) initiate or settle any litigation, complaint, rate filing or administration proceeding relating to the Tank Assets and/or the Land.

(d) Full Access. VRC shall permit, and shall cause its Affiliates to permit, representatives of the MLP Parties to have full access at all reasonable times, and in a manner so as not to unreasonably interfere with the normal business operations of VRC and its Affiliates, to all premises, properties, personnel, books, records (including Tax records), contracts, and documents pertaining to any of the Tank Assets and/or the Land.

(e) Required Permits. Each of the VRC Parties and the MLP Parties shall use its Best Efforts to take all action and to do all things necessary, proper, or advisable in order to transfer the Required Permits to the OLP or otherwise to assist the OLP in obtaining such Required Permits in its own right.

6. Post-Closing Covenants. The Parties agree as follows:

(a) General. In case at any time after the Closing any further action is necessary to carry out the purposes of this Agreement, each of the Parties shall take such further action (including the execution and delivery of such further instruments and documents) as the other Party reasonably may request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under SECTION 8).

(b) Litigation Support. In the event and for so long as any Party actively is contesting or defending against any action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand in connection with (i) any transaction contemplated under this Agreement or (ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction on or before the Closing Date involving the Tank Assets, the other Party shall cooperate with the contesting or defending Party and its counsel in the defense or contest, make available its personnel, and provide such testimony and access to its books and records (other than books and records which are subject to privilege or to confidentiality restrictions) as shall be necessary in connection with the defense or contest, all at the sole cost and expense of the contesting or defending Party (unless the contesting or defending Party is entitled to indemnification therefor under SECTION 8).

(c) Intentionally Omitted.

(d) Delivery and Retention of Records. On the Closing Date, VRC shall deliver or cause to be delivered to the MLP Parties, copies of Tax Records and all other files, books, records, information and data relating to the Tank Assets (other than Tax Records) that are in the possession or control of VRC (the "Records"). The MLP Parties agree to (i) hold the Records and not to destroy or dispose of any thereof for a period of seven years from the Closing Date or such longer time as may be required by Law, provided that, if it desires to destroy or dispose of such Records during such period, it shall first offer in writing at least 60 days before such destruction or disposition to surrender them to VRC and if VRC does not accept such offer

within 20 days after receipt of such offer, such MLP Party may take such action and (ii) afford VRC, its accountants, and counsel, during normal business hours, upon reasonable request, at any time, full access to the Records to the extent that such access may be requested for any legitimate purpose at no cost to VRC (other than for reasonable out-of-pocket expenses); provided that such access shall not be construed to require the disclosure of Records that would cause the waiver of any attorney-client, work product, or like privilege; provided, further that in the event of any litigation nothing herein shall limit any Party's rights of discovery under applicable Law.

(e) Required Permits. Each of the VRC Parties and the MLP Parties shall use its Best Efforts to take all action and to do all things necessary, proper, or advisable in order to transfer the Required Permits to the OLP or otherwise to assist the OLP in obtaining such Required Permits in its own right.

7. Conditions to Obligation to Close.

(a) Conditions to Obligation of the MLP Parties. The obligation of each of the MLP Parties to consummate the transactions to be performed by such MLP Party in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties of VRC contained in SECTIONS 3(a) and 4 must be true and correct in all material respects (without, for purposes of determining whether or not this condition is satisfied as of the Closing, giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value, except with respect to (A) the representations and warranties in SECTION 4(b)(II) and (B) the representations and warranties in SECTION 4(c)(III), for which in each such case qualifications as to Knowledge shall be given effect) as of the date of this Agreement and at Closing (except for those which refer to a specific date, which must be true and correct as of such date);

(ii) VRC must have performed and complied in all material respects with its covenants hereunder through the Closing (without, for purposes of determining whether or not this condition is satisfied as of the Closing, giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value);

(iii) there must not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement or any suit or action pending by a Governmental Authority to enjoin the consummation of any of the transactions contemplated by this Agreement;

(iv) the MLP Parties must have obtained all material Governmental Authority and third party consents, including any material consents specified in SECTION 3(b)(ii) and including the consents required by the corresponding Schedule and the 30-day waiting period under the HSR Act shall have expired or been terminated prior to the

expiration thereof and all other approvals required under the HSR Act shall have been issued;

(v) VRC must have delivered to the MLP Parties a certificate to the effect that each of the conditions specified in SECTIONS 7(a)(i) - (iv) is satisfied in all respects;

(vi) the MLP and a group of underwriters must have executed and delivered an Underwriting Agreement (the "Underwriting Agreement") with respect to a public offering of common units representing limited partner interests in the MLP with an aggregate offering amount of up to $200 million (not including the underwriters' over-allotment option) and the closing of the transactions contemplated therein must have occurred;

(vii) one or more of the MLP Parties and a group of note purchasers must have executed and delivered a Note Purchase Agreement with respect to the Private Placement with an aggregate principal amount of up to $250 million (the "Note Purchase Agreement") and the closing of the transactions contemplated thereby must have occurred;

(viii) one or more of the MLP Parties shall have entered into arrangements under the OLP's revolving credit facility to borrow such additional amount as is necessary for the MLP and OLP to fund the aggregate amount of the Cash Amount, the cash amount required under the Contribution Agreements entered into as the date hereof by the MLP Parties with Valero Refining-Texas, L.P. for the contribution of specified feedstock storage tanks as identified therein and with Valero Pipeline Company for the contribution of the pipeline and terminal assets as identified therein, the Redemption as well as the aggregate transaction costs (expected to be approximately $2 million), and the closing of the borrowing transaction must have occurred;

(ix) the MLP Parties must have duly and validly authorized the terms of the Underwriting Agreement, the Note Purchase Agreement and the borrowing by the OLP as contemplated in clauses (vi), (vii) and (viii) above;

(x) the proceeds of the equity and debt financing for the transactions contemplated hereby as outlined in clauses (vi), (vii) and (viii) above must have been received by the MLP Parties on terms substantially the same as authorized by the MLP Parties; and

(xi) the MLP's public offering of its common units and the Redemption, on an aggregate basis, must have caused the aggregate ownership interest of Valero Energy in the MLP to be 49.5% or less.

The MLP Parties may waive any condition specified in this SECTION 7(a) if Valero GP, on behalf of all of the MLP Parties, executes a writing so stating at or before the Closing.

(b) Conditions to Obligation of VRC. The obligation of VRC to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties of the MLP Parties contained in SECTION 3(b) must be true and correct in all material respects (without, for purposes of determining whether or not this condition is satisfied as of the Closing, giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value) as of the date of this Agreement and at Closing (except for those which refer to a specific date, which must be true and correct as of such date);

(ii) each of the MLP Parties must have performed and complied in all material respects with each of its covenants hereunder through the Closing (without, for purposes of determining whether or not this condition is satisfied as of the Closing, giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value);

(iii) there must not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement or any suit or action pending by a Governmental Authority to enjoin the consummation of any of the transactions contemplated by this Agreement;

(iv) VRC must have obtained all material Governmental Authority and third party consents, including material consents specified in SECTIONS 3(a)(ii) and 4(a) and including the consents required by the corresponding Schedules and the 30-day waiting period under the HSR Act shall have expired or been terminated prior to the expiration thereof and all other approvals required under the HSR Act shall have been issued; and

(v) Valero GP, on behalf of the MLP Parties, must have delivered to VRC a certificate to the effect that each of the conditions specified in SECTIONS 7(b)(i) - (iv) is satisfied in all respects.

VRC may waive any condition specified in this SECTION 7(b) if it executes a writing so stating at or before the Closing.

8. Remedies for Breaches of this Agreement.

(a) Survival. (i) All of the representations and warranties of VRC contained in SECTIONS 3(a) and 4 (other than SECTIONS 3(a)(i), 3(a)(ii), 4(b)(i), and 4(f)(ii)) shall survive the Closing hereunder for a period of three years after the Closing Date; (ii) the representations and warranties of VRC contained in SECTIONS 3(a)(i), 3(a)(i), and 4(b)(i) shall survive the Closing forever, and (iii) the representations and warranties of VRC contained in SECTION 4(f)(ii) shall survive the Closing for a period of one year after the Closing Date. The representations and warranties of the MLP Parties contained in SECTION 3(b) (other than in SECTIONS 3(b)(i) and

3(b)(ii)) shall survive the Closing for a period of three years after the Closing Date. The representations and warranties of the MLP Parties contained in SECTIONS 3(b)(i) and 3(b)(ii) shall survive the Closing forever. The covenants and obligations contained in SECTIONS 2 and 6 and all other covenants and obligations contained in this Agreement (including, but not limited to, those contained in SECTIONS 8(b)(iii), 8(b)(iv) and 8(b)(v)) shall survive the Closing forever, unless a shorter period is expressly identified in this Agreement with respect thereto.

(b) Indemnification Provisions for Benefit of the MLP Parties.

(i) VRC agrees to release and indemnify the MLP Party Indemnitees from and against any Adverse Consequences suffered by the MLP Party Indemnitees arising out of, in connection with or relating to any breach of the representations and warranties made by VRC in this Agreement to the extent that (x) such representations and warranties survive the Closing pursuant to SECTION 8(a) and (y) any MLP Party makes a written claim for indemnification against VRC pursuant to SECTION 11(g) within such period of survival. However, VRC shall not have any obligation to release and indemnify the MLP Party Indemnitees from and against any such Adverse Consequences (A) until the MLP Party Indemnitees, in the aggregate, have suffered Adverse Consequences by reason of all such breaches in excess of an aggregate amount equal to 1% of the Cash Amount (the "1% Threshold") (after which point VRC shall be obligated to release and indemnify the MLP Party Indemnitees from and against all Adverse Consequences by reason of all such breaches, including those Adverse Consequences included in the calculation of whether or not the 1% Threshold had been met), (B) to the extent the Adverse Consequences the MLP Party Indemnitees, in the aggregate, exceeds an aggregate ceiling amount equal to 50% of the Cash Amount (after which point VRC shall have no obligation to release and indemnify the MLP Party Indemnitees from and against further such Adverse Consequences); provided, however, that the threshold amount with respect to breaches of SECTION 4(b)(ii) shall be $250,000 and not the 1% Threshold. For purposes of calculating any Adverse Consequences in connection with this SECTION 8(b)(i), any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, or any qualification or limitation as to monetary amount or value set forth in SECTIONS 3(a) OR 4 shall be disregarded.

(ii) In the event: (x) VRC breaches any of its covenants or obligations in SECTIONS 2 or 6 or any other covenants or obligations in this Agreement (other than SECTIONS 3, 4 AND 8(b)(i)) (in each case above without giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value); (y) there is an applicable survival period pursuant to SECTION 8(a); and (z) any MLP Party makes a written claim for indemnification against VRC pursuant to SECTION 11(g) within such survival period, then VRC agrees to release and indemnify the MLP Party Indemnitees from and against any Adverse Consequences suffered by the MLP Party Indemnitees.

(iii) VRC shall release, defend, indemnify and hold harmless the MLP Party Indemnitees against any Adverse Consequences resulting by reason of joint and several liability with VRC arising by reason of having been required to be aggregated

with VRC under section 414(o) of the Code, or having been under "common control" with VRC, within the meaning of Section 4001(a)(14) of ERISA.

(iv) VRC shall release, defend and indemnify the MLP Party Indemnitees from and against any Adverse Consequences suffered by the MLP Party Indemnitees with respect to any environmental condition, claim or loss with respect to (a) any of the Tank Assets arising as a result of events occurring or conditions existing on or prior to the Closing Date, including the matters disclosed in SCHEDULE 4(g) and (b) any real or personal property on which the Tank Assets are or, prior to the Effective Date, have been located, arising prior to or as of the date of this Agreement.

(v) VRC shall release, defend, indemnify and hold harmless the MLP Party Indemnitees against any Adverse Consequences suffered by the MLP Party Indemnitees with respect to, any outstanding injunction, judgment, order, decree, ruling, or charge, or any pending or threatened action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction, or any other Adverse Consequences suffered by the MLP Party Indemnitees as a result of third-party claims relating to the Tank Assets on or before the Closing Date.

(vi) Notwithstanding anything to the contrary contained in SECTIONS 8(b)(i) and (ii), VRC shall not have any obligation to indemnify any MLP Party Indemnitee to the extent that the payment thereof would cause VRC's aggregate indemnity payments under SECTION 8(b) (but excluding SECTIONS 8(b)(iii), 8(b)(iv) and 8(b)(v)) to exceed 100% of the Cash Amount.

(vii) To the extent any MLP Party Indemnitee becomes liable to, and is ordered to and does pay to any third party, punitive, exemplary, special or consequential damages caused by a breach by VRC of any representation, warranty or covenant contained in this Agreement, then such punitive, exemplary, special or consequential damages shall be deemed actual damages to such MLP Party Indemnitee and included within the definition of Adverse Consequences for purposes of this SECTION 8.

(viii) Except for the rights of indemnification provided in this SECTION 8 and SECTION 9, each of the MLP Parties hereby waives any claim or cause of action pursuant to common or statutory law or otherwise against VRC arising from any breach by VRC of any of its representations, warranties or covenants under this Agreement or the transactions contemplated hereby.

(c) Indemnification Provisions for Benefit of VRC.

(i) In the event: (x) any of the MLP Parties breaches any of its representations, warranties or covenants contained herein; (y) there is an applicable survival period pursuant to SECTION 8(a); and (z) VRC makes a written claim for indemnification against such MLP Party pursuant to SECTION 11(g) within such survival period, then each of the MLP Parties agrees to release and indemnify the VRC

Indemnitees from and against the entirety of any Adverse Consequences suffered by such VRC Indemnitees.

(ii) To the extent any VRC Indemnitee becomes liable to, and is ordered to and does pay to any third party, punitive, exemplary, special or consequential damages caused by a breach by any of the MLP Parties of any representation, warranty or covenant contained in this Agreement, then such punitive, exemplary, special or consequential damages shall be deemed actual damages to such VRC Indemnitee and included within the definition of Adverse Consequences for purposes of this SECTION 8.

(iii) Except for the rights of indemnification provided in this SECTION 8, VRC hereby waives any claim or cause of action pursuant to common or statutory law or otherwise against the MLP Parties arising from any breach by any of the MLP Parties of any of its representations, warranties or covenants under this Agreement or the transactions contemplated hereby.

(d) Matters Involving Third Parties.

(i) If any third party shall notify any Party (the "Indemnified Party") with respect to any matter (a "Third Party Claim") that may give rise to a claim for indemnification against any other Party (the "Indemnifying Party") under this SECTION 8, then the Indemnified Party shall promptly (and in any event within fifteen business days after receiving notice of the Third Party Claim) notify the Indemnifying Party thereof in writing.

(ii) The Indemnifying Party shall have the right to assume and thereafter conduct the defense of the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party; provided, however, that the Indemnifying Party shall not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party (not to be withheld or delayed unreasonably) unless the judgment or proposed settlement involves only the payment of money damages and does not impose an injunction or other equitable relief upon the Indemnified Party.

(iii) Unless and until the Indemnifying Party assumes the defense of the Third Party Claim as provided in SECTION 8(d)(ii), the Indemnified Party may defend against the Third Party Claim in any manner it reasonably may deem appropriate.

(iv) The Indemnified Party may not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party which consent shall not be withheld unreasonably; provided that no such consent will be required if the Indemnifying Party has denied in writing its obligations to indemnify the Indemnified Party hereunder or if the Indemnifying Party has not responded to the Indemnified Party's written request for consent within 10 business days of the Indemnifying Party's receipt thereof.

(e) Determination of Amount of Adverse Consequences. The Adverse Consequences giving rise to any indemnification obligation hereunder shall be limited to the

actual loss suffered by the Indemnified Party (i.e. reduced by any insurance proceeds or other payment or recoupment received, realized or retained by the Indemnified Party as a result of the events giving rise to the claim for indemnification net of any expenses related to the receipt of such proceeds, payment or recoupment, including retrospective premium adjustments, if any), as such actual loss is reduced by any reduction in Taxes of the Indemnified Party (or the affiliated group of which it is a member) occasioned by such loss or damage. The amount of the actual loss and the amount of the indemnity payment shall be computed by taking into account the timing of the loss or payment, as applicable, using a Prime Rate plus 2% interest or discount rate, as appropriate. Upon the request of the Indemnifying Party, the Indemnified Party shall provide the Indemnifying Party with information sufficient to allow the Indemnifying Party to calculate the amount of the indemnity payment in accordance with this SECTION 8(e). An Indemnified Party shall take all reasonable steps to mitigate damages in respect of any claim for which it is seeking indemnification and shall use reasonable efforts to avoid any costs or expenses associated with such claim and, if such costs and expenses cannot be avoided, to minimize the amount thereof.

(f) Tax Treatment of Indemnity Payments. All indemnification payments made under this Agreement, including any payment made under SECTION 9, shall be treated as increases or decreases to the Cash Amount for Tax purposes.

9. Tax Matters.

(a) Tax Returns. VRC shall prepare or cause to be prepared and file or cause to be filed when due all Pre-Closing Tax Returns with respect to the Tank Assets. VRC shall timely pay or cause to be timely paid any Taxes due with respect to such Pre-Closing Tax Returns. The MLP Parties shall prepare or cause to be prepared and file or cause to be filed when due any Post-Closing Tax Returns with respect to the Tank Assets. The MLP Parties shall timely pay (or cause to be timely paid) any Taxes due with respect to such Post-Closing Tax Returns.

(b) Straddle Periods. The MLP Parties shall be responsible for Taxes with respect to the Tank Assets related to the portion of any Straddle Period occurring after the Closing Date. VRC shall be responsible for such Taxes relating to the portion of any Straddle Period occurring before and on the Closing Date. If applicable Law shall not permit the Closing Date to be the last day of a period, then (i) real or personal property Taxes with respect to the Tank Assets shall be allocated based on the number of days in the partial period before and after the Closing Date and (ii) all other Taxes shall be allocated on the basis of the actual activities or attributes of the Tank Assets for each partial period as determined from the books and records of VRC and its Affiliates.

(c) Straddle Returns. The MLP Parties shall prepare any Straddle Returns and deliver same to VRC for review and comment at least 45 days prior to the due date (including any extension) for filing each such Straddle Return, together with a statement setting forth the allocation of taxable income and Taxes under SECTION 9(b) and the amount of Tax that VRC owes. VRC and the MLP Parties agree to consult with each other to attempt to resolve in good faith any issue arising as a result of VRC's review of such Straddle Return and mutually to consent to the filing thereof as promptly as possible. Not later than five days before the due date

for the payment of Taxes with respect to any such Straddle Return, VRC shall pay or cause to be paid to the MLP Parties either (i) if the MLP Parties and VRC are in agreement as to the amount of Taxes owed by VRC, that amount, or (ii) if the MLP Parties and VRC cannot agree on the amount of Taxes owed by VRC, the maximum amount of Taxes reasonably determined by VRC to be owed by it, in which case (A) VRC and the MLP Parties shall refer the dispute to an independent "Big-Four" accounting firm agreed to by the MLP Parties and VRC to arbitrate the dispute within ten days following the payment of the undisputed amount, (B) the determination of such accounting firm as to the amount of Taxes owing by VRC with respect to a Straddle Return shall be binding on both VRC and the MLP Parties, (C) VRC and the MLP Parties shall equally share the fees and expenses of the accounting firm, and (D) within five days after the determination by such accounting firm, if necessary, the appropriate Party shall pay the other Party any amount which is determined by such accounting firm to be owed. VRC shall be entitled to reduce its obligation to pay Taxes with respect to a Straddle Return by the amount of any estimated Taxes paid with respect to such Taxes on or before the Closing Date.

(d) Tax Indemnification. VRC agrees to indemnify the MLP Party Indemnitees from and against any Adverse Consequences with respect to (i) Taxes with respect to the Tank Assets for any Pre-Closing Tax Period and the portion of any Straddle Period occurring on or before the Closing Date and (ii) Transfer Taxes. The MLP Parties agree to indemnify VRC from and against any Adverse Consequences with respect to Taxes with respect to the Tank Assets for any Post-Closing Tax Period and the portion of any Straddle Period occurring after the Closing Date. Notwithstanding anything to the contrary in this Agreement, the covenants and obligations of the Parties sets forth in this SECTION 9 shall be unconditional and absolute and shall remain in effect until thirty days after the expiration of all statutes of limitation applicable to such covenants and obligations. The limitation on the indemnity obligations of VRC pursuant to SECTION 8(b) shall not apply to the indemnity obligations of VRC for Adverse Consequences related to Taxes under this SECTION 9(d).

(e) Transfer Taxes. VRC shall file all necessary Tax Returns and other documentation with respect to all transfer, documentary, sales, use, stamp, registration and other similar Taxes and fees arising out of or in connection with the transactions effected pursuant to this Agreement (the "Transfer Taxes") and shall be liable for and shall timely pay such Transfer Taxes. If required by applicable Law, the MLP Parties shall, and shall cause their Affiliates to, join in the execution of any such Tax Returns and other documentation.

(f) Tax Refunds. If any of the MLP Parties or any Affiliate of the MLP Parties receives a refund of any Taxes that VRC is responsible for hereunder, or if VRC or any Affiliate of VRC receives a refund of any Taxes that any of the MLP Parties is responsible for hereunder, the party receiving such refund shall, within 30 days after receipt of such refund, remit it to the party who has responsibility for such Taxes hereunder. For the purpose of this SECTION 9(f), the term "refund" shall include a reduction in Tax and the use of an overpayment as a credit or other tax offset, and receipt of a refund in respect thereof shall be deemed to occur upon the filing of a return or an adjustment thereto claiming the benefit of such reduction, overpayment or offset.

(g) Closing Tax Certificate. On the Closing Date, VRC shall deliver to the MLP Parties a certificate (in the form attached hereto as Exhibit F) signed under penalties of perjury (i) stating it is not a foreign corporation, foreign partnership, foreign trust or foreign estate, (ii)

providing its U.S. Employer Identification Number, and (iii) providing its address, all pursuant to Section 1445 of the Code.

10. Termination.

(a) Termination of Agreement. The Parties may terminate this Agreement, as provided below:

(i) the MLP Parties and VRC may terminate this Agreement by mutual written consent at any time before the Closing;

(ii) the MLP Parties may terminate this Agreement by giving written notice to VRC at any time before Closing (A) in the event VRC has breached any representation, warranty or covenant contained in this Agreement in any material respect, the MLP Parties have notified VRC of the breach, the breach has continued without cure for a period of 10 days after the notice of breach and such breach would result in a failure to satisfy a condition to the MLP Parties' obligation to consummate the transactions contemplated hereby; or (B) if the Closing shall not have occurred on or before 9:00 a.m. (San Antonio time) on April 30, 2003 (unless the failure results primarily from the MLP Parties itself breaching any representation, warranty or covenant contained in this Agreement);

(iii) VRC may terminate this Agreement by giving written notice to the MLP Parties at any time before the Closing (A) in the event any of the MLP Parties has breached any representation, warranty or covenant contained in this Agreement in any material respect, VRC has notified such MLP Party of the breach, the breach has continued without cure for a period of 10 days after the notice of breach and such breach would result in a failure to satisfy a condition to VRC's obligation to consummate the transactions contemplated hereby; or (B) if the Closing shall not have occurred on or before 9:00 a.m. (San Antonio time) on April 30, 2003 (unless the failure results primarily from VRC breaching any representation, warranty or covenant contained in this Agreement);

(iv) the MLP Parties or VRC may terminate this Agreement if any court of competent jurisdiction or any governmental, administrative or regulatory authority, agency or body shall have issued an order, decree or ruling or shall have taken any other action permanently enjoining, restraining or otherwise prohibiting the transactions contemplated hereby and such order, decree, ruling or other action shall have become final and nonappealable; and

(v) the MLP Parties or VRC may terminate this Agreement if the Underwriting Agreement is terminated for any reason.

(b) Effect of Termination. Except as provided in SECTION 8 and except for the obligations under SECTION 10 and SECTION 11, if any Party terminates this Agreement pursuant to SECTION 10(a), all rights and obligations of the Parties hereunder shall terminate without any liability of any Party to any other Party (except for any liability of any Party then in breach).

11. Miscellaneous.

(a) Public Announcements. Any Party is permitted to issue a press release or make a public announcement concerning this Agreement without the other Parties' consents, in which case the disclosing Party shall provide an advance copy of the proposed public disclosure to the non-disclosing Parties and permit the non-disclosing Parties the opportunity to reasonably comment on such proposed disclosure. The Parties agree to cooperate in good faith to issue separate and simultaneous press releases promptly following the execution of this Agreement by all Parties.

(b) Insurance; Casualty; Condemnation. (i) The MLP Parties acknowledge and agree that, following the Closing, any Subject Insurance Policies shall be terminated or modified to exclude coverage of all or any portion of the Tank Assets by VRC or any of its Affiliates, and, as a result, the MLP Parties shall be obligated at or before Closing to obtain at their sole cost and expense replacement insurance, including insurance required by any third party to be maintained for or by the Tank Assets. Notwithstanding the foregoing, VRC acknowledges that initially such insurance described in the preceding sentence may be maintained under an umbrella policy of Valero Energy Corporation with OLP as a named insured (and for which OLP shall reimburse Valero Energy Corporation for its proportionate cost), but the OLP agrees that it will endeavor in good faith to obtain insurance in its own name if commercially and economically practicable. Each of the MLP Parties further acknowledges and agrees that the MLP Parties may need to provide to certain Governmental Authorities and third parties evidence of such replacement or substitute insurance coverage for the continued operations of the Tank Assets. If any claims are made or losses occur prior to the Closing Date that relate solely to the Tank Assets and such claims, or the claims associated with such losses, properly may be made against the policies retained by VRC or its Affiliates after the Closing, then VRC shall use its Best Efforts so that the MLP Parties can file, notice, and otherwise continue to pursue these claims pursuant to the terms of such policies; provided, however, nothing in this Agreement shall require VRC to maintain or to refrain from asserting claims against or exhausting any retained policies.

(ii) (A) VRC shall give the MLP Parties prompt notice of (i) any fire or other casualty affecting the Tank Assets (a "Casualty") between the Effective Date and the Closing Date and (ii) any actual, pending or proposed Taking of all or any portion of the Tank Assets.

(B) In the event the Tank Assets (or any material portion thereof) suffers a Casualty subsequent to the Effective Date, but prior to the Closing Date, VRC shall elect either (i) to repair or make adequate provision for the repair of such Tank Assets prior to Closing or (ii) to provide the MLP Parties with a credit against the Cash Amount in an amount agreed upon by VRC and the MLP Parties to represent the reduction in the value of the Tank Assets by reason of the Casualty, taking into account any repairs actually made by VRC to such Tank Assets prior to the Closing Date. If the reduction in the value of the Tank Assets by reason of the Casualty exceeds 25% of the Cash Amount, the MLP Parties shall have the option to terminate this Agreement without any further obligation of any of the Parties or their Affiliates pursuant hereto.

(C) If after the Effective Date and prior to the Closing Date, all or any portion of the Tank Assets is taken by condemnation or eminent domain or by agreement in lieu thereof with any person or entity authorized to exercise such rights (a "Taking"), and the mutually-agreed value of the Tank Assets subject to such Taking, when aggregated with all other Takings occurring during such time period, equal:

i. less than 25% of the Cash Amount, the Closing shall take place as provided herein without abatement of the Cash Amount, and there shall be assigned to the MLP Parties at the Closing all interest of VRC in any award which may be payable to VRC on account of such Taking; or

ii. 25% or more of the Cash Amount, the MLP Parties shall have the option to terminate this Agreement without any further obligation of any of the parties or their affiliates pursuant hereto; provided that if the MLP Parties elects to proceed with the Closing, the Closing shall take place as provided herein without abatement of the Cash Amount, and there shall be assigned to the MLP Parties at the Closing all interest of VRC in any award which may be payable to VRC on account of such Taking.

(D) In the event condemnation proceedings for a Taking of all or any portion of the Tank Assets are commenced prior to the Closing Date, the MLP Parties and VRC shall have joint control of such proceedings and shall cooperate in their efforts in response to such proceedings.

(c) No Third Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties, the VRC Parties, the MLP Parties and their respective successors and permitted assigns.

(d) Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. Prior to the Closing the MLP Parties may not assign this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of VRC; provided, however, without the prior written approval of VRC, the MLP Parties and its permitted successors and assigns may assign any or all of its rights, interests or obligations under this Agreement to an Affiliate of any of the MLP Parties, including designating one or more Affiliates of any of the MLP Parties to be the assignee of some or any portion of the Tank Assets. Notwithstanding the foregoing, VRC may assign its right under SECTION 2(a)(iv) to receive the OLP Limited Partner Interest to a person described in Treasury Regulation Section 1.1031(k)-1(g)(4) (a "Qualified Intermediary"). The Qualified Intermediary will be obligated to, and will, assign such right to receive the OLP Limited Partner Interest to UDS Logistics. Such assignment shall be deemed to fulfill VRC's obligations under SECTION 2(a)(v) hereof. If VRC elects to assign its right to receive the OLP Limited Partner Interest as provided in the preceding sentence, then the Qualified Intermediary shall assign its right to receive the OLP Limited Partner Interest to UDS Logistics and UDS Logistics, in lieu of issuing the UDS Membership Interest to VRC, shall assign its right to received the Cash Amount as set forth in SECTION 2(a)(vi) hereof to the Qualified Intermediary, in exchange for the assignment by the Qualified Intermediary of the right to receive the OLP Limited Partner Interest.

(e) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

(f) Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

(g) Notices. All notices, requests, demands, claims, and other communications hereunder shall be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given two business days after it is sent by registered or certified mail, return receipt requested, postage prepaid, and addressed to the intended recipient as set forth below:

If to VRC:	One Valero Place San Antonio, Texas 78212 Attn: Mike Ciskowski Telecopy:210-370-2270
If to the MLP Parties:	Valero Logistics Operations, L.P. 6000 North Loop 1604 West San Antonio, TX 78249 Attn: Curt Anastasio Telecopy: 210-370-2304

Any Party may send any notice, request, demand, claim, or other communication hereunder to the intended recipient at the addresses set forth above using any other means (including personal delivery, expedited courier, messenger service, telecopy, ordinary mail, or electronic mail), but no such notice, request, demand, claim, or other communication shall be deemed to have been duly given unless and until it actually is received by the intended recipient. Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

(h) Governing Law and Venue. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE DOMESTIC LAWS OF THE STATE OF TEXAS WITHOUT GIVING EFFECT TO ANY CHOICE OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF TEXAS OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF TEXAS. VENUE FOR ANY ACTION ARISING UNDER THIS AGREEMENT SHALL LIE EXCLUSIVELY IN ANY STATE OR FEDERAL COURT IN BEXAR COUNTY, TEXAS.

(i) Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the MLP Parties and VRC. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

(j) Severability. Any term or provision of this Agreement that is held to be invalid or unenforceable in any situation in any court of competent jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or

enforceability of the offending term or provision in any other situation or in any other jurisdiction.

(k) Transaction Expenses. Each of the MLP Parties and VRC shall bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

(l) Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or Law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean including without limitation. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; the singular shall include the plural, and vice versa. All references herein to Exhibits, Schedules, Articles, Sections or subdivisions thereof shall refer to the corresponding Exhibits, Schedules, Article, Section or subdivision thereof of this Agreement unless specific reference is made to such exhibits, articles, sections or subdivisions of another document or instrument. The terms "herein," "hereby," "hereunder," "hereof," "hereinafter," and other equivalent words refer to this Agreement in its entirety and not solely to the particular portion of the Agreement in which such word is used. Each certificate delivered pursuant to this Agreement shall be deemed a part hereof, and any representation, warranty or covenant herein referenced or affirmed in such certificate shall be treated as a representation, warranty or covenant given in the correlated Section hereof on the date of such certificate. Additionally, any representation, warranty or covenant made in any such certificate shall be deemed to be made herein.

(m) Incorporation of Exhibits and Schedules. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

(n) Entire Agreement. THIS AGREEMENT (INCLUDING THE TRANSACTION AGREEMENTS AND OTHER DOCUMENTS REFERRED TO HEREIN) CONSTITUTES THE ENTIRE AGREEMENT AMONG THE PARTIES AND SUPERSEDES ANY PRIOR UNDERSTANDINGS, AGREEMENTS, OR REPRESENTATIONS BY OR AMONG THE PARTIES, WRITTEN OR ORAL, TO THE EXTENT THEY HAVE RELATED IN ANY WAY TO THE SUBJECT MATTER HEREOF. The rights and obligations created by this Agreement are separate and independent from any rights and obligations created by any Assignment. Accordingly, none of the representations, warranties, covenants or indemnities included in any Assignment shall be merged into this Agreement or otherwise restrict or limit the effect of this Agreement, but each shall survive as provided in each such agreement. To the extent that there is a conflict between the express terms of this Agreement and any Assignment, this Agreement shall control.

(o) Further Assurances. The Parties agree to execute such additional instruments, agreements and documents, and to take such other actions, as may be reasonably necessary to effect the purposes of this Agreement.

*****

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth in the preamble.

VALERO REFINING COMPANY--CALIFORNIA

Name: /s/ Michael S. Ciskowski
Title: Senior Vice President

UDS LOGISTICS, LLC

Name: /s/ Raymond F. Gaddy
Title: President

VALERO L.P.

By: Riverwalk Logistics, L.P.
its General Partner

By: Valero GP, LLC
its General Partner

Name: /s/ Curtis V. Anastasio
Title: Chief Executive Officer and President

VALERO GP, INC.

Name: /s/ Curtis V. Anastasio
Title: Chief Executive Officer and President

VALERO LOGISTICS OPERATIONS, L.P.
By: Valero GP, Inc.
its General Partner

Name: /s/ Curtis V. Anastasio
Title: Chief Executive Officer and President

EXHIBIT 10.14

CONTRIBUTION AGREEMENT

By and Among

VALERO REFINING - TEXAS, L.P.,

UDS LOGISTICS, LLC, VALERO L.P.

VALERO GP, INC.

and

VALERO LOGISTICS OPERATIONS, L.P.

March 6, 2003

EXHIBITS AND SCHEDULES

Exhibit A:	Description of Tank Assets
Exhibit A-1:	Description of Land
Exhibit B:	Form of Throughput Agreement
Exhibit C:	Form of Services Agreement
Exhibit D-1:	Form of Lease Agreement
Exhibit D-2:	Form of Lease Agreement
Exhibit E:	Form of Assignment
Exhibit F:	Form of Closing Tax Certificate
Schedule 1(b)	Permitted Encumbrances
Schedule 3(a)(ii)	Consents (VRLP)
Schedule 3(b)(ii)	Consents (The MLP Parties)
Schedule 4(a)	Noncontravention (the Tank Assets)
Schedule 4(b)(ii)	Condition of Tank Assets
Schedule 4(c)	Material Changes
Schedule 4(e)(ii)	Rights of Way
Schedule 4(g)	Environmental Matters
Schedule 4(g)(ii)	Environmental Permits
Schedule 5(c)	Operation of Tank Assets

CONTRIBUTION AGREEMENT

This Contribution Agreement (this "Agreement") dated as of March 6, 2003 (the "Effective Date") is by and among Valero Refining - Texas, L.P., a Texas limited partnership ("VRLP"), UDS Logistics, LLC, a Delaware limited liability company ("UDS Logistics"), Valero L.P., a Delaware limited partnership (the "MLP"), Valero Logistics Operations, L.P., a Delaware limited partnership (the "OLP") and Valero GP, Inc., a Delaware corporation and the general partner of the OLP ("OLP-GP"). VRLP, UDS Logistics, the MLP, the OLP and the OLP-GP are sometimes referred to collectively herein as the "Parties" and individually as a "Party."

RECITALS

WHEREAS, VRLP owns all of the tank shells, foundations, tank valves, tank gauges, pressure equipment, temperature equipment, cathodic protection, leak detection, and tank lighting associated with the crude and intermediate feedstock storage tanks listed on Exhibit A, along with the other assets described on Exhibit A hereto (collectively, the "Tank Assets");

WHEREAS, VRLP desires to contribute the Tank Assets to the OLP in exchange for a limited partner interest in the OLP representing $104.2 million (the "OLP Limited Partner Interest"), and the OLP desires to accept the contribution of the Tank Assets, subject to the terms and conditions set forth below;

WHEREAS, immediately upon receipt of the OLP Limited Partner Interest, VRLP desires to contribute the OLP Limited Partner Interest to UDS Logistics in exchange for a membership interest in UDS Logistics representing $104.2 million (the "UDS Membership Interest"), and UDS Logistics desires to accept the contribution of the OLP Limited Partner Interest, subject to the terms and conditions set forth below; and

WHEREAS, at the Closing, among other things, (i) the OLP and Valero Marketing and Supply Company, a Delaware corporation ("VMSC"), will enter into a Handling and Throughput Agreement in the form of Exhibit B (the "Throughput Agreement") setting forth the rights and obligations of such parties with respect to the handling and delivery of Specified Feedstocks (as such term is defined in the Throughput Agreement) for the Benicia, Corpus Christi West and Texas City refineries (the "Refineries") that are owned by affiliates of VMSC, (ii) the OLP and VRLP will enter into a Services and Secondment Agreement in the form of Exhibit C (the "Services Agreement") whereby VRLP agrees to second VRLP personnel to OLP to provide certain operational and maintenance services to the OLP in connection with the Tank Assets, and (iii) VRLP, as lessor, and the OLP, as lessee, will enter into leases of the land in the forms of Exhibit D-1 and D-2 (the "Lease Agreements") located in Nueces and Galveston Counties, Texas upon which the Tank Assets are situated (the "Land") and as more particularly described on Exhibit A-1 hereto.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows:

12. Definitions.

"Adverse Consequences" means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, amounts paid in settlement, liabilities, obligations, Taxes, liens, losses, expenses, and fees, including court costs and attorneys' fees and expenses, but excluding punitive (except as provided in SECTION 8), exemplary, special or consequential damages.

"Affiliate" has the meaning set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act of 1934, as amended from time to time; provided, however, that (i) with respect to any of the MLP Parties, the term "Affiliate" shall exclude each member of the Valero Group and (ii) with respect to VRLP, the term "Affiliate" shall exclude each member of the MLP Group.

"Agreement" has the meaning set forth in the preface.

"Assignment" means the assignment and assumption agreement in the form of Exhibit E pursuant to which all of the Tank Assets will be assigned.

"Basis" means any past or current fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction about which the relevant Person has Knowledge that forms or could form the basis for any specified consequence.

"Best Efforts" means the efforts, time, and costs that a prudent Person desirous of achieving a result would use, expend, or incur in similar circumstances to ensure that such result is achieved as expeditiously as possible; provided, however, that no such use, expenditure, or incurrence shall be required if it could reasonably be expected to have a material adverse effect on such Person or to require an expense of such Person in excess of $1,000,000.

"Cash Amount" means $104,200,000.

"Casualty" has the meaning set forth in SECTION 11(b).

"CERCLA" has the meaning set forth in SECTION 4(g)(i).

"Closing" has the meaning set forth in SECTION 2(b).

"Closing Date" has the meaning set forth in SECTION 2(b).

"Code" means the Internal Revenue Code of 1986, as amended, or any successor Law.

"Commitment" means (a) options, warrants, convertible securities, exchangeable securities, subscription rights, conversion rights, exchange rights or other contracts that could require a Person to issue any of its Equity Interests or to sell any Equity Interest it owns in another Person; (b) any other securities convertible into, exchangeable or exercisable for, or representing the right to subscribe for any Equity Interest of a Person or owned by a Person; (c) statutory pre-emptive rights or pre-emptive rights granted under a Person's Organizational

Documents; and (d) stock appreciation rights, phantom stock, profit participation, or other similar rights with respect to a Person.

"Common Units" has the meaning set forth in the Amended and Restated Agreement of Limited Partnership of Valero L.P.

"Conflicts Committee" means the conflicts committee of the board of directors of Valero GP.

"Contributed OLP Interest" has the meaning set forth in SECTION 2(a)(VIII).

"Crude Oil" means crude petroleum oil and all other hydrocarbons, regardless of gravity, produced at the well in liquid form by ordinary production methods and which are not the result of condensation of gas.

"Effective Date" has the meaning set forth in the preface.

"Encumbrance" means any mortgage, pledge, lien, encumbrance, charge, security interest, Preferential Right or other defect in title.

"Environmental Law" and "Environmental Laws" have the meanings set forth in SECTION 4(g)(i).

"Equity Interest" means (a) with respect to a corporation, any and all shares of capital stock and any Commitments with respect thereto, (b) with respect to a partnership, limited liability company, trust or similar Person, any and all units, interests or other partnership, limited liability company, trust or similar interests, and any Commitments with respect thereto, and (c) any other direct equity ownership or participation in a Person.

"GAAP" means accounting principles generally accepted in the United States consistently applied.

"Governmental Authority" means the United States or any agency thereof and any state, county, city or other political subdivision, agency, court or instrumentality.

"Hazardous Substances" means all materials, substances, chemicals, gas and wastes which are regulated under any Environmental Law or which may form the basis for liability under any Environmental Law.

"Indemnified Party" has the meaning set forth in SECTION 8(d)(i).

"Indemnifying Party" has the meaning set forth in SECTION 8(d)(i).

"Knowledge" an individual shall be deemed to have "Knowledge" of a particular fact or other matter if such individual is consciously aware of such fact or other matter at the time of determination. A Person other than a natural person shall be deemed to have "Knowledge" of a particular fact or other matter if (i) any natural person who is serving as a director, senior executive officer, partner, member, executor, or trustee of such Person (or in any similar

capacity) or (ii) any employee (or any natural person serving in a similar capacity) who is charged with the ultimate responsibility for a particular area of such Person's operations (e.g., the manager of the environmental section with respect to knowledge of environmental matters), at the time of determination had, Knowledge of such fact or other matter.

"Land" has the meaning set forth in the recitals.

"Law" or "Laws" means any statute, code, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any applicable Governmental Authority.

"Lease Agreements" has the meaning set forth in the recitals.

"Material Adverse Effect" means any change or effect relating to the operations relating to the Tank Assets, taken as a whole, that, individually or in the aggregate with other changes or effects, materially and adversely affects the value of the Tank Assets taken as a whole, provided that in determining whether a Material Adverse Effect has occurred, changes or effects relating to (i) the Crude Oil transportation and refining industry generally (including the price of Crude Oil and the costs associated with the storage and/or transportation of Crude Oil), (ii) United States or global economic conditions or hostilities or financial markets in general, or (iii) the transactions contemplated by this Agreement, shall not be considered.

"MLP" has the meaning set forth in the preface.

"MLP-GP" means Riverwalk Logistics, L.P., a Delaware limited partnership and the general partner of the MLP.

"MLP Group" means (i) each of the MLP Parties, (ii) MLP-GP, (iii) Valero GP, (iv) each Affiliate of each of the MLP Parties in which such MLP Party owns (directly or indirectly) an Equity Interest and (v) each natural person that is an Affiliate of any MLP Party solely because of such natural person's position as an officer (or person performing similar functions), director (or person performing similar functions) or other representative of any Person described in (i) - (iv) above, but only to the extent that such natural person is in its capacity as an officer, director or representative of such Person.

"MLP Parties" means each of (i) the MLP, (ii) OLP-GP, (iii) the OLP and (iv) each Affiliate of the entities in (i) - (iii) which is a party to any Transaction Agreement.

"MLP Party Indemnitees" means, collectively, the MLP Parties and their Affiliates and each of their respective officers (or Persons performing similar functions), directors (or Persons performing similar functions), employees, agents and representatives to the extent acting in such capacity.

"NonAffiliate Purchaser" has the meaning set forth in SECTION 2(d).

"Obligations" means duties, liabilities and obligations, whether vested, absolute or contingent, known or unknown, asserted or unasserted, accrued or unaccrued, liquidated or unliquidated, due or to become due, and whether contractual, statutory or otherwise.

"Offer" has the meaning set forth in SECTION 2(d)(i).

"Offered Assets" has the meaning set forth in SECTION 2(d).

"OLP" has the meaning set forth in the preface.

"OLP-GP" has the meaning set forth in the preface.

"OLP Limited Partner Interest" has the meaning set forth in the recitals.

"Ordinary Course" means the ordinary course of business consistent with the applicable Person's past custom and practice (including with respect to quantity and frequency).

"Organizational Documents" means the articles of incorporation, certificate of incorporation, charter, bylaws, articles or certificate of formation, regulations, operating agreement, certificate of limited partnership, partnership agreement, and all other similar documents, instruments or certificates executed, adopted, or filed in connection with the creation, formation, or organization of a Person, including any amendments thereto.

"Party" and "Parties" have the meanings set forth in the preface.

"Permitted Encumbrances" means any of the following: (i) any liens for Taxes and assessments not yet delinquent or, if delinquent, that are being contested in good faith in the Ordinary Course and the Party contesting such assessments indemnifies the Party taking the property subject to such lien from such lien and such contest; (ii) any inchoate liens or other encumbrances (other than mechanic's, materialmen's and similar liens) and any other defect in title created pursuant to any operating, farmout, construction, operation and maintenance, co-owners, cotenancy, lease or similar agreements listed on SCHEDULE 1(b) for which amounts are not due; and (iii) easements, rights-of-way, restrictions and other similar Encumbrances incurred in the Ordinary Course which, in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto as it is currently being used or materially interfere with the Ordinary Course conducted thereon.

"Person" means an individual or entity, including any partnership, corporation, association, joint stock company, trust, joint venture, limited liability company, unincorporated organization, or Governmental Authority (or any department, agency or political subdivision thereof).

"Post-Closing Tax Period" means any Tax period beginning after the Closing Date.

"Post-Closing Tax Return" means any Tax Return that is required to be filed for any of the Tank Assets with respect to a Post-Closing Tax Period.

"Pre-Closing Tax Period" means any Tax periods or portions thereof ending on or before the Closing Date.

"Pre-Closing Tax Return" means any Tax Return that is required to be filed for any of the Tank Assets with respect to a Pre-Closing Tax Period.

"Preferential Rights" has the meaning set forth in SECTION 4(h).

"Prime Rate" means the prime rate reported in the Wall Street Journal at the time such rate must be determined under the terms of this Agreement.

"Private Placement" has the meaning set forth in SECTION 2(a)(i).

"Records" has the meaning set forth in SECTION 6(c).

"Redemption" has the meaning set forth in SECTION 2(a)(iii).

"Refineries" has the meaning set forth in the recitals.

"Required Permits" has the meaning set forth in SECTION 4(g)(ii).

"Rights of Way" has the meaning set forth in SECTION 4(e).

"Services Agreement" has the meaning set forth in the recitals.

"Specified Feedstocks" has the meaning set forth in the recitals.

"Straddle Period" means a Tax period or year commencing before and ending after the Closing Date.

"Straddle Return" means a Tax Return for a Straddle Period.

"Subject Insurance Policies" means those material policies of insurance that VRLP or any of its Affiliates maintain covering any Tank Assets.

"Taking" has the meaning set forth in SECTION 11(b)(ii)(C).

"Tank Assets" has the meaning set forth in the recitals.

"Tax" or "Taxes" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), custom duties, capital stock, franchise, profits, withholding, social security (or similar excises), unemployment, disability, ad valorem, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty or addition thereto, whether disputed or not.

"Tax Records" means all Tax Returns and Tax-related work papers relating to the Tank Assets and the Land.

"Tax Return" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Third Party Claim" has the meaning set forth in SECTION 8(d)(i).

"Third Party Offer" has the meaning set forth in SECTION 2(d).

"Throughput Agreement" has the meaning set forth in the recitals.

"Transaction" has the meaning set forth in SECTION 5(b).

"Transaction Agreements" means this Agreement, the Assignment, the Lease and Access Agreement(s), the Throughput Agreement, the Services Agreement and all other agreements, documents, certificates or instruments executed and delivered in connection with the transactions contemplated herein and therein.

"Transfer Taxes" has the meaning set forth in SECTION 9(e).

"UDS Logistics" has the meaning set forth in the preface.

"UDS Membership Interests" has the meaning set forth in the recitals.

"Underwriting Agreement" has the meaning set forth in SECTION 7(a)(vi).

"Unit Offering" has the meaning set forth in SECTION 2(a)(ii).

"Valero GP" means Valero GP, LLC, a Delaware limited liability company and the general partner of MLP-GP.

"Valero Group" means, excluding members of the MLP Group, (i) each Affiliate of Valero Energy Corporation in which Valero Energy Corporation owns (directly or indirectly) an Equity Interest and (ii) each natural person that is an Affiliate of any Person described in (i) above solely because of such natural person's position as an officer (or person performing similar functions), director (or person performing similar functions) or other representative of any Person described in (i) above, but only to the extent that such natural person is acting in its capacity as an officer, director or representative of such Person.

"VRLP" has the meaning set forth in the preface.

"VRLP Indemnitees" means, collectively, VRLP and its Affiliates and each of their respective officers (or Persons performing similar functions), directors (or Persons performing similar functions), employees, agents, and representatives.

"VRLP Parties" means each of (i) VRLP, (ii) UDS Logistics, (iii) Valero Energy Corporation and (iv) each Affiliate of VRLP in which Valero Energy Corporation owns (directly or indirectly) an Equity Interest and which is a party to any Transaction Agreement (but excluding any MLP Parties).

"VMSC" has the meaning set forth in the recitals.

13. Concurrent Transactions.

(a) Contribution of Tank Assets. Subject to the terms and conditions of this Agreement, the Parties agree that the following transactions will occur in the following order:

(i) the MLP will cause the OLP to borrow from its credit facility and the MLP proposes to cause the OLP to issue long-term debt (the "Private Placement") to institutional investors pursuant to Rule 144A promulgated under the Securities Act of 1933 (which indebtedness shall be guaranteed by the MLP);

(ii) the MLP proposes to issue additional Common Units, representing limited partner interests in the MLP, to the public in exchange for cash (the "Unit Offering");

(iii) using a portion of the net proceeds from the Private Placement, the MLP will redeem (the "Redemption") a sufficient number of Common Units owned by UDS Logistics to reduce, in conjunction with the Unit Offering, the aggregate, combined ownership interest of UDS Logistics and Valero GP in the MLP to 49.5% or less;

(iv) except as provided in SECTION 11(d), VRLP will contribute to the OLP, in exchange for the OLP Limited Partner Interest, the Tank Assets free and clear of any Encumbrances other than Permitted Encumbrances;

(v) VRLP will contribute to UDS Logistics, in exchange for the UDS Membership Interest (or, in the alternative, as provided in SECTION 11(d), for cash) the OLP Limited Partner Interest, free and clear of any Encumbrances;

(vi) the OLP, on behalf of the MLP, will pay the Cash Amount to UDS Logistics in exchange for the right to be assigned the OLP Limited Partner Interest from UDS Logistics;

(vii) UDS Logistics will contribute to the MLP, in exchange for the payment of the Cash Amount from the OLP, on behalf of the MLP, the OLP Limited Partner Interest, free and clear of any Encumbrances;

(viii) the MLP will contribute to OLP-GP such portion of the OLP Limited Partner Interest (the "Contributed OLP Interest") as is necessary for OLP-GP to maintain its 0.01% general partner interest in the OLP; and

(ix) the Contributed OLP Interest will be immediately converted into a general partner interest in the OLP.

(b) The Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at One Valero Place, San Antonio, Texas, 78212, commencing at 10:00 a.m., local time, on the fifth business day following the date as of which the satisfaction or waiver of all conditions to the obligations of the Parties to consummate the transactions contemplated hereby has occurred (other than conditions with respect to actions each Party shall take at the Closing itself) or such other date as the Parties may mutually determine (the "Closing Date").

(b) Deliveries at the Closing. At the Closing, (i) VRLP shall deliver to the MLP Parties the various certificates, instruments, and documents referred to in SECTIONS 7(a) and 9(g); (ii) the MLP Parties shall deliver to VRLP the various certificates, instruments, and documents referred to in SECTION 7(b); (c) the applicable Parties shall execute and deliver each of (A) the

Assignment; (B) the Throughput Agreement; (C) the Services Agreement; and (D) the Lease Agreement(s); (iii) UDS Logistics shall issue to VRLP the UDS Membership Interest; (iv) the OLP, on behalf of the MLP, shall pay to UDS Logistics the Cash Amount; (v) the applicable Parties shall execute and/or deliver, or cause to be executed and/or delivered, such other consideration, documents, assets and interests as set forth in SECTION 2(a) above; and (vi) the applicable Parties shall execute and/or deliver, or cause to be executed and/or delivered, each other Transaction Agreement not listed above.

(c) Right of First Offer. Should the board of directors of Valero GP determine at any time after the Closing Date (either through an unsolicited bona fide offer from a Person that is not an Affiliate of the Valero Group (a "Third Party Offer") or through an offer solicited by any of the MLP Parties) that it is in the best interests of the MLP Parties to divest any or all of the Tank Assets (the "Offered Assets"), Valero GP shall promptly notify VRLP of such determination and deliver to VRLP all information prepared by or on behalf of Valero GP relating to the potential divestiture. As soon as practicable but in any event within 30 days after receipt of such notification and information, VRLP shall notify Valero GP that either (a) VRLP has elected not to pursue the opportunity to acquire the Offered Assets, in which case the MLP shall be free to offer and divest the Offered Assets to (1) the Person that initiated the Third Party Offer (the "Third Party Offeror") or (2) a Person that is not an Affiliate of the Valero Group (a "NonAffiliate Purchaser"), or (b) VRLP has elected to pursue the opportunity to acquire the Offered Assets, in which event the following procedures shall be followed:

(i) VRLP shall submit a good faith offer to Valero GP to acquire the Offered Assets (the "Offer") on the terms and for the consideration stated in the Offer;

(ii) VRLP and Valero GP shall negotiate in good faith for 90 days after receipt of such Offer by Valero GP, the terms on which the Offered Assets will be acquired by VRLP. Valero GP shall provide all information concerning the operations and finances of the Offered Assets as may be reasonably requested by VRLP.

(A) If VRLP and Valero GP agree on such terms within 90 days after the receipt by Valero GP of the Offer, VRLP shall acquire the Offered Assets on such terms after such agreement has been reached; provided, however, that the acquisition consideration to be paid by VRLP may not be less than the acquisition consideration offered in the Third Party Offer.

(B) If VRLP and Valero GP are unable to agree on the terms of an acquisition during such 90-day period, the MLP is free to divest the Offered Assets to (1) the Third Party Offeror within 180 days of the termination of such 90-day period; provided that such Third Party Offer is not less than 95% of the acquisition consideration last offered by VRLP or (2) a NonAffiliate Purchaser; provided that any such divestiture to a NonAffiliate Purchaser must be for an acquisition consideration of not less than 95% of the acquisition consideration last offered by VRLP and on the same material terms and conditions as last offered by VRLP; provided, further, that if such NonAffiliate Purchaser shall offer less than 95% of the

acquisition consideration last offered by VRLP or offer to purchase the Tank Assets on terms and conditions materially less favorable to the MLP than those last offered by VRLP, the MLP must first give VRLP notice and a right to match the offer from the NonAffiliate Purchaser during a 15-day period after notification of same from MLP to VRLP.

(C) During such 90-day period Valero GP shall be free to make capital expenditures to maintain the Offered Assets.

(iii) If, after the expiration of the 180-day period referred to in clause (ii)(B) above, no NonAffiliate Purchaser or Third Party Offeror has acquired the Offered Assets and Valero GP confirms its determination that it is in the best interests of the MLP Parties to divest the Offered Assets, Valero GP shall comply with the provisions of this SECTION 2(d) once again; provided that if Valero GP and VRLP are unable to reach agreement during the 90-day period referenced in clause (ii)(B) above, the parties will engage an independent investment banking firm of national reputation to determine the value of the Offered Assets and shall furnish VRLP and Valero GP with its opinion of such value within 30 days of its engagement. VRLP and Valero GP shall share equally the fees and expenses of such investment banking firm. Upon receipt of such opinion, Valero GP will have the option to

(A) cause the MLP to divest the Offered Assets for an amount equal to the value as determined by such investment banking firm on terms substantially similar to the relevant terms of this Agreement or

(B) decline to divest the Offered Assets.

14. Representations and Warranties Concerning the Transaction.

(a) Representations and Warranties of VRLP. VRLP hereby represents and warrants to the MLP Parties as follows as of the Effective Date:

(i) Organization and Good Standing. VRLP is a limited partnership duly organized, validly existing, and in good standing under the Laws of the state of Texas. VRLP is in good standing under the Laws of each other jurisdiction which requires such qualification, except where the lack of such qualification would not have a Material Adverse Effect.

(ii) Authorization of Transaction. Each VRLP Party has full power and authority (including full entity power and authority) to execute and deliver each Transaction Agreement to which such VRLP Party is a party and to perform its obligations thereunder. Each Transaction Agreement to which any VRLP Party is a party constitutes the valid and legally binding obligation of such VRLP Party, enforceable against such VRLP Party in accordance with its terms and conditions, subject, however, to the effects of bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally, and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). Except as set forth on SCHEDULE 3(a)(ii), no VRLP Party need give any notice to, make any filing

with, or obtain any authorization, consent, or approval of any Governmental Authority or any other Person in order to consummate the transactions contemplated by this Agreement or any other Transaction Agreement to which such VRLP Party is a party.

(iii) Noncontravention. Except for filings specified in SCHEDULE 3(a)(ii) and filings and notifications required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (as amended, the "HSR Act"), neither the execution and delivery of any Transaction Agreement, nor the consummation of any of the transactions contemplated thereby, shall (A) violate any Laws to which any VRLP Party is subject or any provision of the Organizational Documents of any VRLP Party or (B) result in a breach of, constitute a default under, result in the acceleration of, create in any Person the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which any VRLP Party is a party or by which it is bound or to which any of its assets or any of the Tank Assets are subject, except for such violations, defaults, breaches, or other occurrences that do not, individually or in the aggregate, have a material adverse effect on the ability of VRLP or any other VRLP Party to consummate the transactions contemplated by such Transaction Agreement.

(iv) Brokers' Fees. No VRLP Party has any liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which any of the MLP Parties could become liable or obligated.

(b) Representations and Warranties of the MLP Parties. Each of the MLP Parties hereby represents and warrants to VRLP as follows as of the Effective Date:

(i) Organization of the MLP Parties. Each of the MLP Parties is a limited liability company, limited partnership or corporation duly organized, validly existing, and in good standing under the Laws of the state of Delaware. Each of the MLP Parties is in good standing under the Laws of the state of Texas, or will be qualified to do business in Texas prior to the Closing, and in each other jurisdiction which requires such qualification, except where the lack of such qualification in each instance would not have a Material Adverse Effect.

(ii) Authorization of Transaction. Each of the MLP Parties has full power and authority (including full entity power and authority) to execute and deliver each Transaction Agreement to which it is a party and to perform its obligations thereunder. Each Transaction Agreement to which such MLP Party is a party constitutes the valid and legally binding obligation of such MLP Party, enforceable against such MLP Party in accordance with its terms and conditions, subject, however, to the effects of bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally, and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). Except for approval by the Conflicts Committee and as set forth on SCHEDULE 3(b)(ii) and any filings under the HSR Act, no MLP Party needs to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any Governmental Authority or any other Person in

order to consummate the transactions contemplated by this Agreement or any other Transaction Agreement.

(iii) Noncontravention. Except for the filings specified in SCHEDULE 3(b)(ii), neither the execution and delivery of any Transaction Agreement to which any MLP Party is a party, nor the consummation of any of the transactions contemplated thereby, shall (A) violate any Laws to which such MLP Party is subject or any provision of its Organizational Documents or (B) result in a breach of, constitute a default under, result in the acceleration of, create in any Person the right to accelerate, terminate, modify, or cancel, or require any notice, approval or consent under any agreement, contract, lease, license, instrument, or other arrangement to which any MLP Party is a party or by which it is bound or to which any of its assets is subject, except for such violations, defaults, breaches, or other occurrences that do not, individually or in the aggregate, have a material adverse effect on the ability of any MLP Party to consummate the transactions contemplated by such Transaction Agreement.

(iv) Brokers' Fees. Other than a customary fee paid to A.G. Edwards & Sons in connection with its assessment of the fairness of the Transaction to the MLP and to the holders of the Common Units (other than any of the Valero Group), no MLP Party has any liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which VRLP could become liable or obligated.

(v) Investment. Each of the MLP Parties is familiar with investments of the nature of the Tank Assets, understands that this investment involves substantial risks, has investigated the Tank Assets, and has substantial knowledge and experience in financial and business matters such that it is capable of evaluating, and has evaluated, the merits and risks inherent in purchasing the Tank Assets, and is able to bear the economic risks of such investment. Each of the MLP Parties has had the opportunity to visit with VRLP and its applicable Affiliates and meet with their representative officers and other representatives to discuss the operations, assets, liabilities and financial condition of the Tank Assets, has received materials, documents and other information that such MLP Party deems necessary or advisable to evaluate the Tank Assets. Each of the MLP Parties has made its own independent examination, investigation, analysis and evaluation of the Tank Assets, including its own estimate of the value of the Tank Assets. Each of the MLP Parties has undertaken such due diligence (including a review of the assets, properties, liabilities, books, records and contracts constituting part of the Tank Assets) as such MLP Party deems adequate. Notwithstanding the other provisions of this subsection (v), the MLP Parties have relied on the truth and accuracy of the representations and warranties made by VRLP in SECTION 4(l) in making the representations and warranties in this subsection (v) and the MLP Parties shall not be considered to have breached any representation or warranty contained in this subsection (v) if any of the representations and warranties made by VRLP in SECTION 4(l) are not true or are inaccurate.

15. Representations and Warranties Concerning the Tank Assets. VRLP hereby represents and warrants to the MLP Parties as follows as of the Effective Date:

(a) Noncontravention. Except as set forth in SCHEDULE 4(a), neither the execution and delivery of any Transaction Agreement to which any VRLP Party is a party, nor the consummation of any of the transactions contemplated thereby, shall (i) violate any Laws to which any of the Tank Assets is subject or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, require any notice or trigger any rights to payment or other compensation, or result in the imposition of any Encumbrance on any of the Tank Assets under, any agreement, contract, lease, license, instrument, or other arrangement to which any of the Tank Assets is subject, except where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice, right to payment or other compensation, or Encumbrance would not have a Material Adverse Effect, or would not materially adversely affect the ability of any VRLP Party to consummate the transactions contemplated by such Transaction Agreement.

(b) Title to and Condition of Tank Assets and Land.

(i) VRLP has good and marketable title to all of the Tank Assets in each case free and clear of all Encumbrances, except for Permitted Encumbrances. VRLP has good and indefeasible title (fee and leasehold, as applicable) to all of the Land.

(ii) To VRLP's Knowledge, except as disclosed in SCHEDULE 4(b)(ii), the Tank Assets are in good operating condition and repair (normal wear and tear excepted), are free from patent and latent defects, are suitable for the purposes for which they are currently used and are not in need of maintenance or repairs except for ordinary routine maintenance and repairs that, in the aggregate, do not exceed $250,000.

(iii) There are no borrowings, loan agreements, promissory notes, pledges, mortgages, guaranties, liens and similar liabilities (direct and indirect), or Encumbrances which are secured by or constitute an Encumbrance on the Tank Assets and/or the Land.

(iv) VRLP has not caused any work or improvements to be performed upon or made to any of the Tank Assets for which there remains outstanding any payment obligation that would or might serve as the basis for any claim, lien, charge or Encumbrance in favor of the Person which performed the work.

(v) VRLP has not leased or subleased any parcel or any portion of the Land to any other Person.

(c) Material Change. Except as set forth in SCHEDULE 4(c), since December 31, 2001:

(i) there has not been any Material Adverse Effect;

(ii) the Tank Assets have been operated and maintained in the Ordinary Course;

(iii) to VRLP's Knowledge, there has not been any material damage, destruction or loss to any material portion of the Tank Assets, whether or not covered by insurance;

(iv) there has been no purchase, sale or lease of any material asset included in the Tank Assets;

(v) there is no contract, commitment or agreement to do any of the foregoing, except as expressly permitted hereby.

(d) Legal Compliance. Each VRLP Party, with respect to the Tank Assets, has complied with all applicable Laws, except where the failure to comply would not have a Material Adverse Effect. VRLP makes no representations or warranties in this SECTION 4(d) with respect to Environmental Laws, for which the sole representations and warranties of VRLP are set forth in SECTION 4(g).

(e) Rights of Way. SCHEDULE 4(e)(ii) contains a list of all rights-of-way constituting part of or affecting the Tank Assets (the "Rights of Way"). The Rights of Way (together with the Required Permits and the Transaction Agreements) constitute all of the agreements, rights of way, licenses, permits, and other documents and instruments necessary for the operation of the Tank Assets consistent with applicable Laws and prior operation. The VRLP Parties have performed and are in compliance with all obligations required to be performed by them to date under the Rights of Way, and are not in default under any obligation of any such Right of Way, except when such default would not have a Material Adverse Effect. VRLP has not received any notice of cancellation or termination of any Right of Way. VRLP has not assigned its interest under any Right of Way to any third party.

(f) Litigation.

(i) VRLP is not, with respect to the Tank Assets, (i) subject to any outstanding injunction, judgment, order, decree, ruling, or charge or (ii) the subject of any action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction, or is the subject of any pending or, to VRLP's Knowledge, threatened claim, demand, or notice of violation or liability from any Person, except where any of the foregoing would not have a Material Adverse Effect.

(ii) No VRLP Party has Knowledge of any Basis for any present or future injunction, judgment, order, decree, ruling, or charge or action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction, against any of them giving rise to any Obligation to which any of the Tank Assets and/or the Land would be subject.

(f) Environmental Matters. Except as set forth in SCHEDULE 4(g):

(i) VRLP, with respect to the Tank Assets and the Land, has been in compliance with all applicable local, state, and federal laws, rules, regulations, and orders regulating or otherwise pertaining to (a) the use, generation, migration, storage, removal, treatment, remedy, discharge, release, transportation, disposal, or cleanup of pollutants, contamination, hazardous wastes, hazardous substances, hazardous materials, toxic substances or toxic pollutants, (b) surface waters, ground waters, ambient air and any other environmental medium on or off any lease or (c) the environment or health and safety-related matters; including the following as from time to time amended and all others whether similar or dissimilar: the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (as amended by the Superfund Amendments and Reauthorization Act of 1986 "CERCLA"), the Resource Conservation and Recovery Act of 1976, as amended by the Used Oil Recycling Act of 1980, the Solid Waste Disposal Act Amendments of 1980, and the Hazardous and Solid Waste Amendments of 1984, the Hazardous Materials Transportation Act, as amended, the Toxic Substance Control Act, as amended, the Clean Air Act, as amended, the Clean Water Act, as amended, and all regulations promulgated pursuant thereto, and common law principles, including nuisance, trespass and negligence as applicable to environmental matters described above (collectively, the "Environmental Laws," and, individually, an "Environmental Law"), except for such instances of noncompliance that individually or in the aggregate do not have a Material Adverse Effect.

(ii) VRLP has obtained all permits, licenses, franchises, authorities, consents, registrations, orders, certificates, waivers, exceptions, variances and approvals, and have made all filings, paid all fees, and maintained all material information, documentation, and records, as necessary under applicable Environmental Laws for operating the Tank Assets and/or the Land as they are presently operated, and all such permits, licenses, franchises, authorities, consents, approvals, and filings remain in full force and effect, except for such matters that individually or in the aggregate do not have a Material Adverse Effect. SCHEDULE 4(g)(ii) sets forth a complete list of all permits, licenses, franchises, authorities, consents, and approvals, as necessary under applicable Environmental Laws for operating the Tank Assets and/or the Land as they are presently operated (the "Required Permits"), each of which is held in the name of the appropriate VRLP Party as indicated on such schedule.

(iii) Except as would not have a Material Adverse Effect, (x) there are no pending or, to the knowledge of any VRLP Party, threatened claims, demands, actions, administrative proceedings or lawsuits against VRLP with respect to the Tank Assets and/or the Land and VRLP has not received notice of any of the foregoing and (y) none of the Tank Assets, and none of the Land is, subject to any outstanding injunction, judgment, order, decree or ruling under any Environmental Laws.

(iv) VRLP has not received any written notice that VRLP, with respect to the Tank Assets and/or the Land, is or may be a potentially responsible party under CERCLA or any analogous state law in connection with any site actually or allegedly containing or used for the treatment, storage or disposal of Hazardous Substances.

(v) All Hazardous Substances or solid wastes generated, transported, handled, stored, treated or disposed by, in connection with or as a result of the operation or possession of VRLP or the conduct of VRLP, have been transported only by carriers maintaining valid authorizations under applicable Environmental Laws and treated, stored, disposed of or otherwise handled only at facilities maintaining valid authorizations under applicable Environmental Laws and such carriers and facilities have been and are operating in compliance with such authorizations and are not the subject of any existing, pending or threatened action, investigation or inquiry by any Governmental Authority or other Person in connection with any of the Environmental Laws, except for such matters that individually or in the aggregate do not have a Material Adverse Effect.

VRLP makes no representation or warranty regarding any compliance or failure to comply with, or any actual or contingent liability under, any Environmental Law, except as expressly set forth in this SECTION 4(g). For purposes of this SECTION 4(g), each reference to VRLP or VRLP Parties shall be deemed to include VRLP Parties and their Affiliates.

(g) Preferential Purchase Rights. Except for the Right of First Offer and the Right of First Refusal set forth in SECTION 2(d), there are no preferential purchase rights, rights of refusal to purchase, purchase options or other rights held by any Person not a party to this Agreement to purchase or acquire any or all of the Tank Assets, in whole or in part, or any or all of the Land, in whole or in part, that would be triggered or otherwise affected as a result of the transactions contemplated by this Agreement ("Preferential Rights").

(h) Prohibited Events. None of the matters described in SECTION 5(c) have occurred since December 31, 2002.

(i) Regulatory Matters. No VRLP Party is (i) a "holding company," a "subsidiary company" of a "holding company," an "affiliate" of a "holding company," or a "public utility," as each such term is defined in the Public Utility Holding Company Act of 1935, as amended, or (ii) an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder. None of the Tank Assets are subject to regulation by the Federal Energy Regulatory Commission or rate regulation or comprehensive nondiscriminatory access regulation under any federal laws or the laws of any state or other local jurisdiction.

(k) Intercompany Transactions. There are no outstanding receivables, payables and other intercompany agreements between VRLP and any of its Affiliates that relate to the Tank Assets.

(l) Material Information. VRLP has provided to the MLP Parties all material information concerning the operations and finances of the Tank Assets as has been requested by any of the MLP Parties to date and such information is complete and correct in all material respects and does not omit to state a material fact necessary to make the statements and information contained therein not misleading in light of the circumstances in which they are made. To VRLP's knowledge, there is not any fact that has not been disclosed to the MLP Parties pertaining particularly to any of the Tank Assets (as opposed to public information

concerning general industry or economic conditions or governmental policies) which materially and adversely affect any of the Tank Assets or the use, ownership, financing, operation, maintenance or repair of any of the Tank Assets at any time after the Closing.

(j) Disclaimer of Representations and Warranties Concerning Personal Property, Equipment and Fixtures. Each of the MLP Parties acknowledges that (i) it has had and pursuant to this Agreement shall have before Closing access to the Tank Assets and the Land and the officers and employees of VRLP and (ii) in making the decision to enter into this Agreement and consummate the transactions contemplated hereby, each of the MLP Parties has relied solely on the basis of its own independent investigation and upon the express representations, warranties, covenants, and agreements set forth in this Agreement and the other Transaction Agreements. Accordingly, each of the MLP Parties acknowledges that, except as expressly set forth in this Agreement, VRLP has not made, and VRLP MAKES NO AND DISCLAIMS ANY, REPRESENTATIONS OR WARRANTIES, WHETHER EXPRESS OR IMPLIED, AND WHETHER BY COMMON LAW, STATUTE, OR OTHERWISE, REGARDING (i) THE QUALITY, CONDITION, OR OPERABILITY OF ANY PERSONAL PROPERTY, EQUIPMENT, OR FIXTURES, (ii) THEIR MERCHANTABILITY, (iii) THEIR FITNESS FOR ANY PARTICULAR PURPOSE, OR (iv) THEIR CONFORMITY TO MODELS, SAMPLES OF MATERIALS OR MANUFACTURER DESIGN, AND ALL PERSONAL PROPERTY AND EQUIPMENT IS DELIVERED "AS IS, WHERE IS" IN THE CONDITION IN WHICH THE SAME EXISTS.

16. Pre-Closing Covenants. The Parties agree as follows with respect to the period between the date of this Agreement and the Closing:

(a) General. Each of the MLP Parties shall use its Best Efforts to take all action and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement, including causing the occurrence of VRLP's conditions to Closing in SECTION 7(b). VRLP shall use its Best Efforts to take all action and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement, including causing the occurrence of the MLP Parties' conditions to Closing in SECTION 7(a).

(b) Notices and Consents. Each of the Parties shall give any notices to, make any filings with, and use its Best Efforts to obtain any authorizations, consents, and approvals of Governmental Authorities and third parties it is required to obtain in connection with the transaction contemplated by this Agreement (the "Transaction"), so as to permit the Closing to occur not later than 9:00 a.m. (San Antonio time) on March 31, 2003.

(c) Operation of Tank Assets. VRLP shall not, without the written consent of the OLP (which consent shall not be unreasonably withheld or delayed), except as expressly contemplated by this Agreement or as contemplated by SCHEDULE 5(c), engage in any practice, take any action, omit to take any action or enter into any transaction outside the Ordinary Course that could reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing, without the written consent of the MLP (which consent shall not be

unreasonably withheld or delayed), except as expressly contemplated by this Agreement or SCHEDULE 5(c), prior to the Closing VRLP shall not do any of the following:

(i) sell, lease or otherwise dispose of any Tank Assets and/or any portion of the Land or cause or allow any part of the Tank Assets and/or the Land to become subject to an Encumbrance, except for Permitted Encumbrances;

(ii) initiate or settle any litigation, complaint, rate filing or administration proceeding relating to the Tank Assets and/or the Land.

(d) Full Access. VRLP shall permit, and shall cause its Affiliates to permit, representatives of the MLP Parties to have full access at all reasonable times, and in a manner so as not to unreasonably interfere with the normal business operations of VRLP and its Affiliates, to all premises, properties, personnel, books, records (including Tax records), contracts, and documents pertaining to any of the Tank Assets and/or the Land.

(e) Required Permits. Each of the VRLP Parties and the MLP Parties shall use its Best Efforts to take all action and to do all things necessary, proper, or advisable in order to transfer the Required Permits to the OLP or otherwise to assist the OLP in obtaining such Required Permits in its own right.

17. Post-Closing Covenants. The Parties agree as follows:

(a) General. In case at any time after the Closing any further action is necessary to carry out the purposes of this Agreement, each of the Parties shall take such further action (including the execution and delivery of such further instruments and documents) as the other Party reasonably may request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under SECTION 8).

(b) Litigation Support. In the event and for so long as any Party actively is contesting or defending against any action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand in connection with (i) any transaction contemplated under this Agreement or (ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction on or before the Closing Date involving the Tank Assets, the other Party shall cooperate with the contesting or defending Party and its counsel in the defense or contest, make available its personnel, and provide such testimony and access to its books and records (other than books and records which are subject to privilege or to confidentiality restrictions) as shall be necessary in connection with the defense or contest, all at the sole cost and expense of the contesting or defending Party (unless the contesting or defending Party is entitled to indemnification therefor under SECTION 8).

(c) Delivery and Retention of Records. On the Closing Date, VRLP shall deliver or cause to be delivered to the MLP Parties, copies of Tax Records and all other files, books, records, information and data relating to the Tank Assets (other than Tax Records) that are in the possession or control of VRLP (the "Records"). The MLP Parties agree to (i) hold the Records and not to destroy or dispose of any thereof for a period of seven years from the Closing Date or such longer time as may be required by Law, provided that, if it desires to destroy or dispose of such Records during such period, it shall first offer in writing at least 60 days before such

destruction or disposition to surrender them to VRLP and if VRLP does not accept such offer within 20 days after receipt of such offer, such MLP Party may take such action and (ii) afford VRLP, its accountants, and counsel, during normal business hours, upon reasonable request, at any time, full access to the Records to the extent that such access may be requested for any legitimate purpose at no cost to VRLP (other than for reasonable out-of-pocket expenses); provided that such access shall not be construed to require the disclosure of Records that would cause the waiver of any attorney-client, work product, or like privilege; provided, further that in the event of any litigation nothing herein shall limit any Party's rights of discovery under applicable Law.

(d) Required Permits. Each of the VRLP Parties and the MLP Parties shall use its Best Efforts to take all action and to do all things necessary, proper, or advisable in order to transfer the Required Permits to the OLP or otherwise to assist the OLP in obtaining such Required Permits in its own right.

18. Conditions to Obligation to Close.

(a) Conditions to Obligation of the MLP Parties. The obligation of each of the MLP Parties to consummate the transactions to be performed by such MLP Party in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties of VRLP contained in SECTIONS 3(a) and 4 must be true and correct in all material respects (without, for purposes of determining whether or not this condition is satisfied as of the Closing, giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value, except with respect to (A) the representations and warranties in SECTION 4(b)(ii) and (B) the representations and warranties in SECTION 4(C)(iii), for which in each such case qualifications as to Knowledge shall be given effect) as of the date of this Agreement and at Closing (except for those which refer to a specific date, which must be true and correct as of such date);

(ii) VRLP must have performed and complied in all material respects with its covenants hereunder through the Closing (without, for purposes of determining whether or not this condition is satisfied as of the Closing, giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value);

(iii) there must not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement or any suit or action pending by a Governmental Authority to enjoin the consummation of any of the transactions contemplated by this Agreement;

(iv) the MLP Parties must have obtained all material Governmental Authority and third party consents, including (A) any material consents specified in SECTION 3(b)(II) and including the consents required by the corresponding Schedule, (B)

the 30-day waiting period under the HSR Act shall have expired or been terminated prior to the expiration thereof and all other approvals required under the HSR Act shall have been issued; and (C) VRLP shall have delivered evidence reasonably satisfactory to the MLP Parties that the Port (as defined on SCHEDULE 1(b)) shall have consented to the sublease of the Port Leased Property (as defined on SCHEDULE 1(b)) to OLP pursuant to the Lease Agreement set forth as EXHIBIT D-2 attached hereto and the Port has entered into amendments to such Port Leases (as defined on SCHEDULE 1(b)) or otherwise provided for renewal options for the terms of such Port Leases such that the terms thereof, after exercise of all necessary renewal options, extend beyond the Term of the Lease Agreement set forth as EXHIBIT D-2 attached hereto;

(v) VRLP must have delivered to the MLP Parties a certificate to the effect that each of the conditions specified in SECTIONS 7(a)(i) - (iv) is satisfied in all respects;

(vi) the MLP and a group of underwriters must have executed and delivered an Underwriting Agreement (the "Underwriting Agreement") with respect to a public offering of common units representing limited partner interests in the MLP with an aggregate offering amount of up to $200 million (not including the underwriters' over-allotment option) and the closing of the transactions contemplated therein must have occurred;

(vii) one or more of the MLP Parties and a group of note purchasers must have executed and delivered a Note Purchase Agreement with respect to the Private Placement with an aggregate principal amount of up to $250 million (the "Note Purchase Agreement") and the closing of the transactions contemplated thereby must have occurred;

(viii) one or more of the MLP Parties shall have entered into arrangements under the OLP's revolving credit facility to borrow such additional amount as is necessary for the MLP and OLP to fund the aggregate amount of the Cash Amount, the cash amount required under the Contribution Agreements entered into as the date hereof by the MLP Parties with Valero Refining Company-California for the contribution of specified feedstock storage tanks as identified therein and with Valero Pipeline Company for the contribution of the pipeline and terminal assets as identified therein, the Redemption as well as the aggregate transaction (expected to be approximately $2 million), and the closing of the borrowing transaction must have occurred;

(ix) the MLP Parties must have duly and validly authorized the terms of the Underwriting Agreement, the Note Purchase Agreement and the borrowing by the OLP as contemplated in clauses (vi), (vii) and (viii) above;

(x) the proceeds of the equity and debt financing for the transactions contemplated hereby as outlined in clauses (vi), (vii) and (viii) above must have been received by the MLP Parties on terms substantially the same as authorized by the MLP Parties; and

(xi) the MLP's public offering of its common units and the Redemption, on an aggregate basis, must have caused the aggregate ownership interest of Valero Energy in the MLP to be 49.5% or less.

The MLP Parties may waive any condition specified in this SECTION 7(a) if Valero GP, on behalf of all of the MLP Parties, executes a writing so stating at or before the Closing.

(b) Conditions to Obligation of VRLP. The obligation of VRLP to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties of the MLP Parties contained in SECTION 3(b) must be true and correct in all material respects (without, for purposes of determining whether or not this condition is satisfied as of the Closing, giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value) as of the date of this Agreement and at Closing (except for those which refer to a specific date, which must be true and correct as of such date);

(ii) each of the MLP Parties must have performed and complied in all material respects with each of its covenants hereunder through the Closing (without, for purposes of determining whether or not this condition is satisfied as of the Closing, giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value);

(iii) there must not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement or any suit or action pending by a Governmental Authority to enjoin the consummation of any of the transactions contemplated by this Agreement;

(iv) VRLP must have obtained all material Governmental Authority and third party consents, including material consents specified in SECTIONS 3(a)(ii) and 4(a) and including the consents required by the corresponding Schedules and the 30-day waiting period under the HSR Act shall have expired or been terminated prior to the expiration thereof and all other approvals required under the HSR Act shall have been issued; and

(v) Valero GP, on behalf of the MLP Parties, must have delivered to VRLP a certificate to the effect that each of the conditions specified in SECTIONS 7(b)(i) - (iv) is satisfied in all respects.

VRLP may waive any condition specified in this SECTION 7(b) if it executes a writing so stating at or before the Closing.

19. Remedies for Breaches of this Agreement.

(a) Survival . (i) All of the representations and warranties of VRLP contained in SECTIONS 3(a) and 4 (other than SECTIONS 3(a)(i), 3(a)(ii), 4(b)(i), and 4(f)(ii)) shall survive the Closing hereunder for a period of three years after the Closing Date; (ii) the representations and warranties of VRLP contained in SECTIONS 3(a)(i), 3(a)(ii), and 4(b)(i) shall survive the Closing forever, and (iii) the representations and warranties of VRLP contained in SECTION 4(f)(ii) shall survive the Closing for a period of one year after the Closing Date. The representations and warranties of the MLP Parties contained in SECTION 3(b) (other than in SECTIONS 3(b)(i) and 3(b)(ii)) shall survive the Closing for a period of three years after the Closing Date. The representations and warranties of the MLP Parties contained in SECTIONS 3(b)(i) and 3(b)(ii) shall survive the Closing forever. The covenants and obligations contained in SECTIONS 2 and 6 and all other covenants and obligations contained in this Agreement (including, but not limited to, those contained in SECTIONS 8(b)(iii), 8(b)(iv) and 8(b)(v)) shall survive the Closing forever, unless a shorter period is expressly identified in this Agreement with respect thereto.

(b) Indemnification Provisions for Benefit of the MLP Parties.

(i) VRLP agrees to release and indemnify the MLP Party Indemnitees from and against any Adverse Consequences suffered by the MLP Party Indemnitees arising out of, in connection with or relating to any breach of the representations and warranties made by VRLP in this Agreement to the extent that (x) such representations and warranties survive the Closing pursuant to SECTION 8(a) and (y) any MLP Party makes a written claim for indemnification against VRLP pursuant to SECTION 11(g) within such period of survival. However, VRLP shall not have any obligation to release and indemnify the MLP Party Indemnitees from and against any such Adverse Consequences (A) until the MLP Party Indemnitees, in the aggregate, have suffered Adverse Consequences by reason of all such breaches in excess of an aggregate amount equal to 1% of the Cash Amount (the "1% Threshold") (after which point VRLP shall be obligated to release and indemnify the MLP Party Indemnitees from and against all Adverse Consequences by reason of all such breaches, including those Adverse Consequences included in the calculation of whether or not the 1% Threshold had been met), (B) to the extent the Adverse Consequences the MLP Party Indemnitees, in the aggregate, exceeds an aggregate ceiling amount equal to 50% of the Cash Amount (after which point VRLP shall have no obligation to release and indemnify the MLP Party Indemnitees from and against further such Adverse Consequences); provided, however, that the threshold amount with respect to breaches of SECTION 4(b)(ii) shall be $250,000 and not the 1% Threshold. For purposes of calculating any Adverse Consequences in connection with this SECTION 8(b)(i), any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, or any qualification or limitation as to monetary amount or value set forth in SECTIONS 3(a) OR 4 shall be disregarded.

(ii) In the event: (x) VRLP breaches any of its covenants or obligations in SECTIONS 2 or 6 or any other covenants or obligations in this Agreement (other than SECTIONS 3, 4 AND 8(b)(i)) (in each case above without giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary

amount or value); (y) there is an applicable survival period pursuant to SECTION 8(a); and (z) any MLP Party makes a written claim for indemnification against VRLP pursuant to SECTION 11(g) within such survival period, then VRLP agrees to release and indemnify the MLP Party Indemnitees from and against any Adverse Consequences suffered by the MLP Party Indemnitees.

(iii) VRLP shall release, defend, indemnify and hold harmless the MLP Party Indemnitees against any Adverse Consequences resulting by reason of joint and several liability with VRLP arising by reason of having been required to be aggregated with VRLP under section 414(o) of the Code, or having been under "common control" with VRLP, within the meaning of Section 4001(a)(14) of ERISA.

(iv) VRLP shall release, defend and indemnify the MLP Party Indemnitees from and against any Adverse Consequences suffered by the MLP Party Indemnitees with respect to any environmental condition, claim or loss with respect to (a) any of the Tank Assets arising as a result of events occurring or conditions existing on or prior to the Closing Date, including the matters disclosed in SCHEDULE 4(g) and (b) any real or personal property on which the Tank Assets are or, prior to the Effective Date, have been located, arising prior to or as of the date of this Agreement.

(v) VRLP shall release, defend, indemnify and hold harmless the MLP Party Indemnitees against any Adverse Consequences suffered by the MLP Party Indemnitees with respect to, any outstanding injunction, judgment, order, decree, ruling, or charge, or any pending or threatened action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction, or any other Adverse Consequences suffered by the MLP Party Indemnitees as a result of third-party claims relating to the Tank Assets on or before the Closing Date.

(vi) Notwithstanding anything to the contrary contained in SECTIONS 8(b)(i) and (ii), VRLP shall not have any obligation to indemnify any MLP Party Indemnitee to the extent that the payment thereof would cause VRLP's aggregate indemnity payments under SECTION 8(b) (but excluding SECTIONS 8(b)(iii), 8(b)(iv) and 8(b)(v)) to exceed 100% of the Cash Amount.

(vii) To the extent any MLP Party Indemnitee becomes liable to, and is ordered to and does pay to any third party, punitive, exemplary, special or consequential damages caused by a breach by VRLP of any representation, warranty or covenant contained in this Agreement, then such punitive, exemplary, special or consequential damages shall be deemed actual damages to such MLP Party Indemnitee and included within the definition of Adverse Consequences for purposes of this SECTION 8.

(viii) Except for the rights of indemnification provided in this SECTION 8 and SECTION 9, each of the MLP Parties hereby waives any claim or cause of action pursuant to common or statutory law or otherwise against VRLP arising from any breach by VRLP of any of its representations, warranties or covenants under this Agreement or the transactions contemplated hereby.

(c) Indemnification Provisions for Benefit of VRLP.

(i) In the event: (x) any of the MLP Parties breaches any of its representations, warranties or covenants contained herein; (y) there is an applicable survival period pursuant to SECTION 8(a); and (z) VRLP makes a written claim for indemnification against such MLP Party pursuant to SECTION 11(g) within such survival period, then each of the MLP Parties agrees to release and indemnify the VRLP Indemnitees from and against the entirety of any Adverse Consequences suffered by such VRLP Indemnitees.

(ii) To the extent any VRLP Indemnitee becomes liable to, and is ordered to and does pay to any third party, punitive, exemplary, special or consequential damages caused by a breach by any of the MLP Parties of any representation, warranty or covenant contained in this Agreement, then such punitive, exemplary, special or consequential damages shall be deemed actual damages to such VRLP Indemnitee and included within the definition of Adverse Consequences for purposes of this SECTION 8.

(iii) Except for the rights of indemnification provided in this SECTION 8, VRLP hereby waives any claim or cause of action pursuant to common or statutory law or otherwise against the MLP Parties arising from any breach by any of the MLP Parties of any of its representations, warranties or covenants under this Agreement or the transactions contemplated hereby.

(d) Matters Involving Third Parties.

(i) If any third party shall notify any Party (the "Indemnified Party") with respect to any matter (a "Third Party Claim") that may give rise to a claim for indemnification against any other Party (the "Indemnifying Party") under this SECTION 8, then the Indemnified Party shall promptly (and in any event within fifteen business days after receiving notice of the Third Party Claim) notify the Indemnifying Party thereof in writing.

(ii) The Indemnifying Party shall have the right to assume and thereafter conduct the defense of the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party; provided, however, that the Indemnifying Party shall not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party (not to be withheld or delayed unreasonably) unless the judgment or proposed settlement involves only the payment of money damages and does not impose an injunction or other equitable relief upon the Indemnified Party.

(iii) Unless and until the Indemnifying Party assumes the defense of the Third Party Claim as provided in SECTION 8(d)(ii), the Indemnified Party may defend against the Third Party Claim in any manner it reasonably may deem appropriate.

(iv) The Indemnified Party may not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party which consent shall not be withheld

unreasonably; provided that no such consent will be required if the Indemnifying Party has denied in writing its obligations to indemnify the Indemnified Party hereunder or if the Indemnifying Party has not responded to the Indemnified Party's written request for consent within 10 business days of the Indemnifying Party's receipt thereof.

(e) Determination of Amount of Adverse Consequences. The Adverse Consequences giving rise to any indemnification obligation hereunder shall be limited to the actual loss suffered by the Indemnified Party (i.e. reduced by any insurance proceeds or other payment or recoupment received, realized or retained by the Indemnified Party as a result of the events giving rise to the claim for indemnification net of any expenses related to the receipt of such proceeds, payment or recoupment, including retrospective premium adjustments, if any), as such actual loss is reduced by any reduction in Taxes of the Indemnified Party (or the affiliated group of which it is a member) occasioned by such loss or damage. The amount of the actual loss and the amount of the indemnity payment shall be computed by taking into account the timing of the loss or payment, as applicable, using a Prime Rate plus 2% interest or discount rate, as appropriate. Upon the request of the Indemnifying Party, the Indemnified Party shall provide the Indemnifying Party with information sufficient to allow the Indemnifying Party to calculate the amount of the indemnity payment in accordance with this SECTION 8(e). An Indemnified Party shall take all reasonable steps to mitigate damages in respect of any claim for which it is seeking indemnification and shall use reasonable efforts to avoid any costs or expenses associated with such claim and, if such costs and expenses cannot be avoided, to minimize the amount thereof.

(f) Tax Treatment of Indemnity Payments. All indemnification payments made under this Agreement, including any payment made under SECTION 9, shall be treated as increases or decreases to the Cash Amount for Tax purposes.

20. Tax Matters.

(a) Tax Returns. VRLP shall prepare or cause to be prepared and file or cause to be filed when due all Pre-Closing Tax Returns with respect to the Tank Assets. VRLP shall timely pay or cause to be timely paid any Taxes due with respect to such Pre-Closing Tax Returns. The MLP Parties shall prepare or cause to be prepared and file or cause to be filed when due any Post-Closing Tax Returns with respect to the Tank Assets. The MLP Parties shall timely pay (or cause to be timely paid) any Taxes due with respect to such Post-Closing Tax Returns.

(b) Straddle Periods. The MLP Parties shall be responsible for Taxes with respect to the Tank Assets related to the portion of any Straddle Period occurring after the Closing Date. VRLP shall be responsible for such Taxes relating to the portion of any Straddle Period occurring before and on the Closing Date. If applicable Law shall not permit the Closing Date to be the last day of a period, then (i) real or personal property Taxes with respect to the Tank Assets shall be allocated based on the number of days in the partial period before and after the Closing Date and (ii) all other Taxes shall be allocated on the basis of the actual activities or attributes of the Tank Assets for each partial period as determined from the books and records of VRLP and its Affiliates.

(c) Straddle Returns. The MLP Parties shall prepare any Straddle Returns and deliver same to VRLP for review and comment at least 45 days prior to the due date (including any extension) for filing each such Straddle Return, together with a statement setting forth the allocation of taxable income and Taxes under SECTION 9(b) and the amount of Tax that VRLP owes. VRLP and the MLP Parties agree to consult with each other to attempt to resolve in good faith any issue arising as a result of VRLP's review of such Straddle Return and mutually to consent to the filing thereof as promptly as possible. Not later than five days before the due date for the payment of Taxes with respect to any such Straddle Return, VRLP shall pay or cause to be paid to the MLP Parties either (i) if the MLP Parties and VRLP are in agreement as to the amount of Taxes owed by VRLP, that amount, or (ii) if the MLP Parties and VRLP cannot agree on the amount of Taxes owed by VRLP, the maximum amount of Taxes reasonably determined by VRLP to be owed by it, in which case (A) VRLP and the MLP Parties shall refer the dispute to an independent "Big-Four" accounting firm agreed to by the MLP Parties and VRLP to arbitrate the dispute within ten days following the payment of the undisputed amount, (B) the determination of such accounting firm as to the amount of Taxes owing by VRLP with respect to a Straddle Return shall be binding on both VRLP and the MLP Parties, (C) VRLP and the MLP Parties shall equally share the fees and expenses of the accounting firm, and (D) within five days after the determination by such accounting firm, if necessary, the appropriate Party shall pay the other Party any amount which is determined by such accounting firm to be owed. VRLP shall be entitled to reduce its obligation to pay Taxes with respect to a Straddle Return by the amount of any estimated Taxes paid with respect to such Taxes on or before the Closing Date.

(d) Tax Indemnification. VRLP agrees to indemnify the MLP Party Indemnitees from and against any Adverse Consequences with respect to (i) Taxes with respect to the Tank Assets for any Pre-Closing Tax Period and the portion of any Straddle Period occurring on or before the Closing Date and (ii) Transfer Taxes. The MLP Parties agree to indemnify VRLP from and against any Adverse Consequences with respect to Taxes with respect to the Tank Assets for any Post-Closing Tax Period and the portion of any Straddle Period occurring after the Closing Date. Notwithstanding anything to the contrary in this Agreement, the covenants and obligations of the Parties sets forth in this SECTION 9 shall be unconditional and absolute and shall remain in effect until thirty days after the expiration of all statutes of limitation applicable to such covenants and obligations. The limitation on the indemnity obligations of VRLP pursuant to SECTION 8(b) shall not apply to the indemnity obligations of VRLP for Adverse Consequences related to Taxes under this SECTION 9(d).

(e) Transfer Taxes. VRLP shall file all necessary Tax Returns and other documentation with respect to all transfer, documentary, sales, use, stamp, registration and other similar Taxes and fees arising out of or in connection with the transactions effected pursuant to this Agreement (the "Transfer Taxes") and shall be liable for and shall timely pay such Transfer Taxes. If required by applicable Law, the MLP Parties shall, and shall cause their Affiliates to, join in the execution of any such Tax Returns and other documentation.

(f) Tax Refunds. If any of the MLP Parties or any Affiliate of the MLP Parties receives a refund of any Taxes that VRLP is responsible for hereunder, or if VRLP or any Affiliate of VRLP receives a refund of any Taxes that any of the MLP Parties is responsible for hereunder, the party receiving such refund shall, within 30 days after receipt of such refund, remit it to the party who has responsibility for such Taxes hereunder. For the purpose of this

SECTION 9(f), the term "refund" shall include a reduction in Tax and the use of an overpayment as a credit or other tax offset, and receipt of a refund in respect thereof shall be deemed to occur upon the filing of a return or an adjustment thereto claiming the benefit of such reduction, overpayment or offset.

(g) Closing Tax Certificate. On the Closing Date, VRLP shall deliver to the MLP Parties a certificate (in the form attached hereto as Exhibit F) signed under penalties of perjury (i) stating it is not a foreign corporation, foreign partnership, foreign trust or foreign estate, (ii) providing its U.S. Employer Identification Number, and (iii) providing its address, all pursuant to Section 1445 of the Code.

21. Termination.

(a) Termination of Agreement. The Parties may terminate this Agreement, as provided below:

(i) the MLP Parties and VRLP may terminate this Agreement by mutual written consent at any time before the Closing;

(ii) the MLP Parties may terminate this Agreement by giving written notice to VRLP at any time before Closing (A) in the event VRLP has breached any representation, warranty or covenant contained in this Agreement in any material respect, the MLP Parties have notified VRLP of the breach, the breach has continued without cure for a period of 10 days after the notice of breach and such breach would result in a failure to satisfy a condition to the MLP Parties' obligation to consummate the transactions contemplated hereby; or (B) if the Closing shall not have occurred on or before 9:00 a.m. (San Antonio time) on April 30, 2003 (unless the failure results primarily from the MLP Parties itself breaching any representation, warranty or covenant contained in this Agreement);

(iii) VRLP may terminate this Agreement by giving written notice to the MLP Parties at any time before the Closing (A) in the event any of the MLP Parties has breached any representation, warranty or covenant contained in this Agreement in any material respect, VRLP has notified such MLP Party of the breach, the breach has continued without cure for a period of 10 days after the notice of breach and such breach would result in a failure to satisfy a condition to VRLP's obligation to consummate the transactions contemplated hereby; or (B) if the Closing shall not have occurred on or before 9:00 a.m. (San Antonio time) April 30, 2003 (unless the failure results primarily from VRLP breaching any representation, warranty or covenant contained in this Agreement);

(iv) the MLP Parties or VRLP may terminate this Agreement if any court of competent jurisdiction or any governmental, administrative or regulatory authority, agency or body shall have issued an order, decree or ruling or shall have taken any other action permanently enjoining, restraining or otherwise prohibiting the transactions contemplated hereby and such order, decree, ruling or other action shall have become final and nonappealable; and

(v) the MLP Parties or VRLP may terminate this Agreement if the Underwriting Agreement is terminated for any reason.

(b) Effect of Termination. Except as provided in SECTION 8 and except for the obligations under SECTION 10 and SECTION 11, if any Party terminates this Agreement pursuant to SECTION 10(a), all rights and obligations of the Parties hereunder shall terminate without any liability of any Party to any other Party (except for any liability of any Party then in breach).

22. Miscellaneous.

(a) Public Announcements. Any Party is permitted to issue a press release or make a public announcement concerning this Agreement without the other Parties' consents, in which case the disclosing Party shall provide an advance copy of the proposed public disclosure to the non-disclosing Parties and permit the non-disclosing Parties the opportunity to reasonably comment on such proposed disclosure. The Parties agree to cooperate in good faith to issue separate and simultaneous press releases promptly following the execution of this Agreement by all Parties.

(b) Insurance; Casualty; Condemnation. (i) The MLP Parties acknowledge and agree that, following the Closing, any Subject Insurance Policies shall be terminated or modified to exclude coverage of all or any portion of the Tank Assets by VRLP or any of its Affiliates, and, as a result, the MLP Parties shall be obligated at or before Closing to obtain at their sole cost and expense replacement insurance, including insurance required by any third party to be maintained for or by the Tank Assets. Notwithstanding the foregoing, VRLP acknowledges that initially such insurance described in the preceding sentence may be maintained under an umbrella policy of Valero Energy Corporation with OLP as a named insured (and for which OLP shall reimburse Valero Energy Corporation for its proportionate cost), but the OLP agrees that it will endeavor in good faith to obtain insurance in its own name if commercially and economically practicable. Each of the MLP Parties further acknowledges and agrees that the MLP Parties may need to provide to certain Governmental Authorities and third parties evidence of such replacement or substitute insurance coverage for the continued operations of the Tank Assets. If any claims are made or losses occur prior to the Closing Date that relate solely to the Tank Assets and such claims, or the claims associated with such losses, properly may be made against the policies retained by VRLP or its Affiliates after the Closing, then VRLP shall use its Best Efforts so that the MLP Parties can file, notice, and otherwise continue to pursue these claims pursuant to the terms of such policies; provided, however, nothing in this Agreement shall require VRLP to maintain or to refrain from asserting claims against or exhausting any retained policies.

(ii) (A) VRLP shall give the MLP Parties prompt notice of (i) any fire or other casualty affecting the Tank Assets (a "Casualty") between the Effective Date and the Closing Date and (ii) any actual, pending or proposed Taking of all or any portion of the Tank Assets.

(B) In the event the Tank Assets (or any material portion thereof) suffers a Casualty subsequent to the Effective Date, but prior to the Closing Date, VRLP shall elect either (i) to repair or make adequate provision for the repair of such Tank Assets prior to Closing or (ii) to provide the MLP Parties with a credit against the Cash Amount in an amount agreed upon by VRLP and the MLP Parties to

represent the reduction in the value of the Tank Assets by reason of the Casualty, taking into account any repairs actually made by VRLP to such Tank Assets prior to the Closing Date. If the reduction in the value of the Tank Assets by reason of the Casualty exceeds 25% of the Cash Amount, the MLP Parties shall have the option to terminate this Agreement without any further obligation of any of the Parties or their Affiliates pursuant hereto.

(C) If after the Effective Date and prior to the Closing Date, all or any portion of the Tank Assets is taken by condemnation or eminent domain or by agreement in lieu thereof with any person or entity authorized to exercise such rights (a "Taking"), and the mutually-agreed value of the Tank Assets subject to such Taking, when aggregated with all other Takings occurring during such time period, equal:

i. less than 25% of the Cash Amount, the Closing shall take place as provided herein without abatement of the Cash Amount, and there shall be assigned to the MLP Parties at the Closing all interest of VRLP in any award which may be payable to VRLP on account of such Taking; or

ii. 25% or more of the Cash Amount, the MLP Parties shall have the option to terminate this Agreement without any further obligation of any of the parties or their affiliates pursuant hereto; provided that if the MLP Parties elects to proceed with the Closing, the Closing shall take place as provided herein without abatement of the Cash Amount, and there shall be assigned to the MLP Parties at the Closing all interest of VRLP in any award which may be payable to VRLP on account of such Taking.

(D) In the event condemnation proceedings for a Taking of all or any portion of the Tank Assets are commenced prior to the Closing Date, the MLP Parties and VRLP shall have joint control of such proceedings and shall cooperate in their efforts in response to such proceedings.

(c) No Third Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties, the VRLP Parties, the MLP Parties and their respective successors and permitted assigns.

(d) Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. Prior to the Closing the MLP Parties may not assign this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of VRLP; provided, however, without the prior written approval of VRLP, the MLP Parties and its permitted successors and assigns may assign any or all of its rights, interests or obligations under this Agreement to an Affiliate of any of the MLP Parties, including designating one or more Affiliates of any of the MLP Parties to be the assignee of some or any portion of the Tank Assets. Notwithstanding the foregoing, VRLP may assign its right under SECTION 2(a)(iv) to receive the OLP Limited Partner Interest to a person described in Treasury Regulation Section 1.1031(k)-1(g)(4) (a "Qualified Intermediary"). The Qualified Intermediary will be obligated to, and will, assign such right to receive the OLP Limited Partner Interest to UDS Logistics. Such assignment shall be deemed to fulfill VRLP's obligations under SECTION 2(a)(v) hereof. If VRLP elects to assign its right to receive the OLP Limited Partner Interest as provided in the preceding sentence, then the Qualified Intermediary shall assign its right to receive the OLP Limited Partner Interest to UDS Logistics and UDS Logistics, in lieu of issuing the UDS Membership Interest to VRLP, shall

assign its right to received the Cash Amount as set forth in SECTION 2(a)(vi) hereof to the Qualified Intermediary, in exchange for the assignment by the Qualified Intermediary of the right to receive the OLP Limited Partner Interest.

(e) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

(f) Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

(g) Notices. All notices, requests, demands, claims, and other communications hereunder shall be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given two business days after it is sent by registered or certified mail, return receipt requested, postage prepaid, and addressed to the intended recipient as set forth below:

If to VRLP:	One Valero Place San Antonio, Texas 78212 Attn: Mike Ciskowski Telecopy:210-370-2270
If to the MLP Parties:	Valero Logistics Operations, L.P. 6000 North Loop 1604 West San Antonio, TX 78249 Attn: Curt Anastasio Telecopy: 210-370-2304

Any Party may send any notice, request, demand, claim, or other communication hereunder to the intended recipient at the addresses set forth above using any other means (including personal delivery, expedited courier, messenger service, telecopy, ordinary mail, or electronic mail), but no such notice, request, demand, claim, or other communication shall be deemed to have been duly given unless and until it actually is received by the intended recipient. Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

(h) Governing Law and Venue. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE DOMESTIC LAWS OF THE STATE OF TEXAS WITHOUT GIVING EFFECT TO ANY CHOICE OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF TEXAS OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF TEXAS. VENUE FOR ANY ACTION ARISING UNDER THIS AGREEMENT SHALL LIE EXCLUSIVELY IN ANY STATE OR FEDERAL COURT IN BEXAR COUNTY, TEXAS.

(i) Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the MLP Parties and VRLP. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

(j) Severability. Any term or provision of this Agreement that is held to be invalid or unenforceable in any situation in any court of competent jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

(k) Transaction Expenses. Each of the MLP Parties and VRLP shall bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

(l) Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or Law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean including without limitation. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; the singular shall include the plural, and vice versa. All references herein to Exhibits, Schedules, Articles, Sections or subdivisions thereof shall refer to the corresponding Exhibits, Schedules, Article, Section or subdivision thereof of this Agreement unless specific reference is made to such exhibits, articles, sections or subdivisions of another document or instrument. The terms "herein," "hereby," "hereunder," "hereof," "hereinafter," and other equivalent words refer to this Agreement in its entirety and not solely to the particular portion of the Agreement in which such word is used. Each certificate delivered pursuant to this Agreement shall be deemed a part hereof, and any representation, warranty or covenant herein referenced or affirmed in such certificate shall be treated as a representation, warranty or covenant given in the correlated Section hereof on the date of such certificate. Additionally, any representation, warranty or covenant made in any such certificate shall be deemed to be made herein.

(m) Incorporation of Exhibits and Schedules. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

(n) Entire Agreement. THIS AGREEMENT (INCLUDING THE TRANSACTION AGREEMENTS AND OTHER DOCUMENTS REFERRED TO HEREIN) CONSTITUTES THE ENTIRE AGREEMENT AMONG THE PARTIES AND SUPERSEDES ANY PRIOR UNDERSTANDINGS, AGREEMENTS, OR REPRESENTATIONS BY OR AMONG THE PARTIES, WRITTEN OR ORAL, TO THE EXTENT THEY HAVE RELATED IN ANY WAY TO THE SUBJECT MATTER HEREOF. The rights and obligations created by

this Agreement are separate and independent from any rights and obligations created by any Assignment. Accordingly, none of the representations, warranties, covenants or indemnities included in any Assignment shall be merged into this Agreement or otherwise restrict or limit the effect of this Agreement, but each shall survive as provided in each such agreement. To the extent that there is a conflict between the express terms of this Agreement and any Assignment, this Agreement shall control.

(o) Further Assurances. The Parties agree to execute such additional instruments, agreements and documents, and to take such other actions, as may be reasonably necessary to effect the purposes of this Agreement.

*****

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth in the preamble.

VALERO REFINING--TEXAS, L.P.

By: Valero Corporate Services Company
its General Partner

Name: /s/ Michael S. Ciskowski

Title: Senior Vice President

UDS LOGISTICS, LLC

Name: /s/ Raymond F. Gaddy

Title: President

VALERO L.P.

By: Riverwalk Logistics, L.P.
its General Partner

By: Valero GP, LLC
its General Partner

Name: /s/ Curtis V. Anastasio

Title: Chief Executive Officer and President

VALERO GP, INC.

Name: /s/ Curtis V. Anastasio

Title: Chief Executive Officer and President

VALERO LOGISTICS OPERATIONS, L.P.
By: Valero GP, Inc.
its General Partner

Name: /s/ Curtis V. Anastasio

Title: Chief Executive Officer and President

EXHIBIT 10.15

CONTRIBUTION AGREEMENT

By and Among

VALERO PIPELINE COMPANY,

UDS LOGISTICS, LLC, VALERO L.P.

VALERO GP, INC.

and

VALERO LOGISTICS OPERATIONS, L.P.

March 6, 2003

EXHIBITS AND SCHEDULES

Exhibit A:	Description of Assets
Exhibit B:	Form of Throughput Commitment Agreement
Exhibit C:	Form of Terminalling Agreement
Exhibit D:	Form of Assignment
Exhibit E:	Form of Closing Tax Certificate

Property Schedule

Schedule 1(b)	Permitted Encumbrances
Schedule 3(a)(ii)	Consents (VPC)
Schedule 3(b)(ii)	Consents (The MLP Parties)
Schedule 4(a)	Noncontravention (the Assets)
Schedule 4(b)(ii)	Condition of Assets
Schedule 4(c)	Material Changes
Schedule 4(g)	Environmental Matters
Schedule 4(g)(ii)	Environmental Permits
Schedule 5(c)	Operation of Assets

CONTRIBUTION AGREEMENT

This Contribution Agreement (this "Agreement") dated as of March 6, 2003 (the "Effective Date") is by and among Valero Pipeline Company, a Delaware corporation ("VPC"), UDS Logistics, LLC, a Delaware limited liability company ("UDS Logistics"), Valero L.P., a Delaware limited partnership (the "MLP"), Valero Logistics Operations, L.P., a Delaware limited partnership (the "OLP") and Valero GP, Inc., a Delaware corporation and the general partner of the OLP ("OLP-GP"). VPC, UDS Logistics, the MLP, the OLP and the OLP-GP are sometimes referred to collectively herein as the "Parties" and individually as a "Party."

RECITALS

WHEREAS, VPC owns all of the assets associated with the pipeline systems and terminals identified on Exhibit A hereto (such assets being more particularly described on Exhibit A and referred to herein collectively as the "Assets");

WHEREAS, VPC desires to contribute the Assets to the OLP in exchange for a limited partner interest in the OLP representing $150 million (the "OLP Limited Partner Interest"), and the OLP desires to accept the contribution of the Assets, subject to the terms and conditions set forth below;

WHEREAS, immediately upon receipt of the OLP Limited Partner Interest, VPC desires to contribute the OLP Limited Partner Interest to UDS Logistics in exchange for a membership interest in UDS Logistics representing $150 million (the "UDS Membership Interest"), and UDS Logistics desires to accept the contribution of the OLP Limited Partner Interest, subject to the terms and conditions set forth below; and

WHEREAS, at the Closing, among other things, (i) the OLP and Valero Marketing and Supply Company, a Delaware corporation ("VMSC"), will enter into a Throughput Commitment Agreement in the form of Exhibit B (the "Throughput Agreement"), and (ii) the OLP and VMSC will enter into a Terminalling Agreement in the form of Exhibit C (the "Terminalling Agreement").

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows:

23. Definitions.

"Adverse Consequences" means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, amounts paid in settlement, liabilities, obligations, Taxes, liens, losses, expenses, and fees, including court costs and attorneys' fees and expenses, but excluding punitive (except as provided in SECTION 8), exemplary, special or consequential damages.

"Affiliate" has the meaning set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act of 1934, as amended from time to time; provided, however, that (i) with respect to any of the MLP Parties, the term "Affiliate" shall exclude each member of the Valero Group and (ii) with respect to VPC, the term "Affiliate" shall exclude each member of the MLP Group.

"Agreement" has the meaning set forth in the preface.

"Assets" has the meaning set forth in the recitals.

"Assignment" means the assignment and assumption agreement in the form of Exhibit D pursuant to which all of the Personal Property Assets will be assigned and by which all portions of Terminal Real Property not conveyed by the Deeds will be assigned and conveyed.

"Basis" means any past or current fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction about which the relevant Person has Knowledge that forms or could form the basis for any specified consequence.

"Best Efforts" means the efforts, time, and costs that a prudent Person desirous of achieving a result would use, expend, or incur in similar circumstances to ensure that such result is achieved as expeditiously as possible; provided, however, that no such use, expenditure, or incurrence shall be required if it could reasonably be expected to have a material adverse effect on such Person or to require an expense of such Person in excess of $1,000,000.

"Cash Amount" means $150,000,000.

"Casualty" has the meaning set forth in SECTION 11(b).

"CERCLA" has the meaning set forth in SECTION 4(g)(i).

"Closing" has the meaning set forth in SECTION 2(b).

"Closing Date" has the meaning set forth in SECTION 2(b).

"Coastal" means Coastal Liquids Partners, L.P.

"Coastal Lease" means the Pipeline and Terminal Lease Agreement, dated as of May 25, 2001, by and among Coastal (as Lessor) and VPC and VMSC (as Lessees).

"Code" means the Internal Revenue Code of 1986, as amended, or any successor Law.

"Commitment" means (a) options, warrants, convertible securities, exchangeable securities, subscription rights, conversion rights, exchange rights or other contracts that could require a Person to issue any of its Equity Interests or to sell any Equity Interest it owns in another Person; (b) any other securities convertible into, exchangeable or exercisable for, or representing the right to subscribe for any Equity Interest of a Person or owned by a Person; (c) statutory pre-emptive rights or pre-emptive rights granted under a Person's Organizational

Documents; and (d) stock appreciation rights, phantom stock, profit participation, or other similar rights with respect to a Person.

"Common Units" has the meaning set forth in the Amended and Restated Agreement of Limited Partnership of Valero L.P.

"Conflicts Committee" means the conflicts committee of the board of directors of Valero GP.

"Contributed OLP Interest" has the meaning set forth in SECTION 2(a)(viii).

"Deed(s)" means a Special Warranty Deed(s) substantially in the form attached hereto as Exhibit E.

"Effective Date" has the meaning set forth in the preface.

"Encumbrance" means any mortgage, pledge, lien, encumbrance, charge, security interest, Preferential Right or other defect in title.

"Environmental Law" and "Environmental Laws" have the meanings set forth in SECTION 4(g)(i).

"Equipment" means the warehouse inventory (including tools, parts, supplies and other similar items) owned by VPC and used in connection with VPC's operations of the Assets.

"Equity Interest" means (a) with respect to a corporation, any and all shares of capital stock and any Commitments with respect thereto, (b) with respect to a partnership, limited liability company, trust or similar Person, any and all units, interests or other partnership, limited liability company, trust or similar interests, and any Commitments with respect thereto, and (c) any other direct equity ownership or participation in a Person.

"GAAP" means accounting principles generally accepted in the United States consistently applied.

"Governmental Authority" means the United States or any agency thereof and any state, county, city or other political subdivision, agency, court or instrumentality.

"Hazardous Substances" means all materials, substances, chemicals, gas and wastes which are regulated under any Environmental Law or which may form the basis for liability under any Environmental Law.

"Indemnified Party" has the meaning set forth in SECTION 8(d)(i).

"Indemnifying Party" has the meaning set forth in SECTION 8(d)(i).

"Intellectual Property Contracts" has the meaning set forth in SECTION 4(e).

"Knowledge": an individual shall be deemed to have "Knowledge" of a particular fact or other matter if such individual is consciously aware of such fact or other matter at the time of

determination. A Person other than a natural person shall be deemed to have "Knowledge" of a particular fact or other matter if (i) any natural person who is serving as a director, senior executive officer, partner, member, executor, or trustee of such Person (or in any similar capacity) or (ii) any employee (or any natural person serving in a similar capacity) who is charged with the ultimate responsibility for a particular area of such Person's operations (e.g., the manager of the environmental section with respect to knowledge of environmental matters), at the time of determination had, Knowledge of such fact or other matter.

"Law" or "Laws" means any statute, code, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any applicable Governmental Authority.

"Lease Purchase Option" means the option held by VPC to purchase the Assets from Coastal (and its successors and affiliates) pursuant to the Coastal Lease.

"Material Adverse Effect" means any change or effect relating to the operations relating to the Assets, taken as a whole, that, individually or in the aggregate with other changes or effects, materially and adversely affects the value of the Assets taken as a whole, provided that in determining whether a Material Adverse Effect has occurred, changes or effects relating to (i) the refined petroleum product transportation and/or terminalling industry and refining industry generally (including the price of refined petroleum products and the costs associated with the storage and/or transportation thereof), (ii) United States or global economic conditions or hostilities or financial markets in general, or (iii) the transactions contemplated by this Agreement, shall not be considered.

"Material Contracts" has the meaning set forth in SECTION 4(e).

"MLP" has the meaning set forth in the preface.

"MLP-GP" means Riverwalk Logistics, L.P., a Delaware limited partnership and the general partner of the MLP.

"MLP Group" means (i) each of the MLP Parties, (ii) MLP-GP, (iii) Valero GP, (iv) each Affiliate of each of the MLP Parties in which such MLP Party owns (directly or indirectly) an Equity Interest and (v) each natural person that is an Affiliate of any MLP Party solely because of such natural person's position as an officer (or person performing similar functions), director (or person performing similar functions) or other representative of any Person described in (i) - (iv) above, but only to the extent that such natural person is in its capacity as an officer, director or representative of such Person.

"MLP Parties" means each of (i) the MLP, (ii) OLP-GP, (iii) the OLP and (iv) each Affiliate of the entities in (i) - (iii) which is a party to any Transaction Agreement.

"MLP Party Indemnitees" means, collectively, the MLP Parties and their Affiliates and each of their respective officers (or Persons performing similar functions), directors (or Persons performing similar functions), employees, agents and representatives to the extent acting in such capacity.

"NonAffiliate Purchaser" has the meaning set forth in SECTION 2(d).

"Obligations" means duties, liabilities and obligations, whether vested, absolute or contingent, known or unknown, asserted or unasserted, accrued or unaccrued, liquidated or unliquidated, due or to become due, and whether contractual, statutory or otherwise.

"Offer" has the meaning set forth in SECTION 2(d)(i).

"Offered Assets" has the meaning set forth in SECTION 2(d).

"OLP" has the meaning set forth in the preface.

"OLP-GP" has the meaning set forth in the preface.

"OLP Limited Partner Interest" has the meaning set forth in the recitals.

"Ordinary Course" means the ordinary course of business consistent with the applicable Person's past custom and practice (including with respect to quantity and frequency).

"Organizational Documents" means the articles of incorporation, certificate of incorporation, charter, bylaws, articles or certificate of formation, regulations, operating agreement, certificate of limited partnership, partnership agreement, and all other similar documents, instruments or certificates executed, adopted, or filed in connection with the creation, formation, or organization of a Person, including any amendments thereto.

"Party" and "Parties" have the meanings set forth in the preface.

"Permitted Encumbrances" means any of the following:

(a) all agreements, leases, instruments, documents, liens, encumbrances, which are described in any Schedule or Exhibit to this Agreement;

(b) any undetermined or inchoate liens or charges constituting or securing the payment of expenses which were incurred incidental to the conduct of the business or the operation, repair, construction, improvement or maintenance of the Assets;

(c) materialman's, mechanics', repairman's, employees', contractors', operators' or other similar liens, security interests or charges for liquidated amounts arising in the Ordinary Course, securing amounts the payment of which is not delinquent and that will be paid in the Ordinary Course;

(d) any liens for Taxes not yet delinquent;

(e) any liens or security interests created by Law or reserved in leases, rights-of-way or other real property interests for rental or for compliance with the terms of such leases, rights-of-way or other real property interests, provided payment of the debt secured is not delinquent;

(f) all consents, approvals, authorizations or permits of, or filings with or notifications to, any Person which is required to be obtained, made or complied with for or in

connection with any sale, assignment, transfer or encumbrance of any Asset or any interest therein;

(g) any titles or rights asserted by any Person to (i) tidelands, or lands comprising the shores or beds of navigable or perennial rivers and steams, lakes, bays or other bodies of water, (ii) lands beyond the line of the harbor or bulkhead lines as established or changed by any Governmental Body, (iii) filled-in lands or artificial islands, (iv) statutory water rights, including riparian rights, and (v) the area extending from the line of mean low tide of any body of water to the line of vegetation, or the rights of access to that area or any easement along or across that area;

(h) all prior reservations of minerals in and under or that may be produced from any of the lands constituting part of the Assets or on which any of the Assets are located, other than mineral reservations that would be reasonably expected to interfere in a material respect with the operation of the Assets as currently operated by VPC;

(i) all liens, charges, leases, easements, restrictive covenants, encumbrances, contracts, agreements, instruments, obligations, discrepancies, conflicts, shortages in area or boundary lines, encroachments or protrusions, or overlapping of improvements, defects, irregularities and other matters affecting the Assets which individually or in the aggregate are not such as to unreasonably and materially interfere with or prevent any material operations conducted on the Assets by VPC in the manner operated on the Closing Date;

(j) any defect that has been cured by the applicable statutes of limitations or statutes for prescription;

(k) any defect affecting (or the termination or expiration of) any easement, right-of-way, leasehold interest, license or other real property interest which has been replaced by an easement, right-of-way, leasehold interest, license or other real property interest constituting part of the Assets covering substantially the same rights to use the land or the portion thereof used by VPC in connection with VPC's business conducted on the Assets;

(l) the failure to locate on the ground a "blanket" or similar easement or right-of-way;

(m) rights reserved to or vested in any Governmental Body to control or regulate any of the Assets and all Laws of such authorities, including any building or zoning ordinances and all Environmental Laws;

(n) any agreement, contract, lease, easement, instrument, lien, encumbrance, permit, amendment, extension or other matter entered into by a Party to the Agreement in accordance with the terms of this Agreement or in compliance with the approvals or directives of the other Party made pursuant to this Agreement.

"Person" means an individual or entity, including any partnership, corporation, association, joint stock company, trust, joint venture, limited liability company, unincorporated organization, or Governmental Authority (or any department, agency or political subdivision thereof).

"Personal Property Assets" has the meaning set forth in Exhibit A.

"Pipeline Real Property Interests" means (i) the easements, rights-of-way, surface leases, fee interests, and licenses described in Parts I and II of the Property Schedule and (ii) all right, title and interest of VPC in and to any other easements, rights-of-way, surface leases, fee interests, and licenses on which the Pipeline Systems are currently located, together with all properties described in the definition of Pipeline Systems which are real property improvements to the properties described in clauses (i) and (ii) above.

"Pipeline Real Property Interests Assignments" means assignments of the Pipeline Real Property Interests substantially in the form of those assignments that VPC received or will receive from Coastal in connection with the closing of the Lease Purchase Option.

"Pipeline Systems" has the meaning set forth in Exhibit A.

"Post-Closing Tax Period" means any Tax period beginning after the Closing Date.

"Post-Closing Tax Return" means any Tax Return that is required to be filed for any of the Assets with respect to a Post-Closing Tax Period.

"Pre-Closing Environmental Matters" has the meaning set forth in SECTION 8(b)(iv).

"Pre-Closing Tax Period" means any Tax periods or portions thereof ending on or before the Closing Date.

"Pre-Closing Tax Return" means any Tax Return that is required to be filed for any of the Assets with respect to a Pre-Closing Tax Period.

"Preferential Rights" has the meaning set forth in SECTION 4(h).

"Prime Rate" means the prime rate reported in the Wall Street Journal at the time such rate must be determined under the terms of this Agreement.

"Private Placement" has the meaning set forth in SECTION 2(a)(i).

"Property Schedule" means the property schedule attached to this Agreement.

"Public Offering Amount" has the meaning set forth in the recitals.

"Records" has the meaning set forth in SECTION 6(c).

"Redemption" has the meaning set forth in SECTION 2(a)(iii).

"Required Permits" has the meaning set forth in SECTION 4(g)(ii).

"Straddle Period" means a Tax period or year commencing before and ending after the Closing Date.

"Straddle Return" means a Tax Return for a Straddle Period.

"Subject Insurance Policies" means those material policies of insurance that VPC or any of its Affiliates maintain covering any Assets.

"Taking" has the meaning set forth in SECTION 11(b)(ii)(c).

"Tax" or "Taxes" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), custom duties, capital stock, franchise, profits, withholding, social security (or similar excises), unemployment, disability, ad valorem, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty or addition thereto, whether disputed or not.

"Tax Records" means all Tax Returns and Tax-related work papers relating to the Assets.

"Tax Return" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Terminals" has the meaning set forth in Exhibit A.

"Terminal Real Property" has the meaning set forth in Exhibit A.

"Terminal Fee Real Property" has the meaning set forth in SECTION 2(c)(iv).

"Third Party Claim" has the meaning set forth in SECTION 8(d)(i).

"Third Party Offer" has the meaning set forth in SECTION 2(d).

"Throughput Agreement" has the meaning set forth in the recitals.

"Title Company" means LandAmerica Financial Group (or other mutually agreed title company).

"Title Policy" means an owner's title policy covering the portion of the Terminals and Terminal Fee Real Property that constitutes land and improvements to real property issued by the Title Company in the amount of $10,000,000. Such Title Policy shall be in the standard form promulgated by the Texas State Board of Insurance or other appropriate Governmental Authority.

"Transaction" has the meaning set forth in SECTION 5(b).

"Transaction Agreements" means this Agreement, the Assignment, the Deeds, the Pipeline System Real Property Interest Assignments, the Throughput Commitment Agreement, the Terminalling Agreement, and all other agreements, documents, certificates or instruments executed and delivered in connection with the transactions contemplated herein and therein.

"Transfer Taxes" has the meaning set forth in SECTION 9(e).

"UDS Logistics" has the meaning set forth in the preface.

"UDS Membership Interests" has the meaning set forth in the recitals.

"Underwriting Agreement" has the meaning set forth in SECTION 7(a)(vi).

"Unit Offering" has the meaning set forth in SECTION 2(a)(ii).

"Unknown Pre-Closing Environmental Matters" has the meaning set forth in SECTION 8(b)(iv).

"Valero GP" means Valero GP, LLC, a Delaware limited liability company and the general partner of MLP-GP.

"Valero Group" means, excluding members of the MLP Group, (i) each Affiliate of Valero Energy Corporation in which Valero Energy Corporation owns (directly or indirectly) an Equity Interest and (ii) each natural person that is an Affiliate of any Person described in (i) above solely because of such natural person's position as an officer (or person performing similar functions), director (or person performing similar functions) or other representative of any Person described in (i) above, but only to the extent that such natural person is acting in its capacity as an officer, director or representative of such Person.

"VMSC" has the meaning set forth in the recitals.

"VPC" has the meaning set forth in the preface.

"VPC Indemnitees" means, collectively, VPC and its Affiliates and each of their respective officers (or Persons performing similar functions), directors (or Persons performing similar functions), employees, agents, and representatives.

"VPC Parties" means each of (i) VPC, (ii) UDS Logistics, (iii) Valero Energy Corporation and (iv) each Affiliate of VPC in which Valero Energy Corporation owns (directly or indirectly) an Equity Interest and which is a party to any Transaction Agreement (but excluding any MLP Parties).

24. Concurrent Transactions.

(a) Contribution of Assets. Subject to the terms and conditions of this Agreement, the Parties agree that the following transactions will occur in the following order:

(i) the MLP will cause the OLP to borrow from its credit facility and the MLP proposes to cause the OLP to issue long-term debt (the "Private Placement") to institutional investors pursuant to Rule 144A promulgated under the Securities Act of 1933 (which indebtedness shall be guaranteed by the MLP);

(ii) the MLP proposes to issue additional Common Units, representing limited partner interests in the MLP, to the public in exchange for cash (the "Unit Offering");

(iii) using a portion of the net proceeds from the Private Placement, the MLP will redeem (the "Redemption") a sufficient number of Common Units owned by UDS Logistics to reduce, in conjunction with the Unit Offering, the aggregate, combined ownership interest of UDS Logistics and Valero GP in the MLP to 49.5% or less;

(iv) except as provided in SECTION 11(d), VPC will contribute to the OLP, in exchange for the OLP Limited Partner Interest, all of VPC's right, title and interest in and to the Assets free and clear of any Encumbrances other than Permitted Encumbrances;

(v) VPC will contribute to UDS Logistics, in exchange for the UDS Membership Interest (or, in the alternative, as provided in SECTION 11(d), for cash) the OLP Limited Partner Interest, free and clear of any Encumbrances;

(vi) the OLP, on behalf of the MLP, will pay the Cash Amount to UDS Logistics in exchange for the right to be assigned the OLP Limited Partner Interest from UDS Logistics;

(vii) UDS Logistics will contribute to the MLP, in exchange for the payment of the Cash Amount from the OLP, on behalf of the MLP, the OLP Limited Partner Interest, free and clear of any Encumbrances;

(viii) the MLP will contribute to OLP-GP such portion of the OLP Limited Partner Interest (the "Contributed OL Interest") as is necessary for OLP-GP to maintain its 0.01% general partner interest in the OLP; and

(ix) the Contributed OLP Interest will be immediately converted into a general partner interest in the OLP.

(b) The Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at One Valero Place, San Antonio, Texas, 78212, commencing at 10:00 a.m., local time, on the fifth business day following the date as of which the satisfaction or waiver of all conditions to the obligations of the Parties to consummate the transactions contemplated hereby has occurred (other than conditions with respect to actions each Party shall take at the Closing itself) or such other date as the Parties may mutually determine (the "Closing Date").

(b) Deliveries at the Closing. At the Closing:

(i) VPC shall deliver to the MLP Parties the various certificates, instruments, and documents referred to in SECTIONS 7(a) AND 9(g);

(ii) the MLP Parties shall deliver to VPC the various certificates, instruments, and documents referred to in SECTION 7(b);

(iii) the applicable Parties shall execute and deliver each of (A) the Assignment; (B) the Throughput Commitment Agreement; (C) the Terminalling Agreement; and (D) the Pipeline System Real Property Interests Assignments;

(iv) VPC shall execute and delivery to the Title Company for recording a Deed with respect to the each of the fee parcels included within the Terminal Real Property (the "Terminal Fee Real Property"), conveying such fee parcels to the OLP;

(v) UDS Logistics shall issue to VPC the UDS Membership Interest;

(vi) the OLP, on behalf of the MLP, shall pay to UDS Logistics the Cash Amount;

(vii) the applicable Parties shall execute and/or deliver, or cause to be executed and/or delivered, such other consideration, documents, assets and interests as set forth in SECTION 2(a) above;

(viii) the applicable Parties shall execute and/or deliver, or cause to be executed and/or delivered, each other Transaction Agreement not listed above; and

(ix) the Title Company shall issue the Title Policy to OLP with respect to the Terminal Fee Real Property, or, in the alternative, issue a binding commitment to issue the Title Policy to the OLP.

(c) Right of First Offer. Should the board of directors of Valero GP determine at any time after the Closing Date (either through an unsolicited bona fide offer from a Person that is not an Affiliate of the Valero Group (a "Third Party Offer") or through an offer solicited by any of the MLP Parties) that it is in the best interests of the MLP Parties to divest the entirety of (or a substantial portion of) any of the Pipeline Systems or any of the Terminals (the "Offered Assets"), Valero GP shall promptly notify VPC of such determination and deliver to VPC all information prepared by or on behalf of Valero GP relating to the potential divestiture. As soon as practicable but in any event within 30 days after receipt of such notification and information, VPC shall notify Valero GP that either (a) VPC has elected not to pursue the opportunity to acquire the Offered Assets, in which case the MLP shall be free to offer and divest the Offered Assets to (1) the Person that initiated the Third Party Offer (the "Third Party Offeror") or (2) a Person that is not an Affiliate of the Valero Group (a "NonAffiliate Purchaser"), or (b) VPC has elected to pursue the opportunity to acquire the Offered Assets, in which event the following procedures shall be followed:

(i) VPC shall submit a good faith offer to Valero GP to acquire the Offered Assets (the "Offer") on the terms and for the consideration stated in the Offer;

(ii) VPC and Valero GP shall negotiate in good faith for 90 days after receipt of such Offer by Valero GP, the terms on which the Offered Assets will be acquired by VPC. Valero GP shall provide all information concerning the operations and finances of the Offered Assets as may be reasonably requested by VPC.

(A) If VPC and Valero GP agree on such terms within 90 days after the receipt by Valero GP of the Offer, VPC shall acquire the Offered Assets on such terms after such agreement has been reached; provided, however, that the acquisition consideration to be paid by VPC may not be less than the acquisition consideration offered in the Third Party Offer.

(B) If VPC and Valero GP are unable to agree on the terms of an acquisition during such 90-day period, the MLP is free to divest the Offered Assets to (1) the Third Party Offeror within 180 days of the termination of such 90-day period; provided that such Third Party Offer is not less than 95% of the acquisition consideration last offered by VPC or (2) a NonAffiliate Purchaser; provided that any such divestiture to a NonAffiliate Purchaser must be for an acquisition consideration of not less than 95% of the acquisition consideration last offered by VPC and on the same material terms and conditions as last offered by VPC; provided, further, that if such NonAffiliate Purchaser shall offer less than 95% of the acquisition consideration last offered by VPC or offer to purchase the Assets on terms and conditions materially less favorable to the MLP than those last offered by VPC, the MLP must first give VPC notice and a right to match the offer from the NonAffiliate Purchaser during a 15-day period after notification of same from MLP to VPC.

(C) During such 90-day period Valero GP shall be free to make capital expenditures to maintain the Offered Assets.

(iii) If, after the expiration of the 180-day period referred to in clause (ii)(B) above, no NonAffiliate Purchaser or Third Party Offeror has acquired the Offered Assets and Valero GP confirms its determination that it is in the best interests of the MLP Parties to divest the Offered Assets, Valero GP shall comply with the provisions of this SECTION 2(d) once again; provided that if Valero GP and VPC are unable to reach agreement during the 90-day period referenced in clause (ii)(B) above, the parties will engage an independent investment banking firm of national reputation to determine the value of the Offered Assets and shall furnish VPC and Valero GP with its opinion of such value within 30 days of its engagement. VPC and Valero GP shall share equally the fees and expenses of such investment banking firm. Upon receipt of such opinion, Valero GP will have the option to

(A) cause the MLP to divest the Offered Assets for an amount equal to the value as determined by such investment banking firm on terms substantially similar to the relevant terms of this Agreement or

(B) decline to divest the Offered Assets.

25. Representations and Warranties Concerning the Transaction.

(a) Representations and Warranties of VPC. VPC hereby represents and warrants to the MLP Parties as follows as of the Effective Date:

(i) Organization and Good Standing. VPC is a corporation duly incorporated, validly existing, and in good standing under the Laws of the state of Delaware. VPC is in good standing under the Laws of the state of Texas and in each other jurisdiction which requires such qualification, except where the lack of such qualification would not have a Material Adverse Effect.

(ii) Authorization of Transaction. Each VPC Party has full power and authority (including full entity power and authority) to execute and deliver each Transaction Agreement to which such VPC Party is a party and to perform its obligations thereunder. Each Transaction Agreement to which any VPC Party is a party constitutes the valid and legally binding obligation of such VPC Party, enforceable against such VPC Party in accordance with its terms and conditions, subject, however, to the effects of bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally, and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). Except as set forth on SCHEDULE 3(a)(II), no VPC Party need give any notice to, make any filing with, or obtain any authorization, consent, or approval of any Governmental Authority or any other Person in order to consummate the transactions contemplated by this Agreement or any other Transaction Agreement to which such VPC Party is a party.

(iii) Noncontravention. Except for filings specified in SCHEDULE 3(a)(ii) and filings and notifications required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (as amended, the "HSR Act"), neither the execution and delivery of any Transaction Agreement, nor the consummation of any of the transactions contemplated thereby, shall (A) violate any Laws to which any VPC Party is subject or any provision of the Organizational Documents of any VPC Party or (B) result in a breach of, constitute a default under, result in the acceleration of, create in any Person the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which any VPC Party is a party or by which it is bound or to which any of its assets or any of the Assets are subject, except for such violations, defaults, breaches, or other occurrences that do not, individually or in the aggregate, have a material adverse effect on the ability of VPC or any other VPC Party to consummate the transactions contemplated by such Transaction Agreement.

(iv) Brokers' Fees. No VPC Party has any liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which any of the MLP Parties could become liable or obligated.

(b) Representations and Warranties of the MLP Parties. Each of the MLP Parties hereby represents and warrants to VPC as follows as of the Effective Date:

(i) Organization of the MLP Parties. Each of the MLP Parties is a limited liability company, limited partnership or corporation duly organized, validly existing, and in good standing under the Laws of the state of Delaware. Each of the MLP Parties is in good standing under the Laws of the state of Texas, or will be qualified to do business in Texas prior to the Closing, and in each other jurisdiction which requires such qualification, except where the lack of such qualification in each instance would not have a Material Adverse Effect.

(ii) Authorization of Transaction. Each of the MLP Parties has full power and authority (including full entity power and authority) to execute and deliver

each Transaction Agreement to which it is a party and to perform its obligations thereunder. Each Transaction Agreement to which such MLP Party is a party constitutes the valid and legally binding obligation of such MLP Party, enforceable against such MLP Party in accordance with its terms and conditions, subject, however, to the effects of bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally, and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). Except for approval by the Conflicts Committee and as set forth on SCHEDULE 3(b)(ii) and any filings under the HSR Act, no MLP Party needs to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any Governmental Authority or any other Person in order to consummate the transactions contemplated by this Agreement or any other Transaction Agreement.

(iii) Noncontravention. Except for the filings specified in SCHEDULE 3(b)(ii), neither the execution and delivery of any Transaction Agreement to which any MLP Party is a party, nor the consummation of any of the transactions contemplated thereby, shall (A) violate any Laws to which such MLP Party is subject or any provision of its Organizational Documents or (B) result in a breach of, constitute a default under, result in the acceleration of, create in any Person the right to accelerate, terminate, modify, or cancel, or require any notice, approval or consent under any agreement, contract, lease, license, instrument, or other arrangement to which any MLP Party is a party or by which it is bound or to which any of its assets is subject, except for such violations, defaults, breaches, or other occurrences that do not, individually or in the aggregate, have a material adverse effect on the ability of any MLP Party to consummate the transactions contemplated by such Transaction Agreement.

(iv) Brokers' Fees. Other than a customary fee paid to A.G. Edwards & Sons in connection with its assessment of the fairness of the Transaction to the MLP and to the holders of the Common Units (other than any of the Valero Group), no MLP Party has any liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which VPC could become liable or obligated.

(v) Investment. Each of the MLP Parties is familiar with investments of the nature of the Assets, understands that this investment involves substantial risks, has investigated the Assets, and has substantial knowledge and experience in financial and business matters such that it is capable of evaluating, and has evaluated, the merits and risks inherent in purchasing the Assets, and is able to bear the economic risks of such investment. Each of the MLP Parties has had the opportunity to visit with VPC and its applicable Affiliates and meet with their representative officers and other representatives to discuss the operations, assets, liabilities and financial condition of the Assets, has received materials, documents and other information that such MLP Party deems necessary or advisable to evaluate the Assets. Each of the MLP Parties has made its own independent examination, investigation, analysis and evaluation of the Assets, including its own estimate of the value of the Assets. Each of the MLP Parties has undertaken such due diligence (including a review of the assets, properties, liabilities, books, records and contracts constituting part of the Assets) as such MLP Party deems adequate.

Notwithstanding the other provisions of this subsection (v), the MLP Parties have relied on the truth and accuracy of the representations and warranties made by VPC in SECTION 4(l) in making the representations and warranties in this subsection (v) and the MLP Parties shall not be considered to have breached any representation or warranty contained in this subsection (v) if any of the representations and warranties made by VPC in SECTION 4(l) are not true or are inaccurate.

26. Representations and Warranties Concerning the Assets. VPC hereby represents and warrants to the MLP Parties as follows as of the Effective Date:

(a) Noncontravention. Except as set forth in SCHEDULE 4(a), neither the execution and delivery of any Transaction Agreement to which any VPC Party is a party, nor the consummation of any of the transactions contemplated thereby, shall (i) violate any Laws to which any of the Assets is subject or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, require any notice or trigger any rights to payment or other compensation, or result in the imposition of any Encumbrance on any of the Assets under, any agreement, contract, lease, license, instrument, or other arrangement to which any of the Assets is subject, except where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice, right to payment or other compensation, or Encumbrance would not have a Material Adverse Effect, or would not materially adversely affect the ability of any VPC Party to consummate the transactions contemplated by such Transaction Agreement.

(b) Title to and Condition of Assets

(i) At Closing, VPC will convey to the OLP: (A) good and indefeasible title to the Terminal Real Property; (B) good and indefeasible title to the Pipeline System Real Property Interests; provided that notwithstanding anything to the contrary in this Agreement, VPC's obligations under SECTION 6(c) shall be the sole remedy for any breach of this subsection (B); and (C) good and marketable title to the Personal Property Assets; in each case free and clear of all Encumbrances, except for Permitted Encumbrances.

(ii) To VPC's Knowledge, except as disclosed in SCHEDULE 4(b)(ii) or as otherwise disclosed prior to the date hereof in writing to the MLP Parties, the Assets are in good operating condition and repair (normal wear and tear excepted), are free from patent and latent defects, are suitable for the purposes for which they are currently used and are not in need of maintenance or repairs except for ordinary routine maintenance and repairs that, in the aggregate, do not exceed $250,000.

(iii) There are no borrowings, loan agreements, promissory notes, pledges, mortgages, guaranties, liens and similar liabilities (direct and indirect), or Encumbrances that are secured by or constitute an Encumbrance on the Assets (other than Permitted Encumbrances).

(iv) VPC has not caused any work or improvements to be performed upon or made to any of the Assets for which there remains outstanding any payment

obligation that would or might serve as the basis for any claim, lien, charge or Encumbrance in favor of the Person which performed the work.

(v) Except as set forth in SCHEDULE 4, VPC has not leased or subleased any parcel or any portion of the Real Property Interests to any other Person.

(vi) Except as set forth in SCHEDULE 4 and excluding any representation or warranty relating to Environmental Laws, VPC has not received any written notice to the effect that (i) any betterment assessments have been levied against, or condemnation or re-zoning proceedings are pending or threatened with respect to the Assets, or (ii) any zoning, building or similar law or regulation is or will be violated by the continued maintenance, operation or use of any buildings or other improvements on the Assets as used and operated on the date of this Agreement. There are no outstanding abatement proceedings or appeals with respect to the assessment of the Assets for the purpose of real property taxes, and there is no written agreement with any Governmental Authority with respect to such assessments or tax rates on the Assets. SCHEDULE 4 sets forth a list of material leases related to the Assets where VPC is the (sub)lessee or lessor.

(vii) All pipelines, pipeline easements, utility lines, utility easements and other easements, leaseholds, servitudes and rights-of-way burdening or benefiting any of the Assets will not at Closing unreasonably and materially interfere with or prevent any material operations conducted on the Assets by VPC in the Ordinary Course as of the date hereof. Except as set forth on SCHEDULE 4 and for Permitted Encumbrances, with respect to any pipeline, utility, access or other easements, servitudes or leaseholds located on or directly serving the Assets and owned or used by VPC in connection with its operations at the Assets: (A) VPC either has the contractual right to use or is the exclusive or non-exclusive legal and beneficial owner of the respective easement and leasehold established thereunder; (B) such leaseholds, easements and the rights and interests of VPC thereunder are in all material respects in full force and effect; and (C) to VPC's knowledge, no material defaults exist thereunder and no events or conditions exist which, with or without notice of lapse of time or both, would constitute a material default thereunder or result in a termination; provided, however, that clauses (A) and (B) above shall not apply to the Pipeline System or Pipeline System Real Property Interests and, in lieu thereof, the OLP has agreed to rely on the representations and warranties in SECTION 4(b)(i).

(viii) VPC has good and valid title to the Equipment, free and clear of all Encumbrances except Permitted Encumbrances.

(c) Material Change. Except as set forth in SCHEDULE 4(c), since December 31, 2001:

(i) there has not been any Material Adverse Effect;

(ii) the Assets have been operated and maintained in the Ordinary Course;

(iii) to VPC's Knowledge, there has not been any material damage, destruction or loss to any material portion of the Assets, whether or not covered by insurance;

(iv) there has been no purchase, sale or lease of any material asset included in the Assets;

(v) there is no contract, commitment or agreement to do any of the foregoing, except as expressly permitted hereby.

(d) Legal Compliance. Each VPC Party, with respect to the Assets, has complied with all applicable Laws, except where the failure to comply would not have a Material Adverse Effect. VPC makes no representations or warranties in this SECTION 4(d) with respect to Environmental Laws, for which the sole representations and warranties of VPC are set forth in SECTION 4(g).

(e) Intellectual Property and Material Contracts. To the knowledge of VPC, SCHEDULE 4(e) sets forth (i) a true and complete list of all material Intellectual Property, (ii) the name of the Person who owns such Intellectual Property, (iii) in the case of such Intellectual Property not owned by VPC, other than licenses for software having a value of less than $1,000.00 per license, identifying information regarding the agreement pursuant to which VPC uses any such Intellectual Property ("Intellectual Property Contracts") and (iv) any other material contracts not otherwise listed on any schedule hereto to which any VPC Party is a party and which pertains to the operations of the Assets by VPC in the Ordinary Course (the "Material Contracts"). Except as otherwise specified on SCHEDULE 4(e), VPC has the right to assign to the OLP the Intellectual Property, Intellectual Property Contracts and the Material Contracts, upon the consummation of the transactions contemplated hereunder. To the knowledge of VPC, no VPC Party is in material breach of any agreement, commitment, contractual understanding, license, sublicense, assignment, or indemnification which relates to any of the Intellectual Property Contracts or the Material Contracts.

(f) Litigation. (i) VPC is not, with respect to the Assets, (A) subject to any outstanding injunction, judgment, order, decree, ruling, or charge or (B) the subject of any action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction, or is the subject of any pending or, to VPC's Knowledge, threatened claim, demand, or notice of violation or liability from any Person, except where any of the foregoing would not have a Material Adverse Effect.

(ii) Except as identified on SCHEDULE 4(f), no VPC Party has Knowledge of any Basis for any present or future injunction, judgment, order, decree, ruling, or charge or action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction, against any of them giving rise to any Obligation to which any of the Assets would be subject.

(g) Environmental Matters. Except as set forth in SCHEDULE 4(g):

(i) VPC, with respect to the Assets, has been in compliance with all applicable local, state, and federal laws, rules, regulations, and orders regulating or

otherwise pertaining to (a) the use, generation, migration, storage, removal, treatment, remedy, discharge, release, transportation, disposal, or cleanup of pollutants, contamination, hazardous wastes, hazardous substances, hazardous materials, toxic substances or toxic pollutants, (b) surface waters, ground waters, ambient air and any other environmental medium on or off any lease or (c) the environment or health and safety-related matters; including the following as from time to time amended and all others whether similar or dissimilar: the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (as amended by the Superfund Amendments and Reauthorization Act of 1986 "CERCLA"), the Resource Conservation and Recovery Act of 1976, as amended by the Used Oil Recycling Act of 1980, the Solid Waste Disposal Act Amendments of 1980, and the Hazardous and Solid Waste Amendments of 1984, the Hazardous Materials Transportation Act, as amended, the Toxic Substance Control Act, as amended, the Clean Air Act, as amended, the Clean Water Act, as amended, and all regulations promulgated pursuant thereto, and common law principles, including nuisance, trespass and negligence as applicable to environmental matters described above (collectively, the "Environmental Laws," and, individually, an "Environmental Law"), except for such instances of noncompliance that individually or in the aggregate do not have a Material Adverse Effect.

(ii) VPC has obtained all permits, licenses, franchises, authorities, consents, registrations, orders, certificates, waivers, exceptions, variances and approvals, and has made all filings, paid all fees, and maintained all material information, documentation, and records, as necessary under applicable Environmental Laws for operating the Assets as they are presently operated, and all such permits, licenses, franchises, authorities, consents, approvals, and filings remain in full force and effect, except for such matters that individually or in the aggregate do not have a Material Adverse Effect. SCHEDULE 4(g)(ii) sets forth a complete list of all material permits, licenses, franchises, authorities, consents, and approvals issued or granted by any Governmental Authority, as necessary under applicable Environmental Laws for operating the Assets as they are presently operated (the "Required Permits"), and held in the name of the appropriate VPC Party as indicated on such schedule.

(iii) Except as would not have a Material Adverse Effect, (x) there are no pending or, to the knowledge of any VPC Party, threatened claims, demands, actions, administrative proceedings or lawsuits against VPC with respect to the Assets and VPC has not received notice of any of the foregoing and (y) none of the Assets is subject to any outstanding injunction, judgment, order, decree or ruling under any Environmental Laws.

(iv) VPC has not received any written notice that VPC, with respect to the Assets, is or may be a potentially responsible party under CERCLA or any analogous state law in connection with any site actually or allegedly containing or used for the treatment, storage or disposal of Hazardous Substances.

(v) All Hazardous Substances or solid wastes generated, transported, handled, stored, treated or disposed by, in connection with or as a result of the operation of VPC or the conduct of VPC, have been transported only by carriers maintaining valid authorizations under applicable Environmental Laws and treated, stored, disposed of or otherwise handled only at facilities maintaining valid

authorizations under applicable Environmental Laws and such carriers and facilities have been and are operating in compliance with such authorizations and are not the subject of any existing, pending or threatened action, investigation or inquiry by any Governmental Authority or other Person in connection with any of the Environmental Laws, except for such matters that individually or in the aggregate do not have a Material Adverse Effect.

VPC makes no representation or warranty regarding any compliance or failure to comply with, or any actual or contingent liability under, any Environmental Law, except as expressly set forth in this SECTION 4(g). For purposes of this SECTION 4(g), each reference to VPC or VPC Parties shall be deemed to include VPC Parties and their Affiliates.

(h) Preferential Purchase Rights. Except for the Right of First Offer, the Right of First Refusal set forth in SECTION 2(d), and those identified on SCHEDULE 2(h), there are no preferential purchase rights, rights of refusal to purchase, purchase options or other rights held by any Person not a party to this Agreement to purchase or acquire any or all of the Assets, in whole or in part, that would be triggered or otherwise affected as a result of the transactions contemplated by this Agreement ("Preferential Rights").

(i) Prohibited Events. None of the matters described in SECTION 5(c) have occurred since December 31, 2001.

(j) Regulatory Matters No VPC Party is (i) a "holding company," a "subsidiary company" of a "holding company," an "affiliate" of a "holding company," or a "public utility," as each such term is defined in the Public Utility Holding Company Act of 1935, as amended, or (ii) an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder. Other than the Pipeline Systems, which are presently subject to regulation by the Texas Railroad Commission, none of the Assets are subject to regulation by the Federal Energy Regulatory Commission or rate regulation or comprehensive nondiscriminatory access regulation under any federal laws or the laws of any state or other local jurisdiction.

(k) Intercompany Transactions. There are no outstanding receivables, payables and other intercompany agreements between VPC and any of its Affiliates that relate to the Assets (other than in connection with VPC role as a carrier on the Pipeline Systems and a terminal operator of the Terminals and VMSC's role as a shipper on the Pipeline Systems and a customer at the Terminals.)

(l) Material Information. VPC has provided to the MLP Parties all material information concerning the operations by VPC of, and finances of, the Assets as has been requested by any of the MLP Parties to date and such information is complete and correct in all material respects and does not omit to state a material fact necessary to make the statements and information contained therein not misleading in light of the circumstances in which they are made. To VPC's knowledge, there is not any fact that has not been disclosed to the MLP Parties pertaining particularly to any of the Assets (as opposed to public information concerning general industry or economic conditions or governmental policies) which materially and adversely affect

any of the Assets or the use, ownership, financing, operation, maintenance or repair of any of the Assets at any time after the Closing.

(m) Tax Matters. Except as set forth in SCHEDULE 4(m) or as would not have a Material Adverse Effect:

(i) VPC and its Affiliates have filed, or caused to be filed, on a timely basis all Tax Returns with respect to the Assets that they were required to file and such Tax Returns are accurate in all material respects;

(ii) All Taxes shown as due by VPC or its Affiliates on any such Tax Returns have been timely paid; and

(iii) There is no dispute or claim concerning any Tax liability of VPC or any of its Affiliates related to the Assets claimed or raised in writing by any Governmental Authority.

(n) Sufficiency of Assets. The Assets constitute substantially all the assets currently used by VPC in conducting its business in connection with the Pipeline Systems and the Terminals prior to the Closing.

(o) Disclaimer of Representations and Warranties Concerning Personal Property, Equipment and Fixtures. Each of the MLP Parties acknowledges that (i) it has had and pursuant to this Agreement shall have before Closing access to the Assets and the officers and employees of VPC and (ii) in making the decision to enter into this Agreement and consummate the transactions contemplated hereby, each of the MLP Parties has relied solely on the basis of its own independent investigation and upon the express representations, warranties, covenants, and agreements set forth in this Agreement and the other Transaction Agreements. Accordingly, each of the MLP Parties acknowledges that, except as expressly set forth in this Agreement, VPC has not made, and VPC MAKES NO AND DISCLAIMS ANY, REPRESENTATIONS OR WARRANTIES, WHETHER EXPRESS OR IMPLIED, AND WHETHER BY COMMON LAW, STATUTE, OR OTHERWISE, REGARDING (i) THE QUALITY, CONDITION, OR OPERABILITY OF ANY PERSONAL PROPERTY, EQUIPMENT, OR FIXTURES, (ii) THEIR MERCHANTABILITY, (iii) THEIR FITNESS FOR ANY PARTICULAR PURPOSE, OR (iv) THEIR CONFORMITY TO MODELS, SAMPLES OF MATERIALS OR MANUFACTURER DESIGN, AND ALL PERSONAL PROPERTY AND EQUIPMENT IS DELIVERED "AS IS, WHERE IS" IN THE CONDITION IN WHICH THE SAME EXISTS.

27. Pre-Closing Covenants. The Parties agree as follows with respect to the period between the date of this Agreement and the Closing:

(a) General. Each of the MLP Parties shall use its Best Efforts to take all action and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement, including causing the occurrence of VPC's conditions to Closing in SECTION 7(b). VPC shall use its Best Efforts to take all action and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement, including causing the occurrence of the MLP Parties' conditions to Closing in SECTION 7(a).

(b) Notices and Consents. Each of the Parties shall give any notices to, make any filings with, and use its Best Efforts to obtain any authorizations, consents, and approvals of Governmental Authorities and third parties it is required to obtain in connection with the transaction contemplated by this Agreement (the "Transaction"), so as to permit the Closing to occur not later than 9:00 a.m. (San Antonio time) on March 31, 2003.

(c) Operation of Assets. VPC shall not, without the written consent of the OLP (which consent shall not be unreasonably withheld or delayed), except as expressly contemplated by this Agreement or as contemplated by SCHEDULE 5(c), engage in any practice, take any action, omit to take any action or enter into any transaction outside the Ordinary Course that could reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing, without the written consent of the MLP (which consent shall not be unreasonably withheld or delayed), except as expressly contemplated by this Agreement or SCHEDULE 5(c), prior to the Closing VPC shall not do any of the following:

(i) sell, lease or otherwise dispose of any Assets or cause or allow any part of the Assets to become subject to an Encumbrance, except for Permitted Encumbrances;

(ii) initiate or settle any litigation, complaint, rate filing or administration proceeding relating to the Assets.

(d) Full Access. VPC shall permit, and shall cause its Affiliates to permit, representatives of the MLP Parties to have full access at all reasonable times, and in a manner so as not to unreasonably interfere with the normal business operations of VPC and its Affiliates, to all premises, properties, personnel, books, records (including Tax records), contracts, and documents pertaining to any of the Assets.

(e) Required Permits. Each of the VPC Parties and the MLP Parties shall use its Best Efforts to take all action and to do all things necessary, proper, or advisable in order to transfer the Required Permits to the OLP or otherwise to assist the OLP in obtaining such Required Permits in its own right.

28. Post-Closing Covenants. The Parties agree as follows:

(a) General. In case at any time after the Closing any further action is necessary to carry out the purposes of this Agreement, each of the Parties shall take such further action

(including the execution and delivery of such further instruments and documents) as the other Party reasonably may request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under SECTION 8).

(b) Litigation Support. In the event and for so long as any Party actively is contesting or defending against any action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand in connection with (i) any transaction contemplated under this Agreement or (ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction on or before the Closing Date involving the Assets, the other Party shall cooperate with the contesting or defending Party and its counsel in the defense or contest, make available its personnel, and provide such testimony and access to its books and records (other than books and records which are subject to privilege or to confidentiality restrictions) as shall be necessary in connection with the defense or contest, all at the sole cost and expense of the contesting or defending Party (unless the contesting or defending Party is entitled to indemnification therefor under SECTION 8).

(c) Pipeline System Real Property Interests. In connection with the closing of the Lease Purchase Option, not all of the Pipeline System Real Property Interests were or may be conveyed or were or may be otherwise conveyed with potential title defects (other than Permitted Encumbrances) that VPC has agreed with Coastal may be remedied after the closing of the Lease Purchase Option. To the extent not remedied as of the Closing Date hereunder, VPC agrees to use its Best Efforts to take such further actions as the Parties agree are reasonably necessary or advisable to remedy such defects; provided that for purposes of this SECTION 6(c), VPC's use of its "Best Efforts" shall be deemed to include expenditures up to $1,500,000 (and not $1,000,000 as set forth in the definition of "Best Efforts" herein). VPC further covenants to convey to the OLP any Pipeline System Real Property Interests conveyed to VPC by Coastal subsequent to the Closing Date hereunder promptly following their conveyance to VPC.

(d) Delivery and Retention of Records. On the Closing Date, VPC shall deliver or cause to be delivered to the MLP Parties, copies of Tax Records and all other files, books, records, information and data relating to the Assets (other than Tax Records) that are in the possession or control of VPC (the "Records"). The MLP Parties agree to (i) hold the Records and not to destroy or dispose of any thereof for a period of seven years from the Closing Date or such longer time as may be required by Law, provided that, if it desires to destroy or dispose of such Records during such period, it shall first offer in writing at least 60 days before such destruction or disposition to surrender them to VPC and if VPC does not accept such offer within 20 days after receipt of such offer, such MLP Party may take such action and (ii) afford VPC, its accountants, and counsel, during normal business hours, upon reasonable request, at any time, full access to the Records to the extent that such access may be requested for any legitimate purpose at no cost to VPC (other than for reasonable out-of-pocket expenses); provided that such access shall not be construed to require the disclosure of Records that would cause the waiver of any attorney-client, work product, or like privilege; provided, further that in the event of any litigation nothing herein shall limit any Party's rights of discovery under applicable Law.

(e) Required Permits. Each of the VPC Parties and the MLP Parties shall use its Best Efforts to take all action and to do all things necessary, proper, or advisable in order to

transfer the Required Permits to the OLP or otherwise to assist the OLP in obtaining such Required Permits in its own right.

29. Conditions to Obligation to Close.

(a) Conditions to Obligation of the MLP Parties. The obligation of each of the MLP Parties to consummate the transactions to be performed by such MLP Party in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties of VPC contained in SECTIONS 3(a) and 4 must be true and correct in all material respects (without, for purposes of determining whether or not this condition is satisfied as of the Closing, giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value, except with respect to (A) the representations and warranties in SECTION 4(b)(ii) and (B) the representations and warranties in SECTION 4(C)(iii), for which in each such case qualifications as to Knowledge shall be given effect) as of the date of this Agreement and at Closing (except for those which refer to a specific date, which must be true and correct as of such date);

(ii) VPC must have performed and complied in all material respects with its covenants hereunder through the Closing (without, for purposes of determining whether or not this condition is satisfied as of the Closing, giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value);

(iii) there must not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement or any suit or action pending by a Governmental Authority to enjoin the consummation of any of the transactions contemplated by this Agreement;

(iv) the MLP Parties must have obtained all material Governmental Authority and third party consents, including any material consents specified in SECTION 3(b)(II) and including the consents required by the corresponding Schedule and the 30-day waiting period under the HSR Act shall have expired or been terminated prior to the expiration thereof and all other approvals required under the HSR Act shall have been issued;

(v) VPC must have delivered to the MLP Parties a certificate to the effect that each of the conditions specified in SECTIONS 7(a)(i) - (iv) is satisfied in all respects;

(vi) the MLP and a group of underwriters must have executed and delivered an Underwriting Agreement (the "Underwriting Agreement") with respect to a public offering of common units representing limited partner interests in the MLP with an aggregate offering amount of up to $200 million (not including the underwriters' over-allotment

option) and the closing of the transactions contemplated therein must have occurred;

(vii) one or more of the MLP Parties and a group of note purchasers must have executed and delivered a Note Purchase Agreement with respect to the Private Placement with an aggregate principal amount of up to $250 million (the "Note Purchase Agreement") and the closing of the transactions contemplated thereby must have occurred;

(viii) one or more of the MLP Parties shall have entered into arrangements under the OLP's revolving credit facility to borrow such additional amount as is necessary for the MLP and OLP to fund the aggregate amount of the Cash Amount, the cash amount required under the Contribution Agreements entered into as the date hereof by the MLP Parties with Valero Refining Company-California and with Valero Refining-Texas, L.P. for the contribution of specified feedstock storage tanks as identified therein, the additional cash amount required for the Redemption as well as the aggregate transaction costs with respect to all transactions contemplated above (expected to be approximately $2 million), and the closing of the borrowing transaction must have occurred;

(ix) the MLP Parties must have duly and validly authorized the terms of the Underwriting Agreement, the Note Purchase Agreement and the borrowing by the OLP as contemplated in clauses (vi), (vii) and (viii) above;

(x) the proceeds of the equity and debt financing for the transactions contemplated hereby as outlined in clauses (vi), (vii) and (viii) above must have been received by the MLP Parties on terms substantially the same as authorized by the MLP Parties; and

(xi) the MLP's public offering of its common units and the Redemption, on an aggregate basis, must have caused the aggregate ownership interest of Valero Energy in the MLP to be 49.5% or less.

The MLP Parties may waive any condition specified in this SECTION 7(a) if Valero GP, on behalf of all of the MLP Parties, executes a writing so stating at or before the Closing.

(b) Conditions to Obligation of VPC. The obligation of VPC to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) The closing of the Lease Purchase Option shall have occurred;

(ii) the representations and warranties of the MLP Parties contained in SECTION 3(b) must be true and correct in all material respects (without, for purposes of determining whether or not this condition is satisfied as of the Closing, giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value) as of the date of this Agreement and at

Closing (except for those which refer to a specific date, which must be true and correct as of such date);

(iii) each of the MLP Parties must have performed and complied in all material respects with each of its covenants hereunder through the Closing (without, for purposes of determining whether or not this condition is satisfied as of the Closing, giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value);

(iv) there must not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement or any suit or action pending by a Governmental Authority to enjoin the consummation of any of the transactions contemplated by this Agreement;

(v) VPC must have obtained all material Governmental Authority and third party consents, including material consents specified in SECTIONS 3(a)(II) and 4(a) and including the consents required by the corresponding Schedules and the 30-day waiting period under the HSR Act shall have expired or been terminated prior to the expiration thereof and all other approvals required under the HSR Act shall have been issued; and

(vi) Valero GP, on behalf of the MLP Parties, must have delivered to VPC a certificate to the effect that each of the conditions specified in SECTIONS 7(b)(i) - (IV) is satisfied in all respects.

VPC may waive any condition specified in this SECTION 7(b) if it executes a writing so stating at or before the Closing.

30. Remedies for Breaches of this Agreement.

(a) Survival . (i) All of the representations and warranties of VPC contained in SECTIONS 3(a) and 4 (other than SECTIONS 3(a)(i), 3(a)(ii), 4(b)(i), 4(f)(ii) and 4(m)) shall survive the Closing hereunder for a period of three years after the Closing Date; (ii) the representations and warranties of VPC contained in SECTIONS 3(a)(i), 3(a)(ii), and 4(b)(i) shall survive the Closing forever, (iii) the representations and warranties of VPC contained in SECTION 4(m) shall survive the Closing with respect to any given claim that would constitute a breach of such representation or warranty until 90 days after the expiration of the statute of limitations applicable to the underlying Tax matter giving rise to that claim, and (iv) the representations and warranties of VPC contained in SECTION 4(f)(ii) shall survive the Closing for a period of one year after the Closing Date. The representations and warranties of the MLP Parties contained in SECTION 3(b) (other than in SECTIONS 3(b)(i) and 3(b)(ii)) shall survive the Closing for a period of three years after the Closing Date. The representations and warranties of the MLP Parties contained in SECTIONS 3(b)(i) and 3(b)(ii) shall survive the Closing forever. The covenants and obligations contained in SECTIONS 2 and 6 and all other covenants and obligations contained in this Agreement (including, but not limited to, those contained in SECTIONS 8(b)(iii), 8(b)(iv) and

8(b)(v)) shall survive the Closing forever, unless a shorter period is expressly identified in this Agreement with respect thereto.

(b) Indemnification Provisions for Benefit of the MLP Parties.

(i) VPC agrees to release and indemnify the MLP Party Indemnitees from and against any Adverse Consequences suffered by the MLP Party Indemnitees arising out of, in connection with or relating to any breach of the representations and warranties made by VPC in this Agreement to the extent that (x) such representations and warranties survive the Closing pursuant to SECTION 8(a) and (y) any MLP Party makes a written claim for indemnification against VPC pursuant to SECTION 11(g) within such period of survival. However, VPC shall not have any obligation to release and indemnify the MLP Party Indemnitees from and against any such Adverse Consequences (A) until the MLP Party Indemnitees, in the aggregate, have suffered Adverse Consequences by reason of all such breaches in excess of an aggregate amount equal to 1% of the Cash Amount (the "1% Threshold") (after which point VPC shall be obligated to release and indemnify the MLP Party Indemnitees from and against all Adverse Consequences by reason of all such breaches, including those Adverse Consequences included in the calculation of whether or not the 1% Threshold had been met), (B) to the extent the Adverse Consequences the MLP Party Indemnitees, in the aggregate, exceeds an aggregate ceiling amount equal to 50% of the Cash Amount (after which point VPC shall have no obligation to release and indemnify the MLP Party Indemnitees from and against further such Adverse Consequences); provided, however, that the threshold amount with respect to breaches of SECTION 4(b)(ii) shall be $250,000 and not the 1% Threshold. For purposes of calculating any Adverse Consequences in connection with this SECTION 8(b)(i), any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, or any qualification or limitation as to monetary amount or value set forth in SECTIONS 3(a) OR 4 shall be disregarded.

(ii) In the event: (x) VPC breaches any of its covenants or obligations in SECTIONS 2 or 6 or any other covenants or obligations in this Agreement (other than SECTIONS 3, 4 AND 8(b)(i)) (in each case above without giving effect to any supplement to the Schedules, any qualification as to materiality, Material Adverse Effect, Knowledge, awareness or concepts of similar import, or any qualification or limitation as to monetary amount or value); (y) there is an applicable survival period pursuant to SECTION 8(a); and (z) any MLP Party makes a written claim for indemnification against VPC pursuant to SECTION 11(g) within such survival period, then VPC agrees to release and indemnify the MLP Party Indemnitees from and against any Adverse Consequences suffered by the MLP Party Indemnitees.

(iii) VPC shall release, defend, indemnify and hold harmless the MLP Party Indemnitees against any Adverse Consequences resulting by reason of joint and several liability with VPC arising by reason of having been required to be aggregated with VPC under section 414(o) of the Code, or having been under "common control" with VPC, within the meaning of Section 4001(a)(14) of ERISA.

(iv) VPC shall release, defend and indemnify the MLP Party Indemnitees from and against any Adverse Consequences suffered by the MLP Party Indemnitees with respect to any environmental condition, claim or loss with respect to (a) any of the Assets arising as a result of events occurring or conditions existing on or prior to the Closing Date, including the matters disclosed in SCHEDULE 4(g) and (b) any real or personal property on which the Assets are or, prior to the Effective Date, have been located, arising prior to or as of the date of this Agreement (all of the foregoing being collectively referred to as "Pre-Closing Environmental Matters"). Notwithstanding the foregoing, with respect to Pre-Closing Environmental Matters that were not as of the Closing known to VPC or otherwise expressly identified in writing to any of the Parties ("Unknown Pre-Closing Environmental Matters"), VPC's indemnity under this SECTION 8 shall expire as of the tenth anniversary of the Closing Date, after which all such Unknown Pre-Closing Environmental Matters shall be assumed by the OLP. In addition, prior to the fifth anniversary of the Closing Date, VPC shall bear the burden of proving that any subsequently identified environmental conditions, claims or losses relate to operations at the Assets after the Closing Date, and from and after the fifth anniversary of the Closing Date, the OLP shall bear the burden of proving that any subsequently identified environmental conditions, claims or losses relate to operations at the Assets prior to the Closing Date.

(v) VPC shall release, defend, indemnify and hold harmless the MLP Party Indemnitees against any Adverse Consequences suffered by the MLP Party Indemnitees with respect to, any outstanding injunction, judgment, order, decree, ruling, or charge, or any pending or threatened action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction, or any other Adverse Consequences suffered by the MLP Party Indemnitees as a result of third-party claims relating to the Assets on or before the Closing Date.

(vi) Notwithstanding anything to the contrary contained in SECTIONS 8(b)(i) and (ii), VPC shall not have any obligation to indemnify any MLP Party Indemnitee to the extent that the payment thereof would cause VPC's aggregate indemnity payments under SECTION 8(b) (but excluding SECTIONS 8(b)(iii), 8(b)(iv) and 8(b)(v)) to exceed 100% of the Cash Amount.

(vii) To the extent any MLP Party Indemnitee becomes liable to, and is ordered to and does pay to any third party, punitive, exemplary, special or consequential damages caused by a breach by VPC of any representation, warranty or covenant contained in this Agreement, then such punitive, exemplary, special or consequential damages shall be deemed actual damages to such MLP Party Indemnitee and included within the definition of Adverse Consequences for purposes of this SECTION 8.

(viii) Except for the rights of indemnification provided in this SECTION 8 and SECTION 9, each of the MLP Parties hereby waives any claim or cause of action pursuant to common or statutory law or otherwise against VPC arising from any breach by VPC of any of its representations, warranties or covenants under this Agreement or the transactions contemplated hereby.

(c) Indemnification Provisions for Benefit of VPC.

(i) In the event: (x) any of the MLP Parties breaches any of its representations, warranties or covenants contained herein; (y) there is an applicable survival period pursuant to SECTION 8(a); and (z) VPC makes a written claim for indemnification against such MLP Party pursuant to SECTION 11(g) within such survival period, then each of the MLP Parties agrees to release and indemnify the VPC Indemnitees from and against the entirety of any Adverse Consequences suffered by such VPC Indemnitees.

(ii) To the extent any VPC Indemnitee becomes liable to, and is ordered to and does pay to any third party, punitive, exemplary, special or consequential damages caused by a breach by any of the MLP Parties of any representation, warranty or covenant contained in this Agreement, then such punitive, exemplary, special or consequential damages shall be deemed actual damages to such VPC Indemnitee and included within the definition of Adverse Consequences for purposes of this SECTION 8.

(iii) Except for the rights of indemnification provided in this SECTION 8, VPC hereby waives any claim or cause of action pursuant to common or statutory law or otherwise against the MLP Parties arising from any breach by any of the MLP Parties of any of its representations, warranties or covenants under this Agreement or the transactions contemplated hereby.

(d) Matters Involving Third Parties.

(i) If any third party shall notify any Party (the "Indemnified Party") with respect to any matter (a "Third Party Claim") that may give rise to a claim for indemnification against any other Party (the "Indemnifying Party") under this SECTION 8, then the Indemnified Party shall promptly (and in any event within fifteen business days after receiving notice of the Third Party Claim) notify the Indemnifying Party thereof in writing.

(ii) The Indemnifying Party shall have the right to assume and thereafter conduct the defense of the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party; provided, however, that the Indemnifying Party shall not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party (not to be withheld or delayed unreasonably) unless the judgment or proposed settlement involves only the payment of money damages and does not impose an injunction or other equitable relief upon the Indemnified Party.

(iii) Unless and until the Indemnifying Party assumes the defense of the Third Party Claim as provided in SECTION 8(d)(ii), the Indemnified Party may defend against the Third Party Claim in any manner it reasonably may deem appropriate.

(iv) The Indemnified Party may not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party which consent shall not be withheld

unreasonably; provided that no such consent will be required if the Indemnifying Party has denied in writing its obligations to indemnify the Indemnified Party hereunder or if the Indemnifying Party has not responded to the Indemnified Party's written request for consent within 10 business days of the Indemnifying Party's receipt thereof.

(e) Determination of Amount of Adverse Consequences. The Adverse Consequences giving rise to any indemnification obligation hereunder shall be limited to the actual loss suffered by the Indemnified Party (i.e. reduced by any insurance proceeds or other payment or recoupment received, realized or retained by the Indemnified Party as a result of the events giving rise to the claim for indemnification net of any expenses related to the receipt of such proceeds, payment or recoupment, including retrospective premium adjustments, if any), as such actual loss is reduced by any reduction in Taxes of the Indemnified Party (or the affiliated group of which it is a member) occasioned by such loss or damage. The amount of the actual loss and the amount of the indemnity payment shall be computed by taking into account the timing of the loss or payment, as applicable, using a Prime Rate plus 2% interest or discount rate, as appropriate. Upon the request of the Indemnifying Party, the Indemnified Party shall provide the Indemnifying Party with information sufficient to allow the Indemnifying Party to calculate the amount of the indemnity payment in accordance with this SECTION 8(e). An Indemnified Party shall take all reasonable steps to mitigate damages in respect of any claim for which it is seeking indemnification and shall use reasonable efforts to avoid any costs or expenses associated with such claim and, if such costs and expenses cannot be avoided, to minimize the amount thereof.

(f) Tax Treatment of Indemnity Payments. All indemnification payments made under this Agreement, including any payment made under SECTION 9, shall be treated as increases or decreases to the Cash Amount for Tax purposes.

31. Tax Matters.

(a) Tax Returns. VPC shall prepare or cause to be prepared and file or cause to be filed when due all Pre-Closing Tax Returns with respect to the Assets. VPC shall timely pay or cause to be timely paid any Taxes due with respect to such Pre-Closing Tax Returns. The MLP Parties shall prepare or cause to be prepared and file or cause to be filed when due any Post-Closing Tax Returns with respect to the Assets. The MLP Parties shall timely pay (or cause to be timely paid) any Taxes due with respect to such Post-Closing Tax Returns.

(b) Straddle Periods. The MLP Parties shall be responsible for Taxes with respect to the Assets related to the portion of any Straddle Period occurring after the Closing Date. VPC shall be responsible for such Taxes relating to the portion of any Straddle Period occurring before and on the Closing Date. If applicable Law shall not permit the Closing Date to be the last day of a period, then (i) real or personal property Taxes with respect to the Assets shall be allocated based on the number of days in the partial period before and after the Closing Date and (ii) all other Taxes shall be allocated on the basis of the actual activities or attributes of the Assets for each partial period as determined from the books and records of VPC and its Affiliates.

(c) Straddle Returns. The MLP Parties shall prepare any Straddle Returns and deliver same to VPC for review and comment at least 45 days prior to the due date (including any extension) for filing each such Straddle Return, together with a statement setting forth the allocation of taxable income and Taxes under SECTION 9(b) and the amount of Tax that VPC owes. VPC and the MLP Parties agree to consult with each other to attempt to resolve in good faith any issue arising as a result of VPC's review of such Straddle Return and mutually to consent to the filing thereof as promptly as possible. Not later than five days before the due date for the payment of Taxes with respect to any such Straddle Return, VPC shall pay or cause to be paid to the MLP Parties either (i) if the MLP Parties and VPC are in agreement as to the amount of Taxes owed by VPC, that amount, or (ii) if the MLP Parties and VPC cannot agree on the amount of Taxes owed by VPC, the maximum amount of Taxes reasonably determined by VPC to be owed by it, in which case (A) VPC and the MLP Parties shall refer the dispute to an independent "Big-Four" accounting firm agreed to by the MLP Parties and VPC to arbitrate the dispute within ten days following the payment of the undisputed amount, (B) the determination of such accounting firm as to the amount of Taxes owing by VPC with respect to a Straddle Return shall be binding on both VPC and the MLP Parties, (C) VPC and the MLP Parties shall equally share the fees and expenses of the accounting firm, and (D) within five days after the determination by such accounting firm, if necessary, the appropriate Party shall pay the other Party any amount which is determined by such accounting firm to be owed. VPC shall be entitled to reduce its obligation to pay Taxes with respect to a Straddle Return by the amount of any estimated Taxes paid with respect to such Taxes on or before the Closing Date.

(d) Tax Indemnification. VPC agrees to indemnify the MLP Party Indemnitees from and against any Adverse Consequences with respect to (i) Taxes with respect to the Assets for any Pre-Closing Tax Period and the portion of any Straddle Period occurring on or before the Closing Date and (ii) Transfer Taxes. The MLP Parties agree to indemnify VPC from and against any Adverse Consequences with respect to Taxes with respect to the Assets for any Post-Closing Tax Period and the portion of any Straddle Period occurring after the Closing Date. Notwithstanding anything to the contrary in this Agreement, the covenants and obligations of the Parties sets forth in this SECTION 9 shall be unconditional and absolute and shall remain in effect until thirty days after the expiration of all statutes of limitation applicable to such covenants and obligations. The limitation on the indemnity obligations of VPC pursuant to SECTION 8(b) shall not apply to the indemnity obligations of VPC for Adverse Consequences related to Taxes under this SECTION 9(d).

(e) Transfer Taxes. VPC shall file all necessary Tax Returns and other documentation with respect to all transfer, documentary, sales, use, stamp, registration and other similar Taxes and fees arising out of or in connection with the transactions effected pursuant to this Agreement (the "Transfer Taxes") and shall be liable for and shall timely pay such Transfer Taxes. If required by applicable Law, the MLP Parties shall, and shall cause their Affiliates to, join in the execution of any such Tax Returns and other documentation.

(f) Tax Refunds. If any of the MLP Parties or any Affiliate of the MLP Parties receives a refund of any Taxes that VPC is responsible for hereunder, or if VPC or any Affiliate of VPC receives a refund of any Taxes that any of the MLP Parties is responsible for hereunder, the party receiving such refund shall, within 30 days after receipt of such refund, remit it to the party who has responsibility for such Taxes hereunder. For the purpose of this SECTION 9(f), the

term "refund" shall include a reduction in Tax and the use of an overpayment as a credit or other tax offset, and receipt of a refund in respect thereof shall be deemed to occur upon the filing of a return or an adjustment thereto claiming the benefit of such reduction, overpayment or offset.

(g) Closing Tax Certificate. On the Closing Date, VPC shall deliver to the MLP Parties a certificate (in the form attached hereto as Exhibit F) signed under penalties of perjury (i) stating it is not a foreign corporation, foreign partnership, foreign trust or foreign estate, (ii) providing its U.S. Employer Identification Number, and (iii) providing its address, all pursuant to Section 1445 of the Code.

32. Termination.

(a) Termination of Agreement. The Parties may terminate this Agreement, as provided below:

(i) the MLP Parties and VPC may terminate this Agreement by mutual written consent at any time before the Closing;

(ii) the MLP Parties may terminate this Agreement by giving written notice to VPC at any time before Closing (A) in the event VPC has breached any representation, warranty or covenant contained in this Agreement in any material respect, the MLP Parties have notified VPC of the breach, the breach has continued without cure for a period of 10 days after the notice of breach and such breach would result in a failure to satisfy a condition to the MLP Parties' obligation to consummate the transactions contemplated hereby; or (B) if the Closing shall not have occurred on or before 9:00 a.m. (San Antonio time) on April 30, 2003 (unless the failure results primarily from the MLP Parties itself breaching any representation, warranty or covenant contained in this Agreement);

(iii) VPC may terminate this Agreement by giving written notice to the MLP Parties at any time before the Closing (A) in the event any of the MLP Parties has breached any representation, warranty or covenant contained in this Agreement in any material respect, VPC has notified such MLP Party of the breach, the breach has continued without cure for a period of 10 days after the notice of breach and such breach would result in a failure to satisfy a condition to VPC's obligation to consummate the transactions contemplated hereby; or (B) if the Closing shall not have occurred on or before 9:00 a.m. (San Antonio time) April 30, 2003 (unless the failure results primarily from VPC breaching any representation, warranty or covenant contained in this Agreement);

(iv) the MLP Parties or VPC may terminate this Agreement if any court of competent jurisdiction or any governmental, administrative or regulatory authority, agency or body shall have issued an order, decree or ruling or shall have taken any other action permanently enjoining, restraining or otherwise prohibiting the transactions contemplated hereby and such order, decree, ruling or other action shall have become final and nonappealable; and

(v) the MLP Parties or VPC may terminate this Agreement if the Underwriting Agreement is terminated for any reason.

(b) Effect of Termination. Except as provided in SECTION 8 and except for the obligations under SECTION 10 and SECTION 11, if any Party terminates this Agreement pursuant to SECTION 10(a), all rights and obligations of the Parties hereunder shall terminate without any liability of any Party to any other Party (except for any liability of any Party then in breach).

33. Miscellaneous.

(a) Public Announcements. Any Party is permitted to issue a press release or make a public announcement concerning this Agreement without the other Parties' consents, in which case the disclosing Party shall provide an advance copy of the proposed public disclosure to the non-disclosing Parties and permit the non-disclosing Parties the opportunity to reasonably comment on such proposed disclosure. The Parties agree to cooperate in good faith to issue separate and simultaneous press releases promptly following the execution of this Agreement by all Parties.

(b) Insurance; Casualty; Condemnation. (i) The MLP Parties acknowledge and agree that, following the Closing, any Subject Insurance Policies shall be terminated or modified to exclude coverage of all or any portion of the Assets by VPC or any of its Affiliates, and, as a result, the MLP Parties shall be obligated at or before Closing to obtain at their sole cost and expense replacement insurance, including insurance required by any third party to be maintained for or by the Assets. Notwithstanding the foregoing, VPC acknowledges that initially such insurance described in the preceding sentence may be maintained under an umbrella policy of Valero Energy Corporation with OLP as a named insured (and for which OLP shall reimburse Valero Energy Corporation for its proportionate cost), but the OLP agrees that it will endeavor in good faith to obtain insurance in its own name if commercially and economically practicable. Each of the MLP Parties further acknowledges and agrees that the MLP Parties may need to provide to certain Governmental Authorities and third parties evidence of such replacement or substitute insurance coverage for the continued operations of the Assets. If any claims are made or losses occur prior to the Closing Date that relate solely to the Assets and such claims, or the claims associated with such losses, properly may be made against the policies retained by VPC or its Affiliates after the Closing, then VPC shall use its Best Efforts so that the MLP Parties can file, notice, and otherwise continue to pursue these claims pursuant to the terms of such policies; provided, however, nothing in this Agreement shall require VPC to maintain or to refrain from asserting claims against or exhausting any retained policies.

(ii) (A) VPC shall give the MLP Parties prompt notice of (i) any fire or other casualty affecting the Assets (a "Casualty") between the Effective Date and the Closing Date and (ii) any actual, pending or proposed Taking of all or any portion of the Assets.

(B) In the event the Assets (or any material portion thereof) suffers a Casualty subsequent to the Effective Date, but prior to the Closing Date, VPC shall elect either (i) to repair or make adequate provision for the repair of such Assets prior to Closing or (ii) to provide the MLP Parties with a credit against the Cash Amount in an amount agreed upon by VPC and the MLP Parties to represent the reduction in the value of the Assets by reason of the Casualty, taking into account any repairs actually made by VPC to such Assets prior to the Closing Date. If the reduction in the value of the Assets by reason of the

Casualty exceeds 25% of the Cash Amount, the MLP Parties shall have the option to terminate this Agreement without any further obligation of any of the Parties or their Affiliates pursuant hereto.

(C) If after the Effective Date and prior to the Closing Date, all or any portion of the Assets is taken by condemnation or eminent domain or by agreement in lieu thereof with any person or entity authorized to exercise such rights (a "Taking"), and the mutually-agreed value of the Assets subject to such Taking, when aggregated with all other Takings occurring during such time period, equal:

i. less than 25% of the Cash Amount, the Closing shall take place as provided herein without abatement of the Cash Amount, and there shall be assigned to the MLP Parties at the Closing all interest of VPC in any award which may be payable to VPC on account of such Taking; or

ii. 25% or more of the Cash Amount, the MLP Parties shall have the option to terminate this Agreement without any further obligation of any of the parties or their affiliates pursuant hereto; provided that if the MLP Parties elects to proceed with the Closing, the Closing shall take place as provided herein without abatement of the Cash Amount, and there shall be assigned to the MLP Parties at the Closing all interest of VPC in any award which may be payable to VPC on account of such Taking.

(D) In the event condemnation proceedings for a Taking of all or any portion of the Assets are commenced prior to the Closing Date, the MLP Parties and VPC shall have joint control of such proceedings and shall cooperate in their efforts in response to such proceedings.

(c) No Third Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties, the VPC Parties, the MLP Parties and their respective successors and permitted assigns.

(d) Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. Prior to the Closing the MLP Parties may not assign this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of VPC; provided, however, without the prior written approval of VPC, the MLP Parties and its permitted successors and assigns may assign any or all of its rights, interests or obligations under this Agreement to an Affiliate of any of the MLP Parties, including designating one or more Affiliates of any of the MLP Parties to be the assignee of some or any portion of the Assets. Notwithstanding the foregoing, VPC may assign its right under SECTION 2(a)(iv) to receive the OLP Limited Partner Interest to a person described in Treasury Regulation Section 1.1031(k)-1(g)(4) (a "Qualified Intermediary"). The Qualified Intermediary will be obligated to, and will, assign such right to receive the OLP Limited Partner Interest to UDS Logistics. Such assignment shall be deemed to fulfill VPC's obligations under SECTION 2(a)(v) hereof. If VPC elects to assign its right to receive the OLP Limited Partner Interest as provided in the preceding sentence, then the Qualified Intermediary shall assign its right to receive the OLP Limited Partner Interest to UDS Logistics and UDS Logistics, in lieu of issuing the UDS Membership Interest to VPC, shall assign its right to received the Cash Amount as set forth in SECTION 2(a)(vi) hereof to the Qualified Intermediary,

in exchange for the assignment by the Qualified Intermediary of the right to receive the OLP Limited Partner Interest.

(e) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

(f) Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

(g) Notices. All notices, requests, demands, claims, and other communications hereunder shall be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given two business days after it is sent by registered or certified mail, return receipt requested, postage prepaid, and addressed to the intended recipient as set forth below:

If to VPC:	One Valero Place San Antonio, Texas 78212 Attn: Mike Ciskowski Telecopy:210-370-2270
If to the MLP Parties:	Valero Logistics Operations, L.P. 6000 North Loop 1604 West San Antonio, TX 78249 Attn: Curt Anastasio Telecopy: 210-370-2304

Any Party may send any notice, request, demand, claim, or other communication hereunder to the intended recipient at the addresses set forth above using any other means (including personal delivery, expedited courier, messenger service, telecopy, ordinary mail, or electronic mail), but no such notice, request, demand, claim, or other communication shall be deemed to have been duly given unless and until it actually is received by the intended recipient. Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

(h) Governing Law and Venue. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE DOMESTIC LAWS OF THE STATE OF TEXAS WITHOUT GIVING EFFECT TO ANY CHOICE OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF TEXAS OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF TEXAS. VENUE FOR ANY ACTION ARISING UNDER THIS AGREEMENT SHALL LIE EXCLUSIVELY IN ANY STATE OR FEDERAL COURT IN BEXAR COUNTY, TEXAS.

(i) Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the MLP Parties and VPC. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

(j) Severability. Any term or provision of this Agreement that is held to be invalid or unenforceable in any situation in any court of competent jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

(k) Transaction Expenses. Each of the MLP Parties and VPC shall bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby; provided that all costs of obtaining the Title Policy shall be paid by VPC and all recording costs incurred in connection with the recordation of the Deeds and the Pipeline System Real Property Interests Assignments shall be shared by VPC and OLP on a 50/50 basis.

(l) Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or Law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean including without limitation. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; the singular shall include the plural, and vice versa. All references herein to Exhibits, Schedules, Articles, Sections or subdivisions thereof shall refer to the corresponding Exhibits, Schedules, Article, Section or subdivision thereof of this Agreement unless specific reference is made to such exhibits, articles, sections or subdivisions of another document or instrument. The terms "herein," "hereby," "hereunder," "hereof," "hereinafter," and other equivalent words refer to this Agreement in its entirety and not solely to the particular portion of the Agreement in which such word is used. Each certificate delivered pursuant to this Agreement shall be deemed a part hereof, and any representation, warranty or covenant herein referenced or affirmed in such certificate shall be treated as a representation, warranty or covenant given in the correlated Section hereof on the date of such certificate. Additionally, any representation, warranty or covenant made in any such certificate shall be deemed to be made herein.

(m) Incorporation of Exhibits and Schedules. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

(n) Entire Agreement. THIS AGREEMENT (INCLUDING THE TRANSACTION AGREEMENTS AND OTHER DOCUMENTS REFERRED TO HEREIN) CONSTITUTES THE ENTIRE AGREEMENT AMONG THE PARTIES AND SUPERSEDES

ANY PRIOR UNDERSTANDINGS, AGREEMENTS, OR REPRESENTATIONS BY OR AMONG THE PARTIES, WRITTEN OR ORAL, TO THE EXTENT THEY HAVE RELATED IN ANY WAY TO THE SUBJECT MATTER HEREOF. The rights and obligations created by this Agreement are separate and independent from any rights and obligations created by any Assignment. Accordingly, none of the representations, warranties, covenants or indemnities included in any Assignment shall be merged into this Agreement or otherwise restrict or limit the effect of this Agreement, but each shall survive as provided in each such agreement. To the extent that there is a conflict between the express terms of this Agreement and any Assignment, this Agreement shall control.

(o) Further Assurances. The Parties agree to execute such additional instruments, agreements and documents, and to take such other actions, as may be reasonably necessary to effect the purposes of this Agreement.

*****

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth in the preamble.

VALERO PIPELINE COMPANY

Name: /s/ Michael S. Ciskowski
Title: Senior Vice President

UDS LOGISTICS, LLC

Name: /s/ Raymond F. Gaddy
Title: President

VALERO L.P.

By: Riverwalk Logistics, L.P.
its General Partner

By: Valero GP, LLC
its General Partner

Name: /s/ Curtis V. Anastasio
Title: Chief Executive Officer and President

VALERO GP, INC.

Name: /s/ Curtis V. Anastasio
Title: Chief Executive Officer and President

VALERO LOGISTICS OPERATIONS, L.P.
By: Valero GP, Inc.
its General Partner

Name: /s/ Curtis V. Anastasio
Title: Chief Executive Officer and President

EXHIBIT A

The Assets include the Pipeline Systems Interests, the Terminal Real Property Interests, and the Personal Property Assets (as each term is defined below or in the Agreement).

"PIPELINE SYSTEMS" MEAN THE FOLLOWING:

(a) the refined petroleum products pipeline (the "Houston System") extending from "Origin Station," which is adjacent to the Corpus East Refinery operated by an affiliate of VPC, to VPC's Almeda terminal, Pasadena (Kinder Morgan) interface tanks and Hobby terminal, all in Harris County, Texas, as more fully described in PART 1-EXHIBIT A-1 of the Property Schedule hereto;

(b) the refined petroleum products pipeline (the "San Antonio System") extending from VPC's Tribble Lane Station adjacent to the Corpus East Refinery operated by an affiliate of VPC to VPC's San Antonio terminal (acquired from Coastal) in Bexar County, Texas, as more fully described in PART 1-EXHIBIT A-2 of the Property Schedule hereto; and

(c) the refined petroleum products pipeline (the "R.P. Valley System") extending from VPC's Tribble Lane Station to VPC's Edinburg terminal in Hidalgo County, Texas, as more fully described in PART 1-EXHIBIT A-3 of the Property Schedule hereto;

in each case together with all of VPC's piping, valves, taps and side valves, regulators, meters, pumps, station piping and other equipment used exclusively for the transportation of refined petroleum products through each pipeline system described above.

"TERMINALS" mean the refined petroleum product terminal facilities located on the Terminal Real Property and used exclusively for the operation, control or maintenance of such refined petroleum product terminal facilities, including those facilities at the Almeda Terminal specifically described in Part IV of the Property Schedule. In instances where such facilities are located on a leased Terminal Real Property, such facilities are subject to the rights of the lessor under the lease of such Terminal Real Property.

"TERMINAL REAL PROPERTY" means (i) the fee parcels described in Part II of the Property Schedule, together with the improvements to real property located thereon, (ii) the leasehold interests described in Part III of the Property Schedule, together with fee or leasehold interests in the improvements to real property located on such leasehold interests, and (iii) any other part of the Terminals that constitutes real property in which VPC or any Controlled Affiliate has an interest.

"PERSONAL PROPERTY ASSETS" means all of VPC's (and any of its Controlled Affiliates) interest in the Pipeline Systems (to the extent that they constitute tangible personal property), the Terminals (to the extent that they constitute tangible personal property), the Material Contracts and the Intellectual Property and the Equipment.

EXHIBIT 12.1

VALERO L.P.
STATEMENT OF COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(IN THOUSANDS, EXCEPT RATIO)

	YEARS ENDED DECEMBER 31,				
	2002	2001	2000	1999	1998
Earnings:					
Income from continuing operations before provision for income taxes and income from equity investees	$ 52,350	$ 42,694	$ 35,968	$ 65,445	$ 54,910
Add:					
Fixed charges	5,492	4,203	5,266	997	1,001
Amortization of capitalized interest	48	39	34	32	28
Distributions from Skelly-Belvieu Pipeline Company	3,590	2,874	4,658	4,238	3,692
Less:					
Interest capitalized	(255)	(298)	-	(115)	(121)
Total earnings	$ 61,225	$ 49,512	$ 45,926	$ 70,597	$ 59,510
Fixed charges:					
Interest expense (1)	$ 4,968	$			

3,721 $ 5,181 $ 777 $ 796 Amortization of debt issuance costs 160 90 - - - Interest capitalized 255 298 - 115 121 Rental expense interest factor (2) 109 94 85 105 84 ----- --- -------- -------- --- ----- ----- --- Total fixed charges $ 5,492 $ 4,203 $ 5,266 $ 997 $ 1,001 ======= ======= ======= ====== ======= Ratio of earnings to fixed charges 11.2 x 11.8x 8.7x 70.8x 59.5x ======== ======== ======== ======== ========

(1) The interest expense, net reported in the Partnership's consolidated statements of income for the years ended December 31, 2002 and 2001 includes interest income of $248,000 and $69,000, respectively.
(2) The interest portion of rental expense represents one-third of rents, which is deemed representative of the interest portion of rental expense.

Exhibit 21.1

Valero GP, Inc.

Valero Logistics Operations, L.P.

EXHIBIT 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-89978) pertaining to the Valero L.P. Common Units offering of our report dated March 6, 2003, with respect to the consolidated financial statements of Valero L.P. included in the Annual Report (Form 10-K) for the year ended December 31, 2002.

/s/ Ernst & Young LLP

San Antonio, Texas
March 6, 2003

EXHIBIT 23.2

Consent of Independent Auditors

We consent to the reference to our firm under the caption "Experts" and to the use of our reports dated March 6, 2003, in the Registration Statement (Form S-3 No. 333-89978) and related Prospectus of Valero L.P. dated March 7, 2003.

/s/ Ernst & Young LLP

San Antonio, Texas
March 6, 2003

EXHIBIT 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Valero L.P. (the "Company") on Form 10-K for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Curtis V. Anastasio, Chief Executive Officer of Valero GP, LLC, the general partner of Riverwalk Logistics, L.P., the Company's general partner, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Curtis V. Anastasio
- --
Curtis V. Anastasio
Chief Executive Officer
March 7, 2003

EXHIBIT 99.3

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Valero L.P. (the "Company") on Form 10-K for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven A. Blank, Chief Financial Officer of Valero GP, LLC, the general partner of Riverwalk Logistics, L.P., the Company's general partner, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Steven A. Blank
- ----------
Steven A. Blank
Senior Vice President and Chief Financial Officer
March 7, 2003

EXHIBIT 99.4

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Valero GP, LLC

We have audited the accompanying consolidated balance sheet of Riverwalk Logistics, L.P. and subsidiaries (a Delaware limited partnership) as of December 31, 2002. This consolidated balance sheet is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this consolidated balance sheet based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated balance sheet. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the consolidated financial position of Riverwalk Logistics and subsidiaries as of December 31, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

San Antonio, Texas
March 6, 2003

RIVERWALK LOGISTICS, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2002
(IN THOUSANDS)

ASSETS Current assets: Cash and cash equivalents..... $ 33,534 Receivable from parent..... 8,482 Accounts receivable..... 1,502 Other current assets..... 177 -------- Total current assets..... 43,695 - ------- Property, plant and equipment..... 486,939 Less accumulated depreciation and amortization..... (137,663) -------- Property, plant and equipment, net..... 349,276 Goodwill, net of accumulated amortization of $1,279..... 4,715 Investment in Skelly-Belvieu Pipeline Company..... 16,090 Other noncurrent assets, net of accumulated amortization of $250..... 1,733 -------- Total assets..... $ 415,509 ======== LIABILITIES AND PARTNERS' EQUITY Current liabilities: Current portion of long-term debt..... $ 747 Accounts payable and accrued liabilities..... 8,133 Taxes other than income taxes..... 3,797 -------- Total current liabilities..... 12,677 Long-term debt, less current portion..... 108,911 Other long-term liabilities..... 25 Deferred income tax liabilities..... - Commitments and contingencies (see note 9) Minority interest in Valero L.P. held by the public..... 115,933 Minority interest in Valero L.P. held by affiliates of Valero Energy..... 171,764 Partners' equity: Limited partner equity held by UDS Logistics, LLC..... 6,193 General partner equity held by Valero GP, LLC..... 6 -------- Total partners' equity..... 6,199 --- ----- Total liabilities and partners' equity..... $ 415,509 ========

See accompanying notes to consolidated balance sheet.

RIVERWALK LOGISTICS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2002

NOTE 1: ORGANIZATION, BUSINESS, OPERATIONS AND BASIS OF PRESENTATION

ORGANIZATION AND BUSINESS

Riverwalk Logistics, L.P. (Riverwalk Logistics) is a Delaware limited partnership formed on June 5, 2000 to become the general partner of Valero L.P. (formerly Shamrock Logistics, L.P.) and Valero Logistics Operations, L.P. (formerly Shamrock Logistics Operations, L.P.). The general partner of Riverwalk Logistics is Valero GP, LLC and the limited partner is UDS Logistics, LLC (UDS Logistics). Both Valero GP, LLC and UDS Logistics are indirect wholly owned subsidiaries of Valero Energy Corporation (Valero Energy).

Valero L.P., a Delaware limited partnership and majority-owned subsidiary of Valero Energy, was formed to ultimately acquire Valero Logistics Operation, L.P. (Valero Logistics). The minority ownership in Valero L.P. of 26.4% is held by public unitholders, which own 5,175,000 common units.

Valero Logistics, a Delaware limited partnership and a subsidiary of Valero L.P., was formed to operate the crude oil and refined product pipeline, terminalling and storage assets of the Ultramar Diamond Shamrock Logistics Business.

As used in this financial statement, the term "Partnership" may refer, depending on the context, to Riverwalk Logistics, Valero L.P. or Valero Logistics or a combination of them.

The Partnership owns and operates most of the crude oil and refined product pipeline, terminalling and storage assets that service three of Valero Energy's refineries. These refineries consist of the McKee and Three Rivers refineries located in Texas, and the Ardmore refinery located in Oklahoma. The pipeline, terminalling and storage assets provide for the transportation of crude oil and other feedstocks to the refineries and the transportation of refined products from the refineries to terminals or third-party pipelines for further distribution. The Partnership's revenues are earned primarily from providing these services to Valero Energy (see Note 9: Related Party Transactions).

Valero Energy is an independent refining and marketing company. Its operations consist of 12 refineries with a total throughput capacity of 1,900,000 barrels per day and an extensive network of company-operated and dealer-operated convenience stores. Valero Energy's refining operations rely on various logistics assets (pipelines, terminals, marine dock facilities, bulk storage facilities, refinery delivery racks and rail car loading equipment) that support its refining and retail operations, including the logistics assets owned and operated by the Partnership. Valero Energy markets the refined products produced at the McKee, Three Rivers and Ardmore refineries primarily in Texas, Oklahoma, Colorado, New Mexico, Arizona and several mid-continent states through a network of company-operated and dealer-operated convenience stores, as well as through other wholesale and spot market sales and exchange agreements.

THE PARTNERSHIP'S OPERATIONS

The Partnership's operations include interstate and intrastate pipelines, which are subject to extensive federal and state environmental and safety regulations. In addition, the tariff rates and practices under which the Partnership offers interstate and intrastate transportation services in its pipelines are subject to regulation by the Federal Energy Regulatory Commission (FERC), the Texas Railroad Commission or the Colorado Public Utility Commission, depending on the location of the pipeline. Tariff rates and practices for each pipeline are required to be filed with the respective commission upon completion of a pipeline and when a tariff rate is being revised. In addition, the regulations include annual reporting requirements for each pipeline.

The Partnership has an ownership interest in 9 crude oil pipelines with an aggregate length of approximately 783 miles and 19 refined product pipelines with an aggregate length of approximately 2,846 miles. In addition, the Partnership owns a 25-mile crude hydrogen pipeline. The Partnership operates all but three of the pipelines.

The Partnership also owns 5 crude oil storage facilities with a total storage capacity of 3,326,000 barrels and 12 refined product terminals (including the asphalt terminal acquired on January 7, 2003) with a total storage capacity of 3,192,000 barrels.

BASIS OF PRESENTATION

Prior to July 1, 2000, the Partnership's pipeline, terminalling and storage assets were owned and operated by Ultramar Diamond Shamrock Corporation (UDS), and such assets serviced the three refineries discussed above, which were also owned by UDS at that time. These assets and their related operations are referred to herein as the Ultramar Diamond Shamrock Logistics Business (predecessor). Effective July 1, 2000, UDS transferred the Ultramar Diamond Shamrock Logistics Business, along with certain liabilities, to Shamrock Logistics Operations, L.P. (Shamrock Logistics Operations), a wholly owned subsidiary of Shamrock Logistics, L.P. (Shamrock Logistics). Shamrock Logistics was wholly owned by UDS. On April 16, 2001, Shamrock Logistics closed on an initial public offering of its common units, which represented 26.4% of its outstanding partnership interests.

On May 7, 2001, Valero Energy announced that it had entered into an Agreement and Plan of Merger with UDS whereby UDS agreed to be acquired by Valero Energy for total consideration of approximately $4.3 billion and the assumption of approximately $2.0 billion of debt. The acquisition of UDS by Valero Energy became effective on December 31, 2001. This acquisition included the acquisition of UDS's majority ownership interest in Shamrock Logistics. Effective January 1, 2002, Shamrock Logistics changed its name to Valero L.P., and Shamrock Logistics Operations changed its name to Valero Logistics.

On February 1, 2002, the Partnership acquired the Wichita Falls Crude Oil Pipeline and Storage Business (the Wichita Falls Business) from Valero Energy for $64,000,000. The consolidated balance sheet as of December 31, 2001 was restated to reflect the acquisition of the Wichita Falls Business because the Partnership and the Wichita Falls Business came under the common control of Valero Energy commencing on that date, and thus, represented a reorganization of entities under common control.

On May 30, 2002, Valero L.P. formed a Delaware corporation, Valero GP, Inc. (GP, Inc.). Valero L.P. contributed a 0.01% limited partner interest in Valero Logistics to GP, Inc. as a capital contribution. Valero Logistics' partnership agreement was then amended to convert GP, Inc.'s limited partner interest in Valero Logistics into a general partner interest and to convert the existing 1.0101% general partner interest in Valero Logistics (held by Riverwalk Logistics) into a limited partner interest. Riverwalk Logistics then contributed its 1.0101% limited partner interest in Valero Logistics to Valero L.P. in exchange for an additional 1.0% general partner interest in Valero L.P. The resulting structure is as follows: Riverwalk Logistics serves as the general partner of Valero L.P. with a 2% general partner interest. GP. Inc. serves as the general partner of Valero Logistics with a 0.01% general partner interest and Valero L.P. is the limited partner of Valero Logistics with a 99.99% limited partner interest. There was no financial statement impact related to this restructuring as all amounts were recorded at historical cost.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION: All interpartnership transactions have been eliminated in the consolidation of Riverwalk Logistics and its subsidiaries. In addition, the operations of certain of the crude oil and refined product pipelines and refined product terminals that are jointly owned with other companies are proportionately consolidated in the accompanying consolidated balance sheet.

USE OF 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 balance sheet and accompanying notes. Actual results could differ from those estimates. On an ongoing basis, management reviews its estimates, including those related to commitments, contingencies and environmental liabilities, based on currently available information. Changes in facts and circumstances may result in revised estimates.

CASH AND CASH EQUIVALENTS: All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

PROPERTY, PLANT AND EQUIPMENT: Property, plant and equipment is stated at cost. Additions to property, plant and equipment, including maintenance and expansion capital expenditures and capitalized interest, are recorded at cost. Maintenance capital expenditures represent capital expenditures to replace partially or fully depreciated assets to maintain the existing operating capacity of existing assets and extend their useful lives. Expansion capital expenditures represent capital expenditures to expand the operating capacity of existing assets, whether through construction or acquisition. Repair and maintenance expenses associated with existing assets that are minor in nature and do not extend the useful life of existing assets are charged to operating expenses as incurred. Depreciation is provided principally using the straight-line method over the estimated useful lives of the related assets. When property, plant and equipment is retired or otherwise disposed of, the difference between the carrying value and the net proceeds is recognized as gain or loss in the statement of income in the year retired.

IMPAIRMENT OF LONG-LIVED ASSETS: Long-lived assets, including property, plant and equipment and the investment in Skelly-Belvieu Pipeline Company, LLC, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation of recoverability is performed using undiscounted estimated net cash flows generated by the related asset. If an asset is deemed to be impaired, the amount of impairment is determined as the amount by which the net carrying value exceeds discounted estimated net cash flows.

GOODWILL: Goodwill represents the excess of cost over the fair value of net assets acquired in 1997. The Partnership adopted Financial Accounting Standards Board (FASB) Statement No. 142, "Goodwill and Other Intangible Assets" effective January 1, 2002 resulting in the cessation of goodwill amortization beginning January 1, 2002. For the years ended December 31, 2001 and 2000, goodwill amortization expense totaled $299,000 and $301,000, respectively, or approximately $0.02 per unit per year, assuming 19,198,644 common and subordinated units outstanding. In addition to the cessation of amortization, Statement No. 142 requires that goodwill be tested initially upon adoption and annually thereafter to determine whether an impairment has occurred. An impairment occurs when the carrying amount exceeds the fair value of the recognized goodwill asset. If impairment has occurred, the difference between the carrying value and the fair value is recognized as a loss in the statement of income in that period. Based on the results of the impairment tests performed upon initial adoption of Statement No. 142 as of January 1, 2002, and the annual impairment test performed as of October 1, 2002, no impairment had occurred.

INVESTMENT IN SKELLY-BELVIEU PIPELINE COMPANY, LLC: Formed in 1993, the Skelly-Belvieu Pipeline Company, LLC (Skelly-Belvieu Pipeline Company) owns a natural gas liquids pipeline that begins in Skellytown, Texas and extends to Mont Belvieu, Texas near Houston. Skelly-Belvieu Pipeline Company is owned 50% by Valero Logistics and 50% by ConocoPhillips (previously Phillips Petroleum Company). The Partnership accounts for this investment under the equity method of accounting (see Note 4: Investment in Skelly-Belvieu Pipeline Company).

DEFERRED FINANCING COSTS: Deferred financing costs are amortized using the effective interest method.

ENVIRONMENTAL REMEDIATION COSTS: Environmental remediation costs are expensed and the associated accrual established when site restoration and environmental remediation and cleanup obligations are either known or considered probable and can be reasonably estimated. Accrued liabilities are not discounted to present value and are not reduced by possible recoveries from third parties; however, they are net of any recoveries expected from Valero Energy related to the environmental indemnifications. Environmental costs include initial site surveys, costs for remediation and restoration and ongoing monitoring costs, as well as fines, damages and other costs, when estimable. Adjustments to initial estimates are recorded, from time to time, to reflect changing circumstances and estimates based upon additional information developed in subsequent periods.

FEDERAL AND STATE INCOME TAXES: Riverwalk Logistics, Valero L.P. and Valero Logistics are limited partnerships and are not subject to federal or state income taxes. Accordingly, the taxable income or loss, which may vary

substantially from income or loss reported for financial reporting purposes, is generally includable in the federal and state income tax returns of the individual partners. For transfers of publicly held units subsequent to the initial public offering, Valero L.P. has made an election permitted by section 754 of the Internal Revenue Code to adjust the common unit purchaser's tax basis in Valero L.P.'s underlying assets to reflect the purchase price of the units. This results in an allocation of taxable income and expense to the purchaser of the common units, including depreciation deductions and gains and losses on sales of assets, based upon the new unitholder's purchase price for the common units.

The Wichita Falls Business was included in UDS' (now Valero Energy's) consolidated federal and state income tax returns. Deferred income taxes were computed based on recognition of future tax expense or benefits, measured by enacted tax rates that were attributable to taxable or deductible temporary differences between financial statement and income tax reporting bases of assets and liabilities. No recognition will be given to federal or state income taxes associated with the Wichita Falls Business for financial statement purposes for periods subsequent to its acquisition by Valero L.P. The deferred income tax liabilities related to the Wichita Falls Business as of February 1, 2002 were retained by Valero Energy and were credited to net parent investment upon the transfer of the Wichita Falls Business to Valero L.P.

MINORITY INTEREST: Minority interest in Valero L.P. held by the public represents the 5,175,000 common units held by the public representing a 26.4% ownership interest in Valero L.P. as of December 31, 2002. The minority interest in Valero L.P. held by affiliates of Valero Energy represents the 4,424,322 common units and 9,599,322 subordinated units held by UDS Logistics representing a 71.4% ownership interest in Valero L.P. as of December 31, 2002. In addition, Valero GP, LLC holds 55,250 common units of Valero L.P. to settle awards of contractual rights to receive common units previously issued to officers and directors of Valero GP, LLC.

PARTNERS' EQUITY: Riverwalk Logistics' partnership equity consists of a 0.1% general partner interest held by Valero GP, LLC and a 99.9% limited partner interest held by UDS Logistics. In accordance with the partnership agreement of Riverwalk Logistics, net income is allocated in proportion to ownership interest. Distributions of available cash are also determined in accordance with the partnership agreement.

SEGMENT DISCLOSURES: The Partnership operates in only one segment, the petroleum pipeline segment of the oil and gas industry.

DERIVATIVE INSTRUMENTS: The Partnership currently does not hold or trade derivative instruments.

RECENT ACCOUNTING PRONOUNCEMENT

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations." This statement establishes standards for accounting for an obligation associated with the retirement of a tangible long-lived asset. An asset retirement obligation should be recognized in the financial statements in the period in which it meets the definition of a liability as defined in FASB Concepts Statement No. 6, "Elements of Financial Statements." The amount of the liability would initially be measured at fair value. Subsequent to initial measurement, an entity would recognize changes in the amount of the liability resulting from (a) the passage of time and (b) revisions to either the timing or amount of estimated cash flows. Statement No. 143 also establishes standards for accounting for the cost associated with an asset retirement obligation. It requires that, upon initial recognition of a liability for an asset retirement obligation, an entity capitalize that cost by recognizing an increase in the carrying amount of the related long-lived asset. The capitalized asset retirement cost would then be allocated to expense using a systematic and rational method. Statement No. 143 will be effective for financial statements issued for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Partnership is currently evaluating the impact of adopting this new statement, however at the present time does not believe it will have a material impact on its financial condition or results of operations.

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, at cost, consisted of the following as of December 31, 2002 (in thousands):

ESTIMATED USEFUL LIVES ----- (years)
Land.....
- $ 820 Land
improvements..... 20
68
Buildings.....
35 5,647 Pipeline and
equipment..... 3 - 40
442,681 Rights of
way..... 20 - 35
29,860 Construction in
progress..... - 7,863 ------
-
Total.....
486,939 Accumulated depreciation and
amortization..... (137,663) ------- Property,
plant and equipment, net..... $ 349,276
=======

NOTE 4: INVESTMENT IN SKELLY-BELVIEU PIPELINE COMPANY

The Partnership owns a 50% interest in Skelly-Belvieu Pipeline Company, which is accounted for under the equity method. The following presents summarized unaudited balance sheet information related to Skelly-Belvieu Pipeline Company as of December 31, 2002 (in thousands):

BALANCE SHEET INFORMATION:	
Current assets	$ 1,572
Property, plant and equipment, net	48,739
Total assets	$ 50,311
Current liabilities	$ 150
Members' equity	50,161
Total liabilities and members' equity	$ 50,311

The excess of the Partnership's 50% share of members' equity over the carrying value of its investment is attributable to the step-up in basis to fair value of the initial contribution to Skelly-Belvieu Pipeline Company. This excess, which totaled $8,990,000 as of December 31, 2002, is being accreted into income over 33 years.

NOTE 5: LONG-TERM DEBT

Long-term debt consisted of the following as of December 31, 2002 (in thousands):

6.875% senior notes, net of unamortized discount of $300...	$ 99,700
Port Authority of Corpus Christi note payable...	9,958
$120,000,000 revolving credit facility...	-
Total debt...	109,658
Less current portion...	(747)
Long-term debt, less current portion...	$ 108,911

The long-term debt repayments are due as follows (in thousands):

2003	$ 747
2004	485
2005	524
2006	566
2007	611
Thereafter	106,725
Total repayments	$ 109,658

Valero L.P. has no operations and its only asset is its investment in Valero Logistics, which owns and operates the Partnership's pipelines and terminals. Valero L.P. has fully and unconditionally guaranteed the senior notes issued by Valero Logistics and any obligations under Valero Logistics' revolving credit facility.

6.875% SENIOR NOTES

On July 15, 2002, Valero Logistics completed the sale of $100,000,000 of 6.875% senior notes due 2012, issued under the Partnership's shelf registration statement, for total proceeds of $99,686,000. The net proceeds of $98,207,000, after deducting underwriters' commissions and offering expenses of $1,479,000, were used to repay the $91,000,000 outstanding under the revolving credit facility. The senior notes do not have sinking fund requirements. Interest on the senior notes is payable semiannually in arrears on January 15 and July 15 of each year.

The senior notes rank equally with all other existing senior unsecured indebtedness of Valero Logistics, including indebtedness under the revolving credit facility. The senior notes contain restrictions on Valero Logistics' ability to incur secured indebtedness unless the same security is also provided for the benefit of holders of the senior notes. In addition, the senior notes limit Valero Logistics' ability to incur indebtedness secured by certain liens and to engage in certain sale-leaseback transactions. The senior notes are irrevocably and unconditionally guaranteed on a senior unsecured basis by Valero L.P. The guarantee by Valero L.P. ranks equally with all of its existing and future unsecured senior obligations.

At the option of Valero Logistics, the senior notes may be redeemed in whole or in part at any time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest to the redemption date. The senior notes also include a change-in-control provision, which requires that an investment grade entity own and control the general partner of Valero L.P. and Valero Logistics. Otherwise Valero Logistics must offer to purchase the senior notes at a price equal to 100% of their outstanding principal balance plus accrued interest through the date of purchase.

$120,000,000 REVOLVING CREDIT FACILITY

On December 15, 2000, Valero Logistics (formerly Shamrock Logistics Operations) entered into a five-year $120,000,000 revolving credit facility. The revolving credit facility expires on January 15, 2006 and borrowings under the revolving credit facility bear interest based on either an alternative base rate or LIBOR at the option of Valero Logistics. Valero Logistics also incurs a facility fee on the aggregate commitments of lenders under the revolving credit facility, whether used or unused. Borrowings under the revolving credit facility may be used for working capital and general partnership purposes. Borrowings to fund distributions to unitholders; however, is limited to $25,000,000 and such borrowings must be reduced to zero for a period of at least 15 consecutive days during each fiscal year. The amounts available to the Partnership under the revolving credit facility are not subject to a borrowing base computation; therefore as of December 31, 2002, the entire $120,000,000 was available.

Borrowings under the revolving credit facility are unsecured and rank equally with all of Valero Logistics' outstanding unsecured and unsubordinated debt. The revolving credit facility requires that Valero Logistics maintain certain financial ratios and includes other restrictive covenants, including a prohibition on distributions by Valero Logistics if any default, as defined in the revolving credit facility, exists or would result from the distribution. The revolving credit facility also includes a change-in-control provision, which requires that Valero Energy and its affiliates own, directly or indirectly, at least 20% of Valero L.P.'s outstanding units or at least 100%

of Valero L.P.'s general partner interest and 100% of Valero Logistics' outstanding equity. Management believes that the Partnership is in compliance with all of these ratios and covenants.

See Note 12: Subsequent Events - Amended Revolving Credit Facility for a discussion of an amendment to Valero Logistics revolving credit facility finalized in March of 2003.

PORT AUTHORITY OF CORPUS CHRISTI NOTE PAYABLE
The Ultramar Diamond Shamrock Logistics Business previously entered into a financing agreement with the Port of Corpus Christi Authority of Nueces County, Texas (Port Authority of Corpus Christi) for the construction of a crude oil storage facility. The original note totaled $12,000,000 and is due in annual installments of $1,222,000 through December 31, 2015. Interest on the unpaid principal balance accrues at a rate of 8% per annum. In conjunction with the July 1, 2000 transfer of assets and liabilities to the Partnership, the $10,818,000 outstanding indebtedness owed to the Port Authority of Corpus Christi was assumed by the Partnership. The land on which the crude oil storage facility was constructed is leased from the Port Authority of Corpus Christi (see Note 7: Commitments and Contingencies).

SHELF REGISTRATION STATEMENT
On June 6, 2002, Valero L.P. and Valero Logistics filed a $500,000,000 universal shelf registration statement with the Securities and Exchange Commission covering the issuance of an unspecified amount of common units or debt securities or a combination thereof. Valero L.P. may, in one or more offerings, offer and sell common units representing limited partner interest in Valero L.P. Valero Logistics may, in one or more offerings, offer and sell its debt securities, which will be fully and unconditionally guaranteed by Valero L.P. As a result of the July 2002 senior note offering by Valero Logistics, the remaining balance under the universal shelf registration statement is $400,000,000 as of December 31, 2002.

NOTE 6: ENVIRONMENTAL MATTERS

The Partnership's operations are subject to extensive federal, state and local environmental laws and regulations. Although the Partnership believes its operations are in substantial compliance with applicable environmental laws and regulations, risks of additional costs and liabilities are inherent in pipeline, terminalling and storage operations, and there can be no assurance that significant costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations, could result in substantial costs and liabilities. Accordingly, the Partnership has adopted policies, practices and procedures in the areas of pollution control, product safety, occupational health and the handling, storage, use and disposal of hazardous materials to prevent material environmental or other damage, and to limit the financial liability which could result from such events. However, some risk of environmental or other damage is inherent in pipeline, terminalling and storage operations, as it is with other entities engaged in similar businesses.

In connection with the transfer of assets and liabilities from the Ultramar Diamond Shamrock Logistics Business to Shamrock Logistics Operations on July 1, 2000, UDS agreed to indemnify Shamrock Logistics Operations for environmental liabilities that arose prior to July 1, 2000. In connection with the initial public offering of Shamrock Logistics, UDS agreed to indemnify Shamrock Logistics for environmental liabilities that arose prior to April 16, 2001 and that are discovered within 10 years after April 16, 2001. In conjunction with the acquisitions of the Southlake refined product terminal on July 2, 2001 and the Ringgold crude oil storage facility on December 1, 2001, UDS agreed to indemnify the Partnership for environmental liabilities that arose prior to the acquisition dates and are discovered within 10 years after acquisition. Excluded from these indemnifications are liabilities that result from a change in environmental law. Effective with the acquisition of UDS, Valero Energy has assumed these environmental indemnifications. In addition, as an operator or owner of the assets, the Partnership could be held liable for pre-acquisition environmental damage should Valero Energy be unable to fulfill its obligation. However, the Partnership believes that such a situation is remote given Valero Energy's financial condition.

In conjunction with the sale of the Wichita Falls Business to the Partnership, Valero Energy agreed to indemnify the Partnership for any environmental liabilities that arose prior to February 1, 2002 and that are discovered by April 15, 2011.

Environmental exposures and liabilities are difficult to assess and estimate due to unknown factors such as the magnitude of possible contamination, the timing and extent of remediation, the determination of the Partnership's liability in proportion to other parties, improvements in cleanup technologies and the extent to which environmental laws and regulations may change in the future. Although environmental costs may have a significant impact on the results of operations for any single period, the Partnership believes that such costs will not have a material adverse effect on its financial position. As of December 31, 2002, the Partnership has not incurred any material environmental liabilities that were not covered by the environmental indemnifications.

NOTE 7: COMMITMENTS AND CONTINGENCIES

The Ultramar Diamond Shamrock Logistics Business previously entered into several agreements with the Port Authority of Corpus Christi including a crude oil dock user agreement, a land lease agreement and a note agreement. The crude oil dock user agreement, which renews annually in May, allows the Partnership to operate and manage a crude oil dock in Corpus Christi. The Partnership shares use of the crude oil dock with two other users, and operating costs are split evenly among the three users. The crude oil dock user agreement requires that the Partnership collect wharfage fees, based on the quantity of barrels offloaded from each vessel, and dockage fees, based on vessels berthing at the dock. These fees are remitted to the Port Authority of Corpus Christi monthly. The wharfage and one-half of the dockage fees that the Partnership pays for the use of the crude oil dock reduces the annual amount it owes to the Port Authority of Corpus Christi under the note agreement discussed in Note5: Long Term Debt.

The Ultramar Diamond Shamrock Logistics Business previously entered into a refined product dock user agreement, which renews annually in April, with the Port Authority of Corpus Christi to use a refined product dock. The Partnership shares use of the refined product dock with one other user, and operating costs are split evenly between the two users. The refined product dock user agreement requires that the Partnership collect and remit the wharfage and dockage fees to the Port Authority of Corpus Christi.

The crude oil and the refined product docks provide Valero Energy's Three Rivers refinery access to marine facilities to receive crude oil and deliver refined products. For the year ended December 31, 2002, the Three Rivers refinery received 86% of its crude oil requirements from crude oil received at the crude oil dock. Also, for the year ended December 31, 2002, 6% of the refined products produced at the Three Rivers refinery was transported via pipeline to the Corpus Christi refined product dock.

The Partnership has the following land leases related to refined product terminals and crude oil storage facilities:

- Corpus Christi crude oil storage facility: a 20-year noncancellable operating lease on 31.35 acres of land through 2014, at which time the lease is renewable every five years, for a total of 20 renewable years.

- Corpus Christi refined product terminal: a 5-year noncancellable operating lease on 5.21 acres of land through 2006, and a 5-year noncancellable operating lease on 8.42 acres of land through 2007, at which time the agreements are renewable for at least two five-year periods.

- Harlingen refined product terminal: a 13-year noncancellable operating lease on 5.88 acres of land through 2008, and a 30-year noncancellable operating lease on 9.04 acres of land through 2008.

- Colorado Springs airport terminal: a 50-year noncancellable operating lease on 46.26 acres of land through 2043, at which time the lease is renewable for another 50-year period.

All of the Partnership's land leases, including the above leases, require monthly payments totaling $19,000 and are adjustable every five years based on changes in the Consumer Price Index.

In addition, the Partnership leases certain equipment and vehicles under operating lease agreements expiring through 2003. Future minimum rental payments applicable to noncancellable operating leases as of December 31, 2002, are as follows (in thousands):

2003	$ 227
2004	226
2005	226
2006	212
2007	186
Thereafter	1,422
Future minimum lease payments	$ 2,499

The Partnership is involved in various lawsuits, claims and regulatory proceedings incidental to its business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Partnership's financial position or results of operations.

NOTE 8: FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

The estimated fair value of the Partnership's fixed rate debt as of December 31, 2002 was $109,922,000, as compared to the carrying value of $109,658,000. This fair value was estimated using discounted cash flow analysis, based on the Partnership's current incremental borrowing rates for similar types of borrowing arrangements. The Partnership has not utilized derivative financial instruments related to these borrowings. Interest rates on borrowings under the revolving credit facility float with market rates and thus the carrying amount approximates fair value.

Substantially all of the Partnership's revenues are derived from Valero Energy and its subsidiaries. Valero Energy transports crude oil to three of its refineries using the Partnership's various crude oil pipelines and storage facilities and transports refined products to its company-owned retail operations or wholesale customers using the Partnership's various refined product pipelines and terminals. Valero Energy and its subsidiaries are investment grade customers; therefore, the Partnership does not believe that the trade receivable from Valero Energy represents a significant credit risk. However, the concentration of business with Valero Energy, which is a large refining and retail marketing company, has the potential to impact the Partnership's overall exposure, both positively and negatively, to changes in the refining and marketing industry.

NOTE 9: RELATED PARTY TRANSACTIONS

The Partnership has related party transactions with Valero Energy for pipeline tariff and terminalling fee revenues, certain employee costs, insurance costs, administrative costs and interest expense on the debt due to parent for the period from July 1, 2000 through April 15, 2001. The receivable from parent as of December 31, 2002 represents the net amount due from Valero Energy for these related party transactions and the net cash collected under Valero Energy's centralized cash management program on the Partnership's behalf.

SERVICES AGREEMENT
Effective July 1, 2000, UDS entered into a Services Agreement with the Partnership, whereby UDS agreed to provide the corporate functions of legal, accounting, treasury, engineering, information technology and other services for an annual fee of $5,200,000 for a period of eight years. The $5,200,000 is adjustable annually based on the Consumer Price Index published by the U.S. Department of Labor, and may also be adjusted to take into account additional service levels necessitated by the acquisition or construction of additional assets. Concurrent with the acquisition of UDS by Valero Energy, Valero Energy became the obligor under the Services Agreement. Management believes that the $5,200,000 is a reasonable approximation of the general and administrative costs related to the pipeline, terminalling and storage operations. This annual fee is in addition to the incremental general and administrative costs to be incurred from third parties for services Valero Energy does not provide under the

Services Agreement (see Note 10: Employee Benefit Plans). A portion of the general and administrative costs is passed on to third parties, which jointly own certain pipelines and terminals with the Partnership.

The Services Agreement also requires that the Partnership reimburse Valero Energy for various recurring costs of employees who work exclusively within the pipeline, terminalling and storage operations and for certain other costs incurred by Valero Energy relating solely to the Partnership. These employee costs include salary, wage and benefit costs.

PIPELINES AND TERMINALS USAGE AGREEMENT

On April 16, 2001, UDS entered into a Pipelines and Terminals Usage Agreement with the Partnership, whereby UDS agreed to use the Partnership's pipelines to transport at least 75% of the crude oil shipped to and at least 75% of the refined products shipped from Valero Energy's McKee, Three Rivers and Ardmore refineries and to use the Partnership's refined product terminals for terminalling services for at least 50% of all refined products shipped from these refineries until at least April of 2008. Valero Energy also assumed the obligation under the Pipelines and Terminals Usage Agreement in connection with the acquisition of UDS by Valero Energy. For the year ended December 31, 2002, Valero Energy used the Partnership's pipelines to transport 97% of its crude oil shipped to and 80% of the refined products shipped from the McKee, Three Rivers and Ardmore refineries, and Valero Energy used the Partnership's terminalling services for 59% of all refined products shipped from these refineries.

If market conditions change with respect to the transportation of crude oil or refined products, or to the end markets in which Valero Energy sells refined products, in a material manner such that Valero Energy would suffer a material adverse effect if it were to continue to use the Partnership's pipelines and terminals at the required levels, Valero Energy's obligation to the Partnership will be suspended during the period of the change in market conditions to the extent required to avoid the material adverse effect.

OMNIBUS AGREEMENT

The Omnibus Agreement governs potential competition between Valero Energy and the Partnership. Under the Omnibus Agreement, Valero Energy has agreed, and will cause its controlled affiliates to agree, for so long as Valero Energy controls the general partner, not to engage in the business of transporting crude oil and other feedstocks or refined products, including petrochemicals, or operating crude oil storage facilities or refined product terminalling assets in the United States. This restriction does not apply to:

- any business retained by UDS (and now part of Valero Energy) as of April 16, 2001, the closing of the Partnership's initial public offering, or any business owned by Valero Energy at the date of its acquisition of UDS on December 31, 2001;

- any business with a fair market value of less than $10 million;

- any business acquired by Valero Energy in the future that constitutes less than 50% of the fair market value of a larger acquisition, provided the Partnership has been offered and declined the opportunity to purchase the business; and

- any newly constructed pipeline, terminalling or storage assets that the Partnership has not offered to purchase at fair market value within one year of construction.

Also under the Omnibus Agreement, Valero Energy has agreed to indemnify the Partnership for environmental liabilities related to the assets transferred to the Partnership in connection with the Partnership's initial public offering, provided that such liabilities arose prior to and are discovered within 10 years after that date (excluding liabilities resulting from a change in law after April 16, 2001).

NOTE 10: EMPLOYEE BENEFIT PLANS

The Partnership, which has no employees, relies on employees of Valero Energy and its affiliates to provide the necessary services to operate the Partnership's assets. The Valero Energy employees who operate the Partnership's assets are included in the various employee benefit plans of Valero Energy and its affiliates. These plans include qualified, non-contributory defined benefit retirement plans, defined contribution 401(k) plans, employee and retiree

medical, dental and life insurance plans, long-term incentive plans (i.e. unit options and bonuses) and other such benefits.

LONG-TERM INCENTIVE PLAN

The Board of Directors of Valero GP, LLC previously adopted the "2000 Long-Term Incentive Plan" (the LTIP) under which Valero GP, LLC may award up to 250,000 common units of Valero L.P. to certain key employees of Valero Energy's affiliates providing services to the Partnership and to directors and officers of Valero GP, LLC. Awards under the LTIP can include unit options, restricted common units, distribution equivalent rights (DERs), contractual rights to receive common units, etc.

Under the LTIP, in July of 2001, Valero GP, LLC granted 205 restricted common units and DERs to each of its then two outside directors. The restricted common units were to vest at the end of a three-year period and be paid in cash. The DERs were to accumulate equivalent distributions that other Valero L.P. unitholders receive over the vesting period. As a result of the change in control related to Valero Energy's acquisition of UDS on December 31, 2001, the restricted common units vested and the accrued amounts were paid to the directors.

In January of 2002, under the LTIP, Valero GP, LLC granted 55,250 contractual rights to receive common units of Valero L.P. and DERs to its officers, certain employees of its affiliates and its outside directors. In conjunction with the grant of contractual rights to receive common units under the LTIP, Valero L.P. issued 55,250 common units to Valero GP, LLC on January 21, 2002 for total consideration of $2,262,000 (based on the then $40.95 market price per common unit), the receivable for which is classified in minority interest in Valero L.P. held by affiliates of Valero Energy in the consolidated balance sheet as of December 31, 2002. One-third of the contractual rights to receive common units awarded by Valero GP, LLC will vest at the end of each year of a three-year vesting period.

NOTE 11: VALERO L.P.'S SUBORDINATED UNITS, ALLOCATIONS OF NET INCOME AND CASH DISTRIBUTIONS

VALERO L.P.'S SUBORDINATED UNITS

All of the subordinated units of Valero L.P. may convert to common units of Valero L.P. on a one-for-one basis on the first day following the record date for distributions for the quarter ending December 31, 2005, if Valero L.P. meets the tests set forth in its partnership agreement. If the subordination period ends, the rights of the holders of subordinated units will no longer be subordinated to the rights of the holders of common units and the subordinated units may be converted into common units.

VALERO L.P.'S ALLOCATIONS OF NET INCOME

Valero L.P.'s partnership agreement, as amended, sets forth the calculation to be used to determine the amount and priority of cash distributions that the common unitholders, subordinated unitholders and Riverwalk Logistics will receive. Valero L.P.'s partnership agreement also contains provisions for the allocation of net income and loss to the unitholders and Riverwalk Logistics. For purposes of maintaining partner capital accounts, the partnership agreement specifies that items of income and loss shall be allocated among the partners in accordance with their respective percentage interests. Normal allocations according to percentage interests are done after giving effect, if any, to priority income allocations in an amount equal to incentive cash distributions allocated 100% to Riverwalk Logistics.

VALERO L.P.'S CASH DISTRIBUTIONS

During the subordination period, the holders of Valero L.P.'s common units are entitled to receive each quarter a minimum quarterly distribution of $0.60 per unit ($2.40 annualized) prior to any distribution of available cash to holders of Valero L.P.'s subordinated units. The subordination period is defined generally as the period that will end on the first day of any quarter beginning after March 31, 2006 if (1) Valero L.P. has distributed at least the minimum quarterly distribution on all outstanding units with respect to each of the immediately preceding three consecutive, non-overlapping four-quarter periods and (2) Valero L.P.'s adjusted operating surplus, as defined in the partnership agreement, during such periods equals or exceeds the amount that would have been sufficient to enable Valero L.P. to distribute the minimum quarterly distribution on all outstanding units on a fully diluted basis and the related distribution on the 2% general partner interest during those periods.

During the subordination period, Valero L.P.'s cash is distributed first 98% to the holders of common units and 2% to Riverwalk Logistics until there has been distributed to the holders of common units an amount equal to the minimum quarterly distribution and arrearages in the payment of the minimum quarterly distribution on the common units for any prior quarter. Secondly, cash is distributed 98% to the holders of subordinated units and 2% to Riverwalk Logistics until there has been distributed to the holders of subordinated units an amount equal to the minimum quarterly distribution. Thirdly, cash in excess of the minimum quarterly distributions is distributed to the unitholders and Riverwalk Logistics based on the percentages shown below.

Riverwalk Logistics is entitled to incentive distributions if the amount Valero L.P. distributes with respect to any quarter exceeds specified target levels shown below:

	PERCENTAGE OF DISTRIBUTION	
QUARTERLY DISTRIBUTION AMOUNT PER UNIT	VALERO L.P. UNITHOLDERS	RIVERWALK LOGISTICS
Up to $0.60	98%	2%
Above $0.60 up to $0.66	90%	10%
Above $0.66 up to $0.90	75%	25%
Above $0.90	50%	50%

NOTE 12: SUBSEQUENT EVENTS

ACQUISITION OF TELFER ASPHALT TERMINAL AND STORAGE FACILITY
On January 7, 2003, the Partnership completed its acquisition of Telfer Oil Company's (Telfer) California asphalt terminal and storage facility for $15,000,000. The asphalt terminal and storage facility assets include two storage tanks with a combined storage capacity of 350,000 barrels, six 5,000-barrel polymer modified asphalt tanks, a truck rack, rail facilities and various other tanks and equipment. In conjunction with the Telfer asset acquisition, the Partnership entered into a six-year Terminal Storage and Throughput Agreement with Valero Energy. The agreement includes (a) a lease of the asphalt storage tanks and related equipment for a monthly fee of $0.60 per barrel of storage capacity, (b) the right to move asphalt through the terminal during the term of the Terminal Storage and Throughput Agreement in consideration for $1.25 per barrel of throughput with a guaranteed minimum annual throughput of 280,000 barrels, and (c) reimbursement to the Partnership of certain costs, including utilities.

The Partnership will account for the Telfer acquisition as a purchase of a business in accordance with FASB Statement No. 141 and allocate the purchase price to the individual assets and liabilities acquired based on their fair value on January 7, 2003. A portion of the purchase price represented payment to the principal owner of Telfer for a non-compete agreement and for the lease of certain facilities adjacent to the terminal operations.

UNITS ISSUED UNDER LTIP
On January 24, 2003, under the LTIP, Valero GP, LLC granted 30,000 contractual rights to receive common units and DERs to its officers and directors, excluding the outside directors. In conjunction with the grant of contractual rights to receive common units under the LTIP, Valero GP, LLC purchased 30,000 newly issued common units from Valero L.P. for total consideration of $1,149,000. Also in January of 2003, one-third of the previously issued contractual rights vested and Valero GP, LLC distributed actual Valero L.P. common units to the officers and directors. Certain of the officers and directors settled their tax withholding on the vested common units by delivering 6,491 common units to Valero GP, LLC. As of February 1, 2003, Valero GP, LLC owns 73,319 common units of Valero L.P.

DISTRIBUTIONS
On January 24, 2003, Valero L.P. declared a quarterly distribution of $0.70 per unit payable on February 14, 2003 to unitholders of record on February 5, 2003. This distribution related to the fourth quarter of 2003 and totaled $14,121,000, of which $622,000 represented Riverwalk Logistics' share of such distribution. The Riverwalk Logistics' distribution included a $340,000 incentive distribution.

INTEREST RATE SWAP

On February 14, 2003, Valero Logistics entered into an interest rate swap agreement to manage its exposure to changes in interest rates. The interest rate swap has a notional amount of $60,000,000 and is tied to the maturity of the 6.875% senior notes. Under the terms of the interest rate swap agreement, Valero Logistics will receive a fixed 6.875% rate and will pay a floating rate based on LIBOR plus 2.45%. Valero Logistics will account for the interest rate swap as a fair value hedge, with changes in the fair value recorded as an adjustment to interest expense in the consolidated statement of income.

AMENDED REVOLVING CREDIT FACILITY

On March 6, 2003, Valero Logistics entered into an amended revolving credit facility with the various banks included in its existing revolving credit facility and from a group of new banks to increase the revolving credit facility to $175,000,000. In addition to increasing the aggregate amount available under the facility, the amount that may be borrowed to fund distributions to unitholders was increased from $25,000,000 to $40,000,000. No other significant terms and conditions of the revolving credit facility were changed, except that the "Total Debt to EBITDA Ratio" as defined in the revolving credit facility was changed such that the ratio may not exceed 4.0 to 1.0 (as opposed to 3.0 to 1.0 in the original facility), and Valero L.P. is now irrevocably and unconditionally guaranteeing the revolving credit facility. This guarantee by Valero L.P. ranks equally with all of its existing and future unsecured senior obligations.

REDEMPTION OF VALERO L.P. COMMON UNITS AND AMENDMENT TO VALERO L.P.'S PARTNERSHIP AGREEMENT

Valero L.P. intends to redeem from UDS Logistics a number of Valero L.P. common units sufficient to reduce Valero Energy's aggregate ownership interest in Valero L.P. to 49.5% or less, including Riverwalk Logistics' 2% general partner interest. Valero L.P. intends to redeem the common units with proceeds from debt financings expected to be completed in the first quarter of 2003.

In addition to the redemption of common units, Valero L.P. intends to amend its partnership agreement to provide that Riverwalk Logistics may be removed by the vote of the holders of at least 58% of its outstanding units, excluding the common and subordinated units held by UDS Logistics and Valero GP, LLC. Upon completion of the above redemption of common units and the amendment to Valero L.P.'s partnership agreement, Riverwalk Logistics will no longer be deemed in control of Valero L.P. and thus will no longer consolidate Valero L.P. and its subsidiaries with its operations.

ASSET CONTRIBUTION TRANSACTIONS
On March 6, 2003, the Partnership entered into the following agreements:

- Affiliates of Valero Energy contributed to the Partnership certain crude oil and other feedstock tank assets located at Valero Energy's West plant of the Corpus Christi refinery, Texas City refinery and Benicia refinery to Valero Logistics in exchange for an aggregate amount of $200,000,000 in cash; and

- Affiliates of Valero Energy contributed to the Partnership certain refined product pipelines and refined product terminals connected to Valero Energy's Corpus Christi and Three Rivers refineries (referred to as the South Texas Pipelines and Terminals) in exchange for an aggregate amount of $150,000,000 in cash.

The contribution transactions are expected to close in March 2003 and are conditioned upon the ability of the Partnership to obtain equity and debt financing in sufficient amounts.