VALERO L P
Form 424B5
July 11, 2002

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-89978
333-89978-01

PROSPECTUS SUPPLEMENT
(To Prospectus dated June 17, 2002)

[VALERO L.P. LOGO]

VALERO LOGISTICS OPERATIONS, L.P.
$100,000,000
6 7/8% SENIOR NOTES DUE 2012
FULLY AND UNCONDITIONALLY GUARANTEED BY

VALERO L.P.
Issue price: 99.686%

The notes will bear interest at the rate of 6 7/8% per year. Interest on the notes will accrue from July 15, 2002. Interest on the notes is payable on January 15 and July 15 of each year, beginning January 15, 2003. The notes will mature on July 15, 2012.

We may redeem some or all of the notes at any time at a redemption price that includes a make-whole premium, as described under the caption "Description of notes--Optional redemption."

The notes are irrevocably and unconditionally guaranteed on a senior unsecured basis by our parent, Valero L.P. The guarantee by Valero L.P. will rank equal in right of payment to all of Valero L.P.'s existing and future unsecured and unsubordinated indebtedness.

We will not make application to list the notes on any securities exchange or to include them in any automated quotation system.

INVESTING IN THE NOTES INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE S-14 AND ON PAGE 4 OF THE ACCOMPANYING PROSPECTUS.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PRICE TO PUBLIC (1)	UNDERWRITING DISCOUNTS	PROCEE BEFO
Per Note	99.686%	0.650%	99.036
Total	$99,686,000	$650,000	$99,03

(1) Plus accrued interest from July 15, 2002.

We expect to deliver the notes to investors in registered book-entry form only through the facilities of The Depository Trust Company, on or about July 15, 2002.

JPMORGAN — Lead Manager and Bookrunner

LEHMAN BROTHERS — Joint Lead Manager

MIZUHO INTERNATIONAL PLC

RBC CAPITAL MARKETS

SUNTRUST ROBINSON HUMPHREY

TOKYO-MITSUBISHI INTERNATIONAL PLC

July 10, 2002

[Map showing Valero Logistics' current asset portfolio including its refined product pipelines, crude oil pipelines, natural gas liquid pipelines, hydrogen pipeline, refined product terminals and crude oil storage facilities in Colorado, Kansas, New Mexico, Oklahoma and Texas as well as the Valero Energy refineries interconnected with the Valero Logistics pipelines.]

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of notes and includes information about us and our financial condition. The second part is the accompanying prospectus, which gives more general information about the debt securities we may offer from time to time and the related guarantees by Valero L.P. or the common units Valero L.P. may offer from time to time. Generally, when we refer to the prospectus, we are referring to both parts of this document combined, some of which may not apply to the notes.

You should rely on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of those documents or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference.

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PROSPECTUS SUMMARY

The summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. It does not contain all of the information that you should consider before investing in the notes. You should read the entire prospectus supplement and the accompanying prospectus carefully, including the historical financial statements and notes to those financial statements included in this prospectus supplement. Please read "Risk factors" on page S-14 of this prospectus supplement and on page 4 of the accompanying prospectus for more information about important factors that you should consider before buying the notes. In this prospectus supplement, the terms "Valero Logistics" and "we," "us," "our" and similar terms mean Valero Logistics Operations, L.P.

VALERO LOGISTICS OPERATIONS, L.P.

We are a Delaware limited partnership formed in 1999 and a 100%-owned direct and indirect subsidiary of Valero L.P., a publicly traded Delaware limited partnership. Our operations are controlled and managed by our general partner, a wholly owned subsidiary of Valero L.P. Valero L.P. is controlled and managed by its general partner, an indirect wholly owned subsidiary of Valero Energy Corporation, a publicly traded Delaware corporation. We own and operate most of the crude oil and refined product pipeline, terminalling and storage assets located in Texas, Oklahoma, New Mexico and Colorado that support Valero Energy's McKee, Three Rivers and Ardmore refineries. We transport crude oil to these refineries and transport refined products from these refineries to our terminals for further distribution to Valero Energy's company-operated convenience stores or wholesale customers located in Texas, Oklahoma, Colorado, New Mexico and Arizona. Our pipeline, terminalling and storage assets consist of:

- approximately 782 miles of crude oil pipelines, including approximately

31 miles jointly owned with third parties, and five major crude oil storage facilities with a total storage capacity of approximately 3.3 million barrels; and

- approximately 2,870 miles of refined product pipelines, including approximately 1,996 miles jointly owned with third parties, and eleven refined product terminals, one of which is jointly owned, with a total storage capacity of approximately 2.8 million barrels.

We generate revenues by charging tariffs for transporting crude oil and refined products through our pipelines and by charging a fee for use of our terminals. We do not own any of the crude oil or refined products transported through our pipelines, and we do not engage in the trading of crude oil or refined products. As a result, we are not directly exposed to any risks associated with fluctuating commodities prices, although these risks indirectly influence our activities and results of operations.

In the year ended December 31, 2001, we transported an average of 303,811 barrels per day through our crude oil pipelines, an average of 308,047 barrels per day through our refined product pipelines and handled an average of 189,172 barrels per day in our refined product terminals. Our revenues for the year ended December 31, 2001 were approximately $98.8 million, a 7.4% increase from our revenues for the year ended December 31, 2000 of approximately $92.1 million. Operating income for the year ended December 31, 2001 was approximately $46.5 million, a 13.0% increase from our operating income for the year ended December 31, 2000 of approximately $41.1 million.

During the first quarter of 2002, we transported an average of 312,387 barrels per day through our crude oil pipelines, an average of 262,872 barrels per day through our refined product pipelines and handled an average of 175,816 barrels per day in our refined product terminals. Our revenues for the quarter ended March 31, 2002 were approximately $26.0 million, an 11.1% increase from our first quarter 2001 revenues of $23.4 million.

BUSINESS STRATEGIES

The primary objective of our business strategies is to increase our distributions to Valero L.P. to enable Valero L.P. to increase its distributable cash flow per unit. We intend to achieve this primary objective by:

- Sustaining high levels of volumes in our pipelines and cash flow;

- Increasing volumes in our existing pipelines and shifting volumes to higher tariff pipelines;

- Increasing our pipeline and terminal capacity through expansions and new construction;

- Pursuing selective strategic and accretive acquisitions that complement our existing asset base; and

- Continuing to improve our operating efficiency.

COMPETITIVE STRENGTHS

We believe we are well positioned to successfully execute our business strategies due to the following competitive strengths:

- Our pipelines provide the principal access to and from Valero Energy's McKee, Three Rivers and Ardmore refineries located near Amarillo, Texas, Corpus Christi, Texas and Ardmore, Oklahoma, respectively. As a result, in 2001, we transported 78% of the crude oil and other feedstocks supplied to, and 80% of the refined products produced by, these refineries.

- Our refined product pipelines serve Valero Energy's marketing operations in the southwestern and Rocky Mountain regions of the United States. These operations are concentrated in metropolitan areas in the states of Texas, Colorado, New Mexico and Arizona that are expected to exceed the national average of projected cumulative population growth through 2010.

- We believe our pipeline, terminalling and storage assets are modern, efficient and well maintained, with 50% of our ownership mileage having been built since 1990.

- Our pipelines have available capacity that provides us the opportunity to increase volumes and distributable cash flow from existing assets.

- Our revolving credit facility, coupled with Valero L.P.'s ability to issue new partnership units, provides us with financial flexibility to pursue expansion and acquisition opportunities.

OUR RELATIONSHIP WITH VALERO ENERGY

Description of Valero Energy's Business. Valero Energy is one of the top three U.S. refining companies in terms of refining capacity. It acquired Ultramar Diamond Shamrock Corporation on December 31, 2001, and now owns and operates 12 refineries, three of which are served by our pipelines and terminals:

- the McKee refinery, which has a current total capacity to process 170,000 barrels per day, or bpd, 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 98,000 bpd of crude oil and other feedstocks; and

- the Ardmore refinery, which has a current total capacity to process 85,000 bpd of crude oil and other feedstocks.

Valero Energy markets the refined products produced by these refineries primarily in Texas, Oklahoma, Colorado, New Mexico and Arizona through a network of approximately 2,700 company-operated and dealer-operated convenience stores, as well as through other wholesale and spot market sales and exchange agreements.

Our operations are strategically located within Valero Energy's refining and marketing supply chain in the southwestern and Rocky Mountain regions of the United States, but we do not own or operate any refining or marketing operations. Valero Energy is dependent upon us to provide transportation services that support its refining and marketing operations in these markets. Valero Energy and its affiliates accounted for 99% of our 2000 and 2001 revenues. Although we intend to pursue strategic acquisitions as opportunities may arise, we expect to continue to derive most of our revenues from Valero Energy and its affiliates for the foreseeable future.

Our Pipelines and Terminals Usage Agreement with Valero Energy. In connection with the initial public offering of Valero L.P. and as a result of its acquisition of Ultramar Diamond Shamrock, Valero Energy has generally agreed to transport at least 75% of the aggregate volumes of crude oil shipped to and at least 75% of the aggregate volumes of refined products shipped from the McKee, Three Rivers and Ardmore refineries in our crude oil pipelines and refined product pipelines, respectively, and to use our refined product terminals for terminalling services for at least 50% of the refined products shipped from these refineries. These percentages reflect the recent historical volumes shipped to and from these refineries using our pipelines and terminalled at our terminals. For the year ended December 31, 2001, Valero Energy used our pipelines to transport 78% of its crude oil shipped to and 80% of the refined products shipped from the McKee, Three Rivers and Ardmore refineries, and used our terminalling services for 60% of all refined products shipped from these refineries.

Valero Energy's obligation to use our pipelines and terminals will be suspended if Valero Energy ceases to own the refineries, if material changes in market conditions occur that have a material adverse effect on Valero Energy or if we are unable to handle the volumes due to operational difficulties with our pipelines or terminals.

In addition, Valero Energy has agreed, until April of 2008, to remain the shipper for its crude oil and refined products transported in our pipelines, and not to challenge our tariff rates for the transportation of crude oil, refined products or petrochemical products.

Valero Energy owns Valero L.P.'s general partner. We are a 100%-owned direct and indirect subsidiary of Valero L.P. Valero Energy owns and controls Riverwalk Logistics, L.P., which serves as the general partner of Valero L.P. Valero Energy also indirectly owns an aggregate 71.4% limited partner interest in Valero L.P.

Risks associated with our relationship with Valero Energy. We are dependent on the continued use of our pipelines, terminals and storage facilities by Valero Energy and the ability of Valero Energy's refineries to maintain their production of refined products. Conflicts of interest are inherent in our relationship with Valero Energy. Please read "Risk Factors -- Risks Inherent in Our Business -- Valero Energy and its affiliates have conflicts of interest and limited fiduciary responsibilities, which may permit them to favor their own interests to the detriment of our security holders" on page 10 of the accompanying prospectus.

Omnibus Agreement. We have entered into an omnibus agreement with Valero Energy which governs potential competition between us and Valero Energy. Valero Energy has agreed, and will cause its controlled affiliates to agree, for so long as Valero Energy or its affiliates control Valero L.P.'s general partner, not to engage in, whether by acquisition or otherwise, the business of transporting crude oil or refined products including petrochemicals or operating crude oil storage or refined products terminalling assets in the United States. This restriction does not apply to:

- any business retained by Ultramar Diamond Shamrock (and now part of Valero Energy) at the closing of the initial public offering of Valero L.P.;

- 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 that Valero L.P. has been offered and declined the opportunity to purchase this business; or

- any newly constructed logistics assets that Valero L.P. has not offered to purchase within one year of construction at fair market value.

RECENT DEVELOPMENTS

Acquisition of Wichita Falls Business. In February 2002, we exercised our option under the omnibus agreement to purchase a 272-mile crude oil pipeline and related storage facility from a wholly owned subsidiary of Valero Energy for $64 million in cash, which we borrowed under our revolving credit facility. The pipeline runs from Wichita Falls, Texas to Valero Energy's McKee refinery in the Texas panhandle.

Acquisition of crude hydrogen pipeline. On May 29, 2002, we completed the acquisition of a 25-mile crude hydrogen pipeline from Praxair, Inc. for $11 million in cash borrowed under our revolving credit facility. The pipeline supplies approximately 45 million standard cubic feet per day of crude hydrogen from Celanese Chemicals' Clear Lake, Texas, facility to Valero Energy's Texas City refinery under a long-term supply arrangement.

Reorganization of general partner ownership. On May 30, 2002, Valero L.P. and Valero GP, LLC, the general partner of Riverwalk Logistics (at such date the general partner of each of Valero L.P. and us), reorganized the general partner ownership interest in us.

As a result of the reorganization, Riverwalk Logistics is the 2% general partner of Valero L.P. and Valero L.P. now holds a 99.99% limited partner interest in us. Valero L.P. formed Valero GP, Inc., a Delaware corporation wholly owned by Valero L.P., which is our new general partner with a 0.01% general partner interest. As a result of the reorganization, we are a 100%-owned direct and indirect subsidiary of Valero L.P.

OUR STRUCTURE AND MANAGEMENT

We are a 100%-owned direct and indirect subsidiary of Valero L.P. Valero Energy owns and controls Riverwalk Logistics, which serves as the general partner of Valero L.P. Valero Energy also indirectly owns an aggregate 71.4% limited partner interest in Valero L.P.

- Valero L.P. owns a 99.99% limited partner interest in us and 100% of Valero GP, Inc., which is our sole general partner with a 0.01% general partner interest and performs all management and operating functions for us;

- Riverwalk Logistics, the general partner of Valero L.P. and an indirect wholly owned subsidiary of Valero Energy, owns a 2% general partner interest in Valero L.P. and the incentive distribution rights pursuant to the Valero L.P. partnership agreement;

- UDS Logistics, LLC, the sole limited partner of Riverwalk Logistics, and an indirect wholly owned subsidiary of Valero Energy, owns a 71.4% limited partner interest in Valero L.P.; and

- Valero GP, LLC, an indirect wholly owned subsidiary of Valero Energy, is the general partner of Riverwalk Logistics and performs all management and operating functions of Valero L.P.

The chart on the following page depicts our organization and ownership structure as of the date of this prospectus supplement.

OWNERSHIP OF VALERO L.P.	PERCENTAGE INTEREST
Public Common Units.........................	26.62%
Valero Energy's Common Units................	22.52%
Valero Energy's Subordinated Units..........	48.86%
Valero Energy's General Partner Interest ...	2.00%
Total	100.00%

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                        -------------------------------------
                        |      VALERO ENERGY CORPORATION     |
                        |              and its               |
                        |      wholly owned subsidiaries     |
                        |------------------------------------
                        |                                    |
                        |                                    |
                      100%                                 100%
                        |                                    |
                        |                                    |
------------------------                   -------------------------------
|                       |                  |      UDS LOGISTICS, LLC      |
|    VALERO GP, LLC     |                  | 9,599,322 Subordinated Units |
|                       |                  |    4,424,322 Common Units    |
------------------------                   -------------------------------
    0.1% General                            |                  |
   Partner Interest                         |                  |
          |                                 |                  |
          |                                 |  99.9% Limited   |   71.38% Limited
       -------------------------------------- Partner Interest |  Partner Interest
       |     RIVERWALK LOGISTICS, L.P.      |                  |
       |(the General Partner of Valero L.P.)|                  |
       |  Incentive Distribution Rights     |                  |
       --------------------------------------                  |
                         |                                     |
                         |   2.0% General Partner Interest     |
                         |                                     |                     -----------
                ------------------------------------------------                    |   Public
                |           VALERO L.P.          |-----------------------------------| Unithold
                |        (the Partnership)       |  26.62% Limited Partner Interest  |  5,230,2
                ----------------------------------                                   | Common U
                       |                |                                            -----------
                      100%              |
                       |                |
------------------------                |
|                       |               |
|    VALERO GP, INC.    |               |  99.99% Limited Partner Interest
|                       |               |
------------------------                |
    0.01% General                       |
   Partner Interest                     |
              |                         |
              |                         |
                ----------------------------------                                       ------
                |        VALERO LOGISTICS        |                                       |   Ph
                |         OPERATIONS, L.P.       |                                       |  Pet
                |   (the Operating Partnership)  |                                       |   Co
                ----------------------------------                                       ------
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 50%
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                        |  Skelly-Belvieu   |
                        |     Pipeline      |
                        |  Company, L.L.C.  |
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THE OFFERING

THE ISSUER.............Valero Logistics Operations, L.P.

SECURITIES OFFERED......$100 million principal amount of 6 7/8% Senior Notes due 2012.

GUARANTEE...............Valero L.P. will fully and unconditionally guarantee the notes.

INTEREST RATE...........6 7/8% per year, commencing July 15, 2002.

INTEREST PAYMENT DATES..January 15 and July 15 of each year, beginning January 15, 2003.

MATURITY DATE...........July 15, 2012.

USE OF PROCEEDS.........We will use the net proceeds from this offering (after the payments of offering expenses) of approximately $98.5 million to:

- repay the $91 million of the outstanding principal balance under our revolving credit facility; and

- provide cash for general operating purposes.

RATINGS.................We have obtained the following ratings on the notes: Baa2 by Moody's Investors Service, Inc., and BBB by Standard & Poor's Ratings Services.

A rating reflects only the view of a rating agency and is not a recommendation to buy, sell or hold the notes. Any rating can be revised upward or downward or withdrawn at any time by a rating agency if the rating agency decides that the circumstances warrant a revision.

RANKING.................The notes will be our senior unsecured obligations and will rank equally with all our other existing and future unsecured senior indebtedness, including indebtedness under our revolving credit facility. The guarantee by Valero L.P. will rank equally with all of Valero L.P.'s unsecured senior obligations. Valero L.P. currently has no outstanding indebtedness for borrowed money.

The indenture does not limit the amount of unsecured debt we may incur. The indenture contains restrictions on our ability to incur secured indebtedness unless the same security is also provided for the benefit of holders of the notes.

SUBSIDIARY GUARANTEES...We will cause any of our future subsidiaries that guarantees or becomes a co-obligor in respect of any of our funded debt to equally and ratably guarantee the notes.

CHANGE OF CONTROL.......Upon the occurrence of a change of control to a non-investment grade entity, we must offer to purchase the notes at a price equal to 100% of their principal amount plus accrued and unpaid interest, if any, to the date of purchase.

CERTAIN COVENANTS AND
EVENTS OF DEFAULT.......We will issue the notes under an indenture with The Bank of New York, as trustee. The indenture will contain limitations on, among other things, our ability to:

- incur indebtedness secured by certain liens; and

- engage in certain sale-leaseback transactions.

The indenture will provide for certain events of default, including default on certain other indebtedness.

OPTIONAL REDEMPTION.....We may redeem some or all of the notes at any time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest, if any, to the redemption date, as described in "Description of notes" beginning on page S-46 of this prospectus supplement.

RISK FACTORS............See "Risk factors" beginning on page S-14 and on page 4 of the accompanying prospectus and "Management's discussion and analysis of financial condition and results of operations" beginning on page S-20 of this prospectus supplement for a discussion of factors you should carefully consider before investing in the notes.

SUMMARY FINANCIAL AND OPERATING DATA

Organization. The following tables set forth selected financial data and operating data of Valero L.P. (formerly Shamrock Logistics, L.P.), Valero Logistics (formerly Shamrock Logistics Operations, L.P.), a subsidiary of Valero L.P., and the Wichita Falls Crude Oil Pipeline and Storage Business (the Wichita Falls Business) as of December 31, 2001 and selected financial data and operating data of Valero L.P. and Valero Logistics as of December 31, 2000 and for the year ended December 31, 2001 and the six months ended December 31, 2000 (collectively referred to as the successor to the Ultramar Diamond Shamrock Logistics Business).

The selected financial data and operating data as of and for the years ended

December 31, 1997, 1998 and 1999 and for the six months ended June 30, 2000 was derived from the audited financial statements of the Ultramar Diamond Shamrock Logistics Business (predecessor).

The selected financial data and operating data as of March 31, 2002 and for the three months ended March 31, 2001 and 2002 was derived from the unaudited consolidated and combined financial statements of Valero L.P. and Valero Logistics as of March 31, 2002 and for the two months ended March 31, 2002, combined with the Wichita Falls Business for the one month ended January 31, 2002, and the combined financial statements of Valero L.P. and Valero Logistics as of and for the three months ended March 31, 2001.

On February 1, 2002, Valero L.P. acquired the Wichita Falls Business (except for certain retained liabilities) 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 Valero L.P. had an option to purchase pursuant to the Omnibus Agreement between Valero L.P. and Ultramar Diamond Shamrock Corporation.

On December 31, 2001, Valero Energy acquired Ultramar Diamond Shamrock, including the Wichita Falls Business and the 73.6% ownership interest in Valero L.P. held by subsidiaries of Ultramar Diamond Shamrock, in a purchase business combination. As a result of Valero Energy's acquisition of Ultramar Diamond Shamrock, Valero Energy became the controlling owner of both the Wichita Falls Business and Valero L.P. on December 31, 2001.

Because of Valero L.P.'s affiliate relationship with the Wichita Falls Business, the acquisition of the Wichita Falls Business by Valero L.P. on February 1, 2002 constituted a transaction between entities under common control and, as such, was accounted for as 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 Ultramar Diamond Shamrock 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.

Prior to July 1, 2000, the pipeline, terminalling and storage assets and operations transferred to Valero Logistics were referred to as the Ultramar Diamond Shamrock Logistics Business as if it had existed as a single separate entity from Ultramar Diamond Shamrock. Ultramar Diamond Shamrock formed Valero Logistics to assume ownership of and to operate the assets of the Ultramar Diamond Shamrock Logistics Business. Effective July 1, 2000, Ultramar Diamond Shamrock transferred the pipelines, terminalling and storage assets and certain liabilities of the Ultramar Diamond Shamrock Logistics Business to Valero Logistics. This transfer represented a reorganization of entities under common control and was recorded at historical cost.

Effective April 16, 2001, the closing date of Valero L.P.'s initial public offering, the ownership interests of Valero Logistics held by various subsidiaries of Ultramar Diamond Shamrock were transferred to Valero L.P. in exchange for ownership interests (common and subordinated units) in Valero L.P. This transfer also represented a reorganization of entities under common control and was recorded at historical cost.

Tariff rate and terminalling revenue changes. The financial data included in the tables below have been prepared utilizing the actual pipeline tariff rates and terminalling fees in effect during the periods presented. Effective January 1, 2000, the Ultramar Diamond Shamrock Logistics Business 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. The tariff rates in effect before January 1, 2000 were based on initial pipeline cost and were not revised upon subsequent expansions or increases or decreases in throughput levels. The revised tariff rates resulted in lower tariff revenues. 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.

The selected financial data in the tables below do not reflect the revised tariff rates prior to January 1, 2000 and do not reflect the establishment of terminalling fees prior to January 1, 1999.

Adjusted EBITDA. Adjusted EBITDA is defined as operating income, plus depreciation and amortization, less gain on sale of property, plant and equipment, plus distributions from Skelly-Belvieu Pipeline Company, of which Valero Logistics owns 50%, and excluding the impact of volumetric expansions, contractions and measurement discrepancies in the pipelines. Beginning July 1, 2000, the impact of volumetric expansions, contractions and measurement discrepancies in the pipelines has been borne by the shippers in our pipelines and is therefore not reflected in operating income 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 taxes of $1,647,000, $555,000, $378,000 and $916,000 for the years ended December 31, 1997, 1998 and 1999 and for the six months ended June 30, 2000, respectively.

(IN THOUSANDS, EXCEPT PER UNIT DATA AND BARREL/DAY INFORMATION)	PREDECESSOR YEARS ENDED DECEMBER 31, 1997	1998	1999	SIX MONTHS ENDED JUNE 30, 2000	SIX MO E DECEMBER
STATEMENT OF INCOME DATA:					
Revenues(1)	$ 84,881	$ 97,883	$109,773	$ 44,503	$ 47,5
Costs and expenses:					
Operating expenses	28,277	32,179	29,013	17,912	15,5
General and administrative expenses	4,761	4,552	4,698	2,590	2,5
Depreciation and amortization	11,328	12,451	12,318	6,336	5,9
Total costs and expenses	44,366	49,182	46,029	26,838	24,0
Gain on sale of property, plant and equipment(2)	-	7,005	2,478	-	
Operating income	40,515	55,706	66,222	17,665	23,4
Interest expense, net	(158)	(796)	(777)	(433)	(4,7
Equity income from Skelly-Belvieu Pipeline Company	3,025	3,896	3,874	1,926	1,9
Income before income taxes	43,382	58,806	69,319	19,158	20,6
Benefit (provision) for income taxes(3)	(16,559)	(22,517)	(26,521)	30,812	

Net income..............................	$ 26,823	$ 36,289	$ 42,798	$ 49,970	$ 20,6
Basic and diluted net income per unit(4)..............................					
Cash distributions per unit.............					
OTHER FINANCIAL DATA:					
Adjusted EBITDA.........................	$ 57,499	$ 65,399	$ 80,678	$ 27,223	$ 31,7
Distributions from Skelly-Belvieu Pipeline Company.....................	4,009	3,692	4,238	2,306	2,3
Net cash provided by operating activities(5)........................	47,756	48,642	54,054	20,247	1,8
Net cash provided by (used in) investing activities(5)........................	(55,166)	14,703	2,787	(4,505)	(1,7
Net cash provided by (used in) financing activities...........................	7,410	(63,345)	(56,841)	(15,742)	(1
Maintenance capital expenditures.........	633	2,345	2,060	1,699	6
Expansion capital expenditures...........	12,359	9,952	7,313	3,186	1,5
Total capital expenditures......	12,992	12,297	9,373	4,885	2,1
OPERATING DATA (barrels/day):					
Crude oil pipeline throughput...........	282,736	265,243	280,041	294,037	295,5
Refined product pipeline throughput......	257,183	268,064	297,397	312,759	306,8
Refined product terminal throughput......	136,454	144,093	161,340	168,433	162,9

	PREDECESSOR			
	DECEMBER 31,			
(IN THOUSANDS)	1997	1998	1999	
BALANCE SHEET DATA:				
Property, plant and equipment, net.......................	$319,169	$297,121	$284,954	$28
Total assets...	346,082	321,002	308,214	32
Long-term debt, including current portion and debt due to parent..	11,738	11,455	11,102	11
Partners' equity/net parent investment....................	295,403	268,497	254,807	20

	THREE MONTHS ENDED MARCH 31,	
(UNAUDITED, IN THOUSANDS, EXCEPT PER UNIT DATA AND BARREL/DAY INFORMATION)	2001	2002
STATEMENT OF INCOME DATA:		
Revenues..	$23,422	$26,024

Costs and expenses:		
Operating expenses	8,651	9,184
General and administrative expenses	1,172	1,789
Depreciation and amortization	3,238	4,355
Total costs and expenses	13,061	15,328
Operating income	10,361	10,696
Interest expense, net	(2,244)	(556)
Equity income from Skelly-Belvieu Pipeline Company	669	678
Income before income taxes	8,786	10,818
Benefit (provision) for income taxes(6)	-	(395)
Net income	$ 8,786	$10,423
Basic and diluted net income per unit(4)		$ 0.50
Cash distributions per unit		$ 0.65
OTHER FINANCIAL DATA:		
Adjusted EBITDA	$14,238	$15,822
Distributions from Skelly-Belvieu Pipeline Company	639	771
Net cash provided by operating activities	907	14,037
Net cash used in investing activities	(907)	(65,798)
Net cash provided by financing activities	-	51,654
Maintenance capital expenditures	745	789
Expansion capital expenditures	162	1,009
Total capital expenditures	907	1,798
OPERATING DATA (barrels/day):		
Crude oil pipeline throughput	308,311	312,387
Refined product pipeline throughput	317,464	262,872
Refined product terminal throughput	167,814	175,816

	MARCH 31,	
(IN THOUSANDS)	2001	2002
BALANCE SHEET DATA:		
Property, plant and equipment, net	$277,761	$346,455
Total assets	336,192	385,025
Long-term debt, including current portion and debt due to parent	118,360	90,076
Partners' equity	213,624	289,652

(1) If the revised tariff rates and the terminalling fee had been implemented effective January 1, 1997, 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, 2000 and 2001. The amounts in the table below are unaudited.

	PREDECESSOR		
	YEARS ENDED DECEMBER 31,		
(IN THOUSANDS)	1997	1998	1999
Revenues--historical....................................	$ 84,881	$ 97,883	$109,773
Decrease in tariff revenues............................	(16,197)	(17,067)	(21,892)
Increase in terminalling revenues.......................	1,778	1,649	-
Net decrease...	(14,419)	(15,418)	(21,892)
Revenues--as adjusted....................................	$ 70,462	$ 82,465	$ 87,881

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

(3) Effective July 1, 2000, Ultramar Diamond Shamrock transferred most of its Mid-Continent pipeline, terminalling and storage assets and certain related liabilities of the Ultramar Diamond Shamrock Logistics Business (predecessor) to Valero Logistics (successor). 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 (predecessor) 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 provision for income taxes of $7,405,000 for the six months ended June 30, 2000. The income tax provisions for periods prior to July 1, 2000 were 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.

(4) Net income applicable to the limited partners, after deduction of the general partner's 2% allocation, for the period from April 16, 2001 to December 31, 2001, was $35,032,000 and net income applicable to the general partner was $715,000. Net income per unit is computed by first allocating net income to each class of unitholder, after deduction of the general partner's 2% interest. Basic and diluted net income per unit is the same. Net income per unit for the periods prior to April 16, 2001 is not shown as units had not been issued.

(5) The consolidated and combined statements of cash flows have been restated to reclassify distributions received from Skelly-Belvieu Pipeline Company to conform to the 2002 presentation. Distributions that relate to equity income generated by the joint venture are reflected as cash flows from operating activities while distributions in excess of equity income generated by the joint venture are reflected as cash flows from investing activities.

(6) The Wichita Falls Business was included in Ultramar Diamond Shamrock's (now Valero Energy's) consolidated federal and state income tax returns prior to its

acquisition by Valero L.P. on February 1, 2002. The income tax provision for the three months ended March 31, 2002 represents income taxes incurred by the Wichita Falls Business during the month ended January 31, 2002. The deferred income tax liabilities of $13,147,000 as of December 31, 2001 related to the Wichita Falls Business were credited to net parent investment upon the transfer of the Wichita Falls Business to Valero L.P.

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RISK FACTORS

You should read carefully the discussion of the material risks relating to our business under the caption "Risk Factors" beginning on page 4 of the accompanying prospectus and "Management's discussion and analysis of financial condition and results of operations" beginning on page S-20 of this prospectus supplement. In addition, please read carefully the following risks relating to the notes:

WE MAY NOT BE ABLE TO REPURCHASE THE NOTES UPON A CHANGE OF CONTROL.

If Valero Energy or an investment grade entity owns less than 51% of the general partner of Valero L.P. or if Valero L.P. or an investment grade entity owns less than all of our general partner or less than all of the limited partner interest in us, a change of control will occur under the indenture and we must offer to repurchase the notes. We may not have sufficient funds at the time of the change of control to make the required repurchases of the notes. Additionally, it is a change of control under our credit facility if Valero Energy ceases to own 100% of Valero L.P.'s general partner or at least 20% of the outstanding limited partner interests of Valero L.P. or a third party owns a greater aggregate limited partner interest in Valero L.P. than Valero Energy and its affiliates. Any of these change of control events would cause an event of default under our revolving credit facility that would, should it occur, permit the lenders to accelerate the debt outstanding under our revolving credit facility, which in turn would cause an event of default under the indenture.

YOUR ABILITY TO TRANSFER THE NOTES AT A TIME OR PRICE YOU DESIRE MAY BE LIMITED BY THE ABSENCE OF AN ACTIVE TRADING MARKET, WHICH MAY NOT DEVELOP.

The notes are a new issue of securities for which there is no established public market. Although we have registered the notes under the Securities Act of 1933, we do not intend to apply for listing of the notes on any securities exchange or for quotation of the notes in any automated dealer quotation system. In addition, although the underwriters have informed us that they intend to make a market in the notes, as permitted by applicable laws and regulations, they are not obliged to make a market in the notes, and they may discontinue their market-making activities at any time without notice. An active market for the notes may not develop or, if developed, may not continue. In the absence of an active trading market, you may not be able to transfer the notes within the time or at the price you desire.

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RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of the periods indicated is as follows:

TWELVE MONTHS ENDED DECEMBER 31,

	1997	1998	1999	2000	2001	THREE MONTHS ENDED MARCH 31, 2002
Ratio of earnings to fixed charges...	44.1x	59.5x	70.8x	8.7x	11.8x	17.6x

For purposes of calculating the ratio of earnings to fixed charges:

- "fixed charges" represent interest expense (including amounts capitalized and amortization of debt costs) and the portion of rental expense representing the interest factor; and

- "earnings" represent the aggregate of pre-tax income from continuing operations (before adjustment from equity investees), fixed charges, amortization of capitalized interest and distributions from equity investees, less capitalized interest.

USE OF PROCEEDS

We intend to use the approximately $98.5 million of net proceeds from this offering (after the payment of offering expenses) to:

- repay the $91 million outstanding principal balance under our revolving credit facility; and

- provide cash for general operating purposes.

The indebtedness under our revolving credit facility was incurred as follows:

- On April 16, 2001, we borrowed $20.5 million in connection with Valero L.P.'s initial public offering. As of December 31, 2001, we reduced the outstanding balance of borrowings under our revolving credit facility to $16 million;

- On February 1, 2002, we borrowed $64 million to fund the acquisition of the Wichita Falls Business; and

- On May 29, 2002, we borrowed $11 million to fund the acquisition of a 25-mile crude hydrogen pipeline.

As of March 31, 2002, the outstanding balance of borrowings under the revolving credit facility was $80 million. Currently, the outstanding balance of borrowings under the revolving credit facility is $91 million and the weighted interest rate under the credit facility is 2.54%. The revolving credit facility is currently scheduled to mature on January 15, 2006. Some of the underwriters in this offering are affiliates of the lenders under the credit facility. A portion of the proceeds of the offering will be used to repay these affiliates.

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CAPITALIZATION

The following table shows:

- Valero L.P.'s historical capitalization as of March 31, 2002; and

- Valero L.P.'s pro forma capitalization as of March 31, 2002, adjusted to reflect our offering of the notes and the application of the net proceeds we receive in the offering in the manner described under "Use of proceeds."

This table should be read together with the consolidated and combined financial statements and the accompanying notes included elsewhere in this prospectus supplement.

	AS OF MARCH 31, 2002	
(IN THOUSANDS)	ACTUAL	AS ADJUSTED
Bank revolving credit facility	$ 80,000	$ -
Long-term debt, including current portion	10,076	10,076
6 7/8% Senior Notes due 2012	-	100,000
Total debt	90,076	110,076
Equity:		
Common units	168,433	168,433
Subordinated units	115,429	115,429
General partner's equity	5,790	5,790
Total equity	289,652	289,652
Total capitalization	$379,728	$ 399,728

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DESCRIPTION OF REVOLVING CREDIT FACILITY

On December 15, 2000, we entered into a $120 million revolving credit facility with JPMorgan Chase and other lenders. The term of the credit facility is currently scheduled to expire on January 15, 2006.

In connection with the initial public offering of Valero L.P. on April 16, 2001, we borrowed $20.5 million under the revolving credit facility. Currently, the outstanding principal balance of borrowings under the revolving credit facility is $91 million. Borrowings under the revolving credit facility may be used for working capital and general partnership purposes, but borrowings in excess of the $25 million sublimit may not be used to fund distributions to unitholders. The obligations under the revolving credit facility are unsecured. The indebtedness under the revolving credit facility ranks equally with all of our outstanding unsecured and unsubordinated debt.

All loans under the revolving credit facility may be prepaid at any time without penalty. All borrowings designated as borrowings subject to the $25 million sublimit must be reduced to zero for a period of at least 15 consecutive days during each fiscal year.

The revolving credit facility also allows us to issue letters of credit for an aggregate amount of $25 million which may be used for general business purposes in the ordinary course of business or any other purpose approved by JPMorgan Chase.

Indebtedness under the revolving credit facility bears interest at our option of either the alternative base rate or LIBOR (preadjusted for reserves), as those terms are defined in the revolving credit facility, plus, in the case of loans bearing interest at LIBOR, an applicable margin. We incur a facility fee on the aggregate commitments of the lenders under the revolving credit facility, whether used or unused.

The revolving credit facility contains a prohibition on distributions by us to Valero L.P. if any default, as described below, is continuing or would result from the distribution.

In addition, the revolving credit facility contains various covenants limiting our ability to:

- incur indebtedness;

- grant liens;

- engage in transactions with affiliates;

- make investments, loans and acquisitions;

- enter into a merger, consolidation or sale of assets or liquidate;

- engage to a material extent in another type of business;

- enter into interest or currency exchange rate or commodity price hedging agreements, except in the ordinary course of business;

- incur restrictions affecting the ability to grant liens;

- create or acquire any subsidiary that does not guarantee the obligations under the revolving credit facility; or

- incur restrictions affecting our subsidiaries' ability to make dividends or distributions or to make or repay loans or advances to, or guarantee indebtedness of, us or any other subsidiary.

In addition, the revolving credit facility contains the following financial covenants:

- the ratio of Consolidated EBITDA (as defined in the revolving credit facility), pro forma for any dispositions or acquisitions of assets, to Consolidated Interest Expense (as defined in the revolving credit facility) must be at least 3.5 to 1.0 for any period of four consecutive fiscal quarters; and

- the ratio of consolidated indebtedness to Consolidated EBITDA, pro forma for any dispositions or acquisitions of assets, may not exceed 3.0 to 1.0 for any period of four consecutive fiscal quarters.

If an event of default exists under the revolving credit facility, the lenders may accelerate the maturity of the revolving credit facility and exercise other rights and remedies.

EVENTS OF DEFAULT

Each of the following is an event of default:

- failure to pay any principal when due, or any interest or other amount within five business days of the date when due;

- failure of any representation or warranty to be true and correct;

- failure to perform or otherwise comply with the covenants in the revolving credit facility;

- default by us or any of our subsidiaries on the payment of any indebtedness in excess of $10 million, or any default in the performance of any obligation or condition with respect to indebtedness in excess of $10 million if the effect of the default is to accelerate the indebtedness or to permit the holder of the indebtedness to accelerate its maturity;

- bankruptcy or insolvency events involving us or our subsidiaries;

- one or more satisfied judgments in excess of $10 million in the aggregate that is not covered by insurance is rendered against us and/or our subsidiaries;

- various events occur in connection with employee benefit plans involving expected liability in excess of $10 million;

- our incurrence or any of our subsidiaries' incurrence of environmental liabilities requiring payment in excess of $5 million in any four consecutive fiscal quarters;

- the incurrence of indebtedness by Valero L.P.;

- if Valero L.P.

    - engages in any business or operation other than those incidental to its ownership of the limited partner interests in us;

    - incurs or permits to exist any liabilities or other obligations other than nonconsensual obligations imposed by law, obligations with respect to the units of Valero L.P. and guarantees with respect to indebtedness permitted by law or under the credit agreement; and

    - owns, leases or operates any assets (including cash or cash equivalents) other than the limited partner interest in us, ownership interests (not to exceed 1%) in our subsidiaries and cash received as distributions from us in accordance with the revolving credit facility;

- the occurrence of a change of control, which is defined to include any of the following events:

    - Valero Energy ceases to own, directly or indirectly, 100% of the general partner of Valero L.P. or at least 20% of the outstanding units of Valero L.P.;

    - our general partner ceases to be 100%-owned, directly or indirectly, by either Valero L.P. or Valero Energy;

    - any person or group of persons other than Valero Energy and its wholly owned subsidiaries becomes the owner, directly or indirectly, of a greater percentage of the units than those owned, directly or indirectly, by Valero Energy; or

- 100% of the limited partnership interests in us cease to be owned, directly or indirectly, by Valero L.P. or Valero Energy; and

- the sale by Valero Energy of a material portion of the McKee, Three Rivers and Ardmore refineries, on an aggregate basis unless the long-term indebtedness of the purchaser has an investment grade rating and the purchaser assumes the rights and obligations of Valero Energy and its affiliates under the pipelines and terminals usage agreement with respect to the purchased refineries.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

CURRENT ORGANIZATION

Valero L.P. owns and operates most of the crude oil and refined product pipeline, terminalling and storage assets located in Texas, Oklahoma, New Mexico and Colorado that support Valero Energy's McKee and Three Rivers refineries located in Texas and its Ardmore refinery located in Oklahoma.

Valero Energy is one of the largest independent refining and marketing companies in the United States. Subsequent to the acquisition of Ultramar Diamond Shamrock by Valero Energy, Valero Energy owns and operates a total of 12 refineries in Texas (5), California (2), Louisiana, Oklahoma, Colorado, New Jersey and Quebec, Canada, with a combined throughput capacity of approximately 1,900,000 barrels per day. Valero Energy produces premium, environmentally clean products such as reformulated gasoline, low-sulfur diesel and oxygenates and gasoline meeting specifications of the California Air Resources Board (CARB). Valero Energy also produces conventional gasoline, distillates, jet fuel, asphalt and petrochemicals. Valero Energy markets its refined products through a network of approximately 4,600 retail outlets, as well as through other wholesale and spot market sales and exchange agreements. In the northeast United States and in eastern Canada, Valero Energy sells, on a retail basis, home heating oil to approximately 250,000 households.

Valero Energy's refining operations include various logistics assets (pipelines, terminals, marine dock facilities, bulk storage facilities, refinery delivery racks, rail car loading equipment and shipping and trucking operations) that support the refining and retail operations. A portion of the logistics assets consists of crude oil and refined product pipelines, refined product terminals and crude oil storage facilities located in Texas, Oklahoma, New Mexico and Colorado that support the McKee, Three Rivers and Ardmore refineries. These pipeline, terminalling and storage assets transport crude oil and other feedstocks to the refineries and transport refined products from the refineries to terminals for further distribution. Valero Energy markets the refined products produced by these refineries primarily in Texas, Oklahoma, Colorado, New Mexico and Arizona through a network of approximately 2,700 company-operated and dealer-operated convenience stores, as well as through other wholesale and spot market sales and exchange agreements.

RESTRUCTURING OF VALERO LOGISTICS OWNERSHIP INTERESTS

On May 30, 2002, Valero L.P. formed a wholly owned Delaware corporation, Valero GP, Inc. Valero L.P. contributed a 0.01% limited partner interest in Valero Logistics to Valero GP, Inc. as a capital contribution. Valero Logistics' partnership agreement was then amended to convert Valero 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.

- Valero GP, Inc. serves as the general partner of Valero Logistics with a 0.01% general partner interest.

- 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.

REORGANIZATION RELATED TO THE WICHITA FALLS BUSINESS

On February 1, 2002, Valero L.P. acquired the Wichita Falls Business (except for certain retained liabilities) 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 Valero L.P. had an option to purchase pursuant to the Omnibus Agreement between Valero L.P. and Ultramar Diamond Shamrock.

On December 31, 2001, Valero Energy acquired Ultramar Diamond Shamrock, including the Wichita Falls Business and the 73.6% ownership interest in Valero L.P. held by subsidiaries of Ultramar Diamond Shamrock, in a purchase business combination. As a result of Valero Energy's acquisition of Ultramar Diamond Shamrock, Valero Energy became the controlling owner of both the Wichita Falls Business and Valero L.P. on December 31, 2001.

Because the Wichita Falls Business was an affiliate of ours at the time of its acquisition, the acquisition was between entities under common control and, as such, was accounted for as 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 Ultramar Diamond Shamrock on December 31, 2001. In addition, the consolidated financial information as of December 31, 2001 and for the one month ended January 31, 2002 has been restated to include the Wichita Falls Business as if it had been combined with us effective December 31, 2001.

ACQUISITION OF ULTRAMAR DIAMOND SHAMROCK BY VALERO ENERGY

On May 7, 2001, Ultramar Diamond Shamrock announced that it had entered into an Agreement and Plan of Merger (the acquisition agreement) with Valero Energy whereby Ultramar Diamond Shamrock agreed to be acquired by Valero Energy for total consideration of approximately $4.3 billion. In September 2001, the board of directors and shareholders of both Ultramar Diamond Shamrock and Valero Energy approved the acquisition and, on December 31, 2001, Valero Energy completed its purchase acquisition of Ultramar Diamond Shamrock. Under the acquisition agreement, Ultramar Diamond Shamrock shareholders received, for each share of Ultramar Diamond Shamrock common stock they held, at their election, cash, Valero Energy common stock or a combination of cash and Valero Energy common stock, having a value equal to the sum of $27.50 plus 0.614 shares of Valero Energy

common stock valued at $35.78 per share (based on the average closing price of Valero Energy common stock over a ten trading-day period ending three days prior to December 31, 2001).

Ultramar Diamond Shamrock was an independent refiner and retailer of refined products and convenience store merchandise in the central, southwest and northeast regions of the United States and eastern Canada. Ultramar Diamond Shamrock owned and operated seven refineries located in Texas (2), California (2), Oklahoma, Colorado and Quebec, Canada and marketed its products through a network of approximately 4,500 convenience stores and 86 cardlock stations. In the northeast United States and in eastern Canada, Ultramar Diamond Shamrock sold, on a retail basis, home heating oil to approximately 250,000 households.

Shamrock Logistics, L.P. (Shamrock Logistics) and Shamrock Logistics Operations, L.P. (Shamrock Logistics Operations) were both subsidiaries of Ultramar Diamond Shamrock. On December 31, 2001, upon Valero Energy's acquisition of Ultramar Diamond Shamrock, Valero Energy assumed ownership of Shamrock Logistics and Shamrock Logistics Operations. Effective January 1, 2002, Shamrock Logistics was renamed Valero L.P. and its trading symbol on the NYSE was changed from "UDL" to "VLI." Also, effective January 1, 2002, Shamrock Logistics Operations was renamed Valero Logistics Operations, L.P.

Prior to the acquisition, Valero Energy owned and operated six refineries in Texas (3), Louisiana, New Jersey and California with a combined throughput capacity of more than 1,100,000 barrels per day. Valero Energy marketed its gasoline, diesel fuel and other refined products in 34 states through a bulk and rack marketing network and, in California, through approximately 350 retail locations. Upon completion of the acquisition, Valero Energy became the ultimate parent of Riverwalk Logistics, Valero L.P.'s general partner. In addition, Valero Energy became the obligor under the various agreements Ultramar Diamond Shamrock had with us, including the Services Agreement, the Pipelines and Terminals Usage Agreement and the environmental indemnification.

REORGANIZATIONS AND INITIAL PUBLIC OFFERING

Prior to July 1, 2000, the pipeline, terminalling and storage assets and operations discussed in this section were referred to as the Ultramar Diamond Shamrock Logistics Business as if it had existed as a single separate entity from Ultramar Diamond Shamrock. Ultramar Diamond Shamrock formed Valero Logistics to assume ownership of and to operate the assets of the Ultramar Diamond Shamrock Logistics Business. Effective July 1, 2000, Ultramar Diamond Shamrock transferred the crude oil and refined product pipelines, terminalling and storage assets and certain liabilities of the Ultramar Diamond Shamrock Logistics Business (predecessor) to Valero Logistics (successor). The transfer of assets and certain liabilities to Valero Logistics represented a reorganization of entities under common control and was recorded at historical cost.

Effective with the closing of an initial public offering of common units of Valero L.P. on April 16, 2001, the ownership of Valero Logistics held by various subsidiaries of Valero Energy was transferred to Valero L.P. in exchange for ownership interests (common and subordinated units) in Valero L.P. This transfer also represented a reorganization of entities under common control and was recorded at historical cost.

The following discussion is based on the operating results of the consolidated and combined financial statements of Valero L.P., Valero Logistics, the Wichita Falls Business and the Ultramar Diamond Shamrock Logistics Business as follows:

- consolidated financial statements of Valero L.P. and Valero Logistics as of March 31, 2002 and for the two months ended March 31, 2002;

- consolidated and combined financial statements of Valero L.P., Valero Logistics (successor) and the Wichita Falls Business as of December 31, 2001 and for the one month ended January 31, 2002;

- consolidated financial statements of Valero L.P. and Valero Logistics (successor) for the period from April 16, 2001 to December 31, 2001;

- combined financial statements of Valero L.P. and Valero Logistics (successor) as of December 31, 2000 and for the period from July 1, 2000 to December 31, 2000 and the period from January 1, 2001 to April 15, 2001; and

- combined financial statements of Valero L.P., Valero Logistics and the Ultramar Diamond Shamrock Logistics Business (predecessor) for the year ended December 31, 1999 and for the six months ended June 30, 2000.

This consolidated and combined financial statement presentation more clearly reflects our financial position and results of operations as a result of the recent reorganizations of entities under common control.

SEASONALITY

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

The throughput of crude oil we transport is directly affected by the level of, and refiner demand for, crude oil in markets served directly by our 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. As crude oil inventories increase, the market price for crude oil declines, along with the market prices for refined products. To bring crude oil inventories back in line with demand, refiners reduce production levels.

The throughput of the refined products we transport is directly affected by the level of, and user demand for, refined products in the markets served directly or indirectly by our refined product pipelines. Demand for gasoline in most markets peaks during the summer driving season, which extends from May to 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. Historically, we have not experienced significant fluctuations in throughput due to the stable demand for refined products and the growing population base in the southwestern and Rocky Mountain regions of the United States.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

FINANCIAL DATA

(IN THOUSANDS)	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2002
STATEMENT OF INCOME DATA:		
Revenues	$23,422	$26,024
Costs and expenses:		
Operating expenses	8,651	9,184
General and administrative expenses	1,172	1,789
Depreciation and amortization	3,238	4,355
Total costs and expenses	13,061	15,328
Operating income	10,361	10,696
Interest expense, net	(2,244)	(556)
Equity income from Skelly-Belvieu Pipeline Company	669	678
Income before income taxes	8,786	10,818
Provision for income taxes	-	(395)
Net income	$ 8,786	$10,423

(IN THOUSANDS)	MARCH 31, 2001	MARCH 31, 2002
BALANCE SHEET DATA:		
Property, plant and equipment, net	$277,761	$346,455
Total assets	336,192	385,025
Long-term debt, including current portion and debt due to parent	118,360	90,076
Partners' equity	213,624	289,652

OPERATING DATA

The following table reflects throughput barrels for our crude oil and refined product pipelines and the total throughput for all of the refined product terminals for the three months ended March 31, 2001 and 2002.

(IN THOUSANDS OF BARRELS)	THREE MONTHS ENDED MARCH 31, 2001	2002	% CHANGE
Crude oil pipeline throughput:			
Dixon to McKee	5,459	4,179	(23)%
Wichita Falls to McKee	-	5,441	-
Wasson to Ardmore	7,393	5,699	(23)%
Ringgold to Wasson	2,911	1,949	(33)%
Corpus Christi to Three Rivers	7,973	5,558	(30)%
Other crude oil pipelines	4,012	5,289	32%
Total crude oil pipelines	27,748	28,115	1%
Refined product pipeline throughput:			
McKee to Colorado Springs to Denver	2,261	1,630	(28)%
McKee to El Paso	5,758	5,616	(2)%
McKee to Amarillo to Abernathy	3,846	3,172	(18)%
Amarillo to Albuquerque	1,176	965	(18)%
McKee to Denver	1,081	1,025	(5)%
Ardmore to Wynnewood	5,487	3,813	(31)%
Three Rivers to Laredo	1,085	1,098	1%
Three Rivers to San Antonio	2,455	2,258	(8)%
Other refined product pipelines	5,423	4,081	(25)%
Total refined product pipelines	28,572	23,658	(17)%
Refined product terminal throughput	15,103	15,823	5%

Net income for the quarter ended March 31, 2002 was $10,423,000 as compared to $8,786,000 for the quarter ended March 31, 2001. The increase of $1,637,000 is primarily attributable to the additional net income generated from the three acquisitions completed since July of 2001 (the Southlake refined product terminal, the Ringgold crude oil storage facility and the Wichita Falls Business) and lower interest expense in the first quarter of 2002 as a result of repaying the $107,676,000 of debt due to parent in April of 2001. The increase was partially offset by the impact of lower throughput barrels resulting from economic-based refinery production cuts at the three Valero Energy refineries served by our pipelines and terminals. Net income in the first quarter of 2002 includes $650,000 of net income related to the Wichita Falls Business for the month ended January 31, 2002, which was allocated entirely to Valero Energy, the Business' parent.

Revenues for the quarter ended March 31, 2002 were $26,024,000 as compared to $23,422,000 for the quarter ended March 31, 2001, an increase of 11%, or $2,602,000. This increase is due primarily to the addition of the Wichita Falls crude oil pipeline revenues in the first quarter of

2002, partially offset by decreases in revenues on most of our other pipelines during the quarter. The following discusses significant revenue increases and decreases by pipeline:

- revenues in the first quarter of 2002 include $4,733,000 of revenues related to the Wichita Falls Business, including $1,740,000 of revenues

(2,000,000 barrels of throughput) related to the month ended January 31, 2002 as a result of the common control transfer between Valero Energy and Valero L.P.;

- revenues for the Ringgold to Wasson and the Wasson to Ardmore crude oil pipelines and the Ardmore to Wynnewood refined product pipeline decreased $559,000 due to a combined 27% decrease in throughput barrels, resulting from reduced production at the Ardmore refinery. During January and February of 2002, Valero Energy initiated economic-based refinery production cuts as a result of significantly lower refining margins industry-wide;

- revenues for the Corpus Christi to Three Rivers crude oil pipeline decreased $696,000 due to a 30% decrease in throughput barrels, as a result of reduced production at the Three Rivers refinery. During January and February of 2002, Valero Energy also initiated economic-based refinery production cuts at the Three Rivers refinery. In addition, during the first quarter of 2002, Valero Energy accelerated certain refinery maintenance turnaround work scheduled for later in 2002 resulting in the partial shutdown of the refinery and reduced throughput barrels in our pipelines;

- revenues for the McKee to Colorado Springs to Denver and the McKee to Amarillo to Abernathy refined product pipelines decreased $1,051,000 due to a combined 21% decrease in throughput barrels, resulting from reduced production at the McKee refinery. During the first quarter of 2002, Valero Energy began several planned refinery maintenance turnaround projects at the McKee refinery which significantly reduced production and thus reduced throughput barrels in our pipelines;

- revenues for the Three Rivers to Corpus Christi and the Three Rivers to Pettus refined product pipelines decreased $354,000 due to a combined 67% decrease in throughput barrels, as a result of reduced production at the Three Rivers refinery. During the refinery turnaround and economic-induced production cutbacks, the Three Rivers refinery curtailed production of benzene, toluene and xylene, the primary refined products transported in the refined product pipelines going to Corpus Christi from Three Rivers; and

- revenues for the refined product terminals for the first quarter of 2002, excluding the impact of the Southlake terminal, remained flat with the revenues recognized in the first quarter of 2001 since the additional fee charged at the terminal for blending additives into certain refined products offset the impact of the lower throughput barrels. Revenues for the Southlake refined product terminal, which was acquired on July 1, 2001, were $613,000 and the throughput was 2,107,000 barrels for the quarter ended March 31, 2002.

Operating expenses increased $533,000, or 6%, for the quarter ended March 31, 2002 as compared to the quarter ended March 31, 2001 due to $1,283,000 of operating expenses related to the Southlake refined product terminal, the Ringgold crude oil storage facility and the Wichita Falls Business, partially offset by lower utility expenses of $645,000, or 22%, due to lower natural gas costs and lower electricity rates negotiated with power suppliers.

General and administrative expenses increased 53% for the first quarter of 2002 as compared to the first quarter of 2001 due to general and administrative costs related to Valero L.P. being a publicly held entity. In addition to the $5,200,000 annual fee charged by Valero Energy for general and administrative services, Valero L.P. incurs costs from third parties (e.g., unitholder annual reports and K-1s and director fees) as a result of being a publicly held entity. For the three months ended March 31, 2001, general and administrative expenses of $1,172,000 reflect $1,300,000 of the annual service fee, less $128,000 reimbursed by partners on jointly owned pipelines. For the three months ended March 31, 2002, general and administrative expenses of $1,789,000 reflect $1,300,000 of the annual service fee, $40,000 of general and administrative expenses related to the Wichita Falls Business for January 2002, $605,000 of public entity expenses, less $156,000 reimbursed by partners on jointly owned pipelines.

Depreciation and amortization expense increased $1,117,000 for the quarter ended March 31, 2002 as compared to the quarter ended March 31, 2001 due to the additional depreciation related to the acquisition of the Southlake refined product terminal, the Ringgold crude oil storage facility and the Wichita Falls Business, all subsequent to the first quarter of 2001. Included in the first quarter of 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 represents our 50% interest in the net income of Skelly-Belvieu Pipeline Company, which operates the Skellytown to Mont Belvieu refined product pipeline. Equity income from Skelly-Belvieu Pipeline Company for the quarter ended March 31, 2002 approximated the amount of equity income recognized in the first quarter of 2001 as throughput volumes did not change significantly. Distributions from the Skelly-Belvieu Pipeline Company totaled $639,000 for the first quarter of 2001 as compared to $771,000 in the first quarter of 2002.

Interest expense for the quarter ended March 31, 2002 was $556,000, net of interest income of $19,000, as compared to $2,244,000 of interest expense for the same period in 2001. Interest expense decreased due to the payoff of the debt due to parent in April 2001 with proceeds from Valero L.P.'s initial public offering. During the first quarter of 2002, we incurred $447,000 of interest expense related to borrowings under the revolving credit facility and $128,000 of interest expense related to the Port of Corpus Christi note payable. The acquisition of the Wichita Falls Business from Valero Energy on February 1, 2002 was funded with $64,000,000 of borrowings under the revolving credit facility.

Income tax expense for the first quarter of 2002 represents income taxes incurred by the Wichita Falls Business for the month ended January 31, 2002, prior to the transfer of the Business to us.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO 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. 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 Valero Logistics for the period from April 16, 2001 to December 31, 2001 and the combined statement of income for Valero L.P. and Valero Logistics for the period from January 1, 2001 to April 15, 2001, which in this discussion are combined and referred to as the year ended December 31, 2001.

FINANCIAL DATA

(IN THOUSANDS)	YEARS ENDED DECEMBER 31, 2000	2001
STATEMENT OF INCOME DATA:		
Revenues	$92,053	$98,827
Costs and expenses:		
Operating expenses	33,505	33,583
General and administrative expenses	5,139	5,349
Depreciation and amortization	12,260	13,390
Total costs and expenses	50,904	52,322
Operating income	41,149	46,505
Interest expense, net	(5,181)	(3,811)
Equity income from Skelly-Belvieu Pipeline Company	3,877	3,179
Income before income taxes	$39,845	$45,873

OPERATING DATA

The following table reflects throughput barrels for our crude oil and refined product pipelines and the total throughput for all of our refined product terminals for the years ended December 31, 2000 and 2001. 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.

(IN THOUSANDS)	YEARS ENDED DECEMBER 31, 2000	2001	% CHANGE
Crude oil pipeline throughput:			
Dixon to McKee	22,736	20,403	(10)%
Wasson to Ardmore	28,003	29,612	6%
Ringgold to Wasson	10,724	13,788	29%
Corpus Christi to Three Rivers	31,271	28,689	(8)%
Other crude oil pipelines	15,157	18,399	21%
Total crude oil pipelines	107,891	110,891	3%
Refined product pipeline throughput:			
McKee to Colorado Springs to Denver	8,982	8,838	(2)%
McKee to El Paso	22,277	24,285	9%
McKee to Amarillo to Abernathy	13,219	13,747	4%

Amarillo to Albuquerque	4,714	4,613	(2)%
McKee to Denver	4,307	4,370	1%
Ardmore to Wynnewood	20,705	20,835	1%
Three Rivers to Laredo	5,886	4,479	(24)%
Three Rivers to San Antonio	9,761	10,175	4%
Other refined product pipelines	23,537	21,095	(10)%
Total refined product pipelines	113,388	112,437	(1)%
Refined product terminal throughput	60,629	64,522	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 primarily 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 Ultramar Diamond Shamrock purchasing greater quantities of crude oil from third parties near Ringgold instead of gathering crude oil barrels near Wasson. In March 2001, Ultramar Diamond Shamrock 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 Ultramar Diamond Shamrock'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 2001, the crude oil tariff rate was increased to cover the additional costs (dockage and wharfage fees) associated with operating a marine 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 Ultramar Diamond Shamrock'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 are 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, increased by $1,341,000 and throughput barrels increased by 4,601,000 for the year 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 our marine-based refined product terminals to cover the additional costs (dockage and wharfage fees) associated with operating a marine 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, we recognized a loss of $916,000 due to the impact of volumetric expansions, contractions and measurement discrepancies in our pipelines related to the first six months of 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 increased 4% for the year ended December 31, 2001 as compared to 2000 due to increased general and administrative costs related to being a publicly held entity. Prior to July 1, 2000, Ultramar Diamond Shamrock 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, Ultramar Diamond Shamrock entered into a Services Agreement with us 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. General and administrative expenses were as follows:

	YEARS ENDED DECEMBER 31,	
(IN THOUSANDS)	2000	2001
Services Agreement	$2,600	$5,200
Allocation of Ultramar Diamond Shamrock general and		

administrative expenses for first six months of 2000.....	2,839	-
Third party expenses......................................	200	730
Reimbursement from partners on jointly owned pipelines......	(500)	(581)
	$5,139	$5,349

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 the Ringgold crude oil storage facility acquired during 2001 and additional depreciation related to the recently completed capital projects.

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 to April 15, 2001, we incurred $2,513,000 of interest expense related to the $107,676,000 of debt due to parent that we assumed on July 1, 2000 and paid off on April 16, 2001. In addition, beginning April 16, 2001, Valero Logistics borrowed $20,506,000 under the 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.

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 Ultramar Diamond Shamrock and Phillips Petroleum Company utilizing greater quantities of natural gas to run their refining operations instead of selling the natural gas to third parties in Mont Belvieu.

Effective July 1, 2000, Ultramar Diamond Shamrock transferred the assets and certain liabilities of the Ultramar Diamond Shamrock Logistics Business (predecessor) to Valero Logistics (successor). As limited partnerships, Valero L.P. and Valero Logistics are 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 (predecessor) for the six months ended June 30, 2000.

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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 provision for income taxes of $7,405,000 for the six months ended June 30, 2000. The income tax provision 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 taxes 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 our pipelines and terminals for 2001 as compared to 2000.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 2000

The results of operations for the year ended December 31, 1999 presented in the following table are derived from the statement of income for the Ultramar Diamond Shamrock Logistics Business for the year ended December 31, 1999. 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 (predecessor) for the six months ended June 30, 2000 and the combined statement of income of Valero L.P. and Valero Logistics (successor) 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

(IN THOUSANDS)	PREDECESSOR YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 2000
STATEMENT OF INCOME DATA:		
Revenues	$109,773	$92,053
Costs and expenses:		
Operating expenses	29,013	33,505
General and administrative expenses	4,698	5,139
Depreciation and amortization	12,318	12,260
Total costs and expenses	46,029	50,904
Gain on sale of property, plant and equipment	2,478	--
Operating income	66,222	41,149
Interest expense, net	(777)	(5,181)
Equity income from Skelly-Belvieu Pipeline Company	3,874	3,877
Income before income taxes	$69,319	$39,845

OPERATING DATA

The following table reflects throughput barrels for our crude oil and refined product pipelines and the total throughput for all of our refined product terminals for the years ended December 31, 1999 and 2000. The throughput barrels for the year ended December 31, 2000 combine the barrels transported by the Ultramar Diamond Shamrock Logistics Business (predecessor) for the six months ended June 30, 2000 with the barrels transported by Valero Logistics for the six months ended December 31, 2000.

(IN THOUSANDS OF BARRELS)	PREDECESSOR YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 2000	% CHANGE

Crude oil pipeline throughput:			
Dixon to McKee	22,305	22,736	2%
Wasson to Ardmore (both pipelines)	26,339	28,003	6%
Ringgold to Wasson	10,982	10,724	(2)%
Corpus Christi to Three Rivers	29,417	31,271	6%
Other crude oil pipelines	13,172	15,157	15%
Total crude oil pipelines	102,215	107,891	6%
Refined product pipeline throughput:			
McKee to Colorado Springs to Denver	9,064	8,982	(1)%
McKee to El Paso	19,767	22,277	13%
McKee to Amarillo (both pipelines) to Abernathy	14,995	13,219	(12)%
Amarillo to Albuquerque	4,584	4,714	3%
McKee to Denver	3,924	4,307	10%
Ardmore to Wynnewood	20,014	20,705	3%
Three Rivers to Laredo	5,381	5,886	9%
Three Rivers to San Antonio	10,154	9,761	(4)%
Other refined product pipelines	20,667	23,537	14%
Total refined product pipelines	108,550	113,388	4%
Refined product terminal throughput	58,889	60,629	3%

Revenues for the year ended December 31, 2000 were $92,053,000 as compared to $109,773,000 for the year ended December 31, 1999, a decrease of 16% or $17,720,000. Effective January 1, 2000, we implemented revised tariff rates on many of our pipelines, which resulted in lower revenues being recognized in 2000 as compared to 1999. Adjusting the revenues for the year ended December 31, 1999 using the newly established tariff rates and the throughput barrels resulted in as adjusted revenues of $87,881,000. On a comparative basis, revenues increased $4,172,000 or 5%. The following discussion is based on a comparison of the as adjusted revenues for the year ended December 31, 1999 and the actual revenues for the year ended December 31, 2000:

- revenues for the McKee to El Paso refined product pipeline increased $1,618,000 due to a 13% increase in throughput barrels, resulting from higher refined product demand in El Paso and the Arizona market and temporary refinery disruptions on the West Coast;

- revenues increased $990,000 for the Corpus Christi to Three Rivers crude oil pipeline due to a 6% increase in throughput barrels. In 2000, Ultramar Diamond Shamrock increased production at the Three Rivers refinery to meet the growing demand in south Texas;

- revenues generated from the refined product terminals were $15,516,000 for the year ended December 31, 2000 as compared to $15,238,000 for the year ended December 31, 1999 due to a combined 3% increase in throughput at the various terminals;

- revenues from the McKee to Denver refined product pipeline increased $266,000 in 2000 as compared to 1999 as throughput increased 10% due to increasing demand in Denver, Colorado;

- revenues from the Three Rivers to Pettus (Corpus Christi segment) refined product pipeline increased $433,000 in 2000 as compared to 1999 as throughput increased 112% due to rising refined product demand in south Texas; and

- revenues for the Three Rivers to Laredo refined product pipeline increased $260,000 for 2000 as compared to 1999 due to a 9% increase in throughput barrels, resulting from increased refined product demand in Laredo, Texas and its sister city of Nuevo Laredo, Mexico. Laredo, Texas is one of the fastest growing cities in the United States and Valero Energy is the major supplier of refined products to this area of Texas.

Operating expenses increased $4,492,000, or 15%, in 2000 from 1999 primarily due to the following items:

- higher operating expenses of $538,000 resulting from a loss of $916,000 in 2000 as compared to a loss of $378,000 in 1999 due to the impact of volumetric expansions and contractions and discrepancies in the measurement of throughput. Effective July 1, 2000, the impact of these items is borne by the shippers in our pipelines and is therefore not reflected in operating expenses;

- higher maintenance expenses of $1,747,000 primarily related to discretionary environmental expenditures on terminal operations;

- utility expenses increasing $1,801,000 in 2000 as compared to 1999 as a result of higher throughput barrels in most pipelines and terminals and higher electricity rates in the fourth quarter of 2000 as a result of higher natural gas costs; and

- higher salary and employee benefit expenses of $853,000 in 2000 as compared to 1999 due to increased benefit accruals and rising salary costs.

Depreciation and amortization expense decreased $58,000 for the year ended December 31, 2000 as compared to the year ended December 31, 1999 due to the sale of an additional 8.33% interest in the McKee to El Paso refined product pipeline and terminal in August 1999. Partially offsetting the decrease was additional depreciation related to the recently completed capital projects, including the expansion of the McKee to Colorado Springs and the Amarillo to Albuquerque refined product pipelines.

General and administrative expenses increased 9% in 2000 as compared to 1999 due to increased general and administrative costs at Ultramar Diamond Shamrock while the net amount reimbursed by partners on jointly owned pipelines in 2000 remained comparable to 1999. General and administrative expenses were as follows:

	YEARS ENDED DECEMBER 31,	
(IN THOUSANDS)	1999	2000
Services Agreement...	$ -	$2,600
Allocation of Ultramar Diamond Shamrock general and		

administrative expenses	5,201	2,839
Third party expenses	-	200
Reimbursements from partners on jointly owned pipelines	(503)	(500)
	$4,698	$5,139

Interest expense of $5,181,000 for the year ended December 31, 2000 was higher than the $777,000 recognized during the year ended December 31, 1999 due to the additional interest expense recognized in the third and fourth quarters of 2000 related to the $107,676,000 of debt due to parent.

Equity income from Skelly-Belvieu Pipeline Company for the year ended December 31, 2000 was $3,877,000 as compared to $3,874,000 for the year ended December 31, 1999.

Effective July 1, 2000, Ultramar Diamond Shamrock transferred the assets and certain liabilities of the Ultramar Diamond Shamrock Logistics Business (predecessor) to Valero Logistics (successor). As limited partnerships, Valero L.P. and Valero Logistics are not subject to federal or state income taxes. Due to this change in tax status, the deferred income tax liability of $38,217,00 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 provision for income taxes of $7,405,000 for the first six months of 2000. The income tax provision for 1999 was based upon the effective income tax rate for the Ultramar Diamond Shamrock Logistics Business of 38.3%. The effective income tax rate exceeds the U.S. federal statutory income tax rate due to state income taxes.

Income before income taxes for the year ended December 31, 2000 was $39,845,000 as compared to $69,319,000 for the year ended December 31, 1999. The decrease of $29,474,000, or 43%, is primarily due to the decreased tariff revenues as a result of the revised tariff rates that went into effect January 1, 2000, the impact of which was $21,892,000.

OUTLOOK FOR THE REMAINDER OF 2002

During the second quarter of 2002, throughput levels in our pipelines and terminals returned to more normal levels since Valero Energy increased production at the McKee, Three Rivers and Ardmore refineries. With supply and demand fundamentals in the refining and marketing industry becoming more balanced, we anticipate that throughput levels will continue at normal levels for the balance of 2002; however, there can be no assurance that throughput will stay at these levels.

Based on the throughput improvements, the additional cash flow generated from the Wichita Falls Business acquired on February 1, 2002 and the additional cash flow anticipated from the crude hydrogen pipeline acquired on May 29, 2002, we expect to generate higher levels of distributable cash flow for the balance of 2002.

LIQUIDITY AND CAPITAL RESOURCES

Our 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. We expect to fund our 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 revolving credit facility and the issuance of additional common units of Valero L.P., notes of Valero Logistics and other capital market transactions.

FINANCING

As of March 31, 2002, we had $80,000,000 outstanding under our $120,000,000 revolving credit facility. During the first quarter of 2002, we borrowed $64,000,000 under the revolving credit facility to purchase the Wichita Falls Business from Valero Energy. In May 2002, we borrowed $11,000,000 under the revolving credit facility to purchase a crude hydrogen pipeline from Praxair, Inc.

The revolving credit facility expires on January 15, 2006 and borrowings under the revolving credit facility bear interest at either an alternative base rate or LIBOR at Valero Logistics' option.

The revolving credit facility requires that Valero Logistics maintain certain financial ratios and includes other restrictive covenants, including a prohibition on distributions if any default, as defined in