UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 18, 2003

VALERO L.P.
(Exact name of registrant as specified in its charter)

DELAWARE	1-16417	74-2956831
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

ONE VALERO PLACE SAN ANTONIO, TEXAS	78212
(Address of principal executive offices)	(Zip Code)

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

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

On March 18, 2003, Valero Energy Corporation contributed to Valero Logistics Operations, L.P., a 100%-owned operating subsidiary of Valero L.P., (i) 58 crude oil and intermediate feedstock storage tanks and related assets with an aggregate storage capacity of approximately 11.0 million barrels (the "Tank Assets") for $200 million in cash and (ii) Valero Energy's South Texas pipeline system and related terminals (the "South Texas Pipeline System") for $150 million in cash.

The Tank Assets consist of all of the tank shells, foundations, tank valves, tank gauges, pressure equipment, temperature equipment, corrosion protection, leak detection, tank lighting and related equipment and appurtenances associated with the specified crude oil storage tanks and intermediate feedstock storage tanks located at Valero Energy's West plant of the Corpus Christi refinery in Corpus Christi, Texas, Texas City refinery in Texas City, Texas, and Benicia refinery in Benicia, California.

The South Texas Pipeline System includes three intrastate pipeline systems -- the Houston pipeline system with 105,000 barrels per day of capacity, the Valley pipeline system with 27,100 barrels per day of capacity and the San Antonio pipeline system with 24,000 barrels per day of capacity in its north segment and 15,000 barrels per day in its south segment. These common carrier refined product pipelines connect Valero Energy's Corpus Christi and Three Rivers refineries to the Houston, San Antonio and Rio Grande Valley, Texas markets. There are also five refined product terminals along these pipeline systems and one asphalt terminal.

Valero L.P. intends to use the Tank Assets and the South Texas Pipeline System for the same purposes they were used prior to their acquisition.

Valero Energy, through its wholly owned subsidiaries, currently owns an aggregate 47.5% limited partner interest in Valero L.P. In addition, Valero Energy owns and controls Valero L.P.'s general partner, Riverwalk Logistics, L.P., which owns the 2% general partner interest in Valero L.P. and has incentive distribution rights giving it higher percentages of Valero L.P.'s quarterly cash distributions as various target distribution levels are met. Four of the seven members of the board of directors of Valero GP, LLC, the general partner of Riverwalk Logistics, L.P., are also officers and/or directors of Valero Energy. The executive officers of Valero GP, LLC are also officers and/or employees of Valero Energy. Valero Energy is also Valero L.P.'s primary customer for its pipelines and its terminalling operations and accounted for 99% of Valero L.P.'s revenues for the year ended December 31, 2002.

The terms of the Tank Assets and South Texas Pipeline System contributions were determined through negotiations between representatives of Valero Energy, acting on its own behalf, and the independent conflicts committee of the board of directors of Valero GP, LLC, the general partner of Valero L.P.'s general partner, acting on behalf of Valero L.P. The independent conflicts committee, which was represented by its own independent legal and financial advisors, approved the Tank Assets and South Texas Pipeline System contributions based in part on an opinion from its financial advisor that the consideration to be paid by Valero L.P. pursuant to the transaction agreements related to each of the contributions was fair, from a financial point of view, to Valero L.P. and its public unitholders.

Valero L.P. financed the contributions with the proceeds from a public offering of 5,750,000 common units (the "Common Unit Offering"), which resulted in net proceeds to Valero L.P. of approximately $202.3 million, and a portion of the proceeds from a private placement of $250 million aggregate principal amount of Valero Logistics' 6.05% senior notes due 2013, as well as $7.3 million of cash on hand and $25.0 million of borrowings under Valero Logistics' revolving credit facility. With the remainder of the proceeds, and immediately prior to the consummation of the contributions, Valero L.P. redeemed 3,809,750 of its common units representing limited partner interests from a wholly owned subsidiary of Valero Energy for approximately $134.1 million, or $35.19 per common unit, which was equal to the net proceeds per common unit Valero L.P. received in the Common Unit Offering, before expenses.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial statements of the business acquired.

Audited financial statements for the Valero South Texas Pipeline and Terminal Business as of December 31, 2002 and for the year ended December 31, 2002, are filed herewith as Exhibit 99.1 and incorporated herein by reference.

(b) Pro forma financial information.

Pro Forma combined financial statements for Valero L.P. and subsidiaries as of December 31, 2002 and for the year ended December 31, 2002 is filed herewith as Exhibit 99.2 and incorporated herein by reference.

(c) Exhibits.

Exhibit No.	Description
2.1	Contribution Agreement, dated as of March 6, 2003, among Valero Refining Company - California, UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. (Incorporated by reference from Exhibit 10.13 of Valero L.P.'s Annual Report on Form 10-K for the Year ended December 31, 2002 (File No. 001-16417) filed on March 10, 2003).
2.2	First Amendment to Contribution Agreement, dated as of March 14, 2003, among Valero Refining Company - California, UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. (filed herewith).
2.3	Contribution Agreement, dated as of March 6, 2003, among Valero Refining - Texas, L.P., UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. (Incorporated by reference from Exhibit 10.14 of Valero L.P.'s Annual Report on Form 10-K for the Year ended December 31, 2002 (File No. 001-16417) filed on March 10, 2003).
2.4	First Amendment to Contribution Agreement, dated as of March 14, 2003, among Valero Refining - Texas, L.P., UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. (filed herewith).
2.5	Contribution Agreement, dated as of March 6, 2003, among Valero Pipeline Company, UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. (Incorporated by reference from Exhibit 10.15 of Valero L.P.'s Annual Report on Form 10-K for the Year ended December 31, 2002 (File No. 001-16417) filed on March 10, 2003).
23.1	Consent of Ernst & Young LLP. (filed herewith).
99.1	Financial Statements of Valero South Texas Pipeline and Terminal Business as of and for the year ended December 31, 2002. (filed herewith).
99.2	Pro Forma Combined Financial Statements as of and for the year ended December 31, 2002. (filed herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Valero L.P.

By: Riverwalk Logistics, L.P.
its general partner

By: Valero GP, LLC
its general partner

Dated: April 2, 2003

By: /s/ Bradley C. Barron

Name: Bradley C. Barron
Title: Corporate Secretary

INDEX TO EXHIBITS

Exhibit No.	Description
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2.5	Contribution Agreement, dated as of March 6, 2003, among Valero Pipeline Company, UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. (Incorporated by reference from Exhibit 10.15 of Valero L.P.'s Annual Report on Form 10-K for the Year ended December 31, 2002 (File No. 001-16417) filed on March 10, 2003).
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99.2	Pro Forma Combined Financial Statements as of and for the year ended December 31, 2002. (filed herewith).

EXHIBIT 2.2

FIRST AMENDMENT TO CONTRIBUTION AGREEMENT

This First Amendment to Contribution Agreement (the "Amendment") is made and entered into on this 14th day of March, 2003, to be effective as of March 6, 2003, by and among Valero Refining Company - California, a Delaware corporation ("VRC"), UDS Logistics, LLC, a Delaware limited liability company ("UDS Logistics"), Valero L.P., a Delaware limited partnership (the "MLP"), Valero Logistics Operations, L.P., a Delaware limited partnership (the "OLP"), and Valero GP, Inc., a Delaware corporation and the general partner of OLP ("OLP-GP"). VRC, UDS Logistics, the MLP, the OLP and the OLP-GP are sometimes referred to collectively herein as the "Parties" and individually as a "Party."

RECITALS:

Whereas, the Parties are all of the parties to that one certain Contribution Agreement dated effective March 6, 2003 (the "Contribution Agreement"); and

Whereas, pursuant to the terms of the Contribution Agreement, VRC has agreed to contribute the Tank Assets to the OLP in exchange for the OLP Limited Partner Interest; and

Whereas, upon receipt of the OLP Limited Partner Interest, VRC has agreed to contribute the OLP Limited Partner Interest to UDS Logistics in exchange for the UDS Membership Interest having a value equivalent to the Cash Amount or, in the alternative, cash in an amount equivalent to the Cash Amount; and

Whereas, upon receipt of the right to receive the OLP Limited Partner Interest, UDS Logistics has agreed to contribute the OLP Limited Partner Interest to MLP in exchange for the payment of the Cash Amount; and

Whereas, notwithstanding that the Parties agreed that the Cash Amount shall be payable to UDS Logistics directly by the MLP, the Contribution Agreement contains a scrivener's error that reflects that the Cash Amount instead would be paid by the OLP on behalf of the MLP; and

Whereas, the Parties desire to enter into this Amendment to correct the payment provisions of the Contribution Agreement as described above;

Now, therefore, for good and adequate consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. Capitalized Terms. Capitalized terms not otherwise defined in this Amendment shall have the meanings set forth in the Contribution Agreement.

2. Amendment to Section 2(a). In order to correct the payment provisions of Section 2(a) of the Contribution, Sections 2(a)(vi) and 2(a)(vii) shall be amended and restated in their entirety to read as follows:

> "2(a)(vi) the MLP will pay the Cash Amount to UDS Logistics in exchange for the right to be assigned the OLP Limited Partner Interest from UDS Logistics;
>
> 2(a)(vii) UDS Logistics will contribute to the MLP, in exchange for the payment of the Cash Amount from the MLP, the OLP Limited Partner Interest, free and clear of any Encumbrances;"

3. Ratification. The Parties hereby ratify and confirm the Contribution Agreement, as amended by this Amendment.

4. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed and original but which together shall constitute one and the same instrument.

5. Governing Law and Venue. THIS AMENDMENT SHALL BE BOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE DOMESTIC LAWS OF THE STATE OF TEXAS WITHOUT GIVING EFFECT TO ANY CHOICE OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF TEXAS OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICATION OTHER THAN THE STATE OF TEXAS. VENUE FOR ANY ACTION ARISING UNDER THIS AMENDMENT SHALL LIE EXCLUSIVELY IN ANY STATE OR FEDERAL COURT IN BEXAR COUNTY, TEXAS.

6. Entire Agreement. This Amendment constitutes the entire agreement among the Parties regarding the subject matter hereof and supersedes any prior understandings, agreements, or representations by or among the Parties, written or oral, to the extent they have related in any way to the subject matter hereof.

[Signature Page Follows]

In witness whereof, the Parties have executed this Amendment to be effective as of the effective date first written above.

VALERO REFINING COMPANY - CALIFORNIA

By: /s/ Michael S. Ciskowski
Name: Michael S. Ciskowski
Title: Senior Vice President

UDS LOGISTICS, LLC

By: /s/ Raymond Gaddy
Name: Raymond Gaddy
Title: President

VALERO L.P.

By: Riverwalk Logistics, L.P., its General Partner

By: Valero GP, LLC, its General Partner

By: /s/ Curtis V. Anastasio
Name: Curtis V. Anastasio
Title: President

VALERO GP, INC.

By: /s/ Curtis V. Anastasio
Name: Curtis V. Anastasio
Title: President

VALERO LOGISTICS OPERATIONS, L.P.

By: Valero GP, Inc., its General Partner

By: /s/ Curtis V. Anastasio

Name: Curtis V. Anastasio

Title: President

EXHIBIT 2.4

FIRST AMENDMENT TO CONTRIBUTION AGREEMENT

This First Amendment to Contribution Agreement (the "Amendment") is made and entered into on this 14th day of March, 2003, to be effective as of March 6, 2003, by and among Valero Refining - Texas, L.P., a Texas limited partnership ("VRLP"), UDS Logistics, LLC, a Delaware limited liability company ("UDS Logistics"), Valero L.P., a Delaware limited partnership (the "MLP"), Valero Logistics Operations, L.P., a Delaware limited partnership (the "OLP"), and Valero GP, Inc., a Delaware corporation and the general partner of OLP ("OLP-GP"). VRLP, UDS Logistics, the MLP, the OLP and the OLP-GP are sometimes referred to collectively herein as the "Parties" and individually as a "Party."

RECITALS:

Whereas, the Parties are all of the parties to that one certain Contribution Agreement dated effective March 6, 2003 (the "Contribution Agreement"); and

Whereas, pursuant to the terms of the Contribution Agreement, VRLP has agreed to contribute the Tank Assets to the OLP in exchange for the OLP Limited Partner Interest; and

Whereas, upon receipt of the OLP Limited Partner Interest, VRLP has agreed to contribute the OLP Limited Partner Interest to UDS Logistics in exchange for the UDS Membership Interest having a value equivalent to the Cash Amount or, in the alternative, cash in an amount equivalent to the Cash Amount; and

Whereas, upon receipt of the right to receive the OLP Limited Partner Interest, UDS Logistics has agreed to contribute the OLP Limited Partner Interest to MLP in exchange for the payment of the Cash Amount; and

Whereas, notwithstanding that the Parties agreed that the Cash Amount shall be payable to UDS Logistics directly by the MLP, the Contribution Agreement contains a scrivener's error that reflects that the Cash Amount instead would be paid by the OLP on behalf of the MLP; and

Whereas, the Parties desire to enter into this Amendment to correct the payment provisions of the Contribution Agreement as described above;

Now, therefore, for good and adequate consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. Capitalized Terms. Capitalized terms not otherwise defined in this Amendment shall have the meanings set forth in the Contribution Agreement.

2. Amendment to Section 2(a). In order to correct the payment provisions of Section 2(a) of the Contribution, Sections 2(a)(vi) and 2(a)(vii) shall be amended and restated in their entirety to read as follows:

> "2(a)(vi) the MLP will pay the Cash Amount to UDS Logistics in exchange for the right to be assigned the OLP Limited Partner Interest from UDS Logistics;
>
> 2(a)(vii) UDS Logistics will contribute to the MLP, in exchange for the payment of the Cash Amount from the MLP, the OLP Limited Partner Interest, free and clear of any Encumbrances;"

3. Ratification. The Parties hereby ratify and confirm the Contribution Agreement, as amended by this Amendment.

4. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed and original but which together shall constitute one and the same instrument.

5. Governing Law and Venue. THIS AMENDMENT SHALL BE BOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE DOMESTIC LAWS OF THE STATE OF TEXAS WITHOUT GIVING EFFECT TO ANY CHOICE OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF TEXAS OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICATION OTHER THAN THE STATE OF TEXAS. VENUE FOR ANY ACTION ARISING UNDER THIS AMENDMENT SHALL LIE EXCLUSIVELY IN ANY STATE OR FEDERAL COURT IN BEXAR COUNTY, TEXAS.

6. Entire Agreement. This Amendment constitutes the entire agreement among the Parties regarding the subject matter hereof and supersedes any prior understandings, agreements, or representations by or among the Parties, written or oral, to the extent they have related in any way to the subject matter hereof.

[Signature Page Follows]

In witness whereof, the Parties have executed this Amendment to be effective as of the effective date first written above.

VALERO REFINING - TEXAS, L.P.

By: Valero Corporate Services Company, its General Partner

By: /s/ Michael S. Ciskowski

Name: Michael S. Ciskowski

Title: Sr. Vice President

UDS LOGISTICS, LLC

By: /s/ Raymond Gaddy

Name: Raymond Gaddy

Title: President

VALERO L.P.

By: Riverwalk Logistics, L.P., its General Partner

By: Valero GP, LLC, its General Partner

By: /s/ Curtis V. Anastasio

Name: Curtis V. Anastasio

Title: President

VALERO GP, INC.

By: /s/ Curtis V. Anastasio

Name: Curtis V. Anastasio

Title: President

VALERO LOGISTICS OPERATIONS, L.P.

By: Valero GP, Inc., its General Partner

By: Valero GP, Inc., its General Partner

By: /s/ Curtis V. Anastasio

Name: Curtis V. Anastasio

Title: President

EXHIBIT 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in Valero L.P.'s Registration Statement (Form S-3 No. 333-89978) of our report dated March 6, 2003 on the Valero South Texas Pipeline and Terminal Business financial statements for the year ended December 31, 2002 included in this Form 8-K.

/s/ ERNST & YOUNG LLP

San Antonio, Texas
April 2, 2003

EXHIBIT 99.1

VALERO SOUTH TEXAS PIPELINE AND TERMINAL BUSINESS

FINANCIAL STATEMENTS

DECEMBER 31, 2002

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Valero Energy Corporation

We have audited the accompanying balance sheet of the Valero South Texas Pipeline and Terminal Business as of December 31, 2002, and the related statements of income, cash flows, and changes in net parent investment for the year then ended. These financial statements are the responsibility of Valero Energy Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Valero South Texas Pipeline and Terminal Business as of December 31, 2002 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

San Antonio, Texas
March 6, 2003

VALERO SOUTH TEXAS PIPELINE AND TERMINAL BUSINESS

BALANCE SHEET
(in thousands)

	DECEMBER 31, 2002
ASSETS	
CURRENT ASSETS:	
Accounts receivable	$ 300
Other current assets	1,370
TOTAL CURRENT ASSETS	1,670
Property, plant and equipment	112,873
Less accumulated depreciation and amortization	(5,367)
Property, plant and equipment, net	107,506
TOTAL ASSETS	$ 109,176
LIABILITIES AND NET PARENT INVESTMENT	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 3,243
Taxes other than income taxes	322
TOTAL CURRENT LIABILITIES	3,565
Long-term capital lease obligation	99,280
Deferred income tax liabilities	16,703
Net parent investment	(10,372)
TOTAL LIABILITIES AND NET PARENT INVESTMENT	$ 109,176

See accompanying notes to the financial statements.

VALERO SOUTH TEXAS PIPELINE AND TERMINAL BUSINESS

STATEMENT OF INCOME
(in thousands)

	YEAR ENDED DECEMBER 31, 2002
REVENUES	$ 27,897
COSTS AND EXPENSES:	
Operating expenses	15,780
General and administrative expenses	820
Depreciation and amortization	3,390
TOTAL COSTS AND EXPENSES	19,990
OPERATING INCOME	7,907
Interest expense	(7,743)
INCOME BEFORE INCOME TAX EXPENSE	164
Income tax expense	66
NET INCOME	$ 98

See accompanying notes to the financial statements.

VALERO SOUTH TEXAS PIPELINE AND TERMINAL BUSINESS

STATEMENT OF CASH FLOWS
(in thousands)

	YEAR ENDED DECEMBER 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 98
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	3,390
Accretion of capital lease obligation	1,457
Deferred income taxes	66
Changes in operating assets and liabilities:	
Decrease in accounts receivable	642
Decrease in other current assets	104
Increase in accounts payable and accrued liabilities	1,015
Increase in taxes other than income taxes	243
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,015
CASH FLOWS FROM INVESTING ACTIVITIES:	
Maintenance capital expenditures	(843)
Expansion capital expenditures	(1,235)
NET CASH USED IN INVESTING ACTIVITIES	(2,078)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net cash repayments to parent	(4,937)
NET CASH USED IN FINANCING ACTIVITIES	(4,937)
NET INCREASE IN CASH	--
CASH AT BEGINNING OF YEAR	--
CASH AT END OF YEAR	$ --
INTEREST PAID	$ 6,286

See accompanying notes to the financial statements.

VALERO SOUTH TEXAS PIPELINE AND TERMINAL BUSINESS

STATEMENT OF CHANGES IN NET PARENT INVESTMENT
(in thousands)

	YEAR ENDED DECEMBER 31, 2002
BALANCE AS OF JANUARY 1, 2002	$ (5,533)
Net income	98
Net cash repayments to parent	(4,937)
BALANCE AS OF DECEMBER 31, 2002	$ (10,372)

See accompanying notes to the financial statements.

VALERO SOUTH TEXAS PIPELINE AND TERMINAL BUSINESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1: BUSINESS DESCRIPTION

Valero Energy Corporation (Valero Energy), through capital lease agreements entered into with certain wholly owned subsidiaries of El Paso Corporation (El Paso) effective June 1, 2001, leases and operates certain pipeline and terminal assets in south Texas, referred to herein as the South Texas Pipeline and Terminal Business (the Business). The Business is comprised of three intrastate common carrier pipelines and related terminalling assets. The three pipeline systems connect Valero Energy's refineries in Corpus Christi and Three Rivers, Texas to the Houston, San Antonio and Rio Grande Valley, Texas markets. Each of the three pipelines are subject to regulation by the Texas Railroad Commission. These regulations include rate regulations, which govern the tariff rates charged to pipeline customers for transportation through a pipeline. Tariff rates for each pipeline are required to be filed with the Texas Railroad Commission upon completion of a pipeline and when a tariff is being revised. In addition, the regulations include annual reporting requirements for each pipeline.

The Business consists of the following assets:

- The Houston Pipeline, a 204-mile pipeline originating in Corpus Christi, Texas and ending in the Houston ship channel area of Pasadena, Texas. The pipeline has the capacity to transport 105,000 barrels per day of refined product produced at Valero Energy's Corpus Christi refinery and third party refineries located in Corpus Christi.
- The San Antonio Pipeline which is comprised of two segments: the north segment, which runs from Pettus, Texas to San Antonio and the south segment which runs from Pettus, Texas to Corpus Christi. The north segment is 74 miles long and has a capacity of 24,000 barrels per day. This segment ends in San Antonio at the San Antonio terminal. The south segment is 60 miles long and has a capacity of 15,000 barrels per day.
- The Valley Pipeline, a 130-mile pipeline originating in Corpus Christi and ending at Edinburg, Texas. The pipeline has the capacity to transport 27,100 barrels per day of refined products produced at Valero Energy's Corpus Christi refinery.
- A terminal located near Victoria, Texas with a storage capacity of 98,000 barrels.
- A terminal located in San Antonio, Texas with a storage capacity of 148,200 barrels.
- A terminal located in Edinburg, Texas with a storage capacity of 184,600 barrels.
- Three terminals located in Houston, Texas with a total capacity of 212,900 barrels of refined product storage and 75,000 barrels of asphalt storage.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION: These audited financial statements have been prepared in accordance with United States generally accepted accounting principles and include all adjustments considered necessary for a fair presentation. The financial statements represent a carve-out financial statement presentation of the operations of the Business and reflect Valero Energy's historical cost basis as of and for the year ended December 31, 2002.

On Feburary 27, 2003, Valero Energy's Board of Directors approved the contribution of certain assets and liabilities of the Business to Valero L.P., a publicly traded limited partnership in which Valero Energy currently owns an approximate 73.6% interest, in exchange for a cash amount of $150 million. These financial statements do not include any adjustments that might result from the transfer of the Business.

The financial statements include allocations and estimates of direct and indirect Valero Energy general and administrative costs attributable to the operations of the Business. In addition, the majority of the Business' revenues are derived from transportation services provided to Valero Energy, the Business' primary customer. Management believes that the assumptions, estimates and allocations used to prepare these financial statements are reasonable. However, the allocations may not necessarily be indicative of the costs and expenses that would have resulted if the Business had been operated as a separate entity.

The Business' results of operations may be affected by seasonal factors, such as the demand for petroleum products, which vary during the year, or industry factors that may be specific to a particular period, such as industry supply capacity and refinery turnarounds.

USE OF ESTIMATES: The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. On an ongoing basis, management reviews their estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

PROPERTY, PLANT AND EQUIPMENT: Property, plant and equipment is stated at cost. Additions to property, plant and equipment, including maintenance and expansion capital expenditures and capitalized interest, are recorded at cost. Maintenance capital expenditures represent capital expenditures to replace partially or fully depreciated assets to maintain the existing operating capacity of existing assets and extend their useful lives. Expansion capital expenditures represent capital expenditures to expand the operating capacity of existing assets, whether through construction or acquisition. Repair and maintenance expenses associated with existing assets that are minor in nature and do not extend the useful life of existing assets are charged to operating expenses as incurred. Depreciation and amortization is provided principally using the straight-line method over the estimated useful lives of the related assets.

IMPAIRMENT OF LONG-LIVED ASSETS: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation of recoverability is performed using undiscounted estimated net cash flows generated by the related asset. If an asset is deemed to be impaired, the amount of impairment is determined as the amount by which the net carrying value exceeds discounted estimated net cash flows.

ENVIRONMENTAL REMEDIATION COSTS: Environmental remediation costs are expensed and an associated accrual established when site restoration and environmental remediation and cleanup obligations are either known or considered probable and can be reasonably estimated. Accrued liabilities are not discounted to present value and are not reduced by possible recoveries from third parties. Environmental costs include initial site surveys, costs for remediation and restoration, and ongoing monitoring costs, as well as fines, damages and other costs, when estimable. Adjustments to initial estimates are recorded, from time to time, to reflect changing circumstances and estimates based upon additional information developed in subsequent periods. See Note 8 regarding certain environmental liabilities retained by El Paso and Valero Energy.

NET PARENT INVESTMENT: The net parent investment represents a net balance as the result of various transactions between the Business and Valero Energy. The balance is the result of the Business' participation in Valero Energy's centralized cash management program under which all of the Business' cash receipts were remitted to and all cash disbursements were funded by Valero Energy. Other transactions affecting the net parent investment include intercompany transportation and terminalling revenues and related expenses, administrative and support expenses incurred by Valero Energy and allocated to the Business, and income taxes. There are no terms of settlement or interest charges associated with the net parent investment balance.

REVENUE RECOGNITION: Revenues are derived from pipeline transportation and terminalling of refined products. Transportation revenues (based on pipeline tariff rates) are recognized as refined products are transported through the pipeline. Rate regulations govern the tariff rates charged to pipeline customers.

Terminalling revenues are recognized as refined products are moved out of the terminal and as additives are blended with refined products.

OPERATING EXPENSES: Operating expenses consist primarily of fuel and power costs, telecommunication costs, labor costs of pipeline field and support personnel, maintenance, utilities and insurance. Such expenses are recognized as incurred.

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

Historically, the Business' results have been included in the consolidated federal income tax returns filed by Valero Energy and have been included in state income tax returns of subsidiaries of Valero Energy. The income tax provision in the statement of income represents the current and deferred income taxes that would have resulted if the Business were a stand-alone taxable entity filing its own income tax returns. Accordingly, the calculations of the income tax provision and deferred income taxes necessarily require certain assumptions, allocations and estimates which management believes are reasonable to reflect the tax reporting for the Business as a stand-alone taxpayer.

INTEREST EXPENSE: Interest expense consists of interest incurred on capital lease obligations.

COMPREHENSIVE INCOME: The Business has reported no comprehensive income due to the absence of items of other comprehensive income in the period presented.

SEGMENT DISCLOSURES: The Business operates in only one segment, the petroleum pipeline segment of the oil and gas industry.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES: The Business currently does not hold or trade derivative instruments.

NEW ACCOUNTING PRONOUNCEMENT

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

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, which primarily represents assets leased from El Paso under capital leases, consisted of the following:

	ESTIMATED USEFUL LIVES	DECEMBER 31, 2002
	(years)	(in thousands)
Land	--	$ 1,146
Pipelines, terminals and related buildings and equipment	16-33	97,419
Rights of way	33	11,708
Construction in progress	--	2,600
Total		112,873
Accumulated depreciation and amortization		(5,367)
Property, plant and equipment, net		$ 107,506

As of December 31, 2002, assets held under capital lease had a net book value of $104.9 million, net of accumulated amortization of $5.4 million.

NOTE 4: INCOME TAXES

The amounts presented below relate only to the Business and were calculated as if the Business filed separate federal and state income tax returns.

The provision for income taxes consisted of the following:

	YEAR ENDED DECEMBER 31, 2002
	(in thousands)
Deferred:	
Federal	$ 57
State	9
Total deferred	66
Income tax expense	$ 66

Deferred income taxes arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the Business' financial statements. The components of the Business' net deferred income tax liabilities consisted of the following:

	DECEMBER 31, 2002 (in thousands)
Deferred income tax assets:	
Net operating loss carry-forward	$ 1,633
Total deferred income tax assets	1,633
Deferred income tax liabilities:	
Property, plant and equipment	18,298
Other liabilities	38
Total deferred income tax liabilities	18,336
Net deferred income tax liabilities	$ 16,703

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

	YEAR ENDED DECEMBER 31, 2002 (in thousands)
U. S. federal statutory rate	35.00%
State income taxes (net of federal tax benefit)	5.24
Effective income tax rate	40.24%

NOTE 5: RELATED-PARTY TRANSACTIONS

Transactions between the Business and Valero Energy included pipeline tariff and terminal throughput revenues received by the Business from Valero Energy and the allocation of salary and employee benefit costs, insurance costs and administrative fees from Valero Energy to the Business. Such transactions cannot be presumed to be carried out on an arm's length basis as the requisite conditions of competitive, free-market dealings may not exist. For purposes of these financial statements, payables and receivables related to transactions between the Business and Valero Energy are included as a component of the net parent investment.

The Business participated in Valero Energy's centralized cash management program under which cash receipts and cash disbursements were processed through Valero Energy's cash accounts with a corresponding credit or charge to an intercompany account. This intercompany account is included in the net parent investment balance.

During the year ended December 31, 2002, Valero Energy provided the Business with certain general and administrative services, including the centralized corporate functions of legal, accounting, treasury, environmental, engineering, information technology, and human resources. For these services, Valero Energy charged the Business approximately 0.5% of its total general and administrative expenses incurred in the United States, with this allocation based on investments in property and personnel headcount.

Management believes that the amount of general and administrative expenses allocated to the Business is a reasonable approximation of the costs related to the Business.

The following table summarizes transactions between the Business and Valero Energy:

	YEAR ENDED DECEMBER 31, 2002 (in thousands)
Revenues	$25,801
Operating expenses	3,606
General and administrative expenses	820

NOTE 6: EMPLOYEE BENEFIT PLANS

Employees who work in the Business are included in the various employee benefit plans of Valero Energy. These plans include qualified, non-contributory defined benefit retirement plans, defined contribution 401(k) plans, employee and retiree medical, dental and life insurance plans, long-term incentive plans (i.e., stock options and bonuses) and other such benefits. For the purposes of these carve-out financial statements, the Business is considered to be participating in multi-employer benefit plans of Valero Energy.

The Business' allocated share of Valero Energy employee benefit plan expenses were $501,000 for the year ended December 31, 2002. These employee benefit plan expenses are included in operating expenses with the related payroll costs.

NOTE 7: LEASES

In connection with the capital lease agreements with El Paso discussed in Note 1, approximately $97,024,000 of capital lease obligation was attributed to the Business as of June 1, 2001. The lease agreements are for a term of 20 years and require Valero Energy to make total annual lease payments of $18.5 million for each of the first two years and increasing amounts thereafter. Approximately $6.3 million of those annual lease payments are attributable to the Business. As payments during the first two years of the capital lease term were less than interest incurred during that period, the capital lease obligation has increased since June 1, 2001. Accretion for the year ended December 31, 2002 and since the inception of the lease was $1,457,000 and $2,143,000, respectively. The Business' future minimum lease payments under the capital lease with El Paso are as follows (in thousands):

Minimum lease payments	$ 102,537
Less interest expense	(3,257)
Capital lease obligation	$ 99,280

Valero Energy has the option to purchase the facilities at the end of the second year of the lease and for increasing amounts each succeeding year through the end of the lease term. The minimum lease payments above represent payments from January 1, 2003 through June 1, 2003 (the purchase option date) plus the amount of the purchase option. See the discussion regarding the exercise of that option in Note 10, "Subsequent Events".

In addition, the Business leases certain equipment and vehicles under operating lease agreements expiring through 2007. Future minimum rental payments applicable to noncancellable operating leases as of December 31, 2002, are as follows (in thousands):

2003	$ 91
2004	90
2005	89
2006	54
2007	9
Future minimum lease payments	$ 333

Rental expense for all operating leases totaled $80,000 for the year ended December 31, 2002.

NOTE 8: ENVIRONMENTAL MATTERS

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

In connection with Valero Energy's lease of the El Paso assets, Valero Energy assumed all environmental liabilities related to the facilities with certain exceptions. El Paso retained liabilities for, and agreed to indemnify Valero Energy against (a) all environmental claims and costs related to offsite hazardous materials on or under certain adjacent properties, and all claims and costs pertaining to offsite environmental conditions arising under the requirements of an agreed final judgment dated April 1, 1998 between the State of Texas and Coastal Refining and Marketing, Inc. (a subsidiary of El Paso), (b) any environmental claim or cost related to the transportation or offsite disposal of any hazardous substance related to the facilities prior to June 1, 2001, (c) bodily injury and property damage resulting from exposure to or contamination by hazardous materials arising from El Paso's operation and use of the facilities prior to June 1, 2001, and (d) environmental claims and costs relating to the presence of hazardous materials resulting from El Paso's continued use of its assets that are located at or adjacent to the site of the facilities leased by Valero Energy. El Paso also retained liabilities for any pre-existing orders, judgments or citations that El Paso failed to disclose prior to June 1, 2001. Valero Energy's assumed liabilities include certain environmental remediation obligations relating primarily to soil and groundwater contamination at the leased facilities. These assumed liabilities are monitored by a corporate environmental area which is responsible for determining the propriety of any payments or adjustments to accruals related to the liabilities that arose prior to the inception of the lease with El Paso. These assumed environmental liabilities are considered the responsibility of Valero Energy, rather than the Business, and thus are not included in these financial statements. Liabilities pertaining to the Business arising subsequent to the inception of the lease are the responsibility of the Business and such costs are charged to the Business. However, no liabilities have arisen since the inception of the lease, and thus no environmental liability is reflected in the balance sheet as of December 31, 2002.

NOTE 9: CONTINGENCIES AND COMMITMENTS

There are various legal proceedings and claims pending against the Business which arise in the ordinary course of business. It is management's opinion, based upon advice of counsel, that these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations or financial position of the Business.

NOTE 10: SUBSEQUENT EVENTS

On February 28, 2003, Valero Energy exercised its option to purchase from El Paso the refinery in Corpus Christi and the related South Texas pipeline and terminalling assets that it had been leasing and operating since June 1, 2001. These assets were purchased for an aggregate consideration of approximately $289.3 million.

Effective March 1, 2003, the impact of volumetric variances in the pipelines will be borne by the shippers in the Business' pipelines. The net reduction to income before income tax expense of volumetric variances in the pipelines was $636,000 for the year ended December 31, 2002.

EXHIBIT 99.2

VALERO L.P. AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma combined financial statements combine the historical consolidated balance sheets and statements of income of Valero L.P. and subsidiaries (Valero L.P.) and the Valero South Texas Pipeline and Terminal Business (the Business), because of Valero L.P.'s acquisition of the Business which occurred on March 18, 2003 using the purchase method of accounting.

The following information is to aid in the analysis of the financial aspects of the acquisition. The balance sheet information as of December 31, 2002 and the statement of income information for the year ended December 31, 2002 for Valero L.P. were derived from the audited consolidated financial statements of Valero L.P. The information for Valero L.P. should be read together with the historical consolidated financial statements and related notes contained in its annual report on Form 10-K for the year ended December 31, 2002 and other information that has been filed with the SEC. The balance sheet information as of December 31, 2002 and the statement of income information for the year ended December 31, 2002 for the Business were derived from the audited financial statements of the Business included in this Form 8-K.

The unaudited pro forma combined statement of income assumes the acquisition was effective on January 1, 2002. The unaudited pro forma combined balance sheet gives effect to the acquisition as if it had occurred on December 31, 2002. The accounting policies of Valero L.P. and the Business are substantially comparable.

The unaudited pro forma combined financial information is for illustrative purposes only. The pro forma adjustments, as described in the Notes to Pro Forma Combined Financial Statements, are based upon available information and upon certain assumptions that Valero L.P.'s management believes are reasonable. The unaudited pro forma combined financial statements do not reflect the effect of anticipated synergies, if any, that may result from the acquisition. In addition, the pro forma combined financial information may not be indicative of the historical results that would have been achieved had the Business and Valero L.P. always been combined or the future results that Valero L.P. will experience.

VALERO L.P. AND SUBSIDIARIES
PRO FORMA COMBINED BALANCE SHEET
DECEMBER 31, 2002
(IN THOUSANDS)

	VALERO L.P. HISTORICAL	THE BUSINESS HISTORICAL	PRO FORMA ADJUSTMENTS	VALERO L.P. AND THE BUSINESS PRO FORMA
			(unaudited)	(unaudited)
ASSETS				
Current assets:				
Cash and cash equivalents	$ 33,533	$ --	$ 111,629 (A) 25,000 (B) 6,655 (C) (604) (D) (150,000) (E)	$ 26,213
Receivable from parent	8,482	--	--	8,482
Accounts receivable	1,502	300	(300) (F)	1,502
Other current assets	177	1,370	(1,370) (F)	177
Total current assets	43,694	1,670	(8,990)	36,374
Property, plant and equipment	486,939	112,873	150,000 (E) (112,873) (F)	636,939
Less accumulated depreciation and amortization	(137,663)	(5,367)	5,367 (F)	(137,663)
Property, plant and equipment, net	349,276	107,506	42,494	499,276
Goodwill	4,715	--	--	4,715
Investment in Skelly-Belvieu Pipeline Company	16,090	--	--	16,090
Other noncurrent assets	1,733	--	604 (D)	2,337
Total assets	$ 415,508	$ 109,176	$ 34,108	$ 558,792
LIABILITIES AND PARTNERS' EQUITY				
Current liabilities:				
Current portion of long-term debt	$ 747	$ --	$ --	$ 747
Accounts payable and accrued liabilities	8,133	3,243	(3,243) (F)	8,133
Taxes other than income taxes	3,797	322	(322) (F)	3,797
Total current liabilities	12,677	3,565	(3,565)	12,677
Long-term debt, less current portion	108,911	99,280	111,629 (A) 25,000 (B) (99,280) (F)	245,540
Other long-term liabilities	25	--	--	25
Deferred income tax liabilities	--	16,703	(16,703) (F)	--
Partners' equity:				
Common units	170,655	--	6,525 (C)	177,180
Subordinated units	117,042	--	--	117,042
General partner's equity	6,198	--	130 (C)	6,328
Net parent investment	--	(10,372)	10,372 (F)	--
Total partners' equity	293,895	(10,372)	17,027	300,550
Total liabilities and partners' equity	$ 415,508	$ 109,176	$ 34,108	$ 558,792

See accompanying notes to pro forma combined financial statements.

VALERO L.P. AND SUBSIDIARIES
PRO FORMA COMBINED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002
(IN THOUSANDS, EXCEPT UNIT AND PER UNIT AMOUNTS)

	VALERO L.P. HISTORICAL	THE BUSINESS HISTORICAL (unaudited)	PRO FORMA ADJUSTMENTS	VALERO L.P. AND THE BUSINESS PRO FORMA (unaudited)
REVENUES	$ 118,458	$ 27,897	$ --	$ 146,355
COSTS AND EXPENSES:				
Operating expenses	37,838	15,780	--	53,618
General and administrative expenses	6,950	820	--	7,770
Depreciation and amortization	16,440	3,390	2,065 (G)	21,895
TOTAL COSTS AND EXPENSES	61,228	19,990	2,065	83,283
OPERATING INCOME	57,230	7,907	(2,065)	63,072
Equity income from Skelly-Belvieu Pipeline Company	3,188	--	--	3,188
Interest expense, net	(4,880)	(7,743)	239 (H)	(12,475)
			(60) (I)	
			(31) (J)	
INCOME BEFORE INCOME TAX EXPENSE	55,538	164	(1,917)	53,785
Income tax expense	395	66	(66) (K)	395
NET INCOME	$ 55,143	$ 98	$ (1,851)	$ 53,390
ALLOCATION OF NET INCOME:				
Net income	$ 55,143			$ 53,390
Less net income applicable to the Wichita Falls Business for the month ended January 31, 2002	(650)			(650)
Net income applicable to the general and limited partners' interest	54,493			52,740
General partner's interest in net income	(2,187)			(2,152) (L)
Limited partners' interest in net income	$ 52,306			$ 50,588
PRO FORMA NET INCOME PER UNIT APPLICABLE TO LIMITED PARTNERS	$ 2.72			$ 2.60 (M)
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	19,250,867			19,436,289

See accompanying notes to pro forma combined financial statements.

VALERO L.P. AND SUBSIDIARIES
NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1: BASIS OF PRESENTATION

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

Effective June 1, 2001, Valero Energy began leasing, under capital lease agreements, certain pipelines and terminals in south Texas from subsidiaries of El Paso Corporation. On February 28, 2003, Valero Energy exercised the purchase options contained in the lease agreements. These pipeline and terminal assets and operations are referred to as the Valero South Texas Pipeline and Terminal Business (the Business). The Business consists of the following assets:

- The Houston Pipeline, a 204-mile pipeline originating in Corpus Christi, Texas and ending in the Houston ship channel area of Pasadena, Texas. The pipeline has the capacity to transport 105,000 barrels per day of refined product produced at Valero Energy's Corpus Christi refinery and third party refineries in Corpus Christi.

- The San Antonio Pipeline, which is comprised of two segments: the north segment which runs from Pettus, Texas to San Antonio, Texas and the south segment which runs from Pettus, Texas to Corpus Christi. The north segment is 74 miles long and has a capacity of 24,000 barrels per day. This segment ends in San Antonio at the San Antonio terminal. The south segment is 60 miles long and has a capacity of 15,000 barrels per day and ends at Valero Energy's Corpus Christi refinery.

- The Valley Pipeline, a 130-mile pipeline originating in Corpus Christi and ending in Edinburg, Texas. The pipeline has the capacity to transport 27,100 barrels per day of refined product produced at Valero Energy's Corpus Christi refinery.

- Refined Product Terminals located near Victoria, Texas (98,000 barrels of refined product storage capacity), in San Antonio (148,200 barrels of refined product storage capacity), in Edinburg (184,600 barrels of refined product storage capacity) and in Houston, Texas (212,900 barrels of refined product storage capacity and 75,000 barrels of asphalt storage capacity).

Effective March 18, 2003, Valero Energy contributed the Business to Valero L.P. for an aggregate amount of $150,000,000 in cash.

The pro forma combined financial statements are based on the historical consolidated financial position and results of operations of Valero L.P. and its wholly owned subsidiaries combined with the historical financial position and results of operations of the Valero South Texas Pipeline and Terminal Business. The pro forma combined financial statements reflect the acquisition of the Business by Valero L.P.

NOTE 2: DEBT AND EQUITY TRANSACTIONS AND TANK ASSET CONTRIBUTION

In conjunction with the acquisition of the Business from Valero Energy for $150,000,000, Valero L.P. and Valero Logistics entered into the following transactions on March 18, 2003:

Valero Logistics issued $250,000,000 of 6.05% senior notes due 2013 in a private placement for total proceeds of $249,298,000 after deducting debt discounts of $702,000. In addition, debt issuance costs totaled $1,350,000. A portion of the 6.05% senior note proceeds was used as payment for the redemption of common units and general partner interest discussed below and the remaining net proceeds of $111,025,000 ($111,629,000 proceeds less $604,000 of debt issuance costs) were used to partially fund the acquisition of the Business.

Valero L.P. redeemed 3,809,750 common units held by UDS Logistics, LLC, a wholly owned subsidiary of Valero Energy, for $134,066,000 and redeemed a proportionate amount of general partner interest held by Riverwalk Logistics, L.P., a wholly owned subsidiary of Valero Energy, for $2,857,000.

Valero L.P. issued 5,750,000 common units in a public offering under its shelf registration statement, which resulted in net proceeds of $202,343,000 after underwriting discounts and commissions. In order to maintain its 2% general partner interest, Riverwalk Logistics, L.P. made a $4,312,000 capital contribution to Valero L.P. Most of the proceeds from the common unit offering and the general partner interest capital contribution were used as payment for the tank asset acquisition discussed below, with the remaining net proceeds of $6,655,000 ($6,525,000 related to the common unit offering and $130,000 related to the general partner interest capital contribution) used to partially fund the acquisition of the Business. Based on net proceeds per common unit of $35.19 from the public offering, the $6,525,000 of common unit proceeds equates to 185,422 newly issued common units.

Valero Energy contributed 58 crude oil and intermediate feedstock storage tanks located at its Texas City refinery, Benicia refinery and West plant of the Corpus Christi refinery in exchange for $200,000,000 in cash. The tank asset acquisition was funded with proceeds from the public offering of common units and the related general partner interest capital contribution. Because the tank asset acquisition was the acquisition of assets and not a business, the tank asset acquisition was not included in the accompanying pro forma combined financial statements.

The pro forma combined financial statements reflect the funding of the contribution of the Business' refined product pipeline and terminal assets by Valero Energy with $111,025,000 of net proceeds from the issuance of the 6.05% senior notes, $25,000,000 of borrowings under Valero Logistics' revolving credit facility, $6,655,000 of net proceeds from the issuance by Valero L.P. of common units and the related general partner interest capital contribution and $7,320,000 of available cash.

NOTE 3: AGREEMENTS BETWEEN VALERO L.P. AND VALERO ENERGY

In conjunction with the acquisition of the Business, Valero L.P. and Valero Energy entered into the following agreements.

THROUGHPUT COMMITMENT AGREEMENT - In connection with the acquisition of the Business, Valero Logistics and Valero Energy entered into a throughput commitment agreement, for an initial period of 7 years, pursuant to which Valero Energy has committed to:

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

In the event Valero Energy does not transport in the pipelines or use the terminals for the required minimum volumes and if its obligation has not been suspended under the terms of the agreement, Valero Energy will be required to make a cash payment based on the shortfall in volume multiplied by the applicable weighted average tariff rate or terminal fee. In addition, Valero Energy has agreed, for a period of 7 years, (i) to remain the shipper for its refined products transported through the pipelines, and (ii) to neither challenge, nor cause others to challenge, the tariff rates or terminalling fees associated with the pipelines and terminals.

TERMINALLING AGREEMENTS - In connection with the acquisition of the Business, Valero Logistics and Valero Energy entered into terminalling agreements pursuant to which Valero Energy has agreed to pay terminalling fees, for an initial period of 5 years, for each barrel of refined product terminalled or stored at each of the refined product terminals associated with the Business. In addition to the terminalling fee, Valero Energy will pay an additive blending fee for gasoline additives blended into refined products at the various refined product terminals, except the Hobby Airport terminal. Valero Energy will pay a filtering fee for each barrel of refined product terminalled at the Hobby Airport terminal. The terminal agreements are subject to automatic renewal for successive one-year periods following the initial term and either party may terminate the terminalling agreements after the initial term upon 30 days notice.

NOTE 4: PRO FORMA ADJUSTMENTS AND ASSUMPTIONS

(A) Reflects the portion of the proceeds from Valero Logistics' private placement of $250,000,000 of 6.05% senior notes which was used to acquire the Business (see Note 2).

(B) Reflects the proceeds from a $25,000,000 borrowing made under Valero Logistics' $175,000,000 revolving credit facility, which were used to acquire the Business.

(C) Reflects the portion of the proceeds from Valero L.P.'s public offering of 5,750,000 common units and related general partner interest capital contribution which was used to acquire the Business (see Note 2).

(D) Reflects the portion of the payment of debt issuance costs (at a rate of 0.54%) related to Valero Logistics' private placement of 6.05% senior notes that pertains to the proceeds used to acquire the Business. The debt issuance costs, which totaled $1,350,000, are deferred and amortized over the ten-year life of the 6.05% senior notes (see Note 2).

(E) Represents the contribution by Valero Energy of the Business' for $150,000,000 in cash, including $7,320,000 of available cash.

(F) Represents the reversal of the historical cost of the Business' assets, liabilities and net parent investment.

(G) Reflects depreciation expense on the $150,000,000 addition to property, plant and equipment based on an estimated useful life of 27.5 years, less the amount previously recorded by the Business for the year ended December 31, 2002.

(H) Reflects interest expense as if the 6.05% senior notes and additional borrowings under the revolving credit facility were issued and drawn on January 1, 2002, respectively. This pro forma adjustment to interest expense is calculated as follows (in thousands):

Interest expense related to $111,629,000 portion of the 6.05% senior notes used to acquire the Business..........	$ (6,754)
Interest expense on the additional $25,000,000 of borrowings under the revolving credit facility at an assumed annual interest rate of 3.0%....................	(750)
Interest expense recorded by the Business for the year ended December 31, 2002 related to its capital leases, which were not assumed by Valero L.P....................	7,743
Pro forma adjustment to interest expense..................	$ 239

(I) Reflects the amortization of deferred debt issuance costs for the year ended December 31, 2002, as if the portion of the 6.05% senior notes that was used to acquire the Business were issued on January 1, 2002.

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

(J) Reflects the amortization of a portion of the debt discount on the 6.05% senior notes for the year ended December 31, 2002, as if the portion of the 6.05% senior notes that was used to acquire the Business were issued on January 1, 2002. Debt discount totaled $702,000, of which $314,000 related to the $111,629,000 associated with the acquisition of the Business.

(K) Reflects the elimination of historical federal and state income taxes of the Business as income taxes will be the responsibility of the partners and not Valero L.P.

(L) Pro forma net income allocated to the general partner includes incentive distributions of $1,103,000.

(M) Pro forma net income per unit applicable to limited partners is based on $50,588,000 of limited partners' interest in net income divided by the weighted average number of limited partner units outstanding of 19,436,289. The weighted average number of limited partner units outstanding includes 185,422 of newly issued common units from the public offering.