

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

(Mark One)

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

For the quarterly period ended June 30, 2022

OR

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

For the transition period from _____ to _____

Commission File Number 001-13175



VALERO ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

74-1828067

(I.R.S. Employer
Identification No.)

**One Valero Way
San Antonio, Texas**

(Address of principal executive offices)

78249

(Zip Code)

(210) 345-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock	VLO	New York Stock Exchange

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐
Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of the registrant's only class of common stock, \$0.01 par value, outstanding as of July 22, 2022 was 393,970,342.

VALERO ENERGY CORPORATION

TABLE OF CONTENTS

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
<u>ITEM 1. FINANCIAL STATEMENTS</u>	
<u>Consolidated Balance Sheets as of June 30, 2022 and December 31, 2021</u>	<u>1</u>
<u>Consolidated Statements of Income</u> <u>for the Three and Six Months Ended June 30, 2022 and 2021</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income</u> <u>for the Three and Six Months Ended June 30, 2022 and 2021</u>	<u>3</u>
<u>Consolidated Statements of Equity</u> <u>for the Three and Six Months Ended June 30, 2022 and 2021</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows</u> <u>for the Six Months Ended June 30, 2022 and 2021</u>	<u>6</u>
<u>Condensed Notes to Consolidated Financial Statements</u>	<u>7</u>
<u>ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL</u> <u>CONDITION AND RESULTS OF OPERATIONS</u>	<u>31</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>63</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>65</u>
<u>PART II – OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>65</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>65</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>66</u>
<u>ITEM 6. EXHIBITS</u>	<u>67</u>
<u>SIGNATURE</u>	<u>68</u>

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VALERO ENERGY CORPORATION CONSOLIDATED BALANCE SHEETS (millions of dollars, except par value)

	June 30, 2022 (unaudited)	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,392	\$ 4,122
Receivables, net	14,439	10,378
Inventories	7,147	6,265
Prepaid expenses and other	431	400
Total current assets	27,409	21,165
Property, plant, and equipment, at cost	49,602	49,072
Accumulated depreciation	(18,848)	(18,225)
Property, plant, and equipment, net	30,754	30,847
Deferred charges and other assets, net	6,182	5,876
Total assets	\$ 64,345	\$ 57,888
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of debt and finance lease obligations	\$ 1,022	\$ 1,264
Accounts payable	16,643	12,495
Accrued expenses	1,112	1,253
Taxes other than income taxes payable	1,599	1,461
Income taxes payable	1,593	378
Total current liabilities	21,969	16,851
Debt and finance lease obligations, less current portion	11,858	12,606
Deferred income tax liabilities	4,792	5,210
Other long-term liabilities	2,993	3,404
Commitments and contingencies		
Equity:		
Valero Energy Corporation stockholders' equity:		
Common stock, \$0.01 par value; 1,200,000,000 shares authorized; 673,501,593 and 673,501,593 shares issued	7	7
Additional paid-in capital	6,845	6,827
Treasury stock, at cost; 279,531,760 and 264,305,955 common shares	(17,537)	(15,677)
Retained earnings	33,079	28,281
Accumulated other comprehensive loss	(1,425)	(1,008)
Total Valero Energy Corporation stockholders' equity	20,969	18,430
Noncontrolling interests	1,764	1,387
Total equity	22,733	19,817
Total liabilities and equity	\$ 64,345	\$ 57,888

See Condensed Notes to Consolidated Financial Statements.

VALERO ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(millions of dollars, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenues (a)	\$ 51,641	\$ 27,748	\$ 90,183	\$ 48,554
Cost of sales:				
Cost of materials and other	42,946	25,249	77,895	44,241
Operating expenses (excluding depreciation and amortization expense reflected below)	1,626	1,214	3,005	2,870
Depreciation and amortization expense	590	576	1,185	1,142
Total cost of sales	45,162	27,039	82,085	48,253
Other operating expenses	15	12	34	50
General and administrative expenses (excluding depreciation and amortization expense reflected below)	233	176	438	384
Depreciation and amortization expense	12	12	23	24
Operating income (loss)	6,219	509	7,603	(157)
Other income, net	33	102	13	147
Interest and debt expense, net of capitalized interest	(142)	(150)	(287)	(299)
Income (loss) before income tax expense	6,110	461	7,329	(309)
Income tax expense	1,342	169	1,594	21
Net income (loss)	4,768	292	5,735	(330)
Less: Net income attributable to noncontrolling interests	75	130	137	212
Net income (loss) attributable to Valero Energy Corporation stockholders	\$ 4,693	\$ 162	\$ 5,598	\$ (542)
Earnings (loss) per common share	\$ 11.58	\$ 0.39	\$ 13.75	\$ (1.34)
Weighted-average common shares outstanding (in millions)	404	407	406	407
Earnings (loss) per common share – assuming dilution	\$ 11.57	\$ 0.39	\$ 13.74	\$ (1.34)
Weighted-average common shares outstanding – assuming dilution (in millions)	404	407	406	407
Supplemental information:				
(a) Includes excise taxes on sales by certain of our foreign operations	\$ 1,254	\$ 1,422	\$ 2,677	\$ 2,542

See Condensed Notes to Consolidated Financial Statements.

VALERO ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(millions of dollars)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income (loss)	\$ 4,768	\$ 292	\$ 5,735	\$ (330)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(442)	69	(429)	145
Net gain on pension and other postretirement benefits	9	13	17	28
Net gain (loss) on cash flow hedges	50	(7)	5	3
Other comprehensive income (loss) before income tax expense	(383)	75	(407)	176
Income tax expense related to items of other comprehensive income (loss)	7	2	7	9
Other comprehensive income (loss)	(390)	73	(414)	167
Comprehensive income (loss)	4,378	365	5,321	(163)
Less: Comprehensive income attributable to noncontrolling interests	101	127	140	214
Comprehensive income (loss) attributable to Valero Energy Corporation stockholders	\$ 4,277	\$ 238	\$ 5,181	\$ (377)

See Condensed Notes to Consolidated Financial Statements.

VALERO ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(millions of dollars)
(unaudited)

	Valero Energy Corporation Stockholders' Equity							
	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total	Non- controlling Interests	Total Equity
Balance as of March 31, 2022	\$ 7	\$ 6,832	\$ (15,794)	\$ 28,785	\$ (1,009)	\$ 18,821	\$ 1,589	\$ 20,410
Net income	—	—	—	4,693	—	4,693	75	4,768
Dividends on common stock (\$0.98 per share)	—	—	—	(399)	—	(399)	—	(399)
Stock-based compensation expense	—	15	—	—	—	15	—	15
Transactions in connection with stock-based compensation plans	—	(2)	5	—	—	3	—	3
Purchases of common stock for treasury	—	—	(1,748)	—	—	(1,748)	—	(1,748)
Contributions from noncontrolling interests	—	—	—	—	—	—	75	75
Distributions to noncontrolling interests	—	—	—	—	—	—	(1)	(1)
Other comprehensive income (loss)	—	—	—	—	(416)	(416)	26	(390)
Balance as of June 30, 2022	<u>\$ 7</u>	<u>\$ 6,845</u>	<u>\$ (17,537)</u>	<u>\$ 33,079</u>	<u>\$ (1,425)</u>	<u>\$ 20,969</u>	<u>\$ 1,764</u>	<u>\$ 22,733</u>
Balance as of March 31, 2021	\$ 7	\$ 6,810	\$ (15,700)	\$ 27,849	\$ (1,165)	\$ 17,801	\$ 926	\$ 18,727
Net income	—	—	—	162	—	162	130	292
Dividends on common stock (\$0.98 per share)	—	—	—	(401)	—	(401)	—	(401)
Stock-based compensation expense	—	13	—	—	—	13	—	13
Transactions in connection with stock-based compensation plans	—	(4)	5	—	—	1	—	1
Purchases of common stock for treasury	—	—	(1)	—	—	(1)	—	(1)
Other comprehensive income (loss)	—	—	—	—	76	76	(3)	73
Balance as of June 30, 2021	<u>\$ 7</u>	<u>\$ 6,819</u>	<u>\$ (15,696)</u>	<u>\$ 27,610</u>	<u>\$ (1,089)</u>	<u>\$ 17,651</u>	<u>\$ 1,053</u>	<u>\$ 18,704</u>

See Condensed Notes to Consolidated Financial Statements.

VALERO ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY (Continued)
(millions of dollars)
(unaudited)

	Valero Energy Corporation Stockholders' Equity							
	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total	Non- controlling Interests	Total Equity
Balance as of December 31, 2021	\$ 7	\$ 6,827	\$ (15,677)	\$ 28,281	\$ (1,008)	\$ 18,430	\$ 1,387	\$ 19,817
Net income	—	—	—	5,598	—	5,598	137	5,735
Dividends on common stock (\$1.96 per share)	—	—	—	(800)	—	(800)	—	(800)
Stock-based compensation expense	—	47	—	—	—	47	—	47
Transactions in connection with stock-based compensation plans	—	(29)	32	—	—	3	—	3
Purchases of common stock for treasury	—	—	(1,892)	—	—	(1,892)	—	(1,892)
Contributions from noncontrolling interests	—	—	—	—	—	—	240	240
Distributions to noncontrolling interests	—	—	—	—	—	—	(3)	(3)
Other comprehensive income (loss)	—	—	—	—	(417)	(417)	3	(414)
Balance as of June 30, 2022	<u>\$ 7</u>	<u>\$ 6,845</u>	<u>\$ (17,537)</u>	<u>\$ 33,079</u>	<u>\$ (1,425)</u>	<u>\$ 20,969</u>	<u>\$ 1,764</u>	<u>\$ 22,733</u>
Balance as of December 31, 2020	\$ 7	\$ 6,814	\$ (15,719)	\$ 28,953	\$ (1,254)	\$ 18,801	\$ 841	\$ 19,642
Net income (loss)	—	—	—	(542)	—	(542)	212	(330)
Dividends on common stock (\$1.96 per share)	—	—	—	(801)	—	(801)	—	(801)
Stock-based compensation expense	—	41	—	—	—	41	—	41
Transactions in connection with stock-based compensation plans	—	(36)	38	—	—	2	—	2
Purchases of common stock for treasury	—	—	(15)	—	—	(15)	—	(15)
Distributions to noncontrolling interests	—	—	—	—	—	—	(2)	(2)
Other comprehensive income	—	—	—	—	165	165	2	167
Balance as of June 30, 2021	<u>\$ 7</u>	<u>\$ 6,819</u>	<u>\$ (15,696)</u>	<u>\$ 27,610</u>	<u>\$ (1,089)</u>	<u>\$ 17,651</u>	<u>\$ 1,053</u>	<u>\$ 18,704</u>

See Condensed Notes to Consolidated Financial Statements.

VALERO ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(millions of dollars)
(unaudited)

	Six Months Ended June 30,	
	2022	2021
Cash flows from operating activities:		
Net income (loss)	\$ 5,735	\$ (330)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	1,208	1,166
Loss on early retirement of debt	50	—
Gain on sale of assets	—	(62)
Deferred income tax benefit	(333)	(136)
Changes in current assets and current liabilities	(128)	1,251
Changes in deferred charges and credits and other operating activities, net	(99)	67
Net cash provided by operating activities	<u>6,433</u>	<u>1,956</u>
Cash flows from investing activities:		
Capital expenditures (excluding variable interest entities (VIEs))	(324)	(261)
Capital expenditures of VIEs:		
Diamond Green Diesel Holdings LLC (DGD)	(458)	(398)
Other VIEs	(19)	(35)
Deferred turnaround and catalyst cost expenditures (excluding VIEs)	(681)	(426)
Deferred turnaround and catalyst cost expenditures of DGD	(13)	(1)
Proceeds from sale of assets	32	270
Investments in nonconsolidated joint ventures	(1)	(9)
Other investing activities, net	4	24
Net cash used in investing activities	<u>(1,460)</u>	<u>(836)</u>
Cash flows from financing activities:		
Proceeds from debt issuances and borrowings (excluding VIEs)	1,439	—
Proceeds from borrowings of VIEs:		
DGD	359	—
Other VIEs	46	16
Repayments of debt and finance lease obligations (excluding VIEs)	(2,580)	(63)
Repayments of debt and finance lease obligations of VIEs:		
DGD	(365)	—
Other VIEs	(33)	(3)
Premiums paid on early retirement of debt	(48)	—
Purchases of common stock for treasury	(1,892)	(15)
Common stock dividend payments	(800)	(801)
Contributions from noncontrolling interests	240	—
Distributions to noncontrolling interests	(3)	(2)
Other financing activities, net	(5)	2
Net cash used in financing activities	<u>(3,642)</u>	<u>(866)</u>
Effect of foreign exchange rate changes on cash	(61)	5
Net increase in cash and cash equivalents	<u>1,270</u>	<u>259</u>
Cash and cash equivalents at beginning of period	4,122	3,313
Cash and cash equivalents at end of period	<u>\$ 5,392</u>	<u>\$ 3,572</u>

See Condensed Notes to Consolidated Financial Statements.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

General

The terms “Valero,” “we,” “our,” and “us,” as used in this report, may refer to Valero Energy Corporation, one or more of its consolidated subsidiaries, or all of them taken as a whole. The term “DGD,” as used in this report, may refer to Diamond Green Diesel Holdings LLC, its wholly owned consolidated subsidiary, or both of them taken as a whole.

These unaudited financial statements have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, these interim financial statements reflect all adjustments considered necessary for a fair statement of our results for the interim periods presented. All such adjustments are of a normal recurring nature unless disclosed otherwise. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2022. The financial statements presented herein should be read in conjunction with the financial statements included in our annual report on Form 10-K for the year ended December 31, 2021.

The balance sheet as of December 31, 2021 has been derived from our audited financial statements as of that date. For further information, refer to our financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2021.

Significant Accounting Policy

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us 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, we review our estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. UNCERTAINTIES

During the three and six months ended June 30, 2022, our results were favorably impacted by the effect from the ongoing recovery in the worldwide demand for petroleum-based transportation fuels while the worldwide supply of those products was constrained. This supply and demand imbalance has contributed to increases in the market prices of the petroleum-based transportation fuels that we produce (as well as crude oil and other feedstocks that are processed to make these products) and in refining margins. Factors contributing to the supply and demand imbalance and the associated volatility in market prices, among others, are the loss of refining capacity resulting from refinery closures and the transition of refineries to renewable fuel production, and the Russia-Ukraine conflict. The Russia-Ukraine conflict, which began in February 2022, has exacerbated the fuel supply imbalance as a result of changes in trade flows of crude oil and petroleum-based products as countries and private market participants responded to the conflict by taking actions to refrain from purchasing and transporting Russian crude oil and petroleum-based products.

Many uncertainties remain with respect to the supply and demand imbalance and the resulting volatility in market prices for petroleum-based transportation fuels (including the potential negative impacts on the demand for those products due to the continued volatility in market prices), the current inflationary environment, and the possible responses from governmental authorities to new variants of the COVID-19 virus that could negatively affect the demand and market prices for our products and the worldwide economy. Developments with respect to the uncertainties described above are occurring at a rapid pace and cannot be predicted. Their overall economic impact and resulting impact on us also cannot be predicted with certainty at this time.

3. INVENTORIES

Inventories consisted of the following (in millions):

	June 30, 2022	December 31, 2021
Refinery feedstocks	\$ 1,888	\$ 1,995
Refined petroleum products and blendstocks	4,328	3,567
Renewable diesel feedstocks and products	319	135
Ethanol feedstocks and products	315	273
Materials and supplies	297	295
Inventories	<u>\$ 7,147</u>	<u>\$ 6,265</u>

As of June 30, 2022 and December 31, 2021, the replacement cost (market value) of last-in, first-out (LIFO) inventories exceeded their LIFO carrying amounts by \$9.7 billion and \$5.2 billion, respectively. Our non-LIFO inventories accounted for \$1.5 billion and \$1.4 billion of our total inventories as of June 30, 2022 and December 31, 2021, respectively.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. PROPERTY, PLANT, AND EQUIPMENT

In June 2022, we sold our ethanol plant in Jefferson, Wisconsin for \$32 million, which resulted in a gain of \$23 million that is included in depreciation and amortization expense for the three and six months ended June 30, 2022.

The Jefferson plant was temporarily idled in 2020 at the onset of the COVID-19 pandemic in response to the decreased demand for ethanol resulting from the effects of the pandemic on our business, and we had previously evaluated this plant for potential impairment assuming that operations would resume. However, we completed an evaluation of the plant during the third quarter of 2021 and concluded that it was no longer a strategic asset for our ethanol business. The plant's operations permanently ceased at that time.

5. DEBT

Public Debt

In June 2022, we reduced our debt through the acquisition of the \$300 million of 4.00 percent Gulf Opportunity Zone Revenue Bonds Series 2010 (GO Zone Bonds) that are due December 1, 2040, but were subject to mandatory tender on June 1, 2022. We have the option to effectuate a remarketing of these bonds.

In February 2022, we issued \$650 million of 4.000 percent Senior Notes due June 1, 2052. Proceeds from this debt issuance totaled \$639 million before deducting the underwriting discount and other debt issuance costs. The proceeds and cash on hand were used to repurchase and retire the following notes in connection with cash tender offers that we publicly announced and completed in February 2022 (in millions):

Debt Repurchased and Retired	Principal Amount
3.65% Senior Notes due 2025	\$ 72
2.850% Senior Notes due 2025	507
4.375% VLP Senior Notes due 2026	168
3.400% Senior Notes due 2026	653
Total	<u>\$ 1,400</u>

In connection with the early debt retirement activity described above, we recognized a charge of \$50 million in "other income, net" primarily comprised of \$48 million of premiums paid.

During the six months ended June 30, 2021, there was no issuance or redemption activity related to our public debt.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit Facilities

We had outstanding borrowings, letters of credit issued, and availability under our credit facilities as follows (amounts in millions and currency in U.S. dollars, except as noted):

			June 30, 2022			
	Facility Amount	Maturity Date	Outstanding Borrowings	Letters of Credit Issued (a)	Availability	
Committed facilities:						
Valero Revolver	\$ 4,000	March 2024	\$ —	\$ 912	\$ 3,088	
Canadian Revolver	C\$ 150	November 2022	C\$ —	C\$ 5	C\$ 145	
Accounts receivable sales facility (b)	\$ 1,300	July 2022	\$ —	n/a	\$ 1,300	
Letter of credit facility	\$ 50	November 2022	n/a	\$ —	\$ 50	
Committed facilities of VIEs (c):						
DGD Revolver (d)	\$ 400	March 2024	\$ 100	\$ 18	\$ 282	
DGD Loan Agreement (e)	\$ 25	April 2023	\$ 25	n/a	\$ —	
IEnova Revolver (f)	\$ 830	February 2028	\$ 695	n/a	\$ 135	
Uncommitted facilities:						
Letter of credit facilities	n/a	n/a	n/a	\$ 1,448	n/a	

(a) Letters of credit issued as of June 30, 2022 expire at various times in 2022 through 2023.

(b) In July 2022, we extended the maturity date of this facility to July 2023.

(c) Creditors of the VIEs do not have recourse against us.

(d) The variable interest rate on the DGD Revolver was 3.030 percent and 1.860 percent as of June 30, 2022 and December 31, 2021, respectively.

(e) The amounts shown for this facility represent the facility amount available from, and borrowings outstanding to, the noncontrolling member as any transactions between DGD and us under this facility are eliminated in consolidation. The variable interest rate on the DGD Loan Agreement was 3.620 percent and 2.603 percent as of June 30, 2022 and December 31, 2021, respectively.

(f) The variable interest rate on the IEnova Revolver was 4.617 percent and 3.781 percent as of June 30, 2022 and December 31, 2021, respectively.

Activity under our credit facilities was as follows (in millions):

	Six Months Ended June 30,	
	2022	2021
Borrowings:		
Accounts receivable sales facility	\$ 800	\$ —
DGD Revolver	359	—
IEnova Revolver	46	16
Repayments:		
Accounts receivable sales facility	(800)	—
DGD Revolver	(359)	—
IEnova Revolver	(30)	—

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Disclosures

“Interest and debt expense, net of capitalized interest” is comprised as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Interest and debt expense	\$ 156	\$ 162	\$ 313	\$ 326
Less: Capitalized interest	14	12	26	27
Interest and debt expense, net of capitalized interest	<u>\$ 142</u>	<u>\$ 150</u>	<u>\$ 287</u>	<u>\$ 299</u>

6. EQUITY

Treasury Stock

We purchase shares of our outstanding common stock as authorized by our board of directors (Board), including under share purchase programs and with respect to our employee stock-based compensation plans. During the three and six months ended June 30, 2022, we purchased for treasury 14,211,408 shares for \$1.7 billion and 15,757,281 shares for \$1.9 billion, respectively. During the three and six months ended June 30, 2021, we purchased for treasury 7,072 shares for \$1 million and 228,060 shares for \$15 million, respectively. On January 23, 2018, the Board authorized our purchase of up to \$2.5 billion of our outstanding common stock with no expiration date (the 2018 Program), and we completed all authorized share purchases under that program during the three months ended June 30, 2022. On July 7, 2022, we announced that our Board authorized our purchase of up to an additional \$2.5 billion of our outstanding common stock with no expiration date (the 2022 Program).

Common Stock Dividends

On July 21, 2022, our Board declared a quarterly cash dividend of \$0.98 per common share payable on September 1, 2022 to holders of record at the close of business on August 4, 2022.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component, net of tax, were as follows (in millions):

	Three Months Ended June 30,				2021			
	2022				2021			
	Foreign Currency Translation Adjustment	Defined Benefit Plans Items	Gains (Losses) on Cash Flow Hedges	Total	Foreign Currency Translation Adjustment	Defined Benefit Plans Items	Gains (Losses) on Cash Flow Hedges	Total
Balance as of beginning of period	\$ (549)	\$ (437)	\$ (23)	\$ (1,009)	\$ (439)	\$ (728)	\$ 2	\$ (1,165)
Other comprehensive income (loss) before reclassifications	(442)	1	(50)	(491)	66	—	(7)	59
Amounts reclassified from accumulated other comprehensive loss	—	4	69	73	—	14	4	18
Effect of exchange rates	—	2	—	2	—	(1)	—	(1)
Other comprehensive income (loss)	(442)	7	19	(416)	66	13	(3)	76
Balance as of end of period	<u>\$ (991)</u>	<u>\$ (430)</u>	<u>\$ (4)</u>	<u>\$ (1,425)</u>	<u>\$ (373)</u>	<u>\$ (715)</u>	<u>\$ (1)</u>	<u>\$ (1,089)</u>

	Six Months Ended June 30,				2021			
	2022				2021			
	Foreign Currency Translation Adjustment	Defined Benefit Plans Items	Gains (Losses) on Cash Flow Hedges	Total	Foreign Currency Translation Adjustment	Defined Benefit Plans Items	Gains (Losses) on Cash Flow Hedges	Total
Balance as of beginning of period	\$ (562)	\$ (441)	\$ (5)	\$ (1,008)	\$ (515)	\$ (737)	\$ (2)	\$ (1,254)
Other comprehensive income (loss) before reclassifications	(429)	(2)	(114)	(545)	142	1	(12)	131
Amounts reclassified from accumulated other comprehensive loss	—	11	115	126	—	22	13	35
Effect of exchange rates	—	2	—	2	—	(1)	—	(1)
Other comprehensive income (loss)	(429)	11	1	(417)	142	22	1	165
Balance as of end of period	<u>\$ (991)</u>	<u>\$ (430)</u>	<u>\$ (4)</u>	<u>\$ (1,425)</u>	<u>\$ (373)</u>	<u>\$ (715)</u>	<u>\$ (1)</u>	<u>\$ (1,089)</u>

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. VARIABLE INTEREST ENTITIES

Consolidated VIEs

We consolidate a VIE when we have a variable interest in an entity for which we are the primary beneficiary. As of June 30, 2022, the significant consolidated VIEs included:

- DGD, a joint venture with a subsidiary of Darling Ingredients Inc. that owns and operates a plant that processes waste and renewable feedstocks (predominately animal fats, used cooking oils, and inedible distillers corn oils) into renewable diesel; and
- Central Mexico Terminals, a collective group of three subsidiaries of Infraestructura Energetica Nova, S.A.P.I. de C.V. (IEnova), which is a Mexican company and indirect subsidiary of Semptra Energy, a U.S. public company. We have terminaling agreements with Central Mexico Terminals that represent variable interests. We do not have an ownership interest in Central Mexico Terminals.

The assets of the consolidated VIEs can only be used to settle their own obligations and the creditors of the consolidated VIEs have no recourse to our other assets. We generally do not provide financial guarantees to the VIEs. Although we have provided credit facilities to some of the VIEs in support of their construction or acquisition activities, these transactions are eliminated in consolidation. Our financial position, results of operations, and cash flows are impacted by the performance of the consolidated VIEs, net of intercompany eliminations, to the extent of our ownership interest in each VIE.

The following tables present summarized balance sheet information for the significant assets and liabilities of the consolidated VIEs, which are included in our balance sheets (in millions):

	DGD	Central Mexico Terminals	Other	Total
June 30, 2022				
Assets				
Cash and cash equivalents	\$ 171	\$ —	\$ 14	\$ 185
Other current assets	835	8	25	868
Property, plant, and equipment, net	3,052	661	87	3,800
Liabilities				
Current liabilities, including current portion of debt and finance lease obligations	\$ 419	\$ 718	\$ 24	\$ 1,161
Debt and finance lease obligations, less current portion	258	—	—	258

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	DGD	Central Mexico Terminals	Other	Total
December 31, 2021				
Assets				
Cash and cash equivalents	\$ 21	\$ —	\$ 15	\$ 36
Other current assets	558	10	13	581
Property, plant, and equipment, net	2,629	676	91	3,396
Liabilities				
Current liabilities, including current portion of debt and finance lease obligations	\$ 398	\$ 729	\$ 9	\$ 1,136
Debt and finance lease obligations, less current portion	264	—	20	284

Nonconsolidated VIEs

We hold variable interests in VIEs that have not been consolidated because we are not considered the primary beneficiary. These nonconsolidated VIEs are not material to our financial position or results of operations and are accounted for as equity investments.

On April 19, 2021, we sold a 24.99 percent membership interest in MVP Terminalling, LLC (MVP), a nonconsolidated joint venture with a subsidiary of Magellan Midstream Partners, L. P., for \$270 million that resulted in a gain of \$62 million, which is included in “other income, net” for the three and six months ended June 30, 2021. MVP owns and operates a marine terminal located on the Houston Ship Channel in Pasadena, Texas. We retained a 25.01 percent membership interest in MVP.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost related to our defined benefit plans were as follows (in millions):

	Pension Plans		Other Postretirement Benefit Plans	
	2022	2021	2022	2021
Three months ended June 30				
Service cost	\$ 39	\$ 41	\$ 1	\$ 1
Interest cost	21	18	2	1
Expected return on plan assets	(48)	(48)	—	—
Amortization of:				
Net actuarial loss	13	20	—	—
Prior service credit	(5)	(5)	(1)	(1)
Special charges	—	4	—	—
Net periodic benefit cost	<u>\$ 20</u>	<u>\$ 30</u>	<u>\$ 2</u>	<u>\$ 1</u>
Six months ended June 30				
Service cost	\$ 77	\$ 81	\$ 3	\$ 3
Interest cost	42	36	4	3
Expected return on plan assets	(96)	(96)	—	—
Amortization of:				
Net actuarial loss	26	40	—	—
Prior service credit	(9)	(9)	(2)	(3)
Special charges	—	4	—	—
Net periodic benefit cost	<u>\$ 40</u>	<u>\$ 56</u>	<u>\$ 5</u>	<u>\$ 3</u>

The components of net periodic benefit cost other than the service cost component (i.e., the non-service cost components) are included in “other income, net.”

9. INCOME TAXES

Income Tax Expense

There was no significant variation in the customary relationship between income tax expense and income before income tax expense for the three and six months ended June 30, 2022.

During the three months ended June 30, 2021, certain statutory income tax rate changes (primarily an increase in the United Kingdom (U.K.) rate from 19 percent to 25 percent effective in 2023) were enacted that resulted in the remeasurement of our deferred tax liabilities. We recognized deferred income tax expense of \$64 million during the three and six months ended June 30, 2021, which represented the net increase in our deferred tax liabilities resulting from the changes in the income tax rates.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tax Returns Under Audit

We expect to complete the appeals process for certain U.S. federal income tax audits within the next 12 months. We do not expect to have a significant change to our liability for unrecognized tax benefits upon the settlement of our ongoing audits, and we believe that the ultimate settlement of our audits will not be material to our financial condition, results of operations, and liquidity.

10. EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per common share was computed as follows (dollars and shares in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Earnings (loss) per common share:				
Net income (loss) attributable to Valero stockholders	\$ 4,693	\$ 162	\$ 5,598	\$ (542)
Less: Income allocated to participating securities	17	2	20	3
Net income (loss) available to common stockholders	<u>\$ 4,676</u>	<u>\$ 160</u>	<u>\$ 5,578</u>	<u>\$ (545)</u>
Weighted-average common shares outstanding	404	407	406	407
Earnings (loss) per common share	<u>\$ 11.58</u>	<u>\$ 0.39</u>	<u>\$ 13.75</u>	<u>\$ (1.34)</u>
Earnings (loss) per common share – assuming dilution:				
Net income (loss) attributable to Valero stockholders	\$ 4,693	\$ 162	\$ 5,598	\$ (542)
Less: Income allocated to participating securities	17	2	20	3
Net income (loss) available to common stockholders	<u>\$ 4,676</u>	<u>\$ 160</u>	<u>\$ 5,578</u>	<u>\$ (545)</u>
Weighted-average common shares outstanding	404	407	406	407
Effect of dilutive securities	—	—	—	—
Weighted-average common shares outstanding – assuming dilution	<u>404</u>	<u>407</u>	<u>406</u>	<u>407</u>
Earnings (loss) per common share – assuming dilution	<u>\$ 11.57</u>	<u>\$ 0.39</u>	<u>\$ 13.74</u>	<u>\$ (1.34)</u>

Participating securities include restricted stock and performance awards granted under our 2020 Omnibus Stock Incentive Plan (OSIP) or our 2011 OSIP. Dilutive securities include participating securities as well as outstanding stock options.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. REVENUES AND SEGMENT INFORMATION

Revenue from Contracts with Customers

Disaggregation of Revenue

Revenue is presented in the table below under “*Segment Information*” disaggregated by product because this is the level of disaggregation that management has determined to be beneficial to users of our financial statements.

Contract Balances

Contract balances were as follows (in millions):

	June 30, 2022	December 31, 2021
Receivables from contracts with customers, included in receivables, net	\$ 9,399	\$ 6,228
Contract liabilities, included in accrued expenses	109	78

During the six months ended June 30, 2022 and 2021, we recognized as revenue \$72 million and \$40 million that was included in contract liabilities as of December 31, 2021 and 2020, respectively. Revenue recognized related to contract liabilities during the three months ended June 30, 2022 and 2021 was not material.

Remaining Performance Obligations

We have spot and term contracts with customers, the majority of which are spot contracts with no remaining performance obligations. We do not disclose remaining performance obligations for contracts that have terms of one year or less. The transaction price for our remaining term contracts includes a fixed component and variable consideration (i.e., a commodity price), both of which are allocated entirely to a wholly unsatisfied promise to transfer a distinct good that forms part of a single performance obligation. The fixed component is not material and the variable consideration is highly uncertain. Therefore, as of June 30, 2022, we have not disclosed the aggregate amount of the transaction price allocated to our remaining performance obligations.

Segment Information

We have three reportable segments — Refining, Renewable Diesel, and Ethanol. Each segment is a strategic business unit that offers different products and services by employing unique technologies and marketing strategies and whose operations and operating performance are managed and evaluated separately. Operating performance is measured based on the operating income generated by the segment, which includes revenues and expenses that are directly attributable to the management of the respective segment. Intersegment sales are generally derived from transactions made at prevailing market rates. The following is a description of each segment’s business operations.

- The *Refining segment* includes the operations of our petroleum refineries, the associated activities to market our refined petroleum products, and the logistics assets that support our refining operations. The principal products manufactured by our refineries and sold by this segment include gasolines and blendstocks, distillates, and other products.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- The *Renewable Diesel segment* represents the operations of DGD, a consolidated joint venture as discussed in Note 7, and the associated activities to market renewable diesel. The principal product manufactured by DGD and sold by this segment is renewable diesel. This segment sells some renewable diesel to the Refining segment, which is then sold to that segment's customers.
- The *Ethanol segment* includes the operations of our ethanol plants and the associated activities to market our ethanol and co-products. The principal products manufactured by our ethanol plants are ethanol and distillers grains. This segment sells some ethanol to the Refining segment for blending into gasoline, which is sold to that segment's customers as a finished gasoline product.

Operations that are not included in any of the reportable segments are included in the corporate category.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables reflect information about our operating income (loss) by reportable segment (in millions):

	Refining	Renewable Diesel	Ethanol	Corporate and Eliminations	Total
Three months ended June 30, 2022					
Revenues:					
Revenues from external customers	\$ 49,495	\$ 855	\$ 1,291	\$ —	\$ 51,641
Intersegment revenues	11	596	201	(808)	—
Total revenues	<u>49,506</u>	<u>1,451</u>	<u>1,492</u>	<u>(808)</u>	<u>51,641</u>
Cost of sales:					
Cost of materials and other (a)	41,313	1,213	1,226	(806)	42,946
Operating expenses (excluding depreciation and amortization expense reflected below)	1,402	58	167	(1)	1,626
Depreciation and amortization expense	<u>565</u>	<u>28</u>	<u>(3)</u>	<u>—</u>	<u>590</u>
Total cost of sales	<u>43,280</u>	<u>1,299</u>	<u>1,390</u>	<u>(807)</u>	<u>45,162</u>
Other operating expenses	14	—	1	—	15
General and administrative expenses (excluding depreciation and amortization expense reflected below)	—	—	—	233	233
Depreciation and amortization expense	<u>—</u>	<u>—</u>	<u>—</u>	<u>12</u>	<u>12</u>
Operating income by segment	<u>\$ 6,212</u>	<u>\$ 152</u>	<u>\$ 101</u>	<u>\$ (246)</u>	<u>\$ 6,219</u>
Three months ended June 30, 2021					
Revenues:					
Revenues from external customers	\$ 25,968	\$ 496	\$ 1,284	\$ —	\$ 27,748
Intersegment revenues	1	76	84	(161)	—
Total revenues	<u>25,969</u>	<u>572</u>	<u>1,368</u>	<u>(161)</u>	<u>27,748</u>
Cost of sales:					
Cost of materials and other (a)	24,000	281	1,130	(162)	25,249
Operating expenses (excluding depreciation and amortization expense reflected below)	1,064	31	119	—	1,214
Depreciation and amortization expense	<u>544</u>	<u>12</u>	<u>20</u>	<u>—</u>	<u>576</u>
Total cost of sales	<u>25,608</u>	<u>324</u>	<u>1,269</u>	<u>(162)</u>	<u>27,039</u>
Other operating expenses	12	—	—	—	12
General and administrative expenses (excluding depreciation and amortization expense reflected below)	—	—	—	176	176
Depreciation and amortization expense	<u>—</u>	<u>—</u>	<u>—</u>	<u>12</u>	<u>12</u>
Operating income by segment	<u>\$ 349</u>	<u>\$ 248</u>	<u>\$ 99</u>	<u>\$ (187)</u>	<u>\$ 509</u>

See note (a) on page 20.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Refining	Renewable Diesel	Ethanol	Corporate and Eliminations	Total
Six months ended June 30, 2022					
Revenues:					
Revenues from external customers	\$ 86,308	\$ 1,450	\$ 2,425	\$ —	\$ 90,183
Intersegment revenues	15	982	328	(1,325)	—
Total revenues	86,323	2,432	2,753	(1,325)	90,183
Cost of sales:					
Cost of materials and other (a)	74,919	1,968	2,330	(1,322)	77,895
Operating expenses (excluding depreciation and amortization expense reflected below)	2,595	109	302	(1)	3,005
Depreciation and amortization expense	1,114	54	17	—	1,185
Total cost of sales	78,628	2,131	2,649	(1,323)	82,085
Other operating expenses	32	—	2	—	34
General and administrative expenses (excluding depreciation and amortization expense reflected below)	—	—	—	438	438
Depreciation and amortization expense	—	—	—	23	23
Operating income by segment	\$ 7,663	\$ 301	\$ 102	\$ (463)	\$ 7,603
Six months ended June 30, 2021					
Revenues:					
Revenues from external customers	\$ 45,437	\$ 848	\$ 2,269	\$ —	\$ 48,554
Intersegment revenues	4	155	144	(303)	—
Total revenues	45,441	1,003	2,413	(303)	48,554
Cost of sales:					
Cost of materials and other (a)	42,022	468	2,054	(303)	44,241
Operating expenses (excluding depreciation and amortization expense reflected below)	2,535	60	275	—	2,870
Depreciation and amortization expense	1,077	24	41	—	1,142
Total cost of sales	45,634	552	2,370	(303)	48,253
Other operating expenses	50	—	—	—	50
General and administrative expenses (excluding depreciation and amortization expense reflected below)	—	—	—	384	384
Depreciation and amortization expense	—	—	—	24	24
Operating income (loss) by segment	\$ (243)	\$ 451	\$ 43	\$ (408)	\$ (157)

(a) Cost of materials and other for our Renewable Diesel segment is net of the blender's tax credit on qualified fuel mixtures of \$198 million and \$84 million for the three months ended June 30, 2022 and 2021, respectively, and \$354 million and \$163 million for the six months ended June 30, 2022 and 2021, respectively.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table provides a disaggregation of revenues from external customers for our principal products by reportable segment (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Refining:				
Gasolines and blendstocks	\$ 20,604	\$ 12,432	\$ 36,164	\$ 21,161
Distillates	24,427	10,875	41,871	19,456
Other product revenues	4,464	2,661	8,273	4,820
Total refining revenues	49,495	25,968	86,308	45,437
Renewable Diesel:				
Renewable diesel	855	496	1,450	848
Ethanol:				
Ethanol	979	983	1,854	1,735
Distillers grains	312	301	571	534
Total ethanol revenues	1,291	1,284	2,425	2,269
Revenues	\$ 51,641	\$ 27,748	\$ 90,183	\$ 48,554

Total assets by reportable segment were as follows (in millions):

	June 30, 2022	December 31, 2021
Refining	\$ 52,088	\$ 47,365
Renewable Diesel	4,237	3,437
Ethanol	1,716	1,812
Corporate and eliminations	6,304	5,274
Total assets	\$ 64,345	\$ 57,888

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Six Months Ended June 30,	
	2022	2021
Increase in current assets:		
Receivables, net	\$ (4,163)	\$ (3,069)
Inventories	(1,056)	(47)
Prepaid expenses and other	(108)	(103)
Increase (decrease) in current liabilities:		
Accounts payable	4,240	3,979
Accrued expenses	(126)	284
Taxes other than income taxes payable	133	162
Income taxes payable	952	45
Changes in current assets and current liabilities	<u>\$ (128)</u>	<u>\$ 1,251</u>

Changes in current assets and current liabilities for the six months ended June 30, 2022 were primarily due to the following:

- The increase in receivables was due to an increase in refined petroleum product prices in June 2022 compared to December 2021, partially offset by a decrease in sales volumes;
- The increase in inventories was due to an increase in inventory volumes with higher inventory unit prices in June 2022 compared to December 2021;
- The increase in accounts payable was due to an increase in crude oil and other feedstock prices in June 2022 compared to December 2021, partially offset by a decrease in crude oil and other feedstock volumes purchased; and
- The increase in income taxes payable was primarily due to higher income before income tax expense in the second quarter of 2022.

Changes in current assets and current liabilities for the six months ended June 30, 2021 were primarily due to the following:

- The increase in receivables was primarily due to an increase in refined petroleum product prices in June 2021 compared to December 2020 combined with an increase in sales volumes, partially offset by a decrease in income taxes receivable associated with the receipt of a \$962 million refund related to our U.S. federal income tax return for 2020; and

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- The increase in accounts payable was due to an increase in crude oil and other feedstock prices in June 2021 compared to December 2020 combined with an increase in crude oil and other feedstock volumes purchased.

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

	Six Months Ended June 30,	
	2022	2021
Interest paid in excess of amount capitalized, including interest on finance leases	\$ 291	\$ 290
Income taxes paid (refunded), net	916	(882)

Supplemental cash flow information related to our operating and finance leases was as follows (in millions):

	Six Months Ended June 30,			
	2022		2021	
	Operating Leases	Finance Leases	Operating Leases	Finance Leases
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows	\$ 196	\$ 39	\$ 199	\$ 35
Financing cash flows	—	86	—	63
Changes in lease balances resulting from new and modified leases	92	164	315	46

There were no significant noncash investing and financing activities during the six months ended June 30, 2022 and 2021, except as noted in the table above.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. FAIR VALUE MEASUREMENTS

Recurring Fair Value Measurements

The following tables present information (in millions) about our assets and liabilities recognized at their fair values in our balance sheets categorized according to the fair value hierarchy of the inputs utilized by us to determine the fair values as of June 30, 2022 and December 31, 2021.

We have elected to offset the fair value amounts recognized for multiple similar derivative contracts executed with the same counterparty, including any related cash collateral assets or obligations as shown below; however, fair value amounts by hierarchy level are presented in the following tables on a gross basis. We have no derivative contracts that are subject to master netting arrangements that are reflected gross on the balance sheet.

	June 30, 2022							
	Fair Value Hierarchy			Total Gross Fair Value	Effect of Counter- party Netting	Effect of Cash Collateral Netting	Net Carrying Value on Balance Sheet	Cash Collateral Paid or Received Not Offset
	Level 1	Level 2	Level 3					
Assets								
Commodity derivative contracts	\$ 1,143	\$ —	\$ —	\$ 1,143	\$ (1,131)	\$ (4)	\$ 8	\$ —
Physical purchase contracts	—	5	—	5	n/a	n/a	5	n/a
Foreign currency contracts	2	—	—	2	n/a	n/a	2	n/a
Investments of certain benefit plans	73	—	6	79	n/a	n/a	79	n/a
Total	\$ 1,218	\$ 5	\$ 6	\$ 1,229	\$ (1,131)	\$ (4)	\$ 94	
Liabilities								
Commodity derivative contracts	\$ 1,338	\$ —	\$ —	\$ 1,338	\$ (1,131)	\$ (207)	\$ —	\$ (210)
Blending program obligations	—	30	—	30	n/a	n/a	30	n/a
Physical purchase contracts	—	26	—	26	n/a	n/a	26	n/a
Foreign currency contracts	24	—	—	24	n/a	n/a	24	n/a
Total	\$ 1,362	\$ 56	\$ —	\$ 1,418	\$ (1,131)	\$ (207)	\$ 80	

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2021									
	Fair Value Hierarchy			Total Gross Fair Value	Effect of Counter- party Netting	Effect of Cash Collateral Netting	Net Carrying Value on Balance Sheet	Cash Collateral Paid or Received Not Offset		
	Level 1	Level 2	Level 3							
Assets										
Commodity derivative contracts	\$ 522	\$ —	\$ —	\$ 522	\$ (444)	\$ (15)	\$ 63	\$ —		
Physical purchase contracts	—	4	—	4	n/a	n/a	4	n/a		
Foreign currency contracts	1	—	—	1	n/a	n/a	1	n/a		
Investments of certain benefit plans	83	—	6	89	n/a	n/a	89	n/a		
Total	<u>\$ 606</u>	<u>\$ 4</u>	<u>\$ 6</u>	<u>\$ 616</u>	<u>\$ (444)</u>	<u>\$ (15)</u>	<u>\$ 157</u>			
Liabilities										
Commodity derivative contracts	\$ 472	\$ —	\$ —	\$ 472	\$ (444)	\$ (28)	\$ —	\$ (41)		
Blending program obligations	—	57	—	57	n/a	n/a	57	n/a		
Physical purchase contracts	—	5	—	5	n/a	n/a	5	n/a		
Foreign currency contracts	10	—	—	10	n/a	n/a	10	n/a		
Total	<u>\$ 482</u>	<u>\$ 62</u>	<u>\$ —</u>	<u>\$ 544</u>	<u>\$ (444)</u>	<u>\$ (28)</u>	<u>\$ 72</u>			

A description of our assets and liabilities recognized at fair value along with the valuation methods and inputs we used to develop their fair value measurements are as follows:

- Commodity derivative contracts consist primarily of exchange-traded futures, which are used to reduce the impact of price volatility on our results of operations and cash flows as discussed in Note 14. These contracts are measured at fair value using a market approach based on quoted prices from the commodity exchange and are categorized in Level 1 of the fair value hierarchy.
- Physical purchase contracts represent the fair value of fixed-price corn purchase contracts. The fair values of these purchase contracts are measured using a market approach based on quoted prices from the commodity exchange or an independent pricing service and are categorized in Level 2 of the fair value hierarchy.
- Foreign currency contracts consist of foreign currency exchange and purchase contracts and foreign currency swap agreements related to our foreign operations to manage our exposure to exchange rate fluctuations on transactions denominated in currencies other than the local (functional) currencies of our operations. These contracts are valued based on quoted foreign currency exchange rates and are categorized in Level 1 of the fair value hierarchy.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Investments of certain benefit plans consist of investment securities held by trusts for the purpose of satisfying a portion of our obligations under certain U.S. nonqualified benefit plans. The plan assets categorized in Level 1 of the fair value hierarchy are measured at fair value using a market approach based on quoted prices from national securities exchanges. The plan assets categorized in Level 3 of the fair value hierarchy represent insurance contracts, the fair value of which is provided by the insurer.
- Blending program obligations represent our liability for the purchase of compliance credits needed to satisfy our blending obligations under various governmental and regulatory blending programs, such as the U.S. Environmental Protection Agency's (EPA) Renewable Fuel Standard (RFS), the California Low Carbon Fuel Standard, and similar programs in other jurisdictions in which we operate (collectively, the Renewable and Low-Carbon Fuel Blending Programs). The blending program obligations are categorized in Level 2 of the fair value hierarchy and are measured at fair value using a market approach based on quoted prices from an independent pricing service.

Nonrecurring Fair Value Measurements

There were no assets or liabilities that were measured at fair value on a nonrecurring basis as of June 30, 2022 and December 31, 2021.

Other Financial Instruments

Financial instruments that we recognize in our balance sheets at their carrying amounts are shown in the following table along with their associated fair values (in millions):

		June 30, 2022		December 31, 2021	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	\$ 5,392	\$ 5,392	\$ 4,122	\$ 4,122
Financial liabilities:					
Debt (excluding finance lease obligations)	Level 2	10,898	10,694	11,950	13,668

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. PRICE RISK MANAGEMENT ACTIVITIES

General

We are exposed to market risks primarily related to the volatility in the price of commodities, foreign currency exchange rates, and the price of credits needed to comply with the Renewable and Low-Carbon Fuel Blending Programs. We enter into derivative instruments to manage some of these risks, including derivative instruments related to the various commodities we purchase or produce, and foreign currency exchange and purchase contracts, as described below under *“Risk Management Activities by Type of Risk.”* These derivative instruments are recorded as either assets or liabilities measured at their fair values (see Note 13), as summarized below under *“Fair Values of Derivative Instruments.”* The effect of these derivative instruments on our income and other comprehensive income (loss) is summarized below under *“Effect of Derivative Instruments on Income and Other Comprehensive Income (Loss).”*

Risk Management Activities by Type of Risk

Commodity Price Risk

We are exposed to market risks related to the volatility in the price of feedstocks (primarily crude oil, waste and renewable feedstocks, and corn), the products we produce, and natural gas used in our operations. To reduce the impact of price volatility on our results of operations and cash flows, we use commodity derivative instruments, such as futures and options. Our positions in commodity derivative instruments are monitored and managed on a daily basis by our risk control group to ensure compliance with our stated risk management policy that has been approved by our Board.

We primarily use commodity derivative instruments as cash flow hedges and economic hedges. Our objectives for entering into each type of hedge is described below.

- *Cash flow hedges* – The objective of our cash flow hedges is to lock in the price of forecasted purchases and/or product sales at existing market prices that we deem favorable.
- *Economic hedges* – Our objectives for holding economic hedges are to (i) manage price volatility in certain feedstock and product inventories and (ii) lock in the price of forecasted purchases and/or product sales at existing market prices that we deem favorable.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of June 30, 2022, we had the following outstanding commodity derivative instruments that were used as cash flow hedges and economic hedges, as well as commodity derivative instruments related to the physical purchase of corn at a fixed price. The information presents the notional volume of outstanding contracts by type of instrument and year of maturity (volumes in thousands of barrels, except corn contracts that are presented in thousands of bushels).

	Notional Contract Volumes by Year of Maturity	
	2022	2023
Derivatives designated as cash flow hedges:		
Refined petroleum products:		
Futures – long	640	—
Futures – short	3,920	—
Derivatives designated as economic hedges:		
Crude oil and refined petroleum products:		
Futures – long	72,277	47
Futures – short	68,735	—
Corn:		
Futures – long	155,075	255
Futures – short	206,335	4,345
Physical contracts – long	49,624	4,093

Foreign Currency Risk

We are exposed to exchange rate fluctuations on transactions related to our foreign operations that are denominated in currencies other than the local (functional) currencies of our operations. To manage our exposure to these exchange rate fluctuations, we often use foreign currency contracts. These contracts are not designated as hedging instruments for accounting purposes and therefore are classified as economic hedges. As of June 30, 2022, we had foreign currency contracts to purchase \$974 million of U.S. dollars and \$1.2 billion of U.S. dollar equivalent Canadian dollars. Of these commitments, \$1.8 billion matured on or before July 27, 2022 and the remaining \$370 million will mature by August 4, 2022.

Renewable and Low-Carbon Fuel Blending Programs Price Risk

We are exposed to market risk related to the volatility in the price of credits needed to comply with the Renewable and Low-Carbon Fuel Blending Programs. To manage this risk, we enter into contracts to purchase these credits. Some of these contracts are derivative instruments; however, we elect the normal purchase exception and do not record these contracts at their fair values. The Renewable and Low-Carbon Fuel Blending Programs require us to blend a certain volume of renewable and low-carbon fuels into the petroleum-based transportation fuels we produce in, or import into, the respective jurisdiction to be consumed therein based on annual quotas. To the degree we are unable to blend at the required quotas, we must purchase compliance credits (primarily renewable identification numbers (RINs)). The cost of meeting our credit obligations under the Renewable and Low-Carbon Fuel Blending Programs was \$221 million and \$680 million for the three months ended June 30, 2022 and 2021, respectively, and

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$523 million and \$1.1 billion for the six months ended June 30, 2022 and 2021, respectively. These amounts are reflected in cost of materials and other.

Fair Values of Derivative Instruments

The following tables provide information about the fair values of our derivative instruments as of June 30, 2022 and December 31, 2021 (in millions) and the line items in the balance sheets in which the fair values are reflected. See Note 13 for additional information related to the fair values of our derivative instruments.

As indicated in Note 13, we net fair value amounts recognized for multiple similar derivative contracts executed with the same counterparty under master netting arrangements, including cash collateral assets and obligations. The following table, however, is presented on a gross asset and gross liability basis, which results in the reflection of certain assets in liability accounts and certain liabilities in asset accounts:

	Balance Sheet Location	June 30, 2022		December 31, 2021	
		Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Derivatives designated as hedging instruments:					
Commodity contracts	Receivables, net	\$ 29	\$ 92	\$ 3	\$ 26
Derivatives not designated as hedging instruments:					
Commodity contracts	Receivables, net	\$ 1,114	\$ 1,246	\$ 519	\$ 446
Physical purchase contracts	Inventories	5	26	4	5
Foreign currency contracts	Receivables, net	2	—	1	—
Foreign currency contracts	Accrued expenses	—	24	—	10
Total		\$ 1,121	\$ 1,296	\$ 524	\$ 461

Market Risk

Our price risk management activities involve the receipt or payment of fixed price commitments into the future. These transactions give rise to market risk, which is the risk that future changes in market conditions may make an instrument less valuable. We closely monitor and manage our exposure to market risk on a daily basis in accordance with policies approved by our Board. Market risks are monitored by our risk control group to ensure compliance with our stated risk management policy. We do not require any collateral or other security to support derivative instruments into which we enter. We also do not have any derivative instruments that require us to maintain a minimum investment-grade credit rating.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Effect of Derivative Instruments on Income and Other Comprehensive Income (Loss)

The following table provides information about the loss recognized in income and other comprehensive income (loss) due to fair value adjustments of our cash flow hedges (in millions):

Derivatives in Cash Flow Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months Ended June 30,		Six Months Ended June 30,	
		2022	2021	2022	2021
Commodity contracts:					
Loss recognized in other comprehensive income (loss) on derivatives	n/a	\$ (130)	\$ (18)	\$ (294)	\$ (31)
Loss reclassified from accumulated other comprehensive loss into income	Revenues	(180)	(11)	(299)	(34)

For cash flow hedges, no component of any derivative instrument's gains or losses was excluded from the assessment of hedge effectiveness for the three and six months ended June 30, 2022 and 2021. For the three and six months ended June 30, 2022 and 2021, cash flow hedges primarily related to forward sales of renewable diesel. The estimated deferred after-tax gain that is expected to be reclassified into revenues within the next 12 months as a result of the hedged transactions that are forecasted to occur as of June 30, 2022 was immaterial. For the three and six months ended June 30, 2022 and 2021, there were no amounts reclassified from accumulated other comprehensive loss into income as a result of the discontinuance of cash flow hedge accounting. The changes in accumulated other comprehensive loss by component, net of tax, for the three and six months ended June 30, 2022 and 2021 are described in Note 6.

The following table provides information about the gain (loss) recognized in income on our derivative instruments with respect to our economic hedges and our foreign currency hedges and the line items in the statements of income in which such gains (losses) are reflected (in millions):

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months Ended June 30,		Six Months Ended June 30,	
		2022	2021	2022	2021
Commodity contracts	Revenues	\$ (2)	\$ 13	\$ (6)	\$ 20
Commodity contracts	Cost of materials and other	(272)	21	(867)	(57)
Commodity contracts	Operating expenses (excluding depreciation and amortization expense)	6	2	9	3
Foreign currency contracts	Cost of materials and other	49	6	47	(2)
Foreign currency contracts	Other income, net	(115)	53	(81)	83

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

This Form 10-Q, including without limitation our disclosures below under “OVERVIEW AND OUTLOOK,” includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify our forward-looking statements by the words “anticipate,” “believe,” “expect,” “plan,” “intend,” “scheduled,” “estimate,” “project,” “projection,” “predict,” “budget,” “forecast,” “goal,” “guidance,” “target,” “could,” “would,” “should,” “may,” “strive,” “seek,” “potential,” “opportunity,” “aimed,” “considering,” “continue,” and similar expressions.

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

- the effects and impact of the emergence of new variants of the COVID-19 virus and government responses thereto;
- the effect, impact, potential duration or timing, or other implications of the Russia-Ukraine conflict;
- future Refining segment margins, including gasoline and distillate margins, and discounts;
- future Renewable Diesel segment margins;
- future Ethanol segment margins;
- expectations regarding feedstock costs, including crude oil differentials, product prices for each of our segments, and operating expenses;
- anticipated levels of crude oil and liquid transportation fuel inventories and storage capacity;
- expectations regarding the levels of, and timing with respect to, the production and operations at our existing refineries and plants and projects under construction;
- our anticipated level of capital investments, including deferred turnaround and catalyst cost expenditures, our expected allocation between, and/or within, growth capital expenditures and sustaining capital expenditures, capital expenditures for environmental and other purposes, and joint venture investments, the expected timing applicable to such capital investments and any related projects, and the effect of those capital investments on our business, financial condition, results of operations, and liquidity;
- our anticipated level of cash distributions or contributions, such as our dividend payment rate and contributions to our qualified pension plans and other postretirement benefit plans;
- our ability to meet future cash requirements, whether from funds generated from our operations or our ability to access financial markets effectively, and our ability to maintain sufficient liquidity;
- our evaluation of, and expectations regarding, any future activity under our share repurchase program or transactions involving our debt securities;
- anticipated trends in the supply of, and demand for, crude oil and other feedstocks and refined petroleum products, renewable diesel, and ethanol and corn related co-products in the regions where we operate, as well as globally;
- expectations regarding environmental, tax, and other regulatory matters, including the anticipated amounts and timing of payment with respect to our deferred tax liabilities, matters impacting our ability to repatriate cash held by our foreign subsidiaries, and the anticipated effect thereof on our business, financial condition, results of operations, and liquidity;

- the effect of general economic and other conditions, including inflation, on refining, renewable diesel, and ethanol industry fundamentals;
- expectations regarding our risk management activities, including the anticipated effects of our hedge transactions;
- expectations regarding our counterparties, including our ability to pass on increased compliance costs and timely collect receivables, and the credit risk within our accounts receivable or accounts payable;
- expectations regarding adoptions of new, or changes to existing, low-carbon fuel standards or policies, blending and tax credits, or efficiency standards that impact demand for renewable fuels; and
- expectations regarding our publicly announced greenhouse gas (GHG) emissions reduction/displacement targets and our current and any future carbon transition projects.

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

- the effects arising out of the Russia-Ukraine conflict, including with respect to changes in trade flows and impacts to crude oil and other markets;
- demand for, and supplies of, refined petroleum products (such as gasoline, diesel, jet fuel, and petrochemicals), renewable diesel, and ethanol and corn related co-products;
- demand for, and supplies of, crude oil and other feedstocks;
- the effects of public health threats, pandemics, and epidemics, such as the COVID-19 pandemic and variants of the virus, governmental and societal responses thereto, and the adverse impacts of the foregoing on our business, financial condition, results of operations, and liquidity, including, but not limited to, our growth, operating costs, administrative costs, supply chain, labor availability, logistical capabilities, customer demand for our products, and industry demand generally, margins, production and throughput capacity, utilization, inventory value, cash position, taxes, the price of our securities and trading markets with respect thereto, our ability to access capital markets, and the global economy and financial markets generally;
- acts of terrorism aimed at either our refineries and plants or third-party facilities that could impair our ability to produce or transport refined petroleum products, renewable diesel, ethanol, or corn related co-products, to receive feedstocks, or otherwise operate efficiently;
- the effects of war or hostilities, and political and economic conditions, in countries that produce crude oil or other feedstocks or consume refined petroleum products, renewable diesel, ethanol or corn related co-products;
- the ability of the members of the Organization of Petroleum Exporting Countries to agree on and to maintain crude oil price and production controls;
- the level of consumer demand, consumption and overall economic activity, including the effects from seasonal fluctuations and market prices;
- refinery, renewable diesel plant, or ethanol plant overcapacity or undercapacity;

- the risk that any transactions may not provide the anticipated benefits or may result in unforeseen detriments;
- the actions taken by competitors, including both pricing and adjustments to refining capacity or renewable fuels production in response to market conditions;
- the level of competitors' imports into markets that we supply;
- accidents, unscheduled shutdowns, weather events, civil unrest, expropriation of assets, and other economic, diplomatic, legislative, or political events or developments, terrorism, cyberattacks, or other catastrophes or disruptions affecting our operations, production facilities, machinery, pipelines and other logistics assets, equipment, or information systems, or any of the foregoing of our suppliers, customers, or third-party service providers;
- changes in the cost or availability of transportation or storage capacity for feedstocks and our products;
- political pressure and influence of environmental groups and other stakeholders upon policies and decisions related to the production, transportation, storage, refining, processing, marketing, and sales of crude oil or other feedstocks, refined petroleum products, renewable diesel, ethanol, or corn related co-products;
- the price, availability, technology related to, and acceptance of alternative fuels and alternative-fuel vehicles, as well as sentiment and perceptions with respect to GHG emissions more generally;
- the levels of government subsidies for, and executive orders, mandates, or other policies with respect to, alternative fuels, alternative-fuel vehicles, and other low-carbon technologies or initiatives, including those related to carbon capture, carbon sequestration, and low-carbon fuels, or affecting the price of natural gas and/or electricity;
- the volatility in the market price of compliance credits (primarily RINs needed to comply with the RFS) and emission credits needed under the other environmental emissions programs;
- delay of, cancellation of, or failure to implement planned capital projects and realize the various assumptions and benefits projected for such projects or cost overruns in constructing such planned capital projects;
- earthquakes, hurricanes, tornadoes, and other weather events, which can unforeseeably affect the price or availability of electricity, natural gas, crude oil, waste and renewable feedstocks, corn, and other feedstocks, critical supplies, refined petroleum products, renewable diesel, and ethanol;
- rulings, judgments, or settlements in litigation or other legal or regulatory matters, including unexpected environmental remediation costs, in excess of any reserves or insurance coverage;
- legislative or regulatory action, including the introduction or enactment of legislation or rulemakings by governmental authorities, environmental regulations, changes to income tax rates, introduction of a global minimum tax, tax changes or restrictions impacting the foreign repatriation of cash, actions implemented under the Renewable and Low-Carbon Fuel Blending Programs and the other environmental emissions programs, including changes to volume requirements or other obligations or exemptions under the RFS, and actions arising from the EPA's or other governmental agencies' regulations, policies, or initiatives concerning GHGs, including mandates for or bans of specific technology, which may adversely affect our business or operations;
- changing economic, regulatory, and political environments and related events in the various countries in which we operate or otherwise do business, including trade restrictions, expropriation or impoundment of assets, failure of foreign governments and state-owned entities to honor their contracts, property disputes, economic instability, restrictions on the transfer of funds, duties and tariffs, transportation delays, import and export controls, labor unrest, security issues involving key personnel, and decisions, investigations, regulations, issuances or revocations of permits and

other authorizations, and other actions, policies and initiatives by the states, counties, cities, and other jurisdictions in the countries in which we operate or otherwise do business;

- changes in the credit ratings assigned to our debt securities and trade credit;
- the operating, financing, and distribution decisions of our joint ventures or other joint venture members that we do not control;
- changes in currency exchange rates, including the value of the Canadian dollar, the pound sterling, the euro, the Mexican peso, and the Peruvian sol relative to the U.S. dollar;
- the adequacy of capital resources and liquidity, including availability, timing, and amounts of cash flow or our ability to borrow or access financial markets;
- the costs, disruption, and diversion of resources associated with campaigns and negative publicity commenced by investors, stakeholders, or other interested parties;
- overall economic conditions, including the stability and liquidity of financial markets, and the effect thereof on consumer demand; and
- other factors generally described in the “RISK FACTORS” section included in our annual report on Form 10-K for the year ended December 31, 2021.

Any one of these factors, or a combination of these factors, could materially affect our future results of operations and whether any forward-looking statements ultimately prove to be accurate. Our forward-looking statements are not guarantees of future performance, and actual results and future performance may differ materially from those expressed, suggested, or forecast in any forward-looking statements. Such forward-looking statements speak only as of the date of this quarterly report on Form 10-Q and we do not intend to update these statements unless we are required by applicable securities laws to do so.

All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing, as it may be updated or modified by our future filings with the U.S. Securities and Exchange Commission (SEC). We undertake no obligation to publicly release any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events unless we are required by applicable securities laws to do so.

NON-GAAP FINANCIAL MEASURES

The discussions in “OVERVIEW AND OUTLOOK,” “RESULTS OF OPERATIONS,” and “LIQUIDITY AND CAPITAL RESOURCES” below include references to financial measures that are not defined under GAAP. These non-GAAP financial measures include adjusted operating income (loss) (including adjusted operating income (loss) for each of our reportable segments, as applicable); Refining, Renewable Diesel, and Ethanol segment margin; and capital investments attributable to Valero. We have included these non-GAAP financial measures to help facilitate the comparison of operating results between periods, to help assess our cash flows, and because we believe they provide useful information as discussed further below. See the tables in note (g) beginning on page 55 for reconciliations of adjusted operating income (loss) (including adjusted operating income (loss) for each of our reportable segments, as applicable) and Refining, Renewable Diesel, and Ethanol segment margin to their most directly comparable GAAP financial measures. Also in note (g), we disclose the reasons why we believe our use of such non-GAAP financial measures provides useful information. See the table on page 61 for a reconciliation of capital investments attributable to Valero to its most directly comparable GAAP financial measure. Beginning on page 60, we disclose the reasons why we believe our use of this non-GAAP financial measure provides useful information.

OVERVIEW AND OUTLOOK

Overview

Business Operations Update

Our results for the second quarter and first six months of 2022 were favorably impacted by the effect from the ongoing recovery in the worldwide demand for petroleum-based transportation fuels while the worldwide supply of those products remained constrained. This supply and demand imbalance has contributed to increases in the market prices of petroleum-based transportation fuels (as well as crude oil and other feedstocks that are processed to make these products) and in refining margins. Supply has remained constrained for a variety of reasons, including, but not limited to, effects from refinery closures and disruptions in the crude oil and petroleum-based products markets resulting from the Russia-Ukraine conflict. Refineries closed over the last two years and other refineries ceased crude oil processing and are being transitioned to renewable fuel production. In addition, these negative impacts to the supply of petroleum-based products have been exacerbated by the Russia-Ukraine conflict as a result of countries and private market participants responding to the conflict by taking actions to refrain from purchasing and transporting Russian crude oil and petroleum-based products.

The strong demand for our products and the increase in refining margins were the primary contributors to us reporting \$4.7 billion of net income attributable to Valero stockholders for the second quarter of 2022 and \$5.6 billion of net income attributable to Valero stockholders for the first six months of 2022. Our operating results, including operating results by segment, are described in the following summary under “Second Quarter Results” and “First Six Months Results.” Detailed descriptions can be found under “RESULTS OF OPERATIONS.”

Our operations generated \$6.4 billion of cash during the first six months of 2022. This cash was used to make \$1.5 billion of capital investments in our business and return \$2.7 billion to our stockholders through dividend payments and the purchase of common stock for treasury. In addition, we completed various debt reduction and refinancing transactions that reduced our debt by \$1.05 billion during the first six months of 2022. As a result of this and other activity, our cash and cash equivalents increased by \$1.3 billion, from \$4.1 billion as of December 31, 2021 to \$5.4 billion as of June 30, 2022. We had \$9.8 billion in liquidity as of June 30, 2022. The components of our liquidity and descriptions of our cash flows, capital investments, and other matters impacting our liquidity and capital resources, can be found under “LIQUIDITY AND CAPITAL RESOURCES.”

Second Quarter Results

For the second quarter of 2022, we reported net income attributable to Valero stockholders of \$4.7 billion compared to \$162 million for the second quarter of 2021. The increase of \$4.5 billion was primarily due to higher operating income of \$5.7 billion, partially offset by higher income tax expense of \$1.2 billion. The details of our operating income and adjusted operating income by segment and in total are reflected on the following page. Adjusted operating income excludes the adjustments reflected in the tables in note (g).

	Three Months Ended June 30,		
	2022	2021	Change
Refining segment:			
Operating income	\$ 6,212	\$ 349	\$ 5,863
Adjusted operating income	6,122	442	5,680
Renewable Diesel segment:			
Operating income	152	248	(96)
Ethanol segment:			
Operating income	101	99	2
Adjusted operating income	79	99	(20)
Total company:			
Operating income	6,219	509	5,710
Adjusted operating income	6,127	602	5,525

While our operating income increased by \$5.7 billion in the second quarter of 2022 compared to the second quarter of 2021, adjusted operating income increased by \$5.5 billion primarily due to the following:

- *Refining segment.* Refining segment adjusted operating income increased by \$5.7 billion primarily due to higher gasoline and distillate (primarily diesel) margins and higher throughput volumes, partially offset by higher operating expenses (excluding depreciation and amortization expense) and lower margins on other products.
- *Renewable Diesel segment.* Renewable Diesel segment operating income decreased by \$96 million primarily due to higher feedstock costs, an unfavorable impact from commodity derivative instruments associated with our price risk management activities, and higher operating expenses (excluding depreciation and amortization expense), partially offset by higher sales volumes and higher renewable diesel prices.
- *Ethanol segment.* Ethanol segment adjusted operating income decreased by \$20 million primarily due to higher corn prices, lower production volumes, and higher operating expenses (excluding depreciation and amortization expense), partially offset by higher ethanol and corn related co-product prices.

First Six Months Results

For the first six months of 2022, we reported net income attributable to Valero stockholders of \$5.6 billion compared to a net loss attributable to Valero stockholders of \$542 million for the first six months of 2021. The increase of \$6.1 billion was primarily due to higher operating income of \$7.8 billion, partially offset by higher income tax expense of \$1.6 billion. The details of our operating income (loss) and adjusted operating income (loss) by segment and in total are reflected on the following page. Adjusted operating income (loss) excludes the adjustments reflected in the tables in note (g).

	Six Months Ended June 30,		
	2022	2021	Change
Refining segment:			
Operating income (loss)	\$ 7,663	\$ (243)	\$ 7,906
Adjusted operating income (loss)	7,591	(32)	7,623
Renewable Diesel segment:			
Operating income	301	451	(150)
Ethanol segment:			
Operating income	102	43	59
Adjusted operating income	81	43	38
Total company:			
Operating income (loss)	7,603	(157)	7,760
Adjusted operating income	7,530	54	7,476

While our operating income increased by \$7.8 billion in the first six months of 2022 compared to the first six months of 2021, adjusted operating income increased by \$7.5 billion primarily due to the following:

- *Refining segment.* Refining segment adjusted operating income increased by \$7.6 billion primarily due to higher gasoline and distillate (primarily diesel) margins and higher throughput volumes, partially offset by lower margins on other products.
- *Renewable Diesel segment.* Renewable Diesel segment operating income decreased by \$150 million primarily due to higher feedstock costs, an unfavorable impact from commodity derivative instruments associated with our price risk management activities, and higher operating expenses (excluding depreciation and amortization expense), partially offset by higher sales volumes and higher renewable diesel prices.
- *Ethanol segment.* Ethanol segment adjusted operating income increased by \$38 million primarily due to higher ethanol and corn related co-product prices, partially offset by higher corn prices and higher operating expenses (excluding depreciation and amortization expense).

Outlook

Many uncertainties remain with respect to the supply and demand imbalance in the petroleum-based products market worldwide, and while it is difficult to predict the ultimate economic impacts this may have on us, we have noted several factors below that have impacted or may impact our results of operations during the third quarter of 2022.

- Gasoline and diesel demand has returned to near pre-pandemic levels and is expected to follow typical seasonal patterns. Jet fuel demand continues to improve slowly but remains below pre-pandemic levels.
- Light product (primarily gasoline and diesel) inventories in the U.S. are below historical levels and should support continued high utilization of refining capacity.
- Crude oil discounts are expected to remain near current levels absent changes in crude oil supply or availability.
- Renewable diesel margins are expected to remain consistent with current levels.
- Ethanol demand is expected to follow typical seasonal patterns.

RESULTS OF OPERATIONS

The following tables, including the reconciliations of non-GAAP financial measures to their most directly comparable GAAP financial measures in note (g) beginning on page 55, highlight our results of operations, our operating performance, and market reference prices that directly impact our operations. Note references in this section can be found on pages 54 through 57.

Second Quarter Results - Financial Highlights By Segment and Total Company (millions of dollars)

	Three Months Ended June 30, 2022				
	Refining	Renewable Diesel	Ethanol	Corporate and Eliminations	Total
Revenues:					
Revenues from external customers	\$ 49,495	\$ 855	\$ 1,291	\$ —	\$ 51,641
Intersegment revenues	11	596	201	(808)	—
Total revenues	49,506	1,451	1,492	(808)	51,641
Cost of sales:					
Cost of materials and other (a)	41,313	1,213	1,226	(806)	42,946
Operating expenses (excluding depreciation and amortization expense reflected below)	1,402	58	167	(1)	1,626
Depreciation and amortization expense (c)	565	28	(3)	—	590
Total cost of sales	43,280	1,299	1,390	(807)	45,162
Other operating expenses	14	—	1	—	15
General and administrative expenses (excluding depreciation and amortization expense reflected below) (d)	—	—	—	233	233
Depreciation and amortization expense	—	—	—	12	12
Operating income by segment	<u>\$ 6,212</u>	<u>\$ 152</u>	<u>\$ 101</u>	<u>\$ (246)</u>	6,219
Other income, net					33
Interest and debt expense, net of capitalized interest					(142)
Income before income tax expense					6,110
Income tax expense					1,342
Net income					4,768
Less: Net income attributable to noncontrolling interests					75
Net income attributable to Valero Energy Corporation stockholders					<u>\$ 4,693</u>

**Second Quarter Results -
Financial Highlights By Segment and Total Company (continued)**
(millions of dollars)

	Three Months Ended June 30, 2021				
	Refining	Renewable Diesel	Ethanol	Corporate and Eliminations	Total
Revenues:					
Revenues from external customers	\$ 25,968	\$ 496	\$ 1,284	\$ —	\$ 27,748
Intersegment revenues	1	76	84	(161)	—
Total revenues	25,969	572	1,368	(161)	27,748
Cost of sales:					
Cost of materials and other	24,000	281	1,130	(162)	25,249
Operating expenses (excluding depreciation and amortization expense reflected below)	1,064	31	119	—	1,214
Depreciation and amortization expense	544	12	20	—	576
Total cost of sales	25,608	324	1,269	(162)	27,039
Other operating expenses	12	—	—	—	12
General and administrative expenses (excluding depreciation and amortization expense reflected below)	—	—	—	176	176
Depreciation and amortization expense	—	—	—	12	12
Operating income by segment	<u>\$ 349</u>	<u>\$ 248</u>	<u>\$ 99</u>	<u>\$ (187)</u>	<u>509</u>
Other income, net (e)					102
Interest and debt expense, net of capitalized interest					(150)
Income before income tax expense					461
Income tax expense (f)					169
Net income					292
Less: Net income attributable to noncontrolling interests					130
Net income attributable to Valero Energy Corporation stockholders					<u>\$ 162</u>

*Second Quarter Results -
Average Market Reference Prices and Differentials*

	Three Months Ended June 30,	
	2022	2021
Refining		
Feedstocks (dollars per barrel)		
Brent crude oil	\$ 111.69	\$ 69.00
Brent less West Texas Intermediate (WTI) crude oil	3.03	2.91
Brent less Alaska North Slope (ANS) crude oil	(0.78)	0.56
Brent less Louisiana Light Sweet (LLS) crude oil	1.54	1.05
Brent less Argus Sour Crude Index (ASCI) crude oil	6.59	3.34
Brent less Maya crude oil	7.91	6.13
LLS crude oil	110.15	67.95
LLS less ASCI crude oil	5.05	2.29
LLS less Maya crude oil	6.37	5.08
WTI crude oil	108.66	66.09
Natural gas (dollars per million British Thermal Units (MMBtu))		
	7.23	2.93
Product margins (dollars per barrel)		
U.S. Gulf Coast:		
Conventional Blendstock of Oxygenate Blending (CBOB) gasoline less Brent	31.33	14.43
Ultra-low-sulfur (ULS) diesel less Brent	55.95	12.99
Propylene less Brent	(38.56)	(20.41)
CBOB gasoline less LLS	32.87	15.48
ULS diesel less LLS	57.49	14.04
Propylene less LLS	(37.02)	(19.36)
U.S. Mid-Continent:		
CBOB gasoline less WTI	36.08	19.93
ULS diesel less WTI	60.16	18.42
North Atlantic:		
CBOB gasoline less Brent	41.58	17.37
ULS diesel less Brent	70.25	15.07
U.S. West Coast:		
California Reformulated Gasoline Blendstock of Oxygenate Blending (CARBOB) 87 gasoline less ANS	55.06	27.18
California Air Resources Board (CARB) diesel less ANS	58.37	15.28
CARBOB 87 gasoline less WTI	58.87	29.53
CARB diesel less WTI	62.18	17.63

**Second Quarter Results -
Average Market Reference Prices and Differentials (continued)**

	Three Months Ended June 30,	
	2022	2021
Renewable Diesel		
New York Mercantile Exchange ULS diesel (dollars per gallon)	\$ 4.03	\$ 2.00
Biodiesel RIN (dollars per RIN)	1.70	1.71
California Low-Carbon Fuel Standard (dollars per metric ton)	104.30	184.82
Chicago Board of Trade (CBOT) soybean oil (dollars per pound)	0.80	0.63
Ethanol		
CBOT corn (dollars per bushel)	7.77	6.58
New York Harbor ethanol (dollars per gallon)	2.84	2.38

Total Company, Corporate, and Other

The following table includes selected financial data for the total company, corporate, and other for the second quarter of 2022 and 2021. The selected financial data is derived from the Financial Highlights by Segment and Total Company tables, unless otherwise noted.

	Three Months Ended June 30,		
	2022	2021	Change
Revenues	\$ 51,641	\$ 27,748	\$ 23,893
Cost of sales (see notes (a) and (c))	45,162	27,039	18,123
General and administrative expenses (excluding depreciation and amortization expense) (see note (d))	233	176	57
Operating income	6,219	509	5,710
Adjusted operating income (see note (g))	6,127	602	5,525
Other income, net (see note (e))	33	102	(69)
Income tax expense (see note (f))	1,342	169	1,173
Net income attributable to noncontrolling interests	75	130	(55)

Revenues increased by \$23.9 billion in the second quarter of 2022 compared to the second quarter of 2021 primarily due to increases in the product prices of the petroleum-based transportation fuels associated with sales made by our Refining segment. This increase in revenues was partially offset by an increase in cost of sales of \$18.1 billion, which was primarily due to increases in crude oil and other feedstock costs, and an increase in general and administrative expenses (excluding depreciation and amortization expense) of \$57 million, which was primarily due to an increase of \$26 million in certain employee compensation expenses and a charge of \$20 million for an environmental reserve adjustment (see note (d)). These changes resulted in a \$5.7 billion increase in operating income, from \$509 million in the second quarter of 2021 to \$6.2 billion in the second quarter of 2022.

Adjusted operating income increased by \$5.5 billion, from \$602 million in the second quarter of 2021 to \$6.1 billion in the second quarter of 2022. The components of this \$5.5 billion increase in adjusted operating income are discussed by segment in the segment analyses that follow.

“Other income, net” decreased by \$69 million in the second quarter of 2022 compared to the second quarter of 2021 primarily due to the effect of the gain of \$62 million in the second quarter of 2021 on the sale of a 24.99 percent membership interest in MVP, partially offset by an asset impairment loss of \$24 million in the second quarter of 2021 resulting from the cancellation of a pipeline extension project by our nonconsolidated joint venture, Diamond Pipeline LLC. These items are more fully described in note (e).

Income tax expense increased by \$1.2 billion in the second quarter of 2022 compared to the second quarter of 2021 primarily as a result of higher income before income tax expense.

Net income attributable to noncontrolling interests decreased by \$55 million in the second quarter of 2022 compared to the second quarter of 2021 primarily due to lower earnings associated with DGD. See Note 7 of Condensed Notes to Consolidated Financial Statements regarding our accounting for DGD.

Refining Segment Results

The following table includes selected financial and operating data of our Refining segment for the second quarter of 2022 and 2021. The selected financial data is derived from the Financial Highlights by Segment and Total Company tables, unless otherwise noted.

	Three Months Ended June 30,		
	2022	2021	Change
Operating income	\$ 6,212	\$ 349	\$ 5,863
Adjusted operating income (see note (g))	6,122	442	5,680
Refining margin (see note (g))	\$ 8,089	\$ 2,050	\$ 6,039
Operating expenses (excluding depreciation and amortization expense reflected below)	1,402	1,064	338
Depreciation and amortization expense	565	544	21
Throughput volumes (thousand barrels per day) (see note (h))	2,962	2,835	127

Refining segment operating income increased by \$5.9 billion in the second quarter of 2022 compared to the second quarter of 2021; however, Refining segment adjusted operating income, which excludes the adjustments in the table in note (g), increased by \$5.7 billion in the second quarter of 2022 compared to the second quarter of 2021. The components of this increase in the adjusted results, along with the reasons for the changes in those components, are outlined below.

- Refining segment margin increased by \$6.0 billion in the second quarter of 2022 compared to the second quarter of 2021.

Refining segment margin is primarily affected by the prices of the petroleum-based transportation fuels that we sell and the cost of crude oil and other feedstocks that we process. The table on page 41 reflects market reference prices and differentials that we believe had a material impact on the change in our Refining segment margin in the second quarter of 2022 compared to the second quarter of 2021.

The increase in Refining segment margin was primarily due to the following:

- An increase in distillate (primarily diesel) margins had a favorable impact of approximately \$4.0 billion.
- An increase in gasoline margins had a favorable impact of approximately \$2.1 billion.
- An increase in throughput volumes of 127,000 barrels per day had a favorable impact of approximately \$347 million.
- Lower margins on other products had an unfavorable impact of approximately \$265 million.
- Refining segment operating expenses (excluding depreciation and amortization expense) increased by \$338 million primarily due to higher energy costs of \$210 million, higher chemical and catalyst costs of \$21 million, higher maintenance expense of \$18 million, and an increase in certain employee compensation expenses of \$16 million.

Renewable Diesel Segment Results

The following table includes selected financial and operating data of our Renewable Diesel segment for the second quarter of 2022 and 2021. The selected financial data is derived from the Financial Highlights by Segment and Total Company tables, unless otherwise noted.

	Three Months Ended June 30,		
	2022	2021	Change
Operating income	\$ 152	\$ 248	\$ (96)
Renewable Diesel margin (see note (g))	\$ 238	\$ 291	\$ (53)
Operating expenses (excluding depreciation and amortization expense reflected below)	58	31	27
Depreciation and amortization expense	28	12	16
Sales volumes (thousand gallons per day) (see note (h))	2,182	923	1,259

Renewable Diesel segment operating income decreased by \$96 million in the second quarter of 2022 compared to the second quarter of 2021. The components of this decrease, along with the reasons for the changes in those components, are outlined below.

- Renewable Diesel segment margin decreased by \$53 million in the second quarter of 2022 compared to the second quarter of 2021.

Renewable Diesel segment margin is primarily affected by the price of the renewable diesel that we sell and the cost of the feedstocks that we process. The table on page 42 reflects market reference prices that we believe had a material impact on the change in our Renewable Diesel segment margin in the second quarter of 2022 compared to the second quarter of 2021.

The decrease in Renewable Diesel segment margin was primarily due to the following:

- An increase in the cost of the feedstocks that we process had an unfavorable impact of approximately \$563 million.
- Price risk management activities had an unfavorable impact of approximately \$172 million. We recognized a hedge loss of \$183 million in the second quarter of 2022 compared to a hedge loss of \$11 million in the second quarter of 2021.
- An increase in sales volumes of 1.3 million gallons per day had a favorable impact of approximately \$493 million. The increase in sales volumes was primarily due to the additional production capacity resulting from the expansion of DGD's existing renewable diesel plant (the DGD Plant) that commenced operations in the fourth quarter of 2021.
- Higher renewable diesel prices had a favorable impact of approximately \$186 million.
- Renewable Diesel segment operating expenses (excluding depreciation and amortization expense) increased by \$27 million primarily due to increased costs resulting from the expansion of the DGD Plant that commenced operations in the fourth quarter of 2021.
- Renewable Diesel segment depreciation and amortization expense increased by \$16 million primarily due to depreciation expense associated with the expansion of the DGD Plant that commenced operations in the fourth quarter of 2021.

Ethanol Segment Results

The following table includes selected financial and operating data of our Ethanol segment for the second quarter of 2022 and 2021. The selected financial data is derived from the Financial Highlights by Segment and Total Company tables, unless otherwise noted.

	Three Months Ended June 30,		
	2022	2021	Change
Operating income	\$ 101	\$ 99	\$ 2
Adjusted operating income (see note (g))	79	99	(20)
Ethanol margin (see note (g))	\$ 266	\$ 238	\$ 28
Operating expenses (excluding depreciation and amortization expense reflected below)	167	119	48
Depreciation and amortization expenses (see note (c))	(3)	20	(23)
Production volumes (thousand gallons per day) (see note (h))	3,861	4,203	(342)

Ethanol segment operating income increased by \$2 million in the second quarter of 2022 compared to the second quarter of 2021; however, Ethanol segment adjusted operating income, which excludes the adjustments in the table in note (g), decreased by \$20 million in the second quarter of 2022 compared to the second quarter of 2021. The components of this decrease in the adjusted results, along with the reasons for the changes in those components, are outlined below.

- Ethanol segment margin increased by \$28 million in the second quarter of 2022 compared to the second quarter of 2021.

Ethanol segment margin is primarily affected by prices of the ethanol and corn related co-products that we sell and the cost of corn that we process. The table on page 42 reflects market reference prices that we believe had a material impact on the change in our Ethanol segment margin in the second quarter of 2022 compared to the second quarter of 2021.

The increase in Ethanol segment margin was primarily due to the following:

- Higher ethanol prices had a favorable impact of approximately \$133 million.
- Higher prices for the co-products that we produce, primarily dry distillers grains (DDGs) and inedible distillers corn oil (DCO), had a favorable impact of approximately \$75 million.
- Higher corn prices had an unfavorable impact of approximately \$155 million.
- A decrease in production volumes of 342,000 gallons per day had an unfavorable impact of approximately \$25 million.
- Ethanol segment operating expenses (excluding depreciation and amortization expense) increased by \$48 million primarily due to higher energy costs.

**First Six Months Results -
Financial Highlights By Segment and Total Company
(millions of dollars)**

	Six Months Ended June 30, 2022				
	Refining	Renewable Diesel	Ethanol	Corporate and Eliminations	Total
Revenues:					
Revenues from external customers	\$ 86,308	\$ 1,450	\$ 2,425	\$ —	\$ 90,183
Intersegment revenues	15	982	328	(1,325)	—
Total revenues	86,323	2,432	2,753	(1,325)	90,183
Cost of sales:					
Cost of materials and other (a)	74,919	1,968	2,330	(1,322)	77,895
Operating expenses (excluding depreciation and amortization expense reflected below)	2,595	109	302	(1)	3,005
Depreciation and amortization expense (c)	1,114	54	17	—	1,185
Total cost of sales	78,628	2,131	2,649	(1,323)	82,085
Other operating expenses	32	—	2	—	34
General and administrative expenses (excluding depreciation and amortization expense reflected below) (d)	—	—	—	438	438
Depreciation and amortization expense	—	—	—	23	23
Operating income by segment	<u>\$ 7,663</u>	<u>\$ 301</u>	<u>\$ 102</u>	<u>\$ (463)</u>	<u>7,603</u>
Other income, net (e)					13
Interest and debt expense, net of capitalized interest					(287)
Income before income tax expense					7,329
Income tax expense					1,594
Net income					5,735
Less: Net income attributable to noncontrolling interests					137
Net income attributable to Valero Energy Corporation stockholders					<u>\$ 5,598</u>

**First Six Months Results -
Financial Highlights By Segment and Total Company (continued)**
(millions of dollars)

	Six Months Ended June 30, 2021				
	Refining	Renewable Diesel	Ethanol	Corporate and Eliminations	Total
Revenues:					
Revenues from external customers	\$ 45,437	\$ 848	\$ 2,269	\$ —	\$ 48,554
Intersegment revenues	4	155	144	(303)	—
Total revenues	45,441	1,003	2,413	(303)	48,554
Cost of sales:					
Cost of materials and other (b)	42,022	468	2,054	(303)	44,241
Operating expenses (excluding depreciation and amortization expense reflected below) (b)	2,535	60	275	—	2,870
Depreciation and amortization expense	1,077	24	41	—	1,142
Total cost of sales	45,634	552	2,370	(303)	48,253
Other operating expenses	50	—	—	—	50
General and administrative expenses (excluding depreciation and amortization expense reflected below)	—	—	—	384	384
Depreciation and amortization expense	—	—	—	24	24
Operating income (loss) by segment	<u>\$ (243)</u>	<u>\$ 451</u>	<u>\$ 43</u>	<u>\$ (408)</u>	<u>(157)</u>
Other income, net (e)					147
Interest and debt expense, net of capitalized interest					(299)
Loss before income tax expense					(309)
Income tax expense (f)					21
Net loss					(330)
Less: Net income attributable to noncontrolling interests					212
Net loss attributable to Valero Energy Corporation stockholders					<u>\$ (542)</u>

**First Six Months Results -
Average Market Reference Prices and Differentials**

	Six Months Ended June 30,	
	2022	2021
Refining		
Feedstocks (dollars per barrel)		
Brent crude oil	\$ 104.52	\$ 65.05
Brent less WTI crude oil	2.96	3.09
Brent less ANS crude oil	0.48	0.45
Brent less LLS crude oil	1.06	1.08
Brent less ASCI crude oil	5.76	3.17
Brent less Maya crude oil	8.21	5.42
LLS crude oil	103.46	63.97
LLS less ASCI crude oil	4.70	2.09
LLS less Maya crude oil	7.15	4.34
WTI crude oil	101.56	61.96
Natural gas (dollars per MMBtu)		
	5.78	11.30
Product margins (dollars per barrel)		
U.S. Gulf Coast:		
CBOB gasoline less Brent	23.50	12.28
ULS diesel less Brent	41.95	11.59
Propylene less Brent	(33.69)	(0.96)
CBOB gasoline less LLS	24.56	13.36
ULS diesel less LLS	43.01	12.67
Propylene less LLS	(32.63)	0.12
U.S. Mid-Continent:		
CBOB gasoline less WTI	26.05	17.38
ULS diesel less WTI	43.72	17.82
North Atlantic:		
CBOB gasoline less Brent	29.63	14.47
ULS diesel less Brent	51.36	13.48
U.S. West Coast:		
CARBOB 87 gasoline less ANS	41.76	20.87
CARB diesel less ANS	45.32	14.71
CARBOB 87 gasoline less WTI	44.24	23.51
CARB diesel less WTI	47.80	17.35

**First Six Months Results -
Average Market Reference Prices and Differentials (continued)**

	Six Months Ended June 30,	
	2022	2021
Renewable Diesel		
New York Mercantile Exchange ULS diesel (dollars per gallon)	\$ 3.54	\$ 1.87
Biodiesel RIN (dollars per RIN)	1.57	1.44
California Low-Carbon Fuel Standard (dollars per metric ton)	121.47	190.06
CBOT soybean oil (dollars per pound)	0.74	0.56
Ethanol		
CBOT corn (dollars per bushel)	7.24	5.98
New York Harbor ethanol (dollars per gallon)	2.61	2.08

Total Company, Corporate, and Other

The following table includes selected financial data for the total company, corporate, and other for the first six months of 2022 and 2021. The selected financial data is derived from the Financial Highlights by Segment and Total Company tables, unless otherwise noted.

	Six Months Ended June 30,		
	2022	2021	Change
Revenues	\$ 90,183	\$ 48,554	\$ 41,629
Cost of sales (see notes (a) through (c))	82,085	48,253	33,832
General and administrative expenses (excluding depreciation and amortization expense) (see note (d))	438	384	54
Operating income (loss)	7,603	(157)	7,760
Adjusted operating income (see note (g))	7,530	54	7,476
Other income, net (see note (e))	13	147	(134)
Income tax expense (see note (f))	1,594	21	1,573
Net income attributable to noncontrolling interests	137	212	(75)

Revenues increased by \$41.6 billion in the first six months of 2022 compared to the first six months of 2021 primarily due to increases in the product prices of the refined petroleum-based transportation fuels associated with sales made by our Refining segment. This increase in revenues was partially offset by an increase in cost of sales of \$33.8 billion, which was primarily due to increases in crude oil and other feedstock costs, and an increase in general and administrative expenses (excluding depreciation and amortization expense) of \$54 million, which was primarily due to an increase of \$34 million in certain employee compensation expenses and a charge of \$20 million for an environmental reserve adjustment (see note (d)). These changes resulted in a \$7.8 billion increase in operating income, from an operating loss of \$157 million in the first six months of 2021 to operating income of \$7.6 billion in the first six months of 2022.

Adjusted operating income increased by \$7.5 billion, from \$54 million in the first six months of 2021 to \$7.5 billion in the first six months of 2022. The components of this \$7.5 billion increase in adjusted operating income are discussed by segment in the segment analyses that follow.

“Other income, net” decreased by \$134 million in the first six months of 2022 compared to the first six months of 2021 primarily due to a charge of \$50 million in the first six months of 2022 from the early retirement of debt and the effect of the gain of \$62 million in the first six months of 2021 on the sale of a 24.99 percent membership interest in MVP, partially offset by an asset impairment loss of \$24 million in the first six months of 2021 resulting from the cancellation of a pipeline extension project by our nonconsolidated joint venture, Diamond Pipeline LLC. These items are more fully described in note (e).

Income tax expense increased by \$1.6 billion in the first six months of 2022 compared to the first six months of 2021 primarily as a result of higher income before income tax expense.

Net income attributable to noncontrolling interests decreased by \$75 million in the first six months of 2022 compared to the first six months of 2021 primarily due to lower earnings associated with DGD.

Refining Segment Results

The following table includes selected financial and operating data of our Refining segment for the first six months of 2022 and 2021. The selected financial data is derived from the Financial Highlights by Segment and Total Company tables, unless otherwise noted.

	Six Months Ended June 30,		
	2022	2021	Change
Operating income (loss)	\$ 7,663	\$ (243)	\$ 7,906
Adjusted operating income (loss) (see note (g))	7,591	(32)	7,623
Refining margin (see note (g))	\$ 11,300	\$ 3,580	\$ 7,720
Operating expenses (excluding depreciation and amortization expense reflected below) (see note (b))	2,595	2,535	60
Depreciation and amortization expense	1,114	1,077	37
Throughput volumes (thousand barrels per day) (see note (h))	2,881	2,624	257

Refining segment operating income increased by \$7.9 billion in the first six months of 2022 compared to the first six months of 2021; however, Refining segment adjusted operating income, which excludes the adjustments in the table in note (g), increased by \$7.6 billion in the first six months of 2022 compared to the first six months of 2021. This increase in the adjusted results was primarily due to higher Refining segment margin.

Refining segment margin increased by \$7.7 billion in the first six months of 2022 compared to the first six months of 2021. Refining segment margin is primarily affected by the prices of the petroleum-based transportation fuels that we sell and the cost of crude oil and other feedstocks that we process. The table on page 49 reflects market reference prices and differentials that we believe had a material impact on the change in our Refining segment margin in the first six months of 2022 compared to the first six months of 2021.

The increase in Refining segment margin was primarily due to the following:

- An increase in distillate (primarily diesel) margins had a favorable impact of approximately \$4.9 billion.

- An increase in gasoline margins had a favorable impact of approximately \$2.2 billion.
- An increase in throughput volumes of 257,000 barrels per day had a favorable impact of approximately \$1.0 billion.
- Lower margins on other products had an unfavorable impact of approximately \$463 million.

Renewable Diesel Segment Results

The following table includes selected financial and operating data of our Renewable Diesel segment for the first six months of 2022 and 2021. The selected financial data is derived from the Financial Highlights by Segment and Total Company tables, unless otherwise noted.

	Six Months Ended June 30,		
	2022	2021	Change
Operating income	\$ 301	\$ 451	\$ (150)
Renewable Diesel margin (see note (g))	\$ 464	\$ 535	\$ (71)
Operating expenses (excluding depreciation and amortization expense reflected below)	109	60	49
Depreciation and amortization expense	54	24	30
Sales volumes (thousand gallons per day) (see note (h))	1,961	895	1,066

Renewable Diesel segment operating income decreased by \$150 million in the first six months of 2022 compared to the first six months of 2021. The components of this decrease, along with the reasons for the changes in those components, are outlined below.

- Renewable Diesel segment margin decreased by \$71 million in the first six months of 2022 compared to the first six months of 2021. Renewable Diesel segment margin is primarily affected by the price of the renewable diesel that we sell and the cost of the feedstocks that we process. The table on page 50 reflects market reference prices that we believe had a material impact on the change in our Renewable Diesel segment margin in the first six months of 2022 compared to the first six months of 2021.

The decrease in Renewable Diesel segment margin was primarily due to the following:

- An increase in the cost of the feedstocks that we process had an unfavorable impact of approximately \$968 million.
- Price risk management activities had an unfavorable impact of \$268 million. We recognized a hedge loss of \$302 million in the first six months of 2022 compared to a hedge loss of \$34 million in the first six months of 2021.
- An increase in sales volumes of 1.1 million gallons per day had a favorable impact of approximately \$780 million. The increase in sales volumes was primarily due to the additional production capacity resulting from the expansion of the DGD Plant that commenced operations in the fourth quarter of 2021.

- Higher Renewable Diesel prices had a favorable impact of approximately \$369 million.
- Renewable Diesel segment operating expenses (excluding depreciation and amortization expense) increased by \$49 million primarily due to increased costs resulting from the expansion of the DGD Plant that commenced operations in the fourth quarter of 2021.
- Renewable Diesel segment depreciation and amortization expense increased by \$30 million primarily due to depreciation expense associated with the expansion of the DGD Plant that commenced operations in the fourth quarter of 2021.

Ethanol Segment Results

The following table includes selected financial and operating data of our Ethanol segment for the first six months of 2022 and 2021. The selected financial data is derived from the Financial Highlights by Segment and Total Company tables, unless otherwise noted.

	Six Months Ended June 30,		
	2022	2021	Change
Operating income	\$ 102	\$ 43	\$ 59
Adjusted operating income (see note (g))	81	43	38
Ethanol margin (see note (g))	\$ 423	\$ 359	\$ 64
Operating expenses (excluding depreciation and amortization expense reflected below) (see note (b))	302	275	27
Depreciation and amortization expense (see note (c))	17	41	(24)
Production volumes (thousand gallons per day) (see note (h))	3,953	3,884	69

The Ethanol segment operating income increased by \$59 million in the first six months of 2022 compared to the first six months of 2021; however, Ethanol segment adjusted operating income, which excludes the adjustments in the table in note (g), increased by \$38 million in the first six months of 2022 compared to the first six months of 2021. The components of this increase in the adjusted results, along with the reasons for the changes in those components, are outlined below.

- Ethanol segment margin increased by \$64 million in the first six months of 2022 compared to the first six months of 2021.

Ethanol segment margin is primarily affected by prices of the ethanol and corn related co-products that we sell and the cost of corn that we process. The table on page 50 reflects market reference prices that we believe had a material impact on the change in our Ethanol segment margin in the first six months of 2022 compared to the first six months of 2021.

The increase in Ethanol segment margin was primarily due to the following:

- Higher ethanol prices had a favorable impact of approximately \$287 million.
- Higher prices for the co-products that we produce, primarily DDGs and inedible DCO, had a favorable impact of approximately \$85 million.

- Higher corn prices had an unfavorable impact of approximately \$319 million.
- Ethanol segment operating expenses (excluding depreciation and amortization expense) increased by \$27 million primarily due to higher chemical and catalyst costs of \$12 million and higher energy costs of \$10 million.

The following notes relate to references on pages 35 through 53.

- (a) Under the RFS program, the EPA is required to set annual quotas for the volume of renewable fuels that obligated parties, such as us, must blend into petroleum-based transportation fuels consumed in the U.S. The quotas are used to determine an obligated party's renewable volume obligation (RVO). The EPA released a final rule on June 3, 2022 that, among other things, reduced the quotas for 2020 and, for the first time, established quotas for 2021 and 2022.

In 2020, we recognized the cost of the RVO using the 2020 quotas set by the EPA at that time, and in 2021 and the three months ended March 31, 2022, we recognized the cost of the RVO using our estimates of the quotas. As a result of the final rule released by the EPA on June 3, 2022 as noted above, we recognized a benefit of \$104 million in the three and six months ended June 30, 2022 primarily related to the modification of the 2020 quotas. The impacts to the estimated cost of the RVO recognized by us in 2021 and the three months ended March 31, 2022 were not significant; however, there were impacts in the 2021 quarterly periods as follows: (i) benefit of \$80 million for the three months ended March 31, 2021; (ii) benefit of \$81 million for the three months ended June 30, 2021; (iii) benefit of \$58 million for the three months ended September 30, 2021; and (iv) charge of \$220 million related to the three months ended December 31, 2021.

- (b) In mid-February 2021, many of our refineries and plants were impacted to varying extents by the severe cold, utility disruptions, and higher energy costs arising out of Winter Storm Uri. The higher energy costs resulted from an increase in the prices of natural gas and electricity that significantly exceeded rates that we consider normal, such as the average rates we incurred the month preceding the storm. As a result, our operating loss for the six months ended June 30, 2021 includes estimated excess energy costs of \$579 million.

The above-mentioned pre-tax estimated excess energy charge is reflected in our statement of income line items and attributable to our reportable segments as follows (in millions):

	Refining	Renewable Diesel	Ethanol	Total
Cost of materials and other	\$ 47	\$ —	\$ —	\$ 47
Operating expenses (excluding depreciation and amortization expense)	478	—	54	532
Total estimated excess energy costs	<u>\$ 525</u>	<u>\$ —</u>	<u>\$ 54</u>	<u>\$ 579</u>

- (c) In June 2022, we sold our ethanol plant located in Jefferson, Wisconsin, which ceased operations and was written down to estimated salvage value in 2021, for \$32 million. Depreciation and amortization expense for the three and six months ended June 30, 2022 includes a gain on the sale of \$23 million.
- (d) General and administrative expenses (excluding depreciation and amortization expense) for the three and six months ended June 30, 2022 includes a charge of \$20 million for an environmental reserve adjustment associated with a non-operating site.
- (e) "Other income, net" includes the following:
- a charge of \$50 million in the six months ended June 30, 2022 from the early retirement of approximately \$1.4 billion aggregate principal amount of various series of our senior notes;

- a gain of \$62 million in the three and six months ended June 30, 2021 on the sale of a 24.99 percent membership interest in MVP for \$270 million; and
 - a charge of \$24 million in the three and six months ended June 30, 2021 representing our portion of the asset impairment loss recognized by Diamond Pipeline LLC, a nonconsolidated joint venture with a subsidiary of Plains All American Pipeline, L.P., resulting from the joint venture's cancellation of its pipeline extension project.
- (f) Certain statutory income tax rate changes (primarily an increase in the U.K. rate from 19 percent to 25 percent effective in 2023) were enacted during the second quarter of 2021 that resulted in the remeasurement of our deferred tax liabilities. Under GAAP, we are required to recognize the effect of a change in tax law in the period of enactment. As a result, we recognized deferred income tax expense of \$64 million in the three and six months ended June 30, 2021, which represented the net increase in our deferred tax liabilities resulting from the changes in the income tax rates.
- (g) We use certain financial measures (as noted below) that are not defined under GAAP and are considered to be non-GAAP measures.

We have defined these non-GAAP measures and believe they are useful to the external users of our financial statements, including industry analysts, investors, lenders, and rating agencies. We believe these measures are useful to assess our ongoing financial performance because, when reconciled to their most comparable GAAP measures, they provide improved comparability between periods after adjusting for certain items that we believe are not indicative of our core operating performance and that may obscure our underlying business results and trends. These non-GAAP measures should not be considered as alternatives to their most comparable GAAP measures nor should they be considered in isolation or as a substitute for an analysis of our results of operations as reported under GAAP. In addition, these non-GAAP measures may not be comparable to similarly titled measures used by other companies because we may define them differently, which diminishes their utility.

Non-GAAP measures are as follows:

- **Refining margin** is defined as Refining segment operating income (loss) excluding the modification of RVO adjustment (as defined in note (a)), operating expenses (excluding depreciation and amortization expense), depreciation and amortization expense, and other operating expenses, as reflected in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Reconciliation of Refining operating income (loss) to Refining margin				
Refining operating income (loss)	\$ 6,212	\$ 349	\$ 7,663	\$ (243)
Adjustments:				
Modification of RVO (see note (a))	(104)	81	(104)	161
Operating expenses (excluding depreciation and amortization expense) (see note (b))	1,402	1,064	2,595	2,535
Depreciation and amortization expense	565	544	1,114	1,077
Other operating expenses	14	12	32	50
Refining margin	<u>\$ 8,089</u>	<u>\$ 2,050</u>	<u>\$ 11,300</u>	<u>\$ 3,580</u>

- **Renewable Diesel margin** is defined as Renewable Diesel segment operating income excluding operating expenses (excluding depreciation and amortization expense) and depreciation and amortization expense, as reflected in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Reconciliation of Renewable Diesel operating income to Renewable Diesel margin				
Renewable Diesel operating income	\$ 152	\$ 248	\$ 301	\$ 451
Adjustments:				
Operating expenses (excluding depreciation and amortization expense)	58	31	109	60
Depreciation and amortization expense	28	12	54	24
Renewable Diesel margin	<u>\$ 238</u>	<u>\$ 291</u>	<u>\$ 464</u>	<u>\$ 535</u>

- **Ethanol margin** is defined as Ethanol segment operating income excluding operating expenses (excluding depreciation and amortization expense), depreciation and amortization expense, and other operating expenses, as reflected in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Reconciliation of Ethanol operating income to Ethanol margin				
Ethanol operating income	\$ 101	\$ 99	\$ 102	\$ 43
Adjustments:				
Operating expenses (excluding depreciation and amortization expense) (see note (b))	167	119	302	275
Depreciation and amortization expense (see note (c))	(3)	20	17	41
Other operating expenses	1	—	2	—
Ethanol margin	<u>\$ 266</u>	<u>\$ 238</u>	<u>\$ 423</u>	<u>\$ 359</u>

- **Adjusted Refining operating income (loss)** is defined as Refining segment operating income (loss) excluding the modification of RVO adjustment and other operating expenses, as reflected in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Reconciliation of Refining operating income (loss) to adjusted Refining operating income (loss)				
Refining operating income (loss)	\$ 6,212	\$ 349	\$ 7,663	\$ (243)
Adjustments:				
Modification of RVO (see note (a))	(104)	81	(104)	161
Other operating expenses	14	12	32	50
Adjusted Refining operating income (loss)	<u>\$ 6,122</u>	<u>\$ 442</u>	<u>\$ 7,591</u>	<u>\$ (32)</u>

- **Adjusted Ethanol operating income** is defined as Ethanol segment operating income excluding the gain on sale of ethanol plant and other operating expenses, as reflected in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Reconciliation of Ethanol operating income to adjusted Ethanol operating income				
Ethanol operating income	\$ 101	\$ 99	\$ 102	\$ 43
Adjustments:				
Gain on sale of ethanol plant (see note (c))	(23)	—	(23)	—
Other operating expenses	1	—	2	—
Adjusted Ethanol operating income	<u>\$ 79</u>	<u>\$ 99</u>	<u>\$ 81</u>	<u>\$ 43</u>

- **Adjusted operating income** is defined as total company operating income (loss) excluding the modification of RVO adjustment, the gain on sale of ethanol plant, the environmental reserve adjustment, and other operating expenses, as reflected in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Reconciliation of total company operating income (loss) to adjusted operating income				
Total company operating income (loss)	\$ 6,219	\$ 509	\$ 7,603	\$ (157)
Adjustments:				
Modification of RVO (see note (a))	(104)	81	(104)	161
Gain on sale of ethanol plant (see note (c))	(23)	—	(23)	—
Environmental reserve adjustment (see note (d))	20	—	20	—
Other operating expenses	15	12	34	50
Adjusted operating income	<u>\$ 6,127</u>	<u>\$ 602</u>	<u>\$ 7,530</u>	<u>\$ 54</u>

- (h) We use throughput volumes, sales volumes, and production volumes for the Refining segment, Renewable Diesel segment, and Ethanol segment, respectively, due to their general use by others who operate facilities similar to those included in our segments.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the first six months of 2022, our liquidity was favorably impacted by the cash generated by our operations, which was partially used to complete various debt reduction and refinancing transactions that reduced our debt by \$1.05 billion, as described in Note 5 of Condensed Notes to Consolidated Financial Statements. Overall, our liquidity increased by \$495 million during the first six months of 2022, from \$9.3 billion as of December 31, 2021 to \$9.8 billion as of June 30, 2022.

Our Liquidity

Our liquidity consisted of the following as of June 30, 2022 (in millions):

Available capacity from our committed facilities (a):		
Valero Revolver	\$	3,088
Canadian Revolver (b)		113
Accounts receivable sales facility		1,300
Letter of credit facility		50
Total available capacity		4,551
Cash and cash equivalents (c)		5,207
Total liquidity	\$	9,758

(a) Excludes the committed facilities of the consolidated VIEs.

(b) The amount for our Canadian Revolver is shown in U.S. dollars. As set forth in the summary of our credit facilities in Note 5 of Condensed Notes to Consolidated Financial Statements, the availability under our Canadian Revolver as of June 30, 2022 in Canadian dollars was C\$145 million.

(c) Excludes \$185 million of cash and cash equivalents related to the consolidated VIEs that is available for use only by the VIEs.

Information about our outstanding borrowings, letters of credit issued, and availability under our credit facilities is reflected in Note 5 of Condensed Notes to Consolidated Financial Statements.

We believe we have sufficient funds from operations and from available capacity under our credit facilities to fund our ongoing operating requirements and other commitments over the next 12 months and thereafter for the foreseeable future. We expect that, to the extent necessary, we can raise additional cash through equity or debt financings in the public and private capital markets or the arrangement of additional credit facilities. However, there can be no assurances regarding the availability of any future financings or additional credit facilities or whether such financings or additional credit facilities can be made available on terms that are acceptable to us.

Cash Flows

Components of our cash flows are set forth below (in millions):

	Six Months Ended June 30,	
	2022	2021
Cash flows provided by (used in):		
Operating activities	\$ 6,433	\$ 1,956
Investing activities	(1,460)	(836)
Financing activities:		
Debt issuances and borrowings	1,844	16
Repayments of debt and finance lease obligations (including premiums paid on early retirement of debt)	(3,026)	(66)
Other financing activities	(2,460)	(816)
Financing activities	(3,642)	(866)
Effect of foreign exchange rate changes on cash	(61)	5
Net increase in cash and cash equivalents	\$ 1,270	\$ 259

Cash Flows for the Six Months Ended June 30, 2022

In the first six months of 2022, we used \$6.4 billion of cash generated by our operations and \$1.8 billion in debt issuances and borrowings to make \$1.5 billion of investments in our business, repay \$3.0 billion of debt and finance lease obligations (including premiums paid on the early retirement of debt), fund \$2.5 billion of other financing activities, and increase our available cash on hand by \$1.3 billion. The debt issuance, borrowings, and repayments are described in Note 5 of Condensed Notes to Consolidated Financial Statements.

As previously noted, our operations generated \$6.4 billion of cash in the first six months of 2022, driven primarily by net income of \$5.7 billion and noncash charges to income of \$826 million, partially offset by an unfavorable change in working capital of \$128 million. Noncash charges primarily included \$1.2 billion of depreciation and amortization expense, partially offset by a \$333 million deferred income tax benefit. Details regarding the components of the change in working capital, along with the reasons for the changes in those components, are described in Note 12 of Condensed Notes to Consolidated Financial Statements. In addition, see “RESULTS OF OPERATIONS” for an analysis of the significant components of our net income.

Our investing activities primarily consisted of \$1.5 billion in capital investments, as defined below under “Capital Investments,” of which \$471 million related to capital investments by DGD and \$19 million related to capital expenditures of VIEs other than DGD.

Other financing activities of \$2.5 billion consisted primarily of \$1.9 billion for the purchase of common stock for treasury and \$800 million in dividend payments, partially offset by \$240 million in contributions from the other joint venture member in DGD.

Cash Flows for the Six Months Ended June 30, 2021

In the first six months of 2021, we used \$2.0 billion of our cash generated by our operations to make \$836 million of investments in our business, repay \$66 million of debt and finance lease obligations, fund \$816 million of other financing activities, and increase our available cash on hand by \$259 million.

As previously noted, our operations generated \$2.0 billion of cash in the first six months of 2021, driven primarily by a positive change in working capital of \$1.3 billion and noncash charges to income of \$1.0 billion, partially offset by increased energy costs at certain of our refineries and ethanol plants due to effects arising out of Winter Storm Uri. See note (b) on page 54 regarding the effects of Winter Storm Uri. Noncash charges primarily included \$1.2 billion of depreciation and amortization expense, partially offset by a \$136 million deferred income tax benefit and a \$62 million gain on the sale of a partial interest in MVP, as described in Note 7 of Condensed Notes to Consolidated Financial Statements. Details regarding the components of the change in working capital, along with the reasons for the changes in those components, are described in Note 12 of Condensed Notes to Consolidated Financial Statements. In addition, see “RESULTS OF OPERATIONS” for an analysis of the significant components of our net loss.

Our investing activities of \$836 million consisted of \$1.1 billion in capital investments, of which \$399 million related to capital investments by DGD and \$35 million related to capital expenditures of VIEs other than DGD. These activities were partially offset by \$270 million received from the sale of a partial interest in MVP, as described in Note 7 of Condensed Notes to Consolidated Financial Statements.

Other financing activities of \$816 million consisted primarily of \$801 million in dividend payments and \$15 million for the purchase of common stock for treasury.

Our Capital Resources

Our material cash requirements as of June 30, 2022 primarily consisted of working capital requirements, capital investments, contractual obligations, and other matters, as described below. Our operations have historically generated positive cash flows to fulfill our working capital requirements.

Capital Investments

Capital investments are comprised of our capital expenditures, deferred turnaround and catalyst cost expenditures, and investments in nonconsolidated joint ventures, as reflected in our consolidated statements of cash flows as shown on page 6. Capital investments exclude strategic investments or acquisitions, if any.

We have publicly announced GHG emissions reduction/offset targets for 2025 and 2035. We believe that our expected allocation of growth capital into lower-carbon projects is consistent with such targets. Certain of these lower-carbon projects have been completed or are already in execution and the associated capital investments are included in our expected capital investments for 2022 discussed below. Our capital investments in future years to achieve these targets are expected to include investments associated with certain lower-carbon projects currently at various stages of progress, evaluation, or approval.

Capital Investments Attributable to Valero

Capital investments attributable to Valero is a non-GAAP financial measure that reflects our net share of capital investments and is defined as all capital expenditures, deferred turnaround and catalyst cost expenditures, and investments in nonconsolidated joint ventures, excluding the portion of DGD’s capital investments attributable to the other joint venture member and all of the capital expenditures of other consolidated VIEs.

We are a 50 percent joint venture member in DGD and consolidate its financial statements. As a result, all of DGD’s net cash provided by operating activities (or operating cash flow) is included in our consolidated net cash provided by operating activities. DGD’s members use DGD’s operating cash flow (excluding changes in its current assets and current liabilities) to fund its capital investments rather than

distribute all of that cash to themselves. Because DGD's operating cash flow is effectively attributable to each member, only 50 percent of DGD's capital investments should be attributed to our net share of capital investments. We also exclude all of the capital expenditures of other VIEs that we consolidate because we do not operate those VIEs. See Note 7 of Condensed Notes to Consolidated Financial Statements for more information about the VIEs that we consolidate. We believe capital investments attributable to Valero is an important measure because it more accurately reflects our capital investments.

Capital investments attributable to Valero should not be considered as an alternative to capital investments, which is the most comparable GAAP measure, nor should it be considered in isolation or as a substitute for an analysis of our cash flows as reported under GAAP. In addition, this non-GAAP measure may not be comparable to similarly titled measures used by other companies because we may define it differently, which may diminish its utility.

	Six Months Ended June 30,	
	2022	2021
Reconciliation of capital investments to capital investments attributable to Valero		
Capital expenditures (excluding VIEs)	\$ 324	\$ 261
Capital expenditures of VIEs:		
DGD	458	398
Other VIEs	19	35
Deferred turnaround and catalyst cost expenditures (excluding VIEs)	681	426
Deferred turnaround and catalyst cost expenditures of DGD	13	1
Investments in nonconsolidated joint ventures	1	9
Capital investments	1,496	1,130
Adjustments:		
DGD's capital investments attributable to the other joint venture member	(235)	(199)
Capital expenditures of other VIEs	(19)	(35)
Capital investments attributable to Valero	\$ 1,242	\$ 896

We have developed an extensive multi-year capital investment program, which we update and revise based on changing internal and external factors. As previously disclosed in our annual report on Form 10-K for the year ended December 31, 2021, we expect to incur \$2.0 billion for capital investments attributable to Valero during 2022. Approximately 60 percent of the expected capital investments attributable to Valero are for sustaining the business and 40 percent are for growth strategies, of which approximately 50 percent is allocated to expanding our low-carbon businesses.

Contractual Obligations

As of June 30, 2022, our contractual obligations included debt obligations, interest payments related to debt obligations, operating lease liabilities, finance lease obligations, other long-term liabilities, and purchase obligations. In the ordinary course of business, we had debt-related activities during the six months ended June 30, 2022, as described in Note 5 of Condensed Notes to Consolidated Financial Statements. There were no material changes outside the ordinary course of business with respect to our contractual obligations during the six months ended June 30, 2022.

We raised \$4.0 billion of incremental debt in 2020 due to the negative impacts of the COVID-19 pandemic on our business. During the three months ended June 30, 2022, we reduced debt through the acquisition of the \$300 million GO Zone Bonds. This transaction, combined with debt reduction and refinancing transactions completed in the second half of 2021 and the first quarter of 2022, have collectively reduced our debt by \$2.3 billion. We will continue to evaluate further deleveraging opportunities.

Other Matters Impacting Liquidity and Capital Resources

Treasury Stock Purchases

During the three and six months ended June 30, 2022, we purchased for treasury 14,211,408 shares for \$1.7 billion and 15,757,281 shares for \$1.9 billion, respectively. We completed all authorized share purchases under the 2018 Program during the three months ended June 30, 2022. On July 7, 2022, our Board authorized our purchase of up to an additional \$2.5 billion of shares under the 2022 Program with no expiration date. We will continue to evaluate the timing of purchases when appropriate. We have no obligation to make purchases under this program.

Pension Plan Funding

As disclosed in our annual report on Form 10-K for the year ended December 31, 2021, we plan to contribute approximately \$116 million to our pension plans and \$22 million to our other postretirement benefit plans during 2022.

Environmental Matters

Our operations are subject to extensive environmental regulations by governmental authorities relating to the discharge of materials into the environment, waste management, pollution prevention measures, GHG emissions, and characteristics and composition of many of our products. Because environmental laws and regulations are becoming more complex and stringent and new environmental laws and regulations are continuously being enacted or proposed, the level of future expenditures required for environmental matters could increase in the future.

Cash Held by Our Foreign Subsidiaries

As of June 30, 2022, \$2.7 billion of our cash and cash equivalents was held by our foreign subsidiaries. Cash held by our foreign subsidiaries can be repatriated to us through dividends without any U.S. federal income tax consequences, but certain other taxes may apply, including, but not limited to, withholding taxes imposed by certain foreign jurisdictions, U.S. state income taxes, and U.S. federal income tax on foreign exchange gains. Therefore, there is a cost to repatriate cash held by certain of our foreign subsidiaries to us. However, we have accrued for withholding taxes and U.S. state income taxes on a portion of the cash held by certain of our foreign subsidiaries and we believe that the remaining cost is not material to our financial position and liquidity.

Concentration of Customers

Our operations have a concentration of customers in the refining industry and customers who are refined petroleum product wholesalers and retailers. These concentrations of customers may impact our overall exposure to credit risk, either positively or negatively, in that these customers may be similarly affected by changes in economic or other conditions, including the uncertainties concerning the COVID-19 pandemic and other worldwide events causing volatility in the global crude oil markets. However, we believe that our portfolio of accounts receivable is sufficiently diversified to the extent necessary to minimize potential credit risk. Historically, we have not had any significant problems collecting our accounts receivable.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ from those estimates. There have been no changes to the critical accounting policies disclosed in our annual report on Form 10-K for the year ended December 31, 2021.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

COMMODITY PRICE RISK

We are exposed to market risks related to the volatility in the price of feedstocks (primarily crude oil, waste and renewable feedstocks, and corn), the products we produce, and natural gas used in our operations. To reduce the impact of price volatility on our results of operations and cash flows, we use commodity derivative instruments, including futures and options to manage the volatility of:

- inventories and firm commitments to purchase inventories generally for amounts by which our current year inventory levels (determined on a LIFO basis) differ from our previous year-end LIFO inventory levels; and
- forecasted purchases and/or product sales at existing market prices that we deem favorable.

Our positions in commodity derivative instruments are monitored and managed on a daily basis by our risk control group to ensure compliance with our stated risk management policy that has been approved by our Board.

The following sensitivity analysis includes all of our derivative instruments entered into for purposes other than trading with which we have market risk (in millions):

	June 30, 2022	December 31, 2021
Gain (loss) in fair value resulting from:		
10% increase in underlying commodity prices	\$ (60)	\$ (61)
10% decrease in underlying commodity prices	60	61

See Note 14 of Condensed Notes to Consolidated Financial Statements for notional volumes associated with these derivative contracts as of June 30, 2022.

COMPLIANCE PROGRAM PRICE RISK

We are exposed to market risk related to the volatility in the price of credits needed to comply with the Renewable and Low-Carbon Fuel Blending Programs. To manage this risk, we enter into contracts to purchase these credits. As of June 30, 2022 and December 31, 2021, the amount of gain or loss in the fair value of derivative instruments that would have resulted from a 10 percent increase or decrease in the underlying price of the contracts was not material. See Note 14 of Condensed Notes to Consolidated Financial Statements for a discussion about these blending programs.

INTEREST RATE RISK

The following table provides information about our debt instruments (dollars in millions), the fair values of which are sensitive to changes in interest rates. Principal cash flows and related weighted-average interest rates by expected maturity dates are presented. See Note 5 of Condensed Notes to Consolidated Financial Statements for additional information related to our debt.

June 30, 2022 (a)								
Expected Maturity Dates								
	Remainder of 2022	2023	2024	2025	2026	There- after	Total	Fair Value
Fixed rate	\$ —	\$ —	\$ 169	\$ 795	\$ 905	\$ 8,287	\$ 10,156	\$ 9,851
Average interest rate	— %	— %	1.2 %	3.1 %	4.1 %	4.9 %	4.7 %	
Floating rate	\$ 823	\$ 20	\$ —	\$ —	\$ —	\$ —	\$ 843	\$ 843
Average interest rate	4.4 %	3.9 %	— %	— %	— %	— %	4.4 %	

December 31, 2021 (a)								
Expected Maturity Dates								
	2022	2023	2024	2025	2026	There- after	Total	Fair Value
Fixed rate	\$ 300	\$ —	\$ 169	\$ 1,374	\$ 1,726	\$ 7,637	\$ 11,206	\$ 12,838
Average interest rate	4.0 %	— %	1.2 %	3.0 %	3.9 %	5.0 %	4.5 %	
Floating rate	\$ 810	\$ 20	\$ —	\$ —	\$ —	\$ —	\$ 830	\$ 830
Average interest rate	3.5 %	3.9 %	— %	— %	— %	— %	3.5 %	

(a) Excludes unamortized discounts and debt issuance costs.

FOREIGN CURRENCY RISK

We are exposed to exchange rate fluctuations on transactions related to our foreign operations that are denominated in currencies other than the local (functional) currencies of those operations. To manage our exposure to these exchange rate fluctuations, we often use foreign currency contracts. As of June 30, 2022 and December 31, 2021, the fair value of our foreign currency contracts was not material.

See Note 14 of Condensed Notes to Consolidated Financial Statements for a discussion about our foreign currency risk management activities.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our management has evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective as of June 30, 2022.

(b) Changes in internal control over financial reporting.

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no new proceedings or material developments in proceedings that we previously reported in our annual report on Form 10-K for the year ended December 31, 2021 or in our quarterly report on Form 10-Q for the quarter ended March 31, 2022.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in our annual report on Form 10-K for the year December 31, 2021. However, to the extent the Russia-Ukraine conflict, the potential impact of inflation on our business, or the COVID-19 pandemic adversely affect our business, financial condition, results of operations, and liquidity, they may also have the effect of heightening many of the other risks described in such risk factors.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table discloses purchases of shares of our common stock made by us or on our behalf during the second quarter of 2022.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (b)
April 2022	145	\$ 104.43	—	\$1.2 billion
May 2022	3,102,112	\$ 124.40	3,097,551	\$863 million
June 2022	11,109,151	\$ 122.63	6,678,599	\$—
Total	14,211,408	\$ 123.01	9,776,150	\$—

- (a) The shares reported in this column include 10,254 shares related to our purchases of shares from our employees and non-employee directors in connection with the exercise of stock options, the vesting of restricted stock, and other stock compensation transactions in accordance with the terms of our stock-based compensation plans and 4,425,004 shares that were purchased on the open market pursuant to separate authority from our Board.
- (b) On January 23, 2018, we announced that our Board authorized our purchase of up to \$2.5 billion of our outstanding common stock with no expiration date, and we completed all authorized share purchases under that program during the three months ended June 30, 2022. On July 7, 2022, we announced that our Board authorized our purchase of up to an additional \$2.5 billion with no expiration date.

ITEM 6. EXHIBITS

Exhibit

<u>No.</u>	<u>Description</u>
<u>*31.01</u>	<u>Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal executive officer.</u>
<u>*31.02</u>	<u>Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal financial officer.</u>
<u>**32.01</u>	<u>Section 1350 Certifications (under Section 906 of the Sarbanes-Oxley Act of 2002).</u>
***101.INS	Inline XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
***101.SCH	Inline XBRL Taxonomy Extension Schema Document.
***101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
***101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
***101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
***101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
***104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

** Furnished herewith.

*** Submitted electronically herewith.

Certain agreements relating to our long-term debt have not been filed as exhibits as permitted by paragraph (b)(4)(iii)(A) of Item 601 of Regulation S-K since the total amount of securities authorized under any such agreements do not exceed 10 percent of our total consolidated assets. Upon request, we will furnish to the SEC all constituent agreements defining the rights of holders of our long-term debt not filed herewith.

SIGNATURE

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 ENERGY CORPORATION
(Registrant)

By: /s/ Jason W. Fraser
Jason W. Fraser
Executive Vice President and
Chief Financial Officer
(Duly Authorized Officer and Principal
Financial and Accounting Officer)

Date: July 28, 2022

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

I, Joseph W. Gorder, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Valero Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2022

/s/ Joseph W. Gorder
Joseph W. Gorder
Chief Executive Officer

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

I, Jason W. Fraser, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Valero Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2022

/s/ Jason W. Fraser

Jason W. Fraser
Executive Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Valero Energy Corporation (the Company) on Form 10-Q for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph W. Gorder

Joseph W. Gorder
Chief Executive Officer
July 28, 2022

A signed original of the written statement required by Section 906 has been provided to Valero Energy Corporation and will be retained by Valero Energy Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Valero Energy Corporation (the Company) on Form 10-Q for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jason W. Fraser

Jason W. Fraser

Executive Vice President and Chief Financial Officer

July 28, 2022

A signed original of the written statement required by Section 906 has been provided to Valero Energy Corporation and will be retained by Valero Energy Corporation and furnished to the Securities and Exchange Commission or its staff upon request.