VALERO ENERGY CORP/TX
Form DEF 14A
March 21, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant Filed by a party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

Valero Energy Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No:

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Notice of 2018 Annual Meeting of Stockholders

The 2018 annual meeting of stockholders of Valero Energy Corporation is scheduled to be held as follows:

MEETING DATE & TIME:	MEETING PLACE:	RECORD DATE:
Thursday, May 3, 2018	Valero Energy Corporation	March 6, 2018
10 a.m., Central Time	One Valero Way	
	San Antonio, Texas 78249	

The purpose of the annual meeting is to consider and vote on the following:

Voting Matters	Board Recommendation	Proxy Statement Disclosure
1. Elect directors;	**FOR** each director nominee	P. 9
2. Ratify KPMG LLP as independent auditor;	**FOR**	P. 60
3. Advisory vote to approve executive compensation;	**FOR**	P. 63
4. Amend Valero s Restated Certificate of Incorporation to remove supermajority vote requirements;	**FOR**	P. 64
5. Amend Valero s Restated Certificate of Incorporation to permit stockholders to act by written consent; and	**FOR**	P. 69
6. Other matters, if any, properly brought before the meeting.		

Valero Energy Corporation

One Valero Way

By order of the Board of Directors,

San Antonio, Texas 78249	J. Stephen Gilbert
March 21, 2018	Secretary

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2018 ANNUAL MEETING OF STOCKHOLDERS

Our Board is soliciting proxies to be voted at the Annual Meeting of Stockholders on May 3, 2018 (the Annual Meeting). The accompanying notice describes the time, place, and purposes of the Annual Meeting. Action may be taken at the Annual Meeting or on any date to which the meeting may be adjourned. Unless otherwise indicated the terms Valero, we, our, and us in this proxy statement refer to Valero Energy Corporation, to one or more of our consolidated subsidiaries, or to all of them taken as a whole. Board means our board of directors.

We are mailing our *Notice of Internet Availability of Proxy Materials* (Notice) to stockholders on or about March 21, 2018. On this date, you will be able to access all of our proxy materials on the website referenced in the Notice.

RECORD DATE, SHARES OUTSTANDING, QUORUM

Holders of record of our common stock, $0.01 par value (Common Stock), at the close of business on March 6, 2018 (the record date) are entitled to vote on the matters presented at the Annual Meeting. On the record date, 430,922,297 shares of Common Stock were issued and outstanding and entitled to one vote per share. Stockholders representing a majority of voting power, present in person or represented by properly executed proxy, will constitute a quorum.

VOTING IN PERSON, REVOCABILITY OF PROXIES

If you attend the Annual Meeting and want to vote in person, we will give you a ballot at the meeting. If your shares are registered in your name, you are considered the stockholder of record and you have the right to vote the shares at the meeting. If, however, your shares are held in the name of your broker or other nominee, you are considered the beneficial owner of shares held in street name. As a beneficial owner, if you wish to vote at the meeting, you will need to bring to the meeting a legal proxy from the stockholder of record (*e.g.*, your broker) authorizing you to vote the shares.

You may revoke your proxy at any time before it is voted at the Annual Meeting by (i) submitting a written revocation to Valero, (ii) returning a subsequently dated proxy to Valero, or (iii) attending the Annual Meeting requesting that your proxy be revoked and voting in person at the Annual Meeting. If instructions to the contrary are not provided, shares will be voted as indicated on the proxy card.

REQUIRED VOTES

For Proposal 1, as required by Valero s bylaws, each director is to be elected by a majority of votes cast with respect to that director s election.

Proposals 2 and 3 require approval by the affirmative vote of a majority of the voting power of the shares present in person or by proxy at the Annual Meeting and entitled to vote.

Proposals 4 and 5 require approval by the affirmative vote of the holders of at least 80 percent of the voting power of the outstanding Common Stock.

EFFECT OF ABSTENTIONS

Shares voted to abstain are treated as present for purposes of determining a quorum. In the election of directors (Proposal 1), pursuant to our bylaws, shares voted to abstain are not deemed votes cast, and are accordingly disregarded. When approval for a proposal requires (i) the affirmative vote of a majority of the voting power of the shares present in person or by proxy and entitled to vote (Proposals 2 and 3), (ii) the affirmative vote of a majority of the voting power of the issued and outstanding Common Stock, or (iii) the affirmative vote of the holders of at least 80 percent of the voting power of the issued and outstanding Common Stock (Proposals 4 and 5), then shares voted to abstain have the effect of a negative vote (a vote against).

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2018 ANNUAL MEETING OF STOCKHOLDERS

BROKER NON-VOTES

Brokers holding shares must vote according to the specific instructions they receive from the beneficial owners of the stock. If your broker does not receive specific voting instructions from you, in some cases the broker may vote the shares in the broker s discretion. However, the New York Stock Exchange (the NYSE) precludes brokers from exercising voting discretion on certain proposals without specific instructions from the beneficial owner. This results in a broker non-vote on the proposal. A broker non-vote (i) is treated as present for purposes of determining a quorum, (ii) has the effect of a negative vote when a majority of the voting power of the issued and outstanding shares is required for approval of a particular proposal, and (iii) has no effect when a majority of the voting power of the shares present in person or by proxy and entitled to vote or a plurality or majority of the votes cast is required for approval.

Proposal 2 is deemed to be a routine matter under NYSE rules. A broker or other nominee generally may vote uninstructed shares on routine matters, and therefore no broker non-votes are expected to occur for Proposal 2. Proposals 1, 3, 4, and 5 are considered non-routine under applicable rules. Because a broker or other nominee cannot vote without instructions on non-routine matters, we expect an undetermined number of broker non-votes to occur on these proposals.

SOLICITATION OF PROXIES

Valero pays the cost for soliciting proxies and the Annual Meeting. In addition to solicitation by mail, proxies may be solicited by personal interview, telephone, and similar means by directors, officers, or employees of Valero, none of whom will be specially compensated for such activities. Valero also intends to request that brokers, banks, and other nominees solicit proxies from their principals and will pay such brokers, banks, and other nominees certain expenses incurred by them for such activities. Valero retained Georgeson LLC, a proxy soliciting firm, to assist in the solicitation of proxies for a fee of $17,500, plus reimbursement of certain out-of-pocket expenses.

For participants in our qualified 401(k) plan (Thrift Plan), the proxy card will represent (in addition to any shares held individually of record by the participant) the number of shares allocated to the participant s account in the Thrift Plan. For shares held by the Thrift Plan, the proxy card will constitute an instruction to the trustee of the plan on how to vote those shares. Shares for which instructions are not received may be voted by the trustee per the terms of the plan.

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INFORMATION REGARDING THE BOARD OF DIRECTORS

Valero s business is managed under the oversight of our Board. Our Board conducts its business through meetings of its members and its committees. During 2017, our Board held seven meetings and the standing Board committees held 13 meetings. No member of the Board attended less than 75 percent of the meetings of the Board and committees of which he or she was a member. All Board members are expected to attend the Annual Meeting, and all of our Board members attended the 2017 annual meeting.

Independent Directors

Independent Directors. Our *Corporate Governance Guidelines* require a majority of the Board to be independent. The Board presently has 10 non-management directors and one member from management: Joseph W. Gorder (our Chief Executive Officer). As a member of management, Mr. Gorder is not an independent director under NYSE listing standards. The Board determined that all of our non-management directors who served on the Board at any time in 2017 met the Board s independence requirements. Those independent directors were.

H. Paulett Eberhart	Philip J. Pfeiffer	Stephen M. Waters
Kimberly S. Greene	Robert A. Profusek	Randall J. Weisenburger
Deborah P. Majoras	Susan Kaufman Purcell	Rayford Wilkins, Jr.
Donald L. Nickles		

Independent Committees. The Board s Audit Committee, Compensation Committee, and Nominating/Governance and Public Policy Committee are composed entirely of directors who meet the independence requirements of the NYSE. Each member of the Audit Committee also meets the additional independence standards for Audit Committee members required by the SEC.

Independence Standards and Determination. The Board determines independence on the basis of the standards specified by the NYSE, the standards listed in our *Corporate Governance Guidelines*, and other facts and circumstances the Board may consider relevant. In general, our *Corporate Governance Guidelines* require that an independent director must have no material relationship with Valero. A relationship is not material under the guidelines if it:

- is not a relationship that would preclude a determination of independence under Section 303A.02(b) of the NYSE Listed Company Manual;
- consists of charitable contributions by Valero to an organization in which a director is an executive officer that do not exceed the greater of $1 million or two percent of the organization s gross revenue in any of the last three years;

consists of charitable contributions to any organization with which a director, or any member of a director s immediate family, is affiliated as an officer, director, or trustee pursuant to a matching gift program of Valero and made on terms applicable to employees and directors, or is in amounts that do not exceed $1 million per year; and

is not a relationship required to be disclosed by Valero under Item 404 of Regulation S-K (regarding related person transactions).

Under the NYSE s listing standards, a director is not deemed independent unless the Board affirmatively determines that the director has no material relationship with Valero. The Board has reviewed pertinent information concerning the background, employment, and affiliations (including commercial, banking, consulting, legal, accounting, charitable, and familial relationships) of our directors, and the Board has determined that each of our non-management directors and each member of the Audit, Compensation, and Nominating/Governance and Public Policy Committees has no material relationship with Valero, and is therefore independent.

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INFORMATION REGARDING THE BOARD OF DIRECTORS

Committees of the Board

Our Board has three standing committees:

- Audit Committee,
- Compensation Committee, and
- Nominating/Governance and Public Policy Committee.

The committees charters are available on our website at:

www.valero.com u Investors u Corporate Governance u Governance Documents u Charters.

AUDIT COMMITTEE

The Audit Committee assists the Board in oversight of the integrity of Valero s financial statements and public financial information, Valero s compliance with legal and regulatory requirements, the qualifications and independence of Valero s independent auditor, and the performance of Valero s internal audit function and independent auditors. The Audit Committee met five times in 2017. We make additional disclosures about the Audit Committee in this proxy statement under the caption Risk Oversight and in connection with Proposal No. 2 Ratify Appointment of KPMG LLP as Independent Auditors below.

Members of the Audit Committee are:

Randall J. Weisenburger (Chair),
H. Paulett Eberhart,
Susan Kaufman Purcell, and
Stephen M. Waters.

Notes:

Audit Committee Financial Experts. The Board has determined that each of the following directors is an audit committee financial expert (as defined by the SEC) and that each is independent under applicable regulations/standards: (1) Mr. Weisenburger, (2) Ms Eberhart, and (3) Mr. Waters. For more information regarding their experience, see Proposal No. 1 Election of Directors Information Concerning Nominees and Directors.

COMPENSATION COMMITTEE

The Compensation Committee reviews and reports to the Board on matters related to compensation programs, policies, and strategies. The Compensation Committee s duties are further described in Compensation Discussion and Analysis below and in the committee s charter. The Compensation Committee met five times in 2017. The Compensation Committee has, for administrative convenience, delegated authority to our Chief Executive Officer to make non-material amendments to Valero s benefit plans and to make limited grants of stock options and restricted stock to new hires who are not executive officers.

Members of the Compensation Committee are:

Rayford Wilkins, Jr. (Chair),
Philip J. Pfeiffer, and
Robert A. Profusek.

Notes:

The *Compensation Committee Report* for fiscal year 2017 appears in this proxy statement immediately preceding Compensation Discussion and Analysis.

Compensation Committee Interlocks and Insider Participation: *There are no compensation committee interlocks. None of the members of the Compensation Committee has served as an officer or employee of Valero or had any relationship requiring disclosure by Valero under Item 404 of the SEC s Regulation S-K, which addresses related-person transactions.*

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INFORMATION REGARDING THE BOARD OF DIRECTORS

NOMINATING/GOVERNANCE AND PUBLIC POLICY COMMITTEE

The Nominating/Governance and Public Policy Committee assists the Board in its oversight responsibilities with respect to corporate governance, Board membership, and public policy matters. The committee s specific purposes are to:

- identify individuals qualified to become Board members, consistent with criteria approved by the Board;
- select, or to recommend that the Board select, director nominees;
- develop and recommend a set of corporate governance principles applicable to Valero;
- assist the Board in identifying, evaluating, and monitoring public policy trends and social and political issues that could impact our business activities and performance;
- assist the Board in oversight of Valero s climate-related risks and opportunities;
- consider and make recommendations for our strategies relating to corporate responsibility, contributions, and reputation management; and
- oversee and lead the Board s and the committees annual self-evaluation of performance.

Members of the committee are:

Deborah P. Majoras (Chair),
Kimberly S. Greene, and
Donald L. Nickles.

Notes:

The committee met three times in 2017. The committee recommended to the Board each director listed in this proxy statement in Proposal No. 1 as nominees for election as directors at the Annual Meeting. The committee also considered and recommended the appointment of a Lead Director to preside at meetings of the independent directors without management, and recommended assignments for the Board s committees. The full Board approved the recommendations of the committee and adopted resolutions approving the slate of director nominees to stand for election at the Annual Meeting, the appointment of a Lead Director, and Board committee assignments.

Selection of Director Nominees

The Nominating/Governance and Public Policy Committee solicits recommendations for Board candidates from a number of sources, including our directors, our officers, individuals personally known to our Board members, and third-party research. In addition, the Committee will consider candidates submitted by stockholders when submitted in accordance with the procedures described in this proxy statement under the caption Miscellaneous Stockholder Communications, Nominations, and Proposals.

The Committee will consider all candidates identified through the processes described above and will evaluate each of them on the same basis. The level of consideration the Committee will extend to a stockholder s candidate will be commensurate with the quality and quantity of information about the candidate that the nominating stockholder makes available to the Committee.

Proxy Access. Our amended and restated bylaws permit a stockholder, or a group of up to 20 stockholders, that has owned at least three percent of our outstanding Common Stock for at least three years to nominate and include in our proxy statement candidates for our Board, subject to certain requirements. Each stockholder, or group of stockholders, may nominate candidates for director, up to a limit of the greater of two or 20 percent of the number of directors on the Board. Any nominee must meet the qualification standards listed in our bylaws. The procedures for nominating a candidate pursuant to our proxy access provisions are described in this proxy statement under the caption Miscellaneous Stockholder Communications, Nominations, and Proposals.

EVALUATION OF DIRECTOR CANDIDATES

The Nominating/Governance and Public Policy Committee is charged with (i) assessing the skills and characteristics that candidates for election to the Board should possess and (ii) determining the composition of the Board as a whole. The assessments include consideration of:

- applicable independence standards;
- skills and experience necessary for service on the Board s committees; and
- skills and expertise to serve the needs of the Board as a whole.

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INFORMATION REGARDING THE BOARD OF DIRECTORS

Each candidate must meet certain minimum qualifications, including:

- independence of thought and judgment;
- the ability to dedicate sufficient time, energy, and attention to the performance of duties, taking into consideration the candidate s service on other public company boards; and
- skills and expertise complementary to those of the existing Board members; in this regard, the Board will consider its need for operational, managerial, financial, governmental affairs, technology, human resources, or other expertise.

The Committee also considers:

- diversity concepts such as race, gender, national origin, age, and geography;
- the ability of a prospective candidate to work with the then-existing interpersonal dynamics of the Board; and
- the candidate s ability to contribute to the collaborative culture among Board members.

Based on this initial evaluation, the Committee will determine whether to interview a proposed candidate and, if warranted, will recommend that one or more of its members, other members of the Board, and/or senior officers, as appropriate, interview the candidate. Following this process, the Committee ultimately determines its list of nominees and recommends the list to the full Board for consideration and approval.

Leadership Structure of the Board

Our bylaws provide that the Chairman of the Board has the power to preside at all meetings of the Board. Joseph W. Gorder, our Chief Executive Officer, serves as the Chairman of the Board. Although the Board believes that the combination of the Chairman and Chief Executive Officer roles is appropriate in current circumstances, Valero s *Corporate Governance Guidelines* do not establish this approach as a policy, and in fact, the Chairman and Chief Executive Officer roles were separate from 2005 2007 and from May December 2014.

The Chief Executive Officer is appointed by the Board to manage Valero s daily affairs and operations. We believe that Mr. Gorder s extensive industry experience and direct involvement in Valero s operations make him best suited to serve as Chairman in order to:

- lead the Board in productive, strategic planning;
- determine necessary and appropriate agenda items for meetings of the Board with input from the Lead Director and Board committee chairs; and

determine and manage the amount of time and information devoted to discussion of agenda items and other matters that may come before the Board.

Oversight by Independent Directors. Our Board structure includes strong oversight by independent directors. Mr. Gorder is the only member from our management (past or present) who serves on the Board; all of our other directors are independent. Each of the Board s committees is chaired by an independent director, all committee members are independent, and our Board has named an independent Lead Director whose duties are described in the following section.

Lead Director and Meetings of Non-Management Directors

Our Board appoints a Lead Director whose responsibilities include leading the meetings of our non-management directors outside the presence of management. Following the recommendation of the Nominating/Governance and Public Policy Committee, the Board selected Robert A. Profusek to serve as Lead Director during 2018. He also served as Lead Director in 2017. Our Board regularly meets in executive session outside the presence of management, generally at each Board and committee meeting, as led by Mr. Profusek.

The Lead Director, working with the committee chairs, sets agendas and leads the discussion of regular meetings of the Board outside the presence of management, provides feedback regarding these meetings to the Chairman, and otherwise serves as liaison between the independent directors and the Chairman. The Lead Director regularly communicates with the Chairman between meetings of the Board to discuss policy issues, strategies, governance, and other matters that arise throughout the year. The Chairs of the Board s committees also communicate regularly with the Lead Director to discuss policy issues facing Valero and the Board and to recommend agenda items for consideration at future Board meetings. The Board believes that this approach appropriately and effectively complements Valero s combined Chief Executive Officer/Chairman structure.

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INFORMATION REGARDING THE BOARD OF DIRECTORS

Our *Corporate Governance Guidelines* enumerate the duties and responsibilities of the Lead Director, which include: (a) serving as a liaison between the Chairman and the independent directors, (b) consulting with the Chairman on agendas for board meetings, (c) reviewing and approving information sent to the Board as and when appropriate, (d) the authority to call meetings of the independent directors, (e) setting agendas and leading the discussion of regular executive session meetings of the Board outside the presence of management and providing feedback regarding these meetings to the Chairman, and (f) receiving, reviewing, and acting upon communications from stockholders or other interested parties when those interests should be addressed by a person independent of management.

Risk Oversight

The Board considers oversight of Valero s risk management to be a responsibility of the full Board. The Board s role in risk oversight includes receiving regular reports from its committees and from members of senior management on areas of material risk to Valero, or to the success of a particular project or endeavor under consideration, including operational, financial, legal, regulatory, strategic, political, reputational, environmental, cybersecurity, and climate-related risks. For example, the Board recently completed a review with management of Valero s policies and procedures concerning issues of workplace diversity, sexual harassment and discrimination, and ensuring a safe workplace.

The full Board (or appropriate Board committee) regularly receives reports from management to enable the Board (or committee) to assess Valero s risk identification, risk management, and risk mitigation strategies. When a report is vetted at the committee level, the chair of that committee thereafter reports on the matter to the full Board. This enables to the Board and its committees to coordinate the Board s risk oversight role. The Board also believes that risk management is an integral part of Valero s annual strategic planning process, which addresses, among other things, the risks and opportunities facing Valero in the long term.

One of the Audit Committee s responsibilities is to discuss with management Valero s major financial risk exposures and the steps Valero has taken to monitor and control those exposures, including our risk assessment and risk management policies. In this regard, our chief audit officer prepares a comprehensive risk assessment report and reviews that report with the Audit Committee. This report identifies material business risks for Valero and identifies Valero s internal controls that respond to and mitigate those risks. Valero s management regularly evaluates these controls, and the Audit Committee is provided regular updates regarding the effectiveness of the controls. The Audit Committee also has oversight responsibility regarding management s annual assessment of, and report on, Valero s internal control over financial reporting. In addition, senior management reports regularly to the Audit Committee regarding Valero s initiatives and strategies respecting cybersecurity and information technology risks.

Our Nominating/Governance and Public Policy Committee reviews our policies and performance in areas of employee and contractor safety, environmental compliance, governmental affairs, reputation management, climate-related risks and opportunities, and policy matters generally. Valero s General Counsel and the Vice President Public Policy & Strategic Planning attend all meetings of the Committee. In addition, members from senior management report, at least annually, to the Committee regarding Valero s safety and environmental risks, strategies, and assessments. The Committee also assists the Board in oversight of Valero s climate-related risks and opportunities (described further in Climate Change Disclosure below).

Our Compensation Committee assesses the risk of our compensation programs. Our compensation consultant regularly attends meetings of the Committee to provide updates on compensation related risks and trends. See also, Risk Assessment of Compensation Programs elsewhere in this proxy statement.

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CLIMATE CHANGE DISCLOSURE

In 2017, the Financial Stability Board s Task Force on Climate-related Financial Disclosure (TCFD) issued its final recommendations on reporting climate-related financial information. Valero is presently at work preparing drafts of a report with ongoing Board oversight led by the Nominating/Governance and Public Policy Committee that is aligned with the main principles outlined in the recommendations of the TCFD. We plan to include the results of a stress-test of our business against the International Energy Agency s hypothetical 450 Scenario (also known as the 2 degree scenario). Following the full Board s final review of the report, we expect to publish our report in the third quarter of 2018.

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PROPOSAL NO. 1

(ITEM 1 ON THE PROXY CARD)

We do not have a classified board. Each of our directors stands for election every year at the annual meeting of stockholders. If elected at the 2018 Annual Meeting, all of the nominees listed below will serve as director for a one-year term expiring at the 2019 annual meeting of stockholders. The persons named on the proxy card intend to vote for the election of each of these nominees unless you direct otherwise on your proxy card.

The Board recommends a vote FOR all nominees.

Majority Voting. Under our bylaws, each director to be elected under this proposal will be elected by the vote of the majority of the votes cast at the Annual Meeting, if a quorum is present. For this purpose, a majority of the votes cast means that the number of shares voted for a director s election exceeds 50 percent of the number of votes cast with respect to that director s election. Votes cast exclude abstentions. If any nominee is unavailable as a candidate at the time of the Annual Meeting, either the number of directors constituting the full Board will be reduced to eliminate the resulting vacancy, or the persons named as proxies will use their best judgment in voting for any available nominee.

Information Concerning Nominees and Directors

Each of the following is a nominee for election as a director at the Annual Meeting. There is no family relationship among any of the executive officers or nominees for director. There is no arrangement or understanding between any director or any other person pursuant to which the director was or is to be selected a director or nominee. Susan Kaufman Purcell, who currently serves as director, will retire from the Board on the date of the Annual Meeting.

Directors	Director Since	Age as of 12/31/2017
Joseph W. Gorder, *Chairman of the Board,*	2014	60

President, and Chief Executive Officer		
H. Paulett Eberhart	2016	64
Kimberly S. Greene	2016	51
Deborah P. Majoras	2012	54
Donald L. Nickles	2005	69
Philip J. Pfeiffer	2012	70
Robert A. Profusek	2005	67
Stephen M. Waters	2008	71
Randall J. Weisenburger	2011	59
Rayford Wilkins, Jr.	2011	66

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PROPOSAL NO. 1 ELECTION OF DIRECTORS

For information regarding the nominees Common Stock holdings, compensation, and other arrangements, see Information Regarding the Board of Directors, Beneficial Ownership of Valero Securities, Compensation Discussion and Analysis, and Compensation of Directors elsewhere in this proxy statement.

Nominees.

JOSEPH W. GORDER

Age: 60

Director Since: 2014

Chairman

Biographical Information

Mr. Gorder is Valero s Chairman of the Board, President, and Chief Executive Officer. He was first elected to the Board in February 2014. He became Valero s Chief Executive Officer on May 1, 2014, and Chairman of the Board on December 31, 2014. Previously he served as Valero s President and Chief Operating Officer since November 2012. Prior to that, Mr. Gorder was Executive Vice President and Chief Commercial Officer beginning in January 2011, and led Valero s European operations from its London office. Beginning in December 2005, he was Executive Vice President Marketing and Supply. Mr. Gorder has held several positions with Valero and Ultramar Diamond Shamrock Corporation (UDS) with responsibilities for corporate development and marketing. Mr. Gorder is also Chief Executive Officer and Chairman of the Board of Valero Energy Partners GP LLC, the general partner of Valero Energy Partners LP (NYSE: VLP), a midstream logistics master limited partnership formed by Valero in 2013. He also serves on the board of directors of Anadarko Petroleum Corporation (NYSE: APC).

Qualifications:

Mr. Gorder s pertinent experience, qualifications, attributes, and skills include his multiple years of experience in the refining industry during his years of service with UDS and Valero.

H. PAULETT EBERHART

Age: 64

Biographical Information

Director Since: 2016

Committee:

Audit

Ms. Eberhart is Chairman and Chief Executive Officer of HMS Ventures, a privately held business involved with technology services and the acquisition and management of real estate. From January 2011 through March 2014, she served as President and Chief Executive Officer of CDI Corp. (NYSE: CDI), a provider of engineering and information technology outsourcing and professional staffing services. She served as a consultant to CDI from April 2014 through December 2014. Ms. Eberhart also served as Chairman and Chief Executive Officer of HMS Ventures from January 2009 until January 2011. She served as President and Chief Executive Officer of Invensys Process Systems, Inc. (Invensys), a process automation company, from January 2007 to January 2009. From 1978 to 2004, she was an employee of Electronic Data Systems Corporation (EDS), an information technology and business process outsourcing company, and held roles of increasing responsibility, including senior level financial and operating roles. From 2003 until March 2004, Ms. Eberhart was President of Americas of EDS, and from 2002 to 2003 she served as President of Solutions Consulting at EDS. Ms. Eberhart is a Certified Public Accountant and serves as a director of Anadarko Petroleum Corporation (NYSE: APC) and LPL Financial Holdings Inc. (NASDAQ: LPLA). In the past five years she also served on the boards of CDI, Cameron International Corporation (NYSE: CAM), Ciber, Inc. (NYSE: CBR), and Advanced Micro Devices, Inc. (NASDAQ: AMD).

Qualifications:

Ms. Eberhart s pertinent experience, qualifications, attributes, and skills include executive management and leadership skills attained as a CEO of public and private companies, expertise and experience in information technology, and financial literacy and expertise attained in her service as a financial executive and Certified Public Accountant.

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PROPOSAL NO. 1 ELECTION OF DIRECTORS

KIMBERLY S. GREENE

Age: 51

Director Since: 2016

Committee:

Nom/Gov

Biographical Information

Ms. Greene is Executive Vice President and Chief Operating Officer of the Southern Company (NYSE: SO), a position she has held since March 2014. Prior to that, she was President and Chief Executive Officer of Southern Company Services, Inc. Prior to rejoining Southern Company in April 2013, she was Executive Vice President and Chief Generation Officer of Tennessee Valley Authority (TVA). While at TVA, she served as Chief Financial Officer, Executive Vice President of financial services and Chief Risk Officer, as well as Group President for strategy and external relations. Ms. Greene began her career at Southern Company in 1991 and held positions of increasing responsibility in the areas of engineering, strategy, finance, and wholesale marketing, including Senior Vice President and Treasurer of Southern Company Services, Inc. from 2004 to 2007.

Qualifications:

Ms. Greene s pertinent experience, qualifications, attributes, and skills include executive managerial experience she has attained serving as an executive officer of other public and private companies, regulatory knowledge and expertise attained through her positions of responsibility in highly regulated industries, and financial literacy and expertise attained in her service as a financial executive.

DEBORAH P. MAJORAS

Age: 54

Director Since: 2012

Committee:

Nom/Gov (Chair)

Biographical Information

Ms. Majoras has been Chief Legal Officer and Secretary of The Procter & Gamble Company (P&G) (NYSE: PG) since 2010. She joined P&G in 2008 as Senior Vice President and General Counsel. Previously she served as Chair of the Federal Trade Commission from 2004 until 2008. From 2001 to 2004, Ms. Majoras was Deputy Assistant Attorney General in the U.S. Department of Justice, Antitrust Division. Ms. Majoras joined the law firm of Jones Day in 1991, and became a partner in 1999. Ms. Majoras serves on the boards of The Christ Hospital Health Network, the Cincinnati Legal Aid Society, Westminster College, and the Leadership Council on Legal Diversity.

Qualifications:

Ms. Majoras s pertinent experience, qualifications, attributes, and skills include regulatory knowledge and expertise attained through her positions with the federal government; expertise in legal matters, leadership, and management skills attained while acting as an officer of a major U.S. publicly traded corporation and a partner with Jones Day; and leadership and management skills attained while serving as director or trustee of numerous non-profit organizations and a member of Valero s Board since 2012.

DONALD L. NICKLES

Age: 69

Director Since: 2005

Committee:

Nom/Gov

Biographical Information

Senator Nickles retired as U.S. Senator from Oklahoma in 2005 after serving in the U.S. Senate for 24 years. He had also served in the Oklahoma State Senate for two years. During his tenure as a U.S. Senator, he was Assistant Republican Leader for six years, Chairman of the Republican Senatorial Committee, and Chairman of the Republican Policy Committee. He served as Chairman of the Budget Committee and as a member of the Finance and Energy and Natural Resources Committees. In 2005, he formed and is the Chairman and Chief Executive Officer of The Nickles Group, a Washington-based consulting and business venture firm. Senator Nickles also serves on the Board of Trustees of Washington Mutual Investors Fund (AWSHX).

Qualifications:

His pertinent experience, qualifications, attributes, and skills include extensive political, legislative and regulatory knowledge and expertise attained through his years of service as a U.S. Senator; the experience attained through his service on the boards of other public companies; the knowledge and experience he has attained from serving as founder and chief executive officer of a consulting and business venture firm; and the knowledge and experience he has attained through his service on Valero s Board.

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PROPOSAL NO. 1 ELECTION OF DIRECTORS

PHILIP J. PFEIFFER

Age: 70

Director Since: 2012

Committee:

Compensation

Biographical Information

Mr. Pfeiffer is Of Counsel in the San Antonio office of Norton Rose Fulbright LLP, where he was Partner-in-Charge for 25 years and led the office s labor and employment practice. Through his 45+ years with the firm, Mr. Pfeiffer assisted employers in traditional management union matters, complex civil rights matters, employment discrimination cases, affirmative action compliance, employment torts, alternative dispute resolution, employment contracts, and ERISA litigation. He is a director and past Chair of the Board of Southwest Research Institute, a non-profit contract research corporation based in San Antonio, Texas. He serves or has served on the boards of many other non-profit organizations including the United Way of San Antonio and Bexar County, St. Mary s University, San Antonio Medical Foundation, Texas Research and Technology Foundation, The Children s Hospital of San Antonio Foundation, Alamo Area Council of Boy Scouts, and the Cancer Therapy and Research Center.

Qualifications:

Mr. Pfeiffer s pertinent experience, qualifications, attributes, and skills include expertise in legal matters, including labor and employment issues, leadership and management skills attained while acting as Partner-in-Charge of a law office, and serving as chairman, director, or trustee of numerous non-profit organizations and his service on Valero s Board.

ROBERT A. PROFUSEK

Age: 67

Director Since: 2005

Lead Director

Biographical Information

Mr. Profusek is a partner of the Jones Day law firm where he chairs the firm s global mergers and acquisitions practice. His law practice focuses on mergers, acquisitions, takeovers, restructurings, and corporate governance matters. Mr. Profusek is also the lead independent director of CTS Corporation (NYSE: CTS). He served as a director of the managing general partner of Valero L.P. (now known as NuStar Energy L.P.) from 2001 2005.

Committee:

Compensation

Qualifications:

Mr. Profusek s pertinent experience, qualifications, attributes, and skills include: expertise in legal matters, including corporate governance; capital markets expertise attained through his extensive experience in mergers and acquisitions and financing activities; managerial experience attained through his leadership roles with Jones Day; the knowledge and experience he has attained through his service as a director of other NYSE-listed companies; and the knowledge and experience he has attained through his service on Valero s Board.

STEPHEN M. WATERS

Age: 71

Director Since: 2008

Committee:

Audit

Biographical Information

Mr. Waters has been the managing partner of Compass Partners Advisers LLP (Compass Partners) and its predecessor partnerships since 1996 and was the Chief Executive of Compass Partners European Equity Fund from 2005 to 2013. From 1988 to 1996, he served in several capacities at Morgan Stanley, including Co-Head of the Mergers and Acquisitions department from 1990 to 1992, Co-Chief Executive Officer of Morgan Stanley Europe from 1992 to 1996, and as a member of its worldwide Firm Operating Committee from 1992 to 1996. From 1974 to 1988, he was with Lehman Brothers, co-founding the Mergers and Acquisitions department in 1977, becoming a partner in 1980, and serving as Co-Head of the Mergers and Acquisitions department from 1985 to 1988. Mr. Waters is also Chairman of Boston Private Financial Holdings, Inc. (NASDAQ: BPFH).

Qualifications:

His pertinent experience, qualifications, attributes, and skills include: financial literacy and expertise, capital markets expertise, and managerial experience gained through his mergers and acquisitions experience and leadership roles with investment banking firms; and the knowledge and experience he has attained through his service on Valero s Board and on other public company boards.

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PROPOSAL NO. 1 ELECTION OF DIRECTORS

RANDALL J. WEISENBURGER

Age: 59

Director Since: 2011

Committee:

Audit (Chair)

Biographical Information

Mr. Weisenburger is the managing member of Mile26 Capital, LLC, a hedge fund based in Greenwich, Connecticut. He served as Executive Vice President and Chief Financial Officer of Omnicom Group Inc. (NYSE: OMC) from 1998 until September 2014. Prior to joining Omnicom, he was a founding member of Wasserstein Perella and a former member of First Boston Corporation. At Wasserstein Perella, Mr. Weisenburger specialized in private equity investing and leveraged acquisitions, and in 1993, he became President and CEO of the firm s private equity subsidiary. His other corporate board service includes Carnival Corporation and Carnival plc (NYSE: CCL) and Acosta Sales and Marketing (privately held). He is a member of the Board of Overseers for the Wharton School of Business at the University of Pennsylvania.

Qualifications:

His pertinent experience, qualifications, attributes, and skills include financial literacy and expertise, capital markets expertise, managerial experience he has attained serving as an executive officer of other public companies, and the experience he has attained from service on Valero s Board and on other public company boards.

RAYFORD WILKINS, JR.

Age: 66

Director Since: 2011

Committee:

Biographical Information

Mr. Wilkins previously served as CEO of Diversified Businesses of AT&T Inc. (NYSE: T), where he was responsible for international investments, AT&T Interactive, AT&T Advertising Solutions, customer information services, and the consumer wireless initiative in India. He retired from AT&T at the end of March 2012. Mr. Wilkins held several other leadership positions at AT&T and its predecessor companies, including Group President and

Compensation (Chair)

CEO of SBC Enterprise Business Services and President and CEO of SBC Pacific Bell. He also serves on the boards of Morgan Stanley (NYSE: MS) and Caterpillar Inc. (NYSE: CAT), and the Advisory Council of the McCombs School of Business at the University of Texas at Austin.

Qualifications:

His pertinent experience, qualifications, attributes, and skills include managerial experience he has attained serving as an executive officer of other public companies, international business acumen he has attained from his responsibilities as executive officer and director for international business concerns, and the experience he has attained from service on Valero s Board and on other public company boards.

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IDENTIFICATION OF EXECUTIVE OFFICERS

The following are Valero s executive officers (for purposes of Rule 3b-7 under the Securities Exchange Act of 1934). As used in this proxy statement, our named executive officers are the five persons listed in the Summary Compensation Table. There is no arrangement or understanding between any executive officer listed below or any other person under which the executive officer was or is to be selected as an officer.

	Officer Since	Age as of 12/31/2017
Joseph W. Gorder, *President and Chief Executive Officer*	2003	60
Jay D. Browning, *Executive Vice President and General Counsel*	1997	59
Michael S. Ciskowski, *Executive Vice President and Chief Financial Officer*	1998	60
R. Lane Riggs, *Executive Vice President and Chief Operating Officer*	2011	52
Gary K. Simmons, *Senior Vice President Supply, International Operations and Systems Optimization*	2011	53

Mr. Gorder. Mr. Gorder s biographical information is stated above under the caption Information Concerning Nominees and Directors Nominees.

Mr. Browning was elected Executive Vice President and General Counsel effective May 1, 2014. He was elected Senior Vice President and General Counsel in November 2012. He previously served as Senior Vice President Corporate Law and Secretary from 2006 to 2012. Mr. Browning was elected Vice President of Valero in 2002, and was first elected as Secretary in 1997. He also serves as Executive Vice President and General Counsel of Valero Energy Partners GP LLC.

Mr. Ciskowski has served as Executive Vice President and Chief Financial Officer of Valero since August 2003. Before that, he served as Executive Vice President Corporate Development since April 2003, and Senior Vice President in charge of business and corporate development since 2001.

Mr. Riggs was elected Executive Vice President and Chief Operating Officer effective January 1, 2018. Prior to that, he served as Executive Vice President Refining Operations and Engineering since 2014, and Senior Vice President Refining Operations since 2011. His previous positions included Senior Vice President Crude, Feedstock Supply & Trading and Vice President Refinery Planning & Economics for Valero s refining division. Mr. Riggs also serves on the board of directors of Valero Energy Partners GP LLC.

Mr. Simmons was elected Senior Vice President Supply, International Operations and Systems Optimization effective May 1, 2014. He previously served as Vice President Crude and Feedstock Supply and Trading from 2012 to 2014, and Vice President Supply Chain Optimization from 2011 to 2012. Mr. Simmons joined Valero in 1987 as a process engineer and has since held many leadership positions including Vice President and General Manager of Valero s Ardmore and St. Charles refineries.

Mr. Ciskowski has elected to retire from his position as Executive Vice President and Chief Executive Officer effective May 3, 2018. The Board has elected ***Donna M. Titzman*** as Executive Vice President and Chief Financial Officer to succeed Mr. Ciskowski effective May 3, 2018. Ms. Titzman, age 54, has 32 years of experience with Valero. Since 2013, she has served as Senior Vice President and Treasurer where she has responsibility for banking, cash management, customer credit, investment management, and risk management. She joined Valero in 1986 and held various leadership positions before being elected Treasurer in 1998, and Vice President and Treasurer in 2001. Ms. Titzman also serves as Director, Senior Vice President, Chief Financial Officer and Treasurer of Valero Energy Partners GP LLC. Ms. Titzman is a Certified Public Accountant.

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BENEFICIAL OWNERSHIP OF VALERO SECURITIES

SECURITY OWNERSHIP OF MANAGEMENT AND DIRECTORS

This table lists the beneficial ownership of our Common Stock as of February 1, 2018, by each nominee for director, each current director, each executive officer named in the Summary Compensation Table, and all current directors and executive officers of Valero as a group. No executive officer, director, or nominee for director owns any class of equity securities of Valero other than Common Stock. None of the shares listed below are pledged as security. The address for each person is One Valero Way, San Antonio, Texas 78249.

Name of Beneficial Owner	Shares Held (1)	Shares Under Options (2)	Total Shares	Percent of Class
Jay D. Browning	218,512	34,766	253,278	*
Michael S. Ciskowski	215,955	150,260	366,215	*
H. Paulett Eberhart	4,795		4,795	*
Joseph W. Gorder	442,639	246,790	689,429	*
Kimberly S. Greene	4,795		4,795	*
Deborah P. Majoras	20,364		20,364	*
Donald L. Nickles	26,849		26,849	*
Philip J. Pfeiffer	21,207		21,207	*
Robert A. Profusek	38,680		38,680	*
Susan Kaufman Purcell	9,866		9,866	*
R. Lane Riggs	146,820	2,667	149,487	*
Gary K. Simmons	119,859	1,750	121,609	*
Stephen M. Waters	9,464		9,464	*
Randall J. Weisenburger	29,799		29,799	*
Rayford Wilkins, Jr.	31,409		31,409	*
Directors and current executive officers as a group (15 persons)	1,341,013	436,233	1,777,246	*

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

(1) Includes shares allocated under the Thrift Plan and shares of restricted stock. For Mr. Browning, the balance shown also includes shares held by his spouse. For Mr. Ciskowski, the balance shown also includes shares held by an entity that he controls. The balance shown for Mr. Waters does not include 2,940 shares held in a trust for which his spouse serves as trustee (Mr. Waters disclaims beneficial ownership of those shares).

(2) Represents shares of Common Stock that may be acquired under outstanding stock options currently exercisable and that are exercisable within 60 days from February 1, 2018. Shares subject to options may not be voted unless the options are exercised.

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BENEFICIAL OWNERSHIP OF VALERO SECURITIES

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

This table describes each person or group of affiliated persons known to be a beneficial owner of more than five percent of our Common Stock as of December 31, 2017. The information is based on reports filed by such persons with the SEC.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
BlackRock, Inc. 55 East 52nd Street New York NY 10055	39,381,334 (1)	9.0%
The Vanguard Group 100 Vanguard Blvd Malvern PA 19355	34,226,762 (2)	7.8%
State Street Corporation State Street Financial Center One Lincoln Street Boston MA 02111	24,183,101 (3)	5.5%

(1) BlackRock, Inc. filed with the SEC an amended Schedule 13G on February 8, 2018, reporting that it or certain of its affiliates beneficially owned in the aggregate 39,381,334 shares, for which it had sole voting power for 33,974,760 shares and sole dispositive power for 39,381,334 shares.

(2) The Vanguard Group filed with the SEC a Schedule 13G on February 9, 2018, reporting that it or certain of its affiliates beneficially owned in the aggregate 34,226,762 shares, for which it had sole voting power for 613,802 shares, shared voting power for 107,287 shares, sole dispositive power for 33,517,299 shares, and shared dispositive power for 709,463 shares.

(3) State Street Corporation filed with the SEC a Schedule 13G on February 13, 2018, reporting that it or certain of its affiliates beneficially owned in the aggregate 24,183,101 shares, for which it had shared voting power and shared dispositive power.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers, directors, and greater than 10 percent stockholders to file with the SEC certain reports of ownership and changes in ownership of our Common Stock. We believe that all Section 16(a) reports applicable to our executive officers, directors, and greater than 10 percent stockholders for 2017 were filed on time.

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RISK ASSESSMENT OF COMPENSATION PROGRAMS

We believe that our incentive compensation programs effectively balance risk and reward. When assessing risk, we consider both cash compensation payable under our annual incentive bonus plan as well as long-term incentives that are awarded under our stock incentive plan. We also consider the mix of award opportunities (*i.e.*, short- versus long-term), performance targets and metrics, the target-setting process, and the administration and governance associated with our plans. We do not believe that our compensation policies and practices are reasonably likely to have an adverse effect on Valero. Features of our compensation programs that we believe mitigate excessive risk taking include:

- the mix between fixed and variable, annual and long-term, and cash and equity compensation, designed to encourage strategies and actions that are in Valero s long-term best interests;
- determination of incentive awards based on a variety of indicators of performance, thus diversifying the risk associated with a single indicator of performance;
- incorporation of relative total stockholder return into our incentive program, calibrating pay and performance relationships to companies facing the same or similar market forces as Valero;
- multi-year vesting periods for equity incentive awards, which encourage focus on sustained growth and earnings;
- maximum payout ceilings under our annual bonus program and performance share awards;
- restricted stock awards that help contain volatility of incentive awards and further align executives interests with long-term stockholder value creation; and
- our compensation-related policies, including our executive compensation clawback policy and stock ownership guidelines (discussed under the caption Compensation Discussion and Analysis Compensation Related Policies).

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COMPENSATION DISCUSSION AND ANALYSIS

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The following Compensation Committee Report is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any of Valero s filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this proxy statement and irrespective of any general incorporation language therein.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the following Compensation Discussion and Analysis with management. Based on the foregoing review and discussions and such other matters the Compensation Committee deemed relevant and appropriate, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

Members of the Compensation Committee:

Rayford Wilkins, Jr., Chair

Philip J. Pfeiffer

Robert A. Profusek

Compensation Discussion and Analysis Overview

Company Overview

Valero strives to be the premier operator within the refining industry with a focus on creating value for its stockholders while serving the needs of all stakeholders. Sustained profitability within the fuels manufacturing and marketing business, in which operating margins are primarily influenced by volatile commodity prices, requires a sound business strategy, organizational discipline, and a committed workforce.

VALERO S STRATEGY FOR VALUE CREATION

- Maintain manufacturing excellence through safe, reliable, environmentally responsible operations.
- Utilize a disciplined capital allocation that delivers distinctive financial results and peer-leading returns to stockholders.
- Grow earnings through market expansion, margin improvement and operating cost control.

Company Performance

In several key areas, Valero achieved in 2017 its best-ever safety and performance levels, in some cases, extending or exceeding record performance levels achieved in 2016. This performance demonstrates Valero s continuing commitment to being the premier operator within the industry.

OPERATIONAL AND SAFETY PERFORMANCE DRIVES PROFITABILITY

Operating safely and reliably is Valero s highest priority and is critically important to maximizing profitability. Ongoing improvement and excellent performance in key operational and safety measures have enabled Valero to improve its earnings capabilities and realize industry-leading returns. The following charts demonstrate Valero s multi-year improvement in performance resulting from strategic investments in and a disciplined focus on operational improvement, maintenance and safety programs.

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COMPENSATION DISCUSSION AND ANALYSIS

Footnotes:

[1] Compares year over year stock price change based on the closing stock price on the final trading day in December for each year.

[2] XLE includes refining peers PSX, MPC, ANDV and 28 other energy companies.

[3] Primarily composed of downstream oil and gas peers, as described in the *Benchmarking Data* section of this document.

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Valero seeks to be the leader among its peers in stockholder returns and makes operational and capital allocation decisions in support of this objective. Through targeted share buybacks and sustainable dividend growth, Valero has prioritized the delivery of cash returns to stockholders.

As a result of Valero s performance and capital allocation decisions, Valero s Total Stockholder Return[1] (TSR) leads all companies within the XLE[2] energy index constituency over the past three years.

Footnotes:

[1] TSR from Dec 31, 2014, through Dec 27, 2017. TSR includes stock price appreciation and dividends paid.
[2] XLE includes refining peers PSX, MPC, ANDV and 28 other energy companies.

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COMPENSATION DISCUSSION AND ANALYSIS

Company Performance Highlights 2017

Alignment of Executive Pay to Company Performance

Valero s executive pay program is designed to reward executives for superior company performance. The program design emphasizes variable incentive pay (delivered through annual and long-term incentives) such that an executive s ultimate realizable pay is significantly dependent upon the achievement of both absolute and relative performance measures.

VALERO S COMPENSATION PHILOSOPHY

Tightly link company performance and executive pay

Align the interests of executives and shareholders

Manage risk and adopt best practices in executive pay

Balance compensation over short- and long-term

Facilitate retention of top executive talent

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ELEMENTS OF EXECUTIVE COMPENSATION SUMMARY

The primary elements of our 2017 executive compensation program are summarized in the table below.

Element	Form	Key Characteristics
Base Salary	Cash	Takes into consideration scope and complexity of the role, peer market data, experience of the incumbent, and individual performance Aligned with competitive practices in order to support recruitment and retention of top talent
Annual Bonus Plan	Performance-Based Cash	Variable component of annual pay focused on achievement of short-term annual financial, operational and strategic objectives that are critical drivers for safe and reliable operations, returns to stockholders, and the disciplined use of capital
Long-term Incentive Program	Performance Shares (50%)	Measures relative Total Shareholder Return (TSR) against nine-company Performance Peer group across a three-year period Incentivizes shareholder returns Value delivered is driven by performance relative to relevant peers in industry
	Restricted Stock (50%)	Vests 1/3 per year over three years Value delivered is driven by absolute performance of company stock Aids in retention of critical talent

Fixed Variable

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COMPENSATION DISCUSSION AND ANALYSIS

* Base salary plus target bonus plus target long-term incentives value.

PAY FOR PERFORMANCE ALIGNMENT RELATIVE TO PEERS

The table below shows relative pay and performance versus peers over the three- and five-year periods ending 2016 (the most recent year for which both performance and disclosed executive pay was available for all comparator companies). Valero s pay results are generally aligned with performance results, but realizable compensation values for executives fall at a lower percentile versus peers than does Valero s performance.

		Valero s Percentile Ranking vs. Peers[1]	
Timeframe	**Role**	**Relative Performance vs. Peers**	**Relative Pay[2] vs. Peers**
3 Years	CEO	91st percentile	64th percentile
	Top-5 Executives	89th percentile	56th percentile
5 Years	CEO	91st percentile	73rd percentile
	Top-5 Executives	89th percentile	78th percentile

Footnotes:

1 Compensation Comparator Group of 11 peers as described in the *Benchmarking Data* section of this document.

2 Represents realizable pay as reported in company annual proxies and includes: salaries; annual bonuses earned; long-term incentive awards that have vested or been exercised; the increase/decrease in long-term incentive awards that are still outstanding; and one-off payments like severance to outgoing executives and sign-on awards for incoming executives.

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The chart below illustrates the CEO three-year relationship between relative pay and relative performance versus the peers (referenced in the preceding table).

Compensation Discussion and Analysis Detail

Adoption of Compensation Governance Best Practices

We use executive pay arrangements that are commonly recognized as best practices. Our executive pay program includes these leading practices.

PAY FOR PERFORMANCE

- Incentive compensation (annual bonus and long-term incentives) represents the majority (ranging from 70 percent to 88 percent) of the targeted direct compensation of our named executive officers.
- We target 50 percent of the long-term incentive value granted to our named executive officers to be awarded in the form of performance shares tied to relative TSR performance.

STOCKHOLDER ALIGNMENT

- We use multiple performance metrics to motivate achievements that complement one another and that contribute to the long-term creation of stockholder value.
- Our executive officers and directors are subject to meaningful stock ownership guidelines.
- We engage in stockholder outreach to solicit the input of stockholders to our pay programs.

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COMPENSATION DISCUSSION AND ANALYSIS

PROGRAM DESIGN

- Incentives are balanced between absolute performance goals (rewarding the achievement of pre-established goals) and relative measures (linking the incentives to surpassing the performance of our peers).
- We have maximum payout ceilings on both our annual bonus opportunities and our performance shares.
- Our executive pay programs include design features that mitigate against the risk of inappropriate behaviors.

PAY BENCHMARKING

- Valero s revenues and market capitalization are within a reasonable range of the median revenues and market capitalization of the peer group of companies within our industry against which we benchmark our executives pay, reflecting that we make pay comparisons in a size-appropriate fashion.
- We benchmark against the median pay levels of the peer group for each of base pay, annual bonus, and long-term incentives.

AVOID PROBLEMATIC PAY PRACTICES

- We have eliminated all change-in-control gross ups for potential parachute excise taxes and maintain a policy against the implementation of change-in-control arrangements that contain gross-ups.
- We have a policy stipulating that grants of performance shares contain terms and conditions for vesting in a change-of-control context such that performance shares will vest on a partial, pro rata basis following termination of employment (rather than vesting automatically in full upon the change of control).
- Our long-term incentive program mandates that stock options cannot be re-priced without stockholder approval.
- Our executive officers and directors are prohibited from pledging shares of Common Stock as collateral or security for indebtedness, and may not purchase, sell, or write calls, puts, or other options or derivative instruments on shares of Common Stock.
- We have a clawback policy requiring the return of incentive payments in certain restatement situations.

GOOD GOVERNANCE

- Our Compensation Committee is composed entirely of directors who meet the independence requirements of the SEC and NYSE as well as pertinent tax requirements for preserving the deductibility of executive pay.
- Our Compensation Committee retains the services of an independent executive compensation consultant that provides services directly to the Committee.
- We conduct an annual say-on-pay vote as recommended by our stockholders.
- We have a declassified board of directors.
- Our Board has approved a limitation on the amount of equity compensation that may be paid to our non-employee directors in any year.

We engaged a third-party to conduct a review of our governance documents and committee charters, and we adopted revisions thereto, to ensure compliance with regulatory requirements and alignment with best practices.

In 2016, we adopted amendments to our Bylaws granting proxy access to our stockholders.

In 2017, we adopted amendments to our Bylaws to permit stockholders to call special meetings of stockholders.

In 2017, our Board approved amendments to our charter documents to remove supermajority vote requirements. See Proposal No. 4 Amend Valero s Restated Certificate of Incorporation to Remove Supermajority Vote Requirements.

In 2017, our Board approved amendments to our charter documents to permit stockholders to act by written consent. See Proposal No. 5 Amend Valero s Restated Certificate of Incorporation to Permit Stockholders to Act by Written Consent.

Dialogue With Stockholders

Valero s strong corporate governance principles, implemented under the guidance of the Board, are a major driving force in encouraging constructive dialogue with stockholders and other stakeholders. Valero s senior management team reaches out to stockholders for dialogue concerning our compensation programs and other matters of concern to our stockholders. We believe that our stockholder outreach efforts have been constructive and have provided management with insight on executive compensation issues that are important to our stockholders. These discussions also provided management with the opportunity to review our executive compensation practices and explain the principles on which they were designed.

Administration of Executive Compensation Programs

Our executive compensation programs are administered by our Board s Compensation Committee. The Committee is composed of three independent directors from our Board. They do not participate in our executive compensation programs. Policies adopted by the Committee are implemented by our compensation and benefits staff. In 2017, the Committee retained Exequity LLP as an independent compensation consultant for executive and director compensation matters. The nature and scope of the consultant s services are described above under the caption, Compensation Consultant Disclosures.

BENCHMARKING DATA

The Compensation Committee uses peer group compensation data to assess benchmarks of base salary, annual incentive compensation, and long-term incentive compensation. The Committee uses the *Compensation Comparator Group* (further described below) to benchmark compensation for our named executive officers. This reference is sometimes referred to in this proxy statement as compensation survey data or competitive survey data.

Compensation Comparator Group

The *Compensation Comparator Group* comprises the following companies that engage in U.S. domestic oil and gas operations:

Andeavor	*Marathon Oil Corporation*
BP p.l.c.	*Marathon Petroleum Corporation*
Chevron Corporation	*Murphy Oil Corporation*
Exxon Mobil Corporation	*Phillips 66*
Hess Corporation	*Royal Dutch Shell plc*
HollyFrontier Corporation	

We believe that the *Compensation Comparator Group* is relevant to our business because we compete with the member companies for talent at every level from entry-level employees to senior executives. We believe that our pay comparisons are size-appropriate because the median revenues and market capitalization of the *Compensation Comparator Group* are both within a reasonable range of Valero s revenues and market capitalization and in 2017, both were below. Our understanding of this group s compensation programs and levels is vitally important in order to remain competitive in the market for employee talent. We believe that given Valero s size and complexity, our employees at all levels would be qualified candidates for similar jobs at any of the companies included in this group.

Our compensation and benefits staff, under supervision of the Compensation Committee, develops recommendations for base salary, bonuses, and other compensation arrangements using the compensation survey data with assistance from Exequity. Our use of the data is consistent with our philosophy of providing executive compensation and benefits that are competitive with companies that we compete with for executive talent. In addition, the competitive compensation survey data and analyses assist the Compensation Committee in assessing our pay levels and targets relative to companies in the *Compensation Comparator Group*. See Elements of Executive Compensation Benchmarking Competitive Pay Levels below.

Performance Peer Group

We also use a peer group for purposes of determining the relative performance of Valero s total stockholder return (TSR). We use this relative TSR metric in our performance shares incentive program. For the 2017 performance peer group, companies were selected based on their engagement in U.S. domestic refining and marketing operations.

Our use of different peer groups for compensation and performance is based on the following. While job candidacy can transcend company size, we believe that when measuring business performance, companies with a similar business model should be included. But we also recognize that comparing the performance of Valero s generally non-integrated operations with those of upstream and integrated oil companies can result in anomalies due to the mismatch in how similar industry-specific events can impact companies with these varying business models. In addition, there are relatively few companies in our business against which clear comparisons can be drawn, rendering a peer group composition more challenging than in most industries.

COMPENSATION DISCUSSION AND ANALYSIS

In November 2017, the Compensation Committee established a peer group for TSR measurement applicable to the 2017 awards of performance shares (with TSR measurement periods ending in 2018). Removed from the peer group for 2017 were Alon USA Energy, Inc., which was acquired in 2017 by Delek US Holdings, and Western Refining Inc., which was acquired in 2017 by Andeavor (formerly known as Tesoro Corporation). Valero is included in this peer group when results are calculated. In addition to Valero, the peer group for the 2017 award is composed of the following entities.

Andeavor	*Marathon Petroleum Corporation*
BP p.l.c.	*PBF Energy Inc.*
CVR Energy Inc.	*Phillips 66*
Delek US Holdings	*Royal Dutch Shell plc*
HollyFrontier Corporation	

PROCESS AND TIMING OF COMPENSATION DECISIONS

The Compensation Committee reviews and approves all compensation targets and payments for the named executive officers each year in conjunction with Valero s annual strategic planning meeting (October or November). The Chief Executive Officer evaluates the performance of the other executive officers and develops individual recommendations based upon the competitive survey data. The Chief Executive Officer and the Committee may make adjustments to the recommended compensation based upon an assessment of an individual s performance and contributions to the Company. The compensation for the Chief Executive Officer is reviewed by the Compensation Committee and recommended to the Board s independent directors for approval. This assessment is based on the competitive survey data and other factors described in this Compensation Discussion and Analysis, and adjustments may be made based upon the independent directors evaluation of the Chief Executive Officer s performance and contributions.

We evaluate the total compensation opportunity offered to each executive officer at least once annually. The Compensation Committee establishes the target levels of annual incentive and long-term incentive compensation for the current fiscal year based upon its review of competitive market data provided by Exequity. The Compensation Committee also reviews competitive market data for annual salary rates for executive officer positions for the next fiscal year and recommends new salary rates to become effective the next fiscal year. The Compensation Committee may, however, review salaries or grant long-term incentive awards at other times during the year because of new appointments or promotions. Our Compensation Committee does not time the grants of long-term incentive awards around Valero s release of undisclosed material information.

Elements of Executive Compensation

Our executive compensation programs include the following material elements:

We chose these elements to foster the potential for both current and long-term compensation opportunities and to attract and retain executive talent. We believe that variable pay (*i.e.*, annual incentive bonus and long-term equity-based incentives that do not become a permanent part of base salary) when delivered through appropriate incentives is ultimately the best way to drive total compensation among our executive officers.

We believe that a significant portion of the compensation paid to our named executive officers should be incentive-based and determined by both company and individual performance. Our executive compensation program is designed to accomplish the following long-term objectives:

- to provide compensation payouts that are tied to the performance of internal and external metrics both on a relative and absolute basis;
- to align executives pay opportunities with shareholder value creation; and
- to attract, motivate, and retain the best executive talent in our industry.

We believe that superior performance is motivated when an executive s earn-out of his or her full compensation opportunities is contingent on achieving performance results that exceed pre-established goals and/or outperforming our industry peers.

Our annual incentive program rewards are tied to:

- Valero s attainment of key financial performance measures;
- Valero s success in key operational and strategic measures;
- safe operations;
- environmental responsibility;
- reliable operations; and
- cost management.

Our long-term equity incentive awards are designed to tie the executive s financial reward opportunities with increased stockholders value creation as measured by:

- long-term stock price performance; and
- payment of regular dividends.

Base salary is designed to provide a fixed level of competitive pay that reflects the executive officer s primary duties and responsibilities, and to provide a base upon which incentive opportunities and benefit levels are established.

The long-term incentive awards in our compensation program include performance shares and restricted stock. We believe that incentives that drive stockholder value should also drive executive officer pay. We note that performance shares, when issued, do not assure a payout to the executive officer unless and until stockholder value is created through both company performance and TSR relative to our peers. We also believe that executive officers should hold an equity stake in the company to further motivate the creation of stockholder value, which is why we include awards of restricted stock in our long-term incentive program coupled with stock ownership guidelines.

BENCHMARKING COMPETITIVE PAY LEVELS

Our Compensation Committee benchmarks base salaries for our named executive officers against the 50th percentile (median) of competitive survey data and may make decisions to pay above or below this target based on individual circumstances (*e.g.*, performance of the executive, internal parity, and management succession planning).

We also benchmark annual bonus, long-term incentive targets (expressed as a percentage of base salary), and total targeted pay for each executive position by reference to the 50th percentile (median) benchmark of the Compensation Comparator Group, and may make decisions to award above or below these targets based on individual circumstances (*e.g.*, performance of the executive, internal parity, and management succession planning). We believe that preserving flexibility to award incentive opportunities above or below the median peer levels helps tailor the incentives to the executive and the role, resulting in a more customized match of competitive pay opportunities and pay-for-performance design attributes.

In addition to benchmarking competitive pay levels to establish compensation levels and targets, we also consider the relative importance of a particular management position in comparison to other management positions in the organization. In this regard, when setting the level and targets for compensation for a particular position, we evaluate that position s scope and nature of responsibilities, size of business unit, complexity of duties and responsibilities, as well as that position s relationship to managerial authorities throughout the management ranks of Valero.

RELATIVE SIZE OF MAJOR COMPENSATION ELEMENTS

An executive officer s total direct compensation is structured so that realizing the targeted amount is highly contingent on Valero s performance due to the executive s level of at-risk pay. We use the term total direct compensation to refer to the sum of an executive s base salary, targeted incentive bonus, and the target values of long-term incentive awards.

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COMPENSATION DISCUSSION AND ANALYSIS

The following charts summarize the relative target values of base salary and incentive compensation for 2017 for our named executive officers.

When setting executive compensation, the Compensation Committee considers the amount and form of compensation payable to an executive officer. The Committee seeks to achieve an appropriate balance between immediate cash rewards for the achievement of company and personal objectives and long-term incentives that align the interests of our officers with those of our stockholders. The size of each element is based on the assessment of competitive market practices as well as company and individual performance.

The Compensation Committee analyzes total direct compensation from a market competitive perspective, and then evaluates each component relative to its market reference. The Committee believes that making a significant portion of an executive officer s incentive compensation contingent on long-term stock price performance more closely aligns the executive officer s interests with those of our stockholders.

Because we place a large amount of total direct compensation at risk in the form of variable pay (annual bonus and long-term incentives), the Committee generally does not adjust current compensation based upon realized gains or losses from prior incentive awards or current stock holdings. For example, we normally will not change the size of a target long-term incentive grant in a particular year solely because of Valero s stock price performance during the immediately preceding years. The Compensation Committee recognizes that the refining and marketing industry is volatile and strives to maintain a measure of predictability consistent with a substantial reliance on variable compensation structures in furtherance of a fundamental pay-for-performance philosophy.

INDIVIDUAL PERFORMANCE AND PERSONAL OBJECTIVES

The Compensation Committee evaluates the individual performance of, and performance objectives for, our named executive officers. Performance and compensation for our Chief Executive Officer are reviewed and approved by the Board s independent directors with recommendations from the Compensation Committee. For officers other than the Chief Executive Officer, individual performance and compensation are evaluated by the Compensation Committee with recommendations from our Chief Executive Officer. Individual performance and objectives are specific to each officer position.

Criteria used to measure an individual s performance may include assessment of objective criteria (*e.g.*, execution of projects within budget parameters, improving an operating unit s profitability, or timely completing an acquisition or divestiture) as well as qualitative factors such as the executive s ability to lead, ability to communicate, and successful adherence to Valero s stated values (*i.e.*, commitment to safety, commitment to the environment, commitment to our communities, commitment to our employees, and commitment to our stakeholders). There are no specific weights assigned to these various elements of performance.

BASE SALARIES

Base salaries for our named executive officers are approved by the Compensation Committee after taking into consideration median practices for comparable roles among the peer companies. The Compensation Committee also considers the recommendations of the Chief Executive Officer for officers other than the Chief Executive Officer. The base salary and all other compensation of the Chief Executive Officer are reviewed and approved by the independent directors of the Board.

Base salaries are reviewed annually and may be adjusted to reflect promotions, the assignment of additional responsibilities, individual performance, or the performance of Valero. Salaries are also periodically adjusted to remain competitive with companies within the compensation survey data. An executive s compensation typically increases in relation to his or her responsibilities within Valero.

ANNUAL INCENTIVE BONUS

The annual incentive bonus for our named executive officers has two primary components. First, a maximum bonus pool is funded through determination of Valero s achievement of quantitative financial performance measures. Second, a target bonus is determined for each executive based on the results of additional financial, operational, and strategic performance measures. The performance measures associated with these two components, along with consideration of the named executive officer s individual performance, are used to determine the annual incentive bonus payout for each of the named executive officers.

To fund the annual incentive bonus pool for our named executive officers, the Compensation Committee sets quantitative company performance measures during the first quarter of the year. Valero s performance is measured against these metrics to establish the maximum bonus amounts that can be paid under our program. In 2017, the Committee established measures that correspond to two of our business priorities: Adjusted Net Cash Provided by Operating Activities (ANC) and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). These measures establish the maximum level of funding for the bonus program. The program is funded at an amount equal to the greater of (i) ANC multiplied by 0.80 percent, or (ii) EBITDA multiplied by 0.65 percent.

The maximum bonus that can be paid to a named executive officer is based on the funding results of ANC or EBITDA. Once the maximum pool is calculated, the funded pool is allocated to each executive officer using the following percentages: 50 percent for the Chief Executive Officer (the highest paid officer), 20 percent for the second highest paid officer, and 10 percent each for the third, fourth, and fifth highest paid officers.

After these maximum funded amounts are calculated, the Compensation Committee considers the following to determine bonuses for each officer (at amounts that may not exceed the funded levels):

- the position of the named executive officer, which is used to determine a targeted percentage of base salary that may be awarded as incentive bonus;
- pre-established performance objectives that include a quantitative financial performance goal (Financial Performance Goal), operational performance goals (Operational Performance Goals), and qualitative goals

and objectives including the effective use of capital (Strategic Company Performance Goals) for the completed fiscal year; and

a qualitative evaluation of the individual s performance.

Thus, the amount of the bonus ultimately paid to a named executive officer takes into consideration (i) Valero s achievement of the performance objectives established and approved by the Compensation Committee in the first quarter of the performance year (*i.e.*, ANC and EBITDA) in order to fund the bonus program, and (ii) the Compensation Committee s assessment of Valero s and each executive s performance in relation to the pre-established performance goals more fully described below (which provides for potential application of downward discretion by the Compensation Committee to reduce payouts below the funded pool amounts).

Financial Performance Goal

The *Financial Performance Goal* considered for our annual incentive bonus targets is EPS, adjusted for special items and impairments. The Compensation Committee establishes minimum, target, and maximum levels for EPS in the first quarter of the performance year. We believe that this measure appropriately reflects our business planning process and corporate philosophy regarding financial performance measurement. Valero s performance in 2017 was $4.96 per share (versus a target of $4.15 per share).

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COMPENSATION DISCUSSION AND ANALYSIS

Operational Performance Goals

The *Operational Performance Goals* considered for our annual incentive bonuses, as established and approved by the Compensation Committee in the first quarter of the performance year, are measured against:

- Valero s achievements in the areas of health, safety, and environmental;
- Valero s achievements in improving refining competitiveness through improved mechanical availability; and
- Valero s achievements in cost management and expense control.

We believe that these measures appropriately reflect key business objectives of Valero. After completion of the fiscal year, each of the *Operational Performance Goals* is measured against Valero s actual performance in these areas and the minimum, target, and maximum levels established by the Compensation Committee. Valero s performance score for 2017 for this category was 84.77 percent (versus a target score of 40.00 percent) and reflects best-ever performance in the health, safety, and environmental, and the mechanical availability measures. For additional details on Valero s 2017 performance versus targeted amounts for our *Operational Performance Goals*, see the Annual Incentive Bonus Performance Goals table that follows in this section.

Strategic Company Performance Goals

Valero s *Strategic Company Performance Goals* were established in the first quarter of the 2017 performance year by the Chief Executive Officer. Included in these goals for 2017 was a qualitative capital-based performance measure assessed by the Compensation Committee through return on capital employed. After completion of the fiscal year, the *Strategic Company Performance Goals* were evaluated as a whole. Significant achievements in this area for 2017 included: (i) the creation of long-term stockholder value and the return of cash to stockholders through a quarterly cash dividend increase from $0.60 per share to $0.70 per share and $1.37 billion of common stock repurchases; (ii) the return of 74% of adjusted net cash provided by operating activities to stockholders through dividends and stock buybacks, exceeding management s 40% payout goal; (iii) the successful sale of $508 million of midstream assets to Valero Energy Partners LP; and (iv) the successful execution of Valero s capital expenditures plan which totaled $2.4 billion for 2017. Valero s performance score for 2017 for this category was 20.00 percent (versus a target score of 20.00 percent).

Valero s Achievement of Performance Goals for 2017

The following table details the performance targets and final results of Valero s achievements in 2017 for each of the sub-components of the bonus program s *Financial Performance Goal, Operational Performance Goals,* and *Strategic Goals*.

Annual Incentive Bonus Performance Goals & Achievement

	Component		Weighting	Minimum	Target	Maximum	Achieved in 2017	Bonus Percent Earned (1)
Financial Performance Goal								
I.	EPS,adjusted *($/share)*		40.00%	*$1.04*	*$4.15*	*$8.30*	$4.96	53.76%
Operational								
II.	Health,Safety, and Environmental (2)		13.33%					29.76%
III.	MechanicalAvailability (3)		13.33%	*95.6*	*96.2 to 96.4*	*97.6*	97.3	25.00%
IV.	CostManagement and Expense Control *($ in millions)*		13.34%	*$15.0*	*$60.0*	*$120.0*	$129.9	30.01%
		subtotal	40.00%				*subtotal*	84.77%
Strategic								
V.	CompanyGoals and Objectives (4)		20.00%					20.00%
Total			100.00%					158.53%

Footnotes:

(1) Represents performance achieved in 2017 and component percent weighting.

(2) Consists of 16 separately weighted health, safety, and environmental metrics across three business units. Performance achieved was at 99.2% of maximum.

(3) Using the Mechanical Availability scoring from the industry-standard Solomon Associates survey in which Target represents performance between the 50th and 62nd percentiles.

(4) As established by the Compensation Committee in consultation with the CEO, and includes a qualitative assessment of use of capital. Performance achieved was at maximum.

As a result of Valero s 2017 EBITDA performance, the maximum bonus pool was fully funded. The final 2017 bonus amounts paid to our named executive officers were determined as a function of: (i) Valero s performance and maximum bonus pool funding based on EBITDA performance, (ii) Valero s performance as measured against the financial, operational, and strategic performance goals, and (iii) the Committee s assessment of the named executive officers individual performance in 2017.

The following table summarizes the 2017 bonus amounts paid to our named executive officers:

	Gorder	Ciskowski	Riggs	Browning	Simmons
Base Salary (1)	$ 1,585,000	$ 930,000	$ 700,000	$ 620,000	$ 600,000
Bonus Target Percentage (2)	150%	110%	80%	80%	65%
Bonus Target Amount (3)	$ 2,377,500	$ 1,023,000	$ 560,000	$ 496,000	$ 390,000
Bonus Percentage Achieved (4)	158.53%	158.53%	158.53%	158.53%	158.53%
Earned Target Incentive Bonus (5)	$ 3,769,051	$ 1,621,762	$ 887,768	$ 786,309	$ 618,267
Bonus Amount Paid (6)	$ 3,800,000	$ 1,625,000	$ 925,000	$ 790,000	$ 620,000

Footnotes:

(1) Base salary is the officer s base salary at December 31, 2017.

(2) Bonus target as a percentage of base salary.

(3) Determined by multiplying Bonus target percentage times Base salary.

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COMPENSATION DISCUSSION AND ANALYSIS

Footnotes (cont.):

(4) Valero s performance score for Bonus percentage achieved was 158.53% based on results of the Annual Incentive Bonus Performance Goals detailed in the previous table.

(5) Determined by multiplying Bonus target amount times Bonus percentage achieved.

(6) As disclosed in the Summary Compensation Table. The actual amount paid was determined based on: (i) Valero s performance and maximum bonus pool funding using EBITDA, (ii) Valero s performance as measured against financial, operational, and strategic goals, and (iii) the Committee s assessment of the named executive officers individual performance in 2017. (Based on superior EBITDA results, the maximum bonus funding is significantly greater than the final earned amounts, so the final bonus awards represent the application of the Compensation Committee s downward discretion from the maximum bonus funding.)

LONG-TERM INCENTIVE AWARDS

We provide stock-based, long-term compensation to our executive officers through our stockholder-approved equity plan. The plan provides for a variety of stock and stock-based awards, including restricted stock which vests over a period determined by the Compensation Committee, and performance shares that vest (become non-forfeitable) upon Valero s achievement of an objective performance goal.

For 2017, the mix of long-term incentives awarded to our named executive officers was split evenly, on a share value basis, between grants of restricted stock and awards of performance shares. We believe that these awards create a powerful link between the creation of stockholder value and executive pay delivered. In addition, we believe that the balance between absolute performance alignment through restricted shares, and the relative performance objectives underscored by the relative TSR performance shares, is appropriate. In order for executives to fully realize their targeted opportunities, Valero must both perform well and beat the stock price performance of companies in the Performance Peer Group listed above under the caption Administration of Executive Compensation Programs Benchmarking Data Performance Peer Group.

For each officer, a target amount of long-term incentives is established and is expressed as a percentage of base salary. In establishing award sizes, the Compensation Committee makes primary reference to median peer company grant levels and makes individualized determinations of award sizes based on additional factors such as: each executive s experience and contribution to company success, internal parity, and management succession. In addition, an executive s targeted award may be adjusted based upon the Compensation Committee s determination of the officer s individual performance, which (for officers other than the Chief Executive Officer) takes into consideration the recommendation of the Chief Executive Officer.

Performance Shares

For 2017, performance share targets represent 50 percent of each executive officer s long-term incentive target on a share value basis. Performance shares are payable in shares of Common Stock on the vesting dates of the performance shares. Shares of Common Stock are earned with respect to vesting performance shares only upon Valero s achievement of TSR objectives (measured in relation to the TSR of our peers). Shares not earned in a given performance period expire and are forfeited. Performance shares are also subject to potential forfeiture if an executive terminates his or her employment prior to vesting.

The performance shares awarded in 2017 are subject to vesting in three increments, based upon our TSR compared to our peer group during one-year, two-year, and three-year performance periods. Performance periods measure TSR based on the average closing stock prices for the 30 days of December 2 to December 31 at the beginning and end of the performance periods, including dividends. At the end of each performance period, our TSR for the period is compared to the TSR of our peer group. Consistent with typical relative TSR design conventions, shares of Common Stock are awarded based on Valero s TSR performance versus the peers TSR as shown in the table below.

Percentile TSR Rank (1)	**% of Performance Shares Awarded as Common Shares**
1st or 2nd Position	200%
50th Percentile	100%
Last or 2nd-to-Last Position	0%

(1) TSR performance ranking between the 2nd and 2nd-to-last positions generate payouts determined by straight-line interpolation unless ranking of 50th percentile is achieved, which pays out at 100%.

Additional shares of Common Stock may be earned based on the accumulated value of dividends paid on Valero s Common Stock during the pertinent performance period. The amount of accumulated dividends is multiplied by the earned percentage payout (if any) for the performance shares, and the product is divided by the fair market value of the Common Stock on the performance shares vesting date. The resulting amount is paid in a whole number of shares of Common Stock. The value of the dividends credited to the outstanding performance shares is paid to participants only to the extent that the underlying performance shares earn shares of Common Stock, based on Valero s TSR performance, and is paid (in shares of Common Stock) only when the underlying performance shares vest.

Upon vesting, Executive officers can designate up to 50% of the after-tax vested shares of Common Stock to be delivered in cash. If a cash payment is elected, the total number of after-tax shares to be delivered is multiplied by the fair market value of the Common Stock on the performance shares vesting date, and the product is multiplied by the cash payment election percentage designated by the award recipient. The resulting amount is paid in cash, with the remainder paid in shares of Common Stock.

Restricted Stock

Restricted stock targets represent the remaining 50 percent of each executive officer s long-term incentive target on a share value basis. Restricted stock is subject to forfeiture if an executive terminates his or her employment prior to vesting (other than upon retirement and other than following a permitted voluntary termination following a change in control). Dividends are paid on shares of restricted stock as and when dividends are declared and paid on Valero s outstanding common stock.

We believe that our mix of long-term incentives provides an appropriate balance between the pay-for-performance attributes of performance shares and the equity alignment and retentive qualities of restricted shares. This mix also generally aligns with market practices, and thus supports recruitment and retention of top-quality executive talent.

The Compensation Committee considers and grants long-term incentive awards to our officers and certain other employees annually, typically during the fourth quarter in conjunction with the last regularly scheduled meeting of the Compensation Committee for the year. The performance shares and restricted stock components of our executive officers 2017 long-term incentive awards were granted in November 2017.

PERQUISITES AND OTHER BENEFITS

Consistent with our goal of providing compensation and benefits that are aligned with market practices among our peers, officers are eligible to receive reimbursement for club dues, personal excess liability insurance, federal income tax preparation, and an annual health examination. We do not provide executive officers with automobiles or automobile allowances or supplemental executive medical coverage.

We provide other benefits, including medical, life, dental, and disability insurance in line with competitive market conditions. Our named executive officers are eligible for the same benefit plans provided to our other employees, including our Thrift Plan and insurance and supplemental plans chosen and paid for by employees who desire additional coverage.

Consistent with typical practices among our peers, executive officers and other employees whose compensation exceeds certain limits are eligible to participate in non-qualified excess benefit programs whereby those individuals can choose to make larger contributions than allowed under the qualified plan rules and receive correspondingly higher benefits. These plans are described below.

POST-EMPLOYMENT BENEFITS

Pension Plans

We have a noncontributory defined benefit Pension Plan in which most of our employees, including our named executive officers, are eligible to participate and under which contributions by individual participants are neither required nor permitted. We also have a noncontributory, non-qualified Excess Pension Plan and a non-qualified Supplemental Executive Retirement Plan (SERP), which provide supplemental pension benefits to certain highly compensated employees. Our named executive officers are participants in the SERP. The SERP is offered to align with competitive practices among our peers, and to thus support recruitment and retention of critical executive talent. The Excess Pension Plan and the SERP provide eligible employees with additional retirement savings opportunities that cannot be achieved with tax-qualified plans due to Internal Revenue Code limits on (i) annual compensation that can be taken into account under qualified plans, or (ii) annual benefits that can be provided under qualified plans.

Nonqualified Deferred Compensation Plans

Deferred Compensation Plan. Our named executive officers are eligible to participate in our Deferred Compensation Plan (DC Plan). The DC Plan is offered to align with competitive practices among our peers, and thereby support recruitment and retention of executive talent. The DC Plan permits eligible employees to defer a portion of their salary and/or bonus until separation (*i.e.*, retirement or termination of employment). Under the DC Plan, each year eligible employees are permitted to elect to defer up to 30 percent of their

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salary and/or 50 percent of their cash bonuses to be earned for services performed during the following year. We have not made discretionary contributions to participants accounts, and currently we have no plans to do so.

All amounts credited under the DC Plan (other than discretionary credits) are immediately 100 percent vested. Any discretionary credits, if ever granted, will vest in accordance with the vesting schedule determined at the time of the grant of discretionary credits. Participant accounts are credited with earnings (or losses) based on investment fund choices made by the participants among available funds selected by Valero s Benefits Plans Administrative Committee.

Excess Thrift Plan. Our Excess Thrift Plan provides benefits to participants in our Thrift Plan whose annual additions to the Thrift Plan are subject to the limitations on annual additions as provided under Section 415 of the Internal Revenue Code, and/or who are constrained from making maximum contributions under the Thrift Plan by Section 401(a)(17) of the Internal Revenue Code, which limits the amount of an employee s annual compensation which may be taken into account under that plan. Two separate components comprise the Excess Thrift Plan: (i) an excess benefit plan as defined under Section 3(36) of ERISA; and (ii) a plan that is unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees.

Additional information about these plans and contributions made by Valero and each of our named executive officers under non-qualified defined contribution and other deferred compensation plans are presented in this proxy statement under the caption Executive Compensation Nonqualified Deferred Compensation.

Change of Control Severance Arrangements

We have change of control severance agreements with each of our named executive officers. The agreements are intended to assure the continued objectivity and availability of the officers in the event of any merger or acquisition that would likely threaten the job security of many top executives. These arrangements are also intended to maintain executive focus and productivity in a period of uncertainty. If a change of control occurs during the term of an agreement, the agreement becomes operative for a fixed three-year period. The agreements provide generally that the officers terms and conditions of employment will not be adversely changed during the three-year period after a change of control. For information regarding payments that may be made under these agreements, see the disclosures in this proxy statement under the caption Executive Compensation Potential Payments upon Termination or Change of Control.

Accounting and Tax Treatment

ACCOUNTING TREATMENT

Compensation expense for our share-based compensation plans is based on the fair value of the awards granted and is recognized in income on a straight-line basis over the shorter of (a) the requisite service period of each award, or (b) the period from the grant date to the date retirement eligibility is achieved if that date is expected to occur during the nominal vesting period. Specific components of our stock-based compensation programs are discussed in Note 13 of Notes to Consolidated Financial Statements in Valero s Annual Report on Form 10-K for the year ended December 31, 2017.

TAX TREATMENT

Under Section 162(m) of the Internal Revenue Code, as it applied in 2017, publicly held corporations may not take a tax deduction for compensation in excess of $1 million paid to the Chief Executive Officer or the other four most highly compensated executive officers unless that compensation meets the Internal Revenue Code s definition of performance based compensation. Section 162(m) allows a deduction for compensation that exceeds $1 million if it is paid (i) solely upon attainment of one or more performance goals, (ii) pursuant to a qualifying performance-based compensation plan adopted by the Compensation Committee, and (iii) the material terms, including the performance goals, of such plan are approved by the stockholders before payment of the compensation.

The Compensation Committee considers deductibility under Section 162(m) when designing compensation arrangements for executive officers, but is not required to grant only performance based compensation that is deductible under Section 162(m). The Committee believes that it is in our best interests for the Committee to retain its flexibility and discretion to make compensation awards to foster achievement of performance goals established by the Committee and other goals the Committee deems important to our success, such as encouraging employee retention, rewarding achievement of non-quantifiable goals, and achieving progress with specific projects. We believe that the 2017 annual incentive bonus payments qualify as performance-based compensation and are not subject to any deductibility limitations under Section 162(m). In addition, we believe that our performance shares granted in 2017 continue to qualify as performance-based compensation under the grandfather rules provided under the Tax Cuts and Jobs Act of 2017. Grants of restricted stock or other equity-based awards that are not subject to specific quantitative performance measures will likely not qualify as performance based compensation and, in such event, would be subject to Section 162(m) deduction restrictions.

Prospectively, for pay earned in 2018 and beyond, the Tax Cuts and Jobs Act of 2017 eliminated the deductibility of most components of pay to certain top executives to the extent that such pay exceeds $1 million in a year. However, certain pre-existing contractual compensation vehicles (including Valero s performance shares awarded in 2017) may continue to qualify for full deductibility. Consistent with the Company s historic approach to deductibility under Section 162(m), the Compensation Committee will continue to exercise flexibility and discretion in determining whether any given grandfathered form of pay should continue to qualify for full deductibility.

Compensation-Related Policies

POLICY ON VESTING OF PERFORMANCE SHARES UPON CHANGE OF CONTROL OF VALERO

Our Board has adopted a policy regarding the vesting of performance shares upon a change of control of Valero. The policy provides that performance shares granted to participants in Valero s equity incentive plans will not vest automatically upon the date of a change of control (as defined in the applicable plan) of Valero. The policy further provides that in making awards of performance shares to participants, the Compensation Committee may provide in the award agreement with the participant that if a participant s employment with Valero is terminated following a change of control, any unvested performance shares held by the participant will vest on a partial, *pro rata* basis on the date of the participant s termination of employment, with such qualifications for an award as the Committee may determine. The policy is available on our website at www.valero.com > Investors > Corporate Governance > Governance Documents.

EXECUTIVE COMPENSATION CLAWBACK POLICY

Under our executive compensation clawback policy, in the event of a material restatement of Valero s financial results, the Board, or the appropriate committee thereof, will review all bonuses and other incentive and equity compensation awarded to our executive officers. The policy provides that if the bonuses and other incentive and equity compensation would have been lower had they been calculated based on such restated results, the Board (or committee), will, to the extent permitted by governing law and as appropriate under the circumstances, seek to recover for the benefit of Valero all or a portion of the specified compensation awarded to executive officers whose fraud or misconduct caused or partially caused such restatement, as determined by the Board (or committee). In determining whether to seek recovery, the policy states that the Board (or committee) shall take into account such considerations as it deems appropriate, including governing law and whether the assertion of a claim may prejudice the interests of Valero in any related proceeding or investigation. The policy is available on our website at www.valero.com > Investors > Corporate Governance > Governance Documents.

COMPENSATION CONSULTANT DISCLOSURE POLICY

Per the terms of our compensation consultant disclosure policy, Valero will make certain disclosures pertaining to compensation consultants in our proxy statements for annual meetings of stockholders. For any compensation consultant retained by the Compensation Committee to provide compensation advice with respect to the compensation disclosed in the Summary Compensation Table in the proxy statement, we will disclose (i) the total fees paid annually to the consultant for compensation-related services and non-compensation-related services, (ii) a description of any non-compensation-related services provided by the consultant, and (iii) any services that the consultant has provided to senior executives of Valero and the nature of those services. The policy is available on our website at www.valero.com > Investors > Corporate Governance > Governance Documents.

STOCK OWNERSHIP GUIDELINES AND PROHIBITION AGAINST HEDGING AND PLEDGING

We have adopted stock ownership guidelines applicable to our officers and non-employee directors. The guidelines require that non-employee directors acquire and hold during their service shares of Common Stock equal in value to at least five times their annual cash retainer. Our officers are required to meet the applicable guidelines stated below.

Officer Position	Value of Shares Owned
Chief Executive Officer	5x Base Salary
President	3x Base Salary
Executive Vice Presidents	2x Base Salary
Senior Vice Presidents	1x Base Salary
Vice Presidents	1x Base Salary

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Officers and non-employee directors have five years after becoming subject to the guidelines to meet the requisite ownership threshold and, once attained, are expected to continuously own sufficient shares to meet that threshold.

Our directors, officers, and employees may not purchase, sell, or write calls, puts, or other options or derivative instruments on shares of Common Stock, and our directors and officers are prohibited from pledging shares of Common Stock as collateral or security for indebtedness. Compliance with the guidelines is monitored by the Compensation Committee. The full text of our guidelines is included in our Corporate Governance Guidelines (as *Article IX*), available on our website at www.valero.com > Investors > Corporate Governance > Governance Documents.

INSIDER TRADING AND SPECULATION IN VALERO STOCK

Our officers, directors, and employees are prohibited from purchasing or selling Valero securities while in possession of material, nonpublic information, or otherwise using such information for their personal benefit or in any manner that would violate applicable laws and regulations. In addition, our policies prohibit our employees from speculating in our stock, which includes short selling (profiting if the market price of our stock decreases), buying or selling publicly traded options (including writing covered calls), hedging, or any other type of derivative arrangement that has a similar economic effect.

COMPENSATION CONSULTANT DISCLOSURES

Our Compensation Committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, independent legal counsel, or other adviser, and is directly responsible for the appointment, compensation, and oversight of the work of any compensation consultant, independent legal counsel, or other adviser retained by the Committee. Valero is obligated to provide appropriate funding for the Committee s retention of a consultant, counsel, or adviser.

In 2017, the Committee retained Exequity LLP as an independent compensation consultant. Exequity provided to the Committee objective expert analysis and independent advice regarding executive and director compensation. For the 2017 executive and director compensation services rendered to the Committee, Exequity earned professional fees of $262,823. Exequity did not provide other consulting services to the Committee, to Valero, or to any senior executives of Valero. Exequity is an independent adviser as determined under the SEC s rules and the NYSE s listing standards.

During 2017, Exequity s executive and director compensation consulting services included:

- assistance with establishing our overall executive compensation philosophy in light of our business strategies;
- assistance with selecting peer and comparator companies for benchmarking executive pay and monitoring Valero s performance;
- assessment of competitive pay for our executives, with separate analyses of base salary, annual incentive, and long-term incentive compensation;
- assessment of, and recommendations for, our annual incentive bonus program;
- assessment of, and recommendation of enhancements to, our long-term incentive program strategy, including (i) the design of an appropriate mix of equity incentive vehicles, (ii) determination of performance measures and measurement techniques, and (iii) determination of competitive equity grant guidelines consistent with our overall pay philosophy;
- updates on trends and developments in executive compensation, new regulatory issues, and best practices;
- assessment of competitive pay for our directors; and
- assistance with proxy statement disclosures.

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EQUITY COMPENSATION PLAN INFORMATION

The following table presents information regarding our equity compensation plans as of December 31, 2017.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (#)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights ($)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (1)
Approved by stockholders:			
2011 Omnibus Stock Incentive Plan	560,006	$ 33.93	9,409,188
2005 Omnibus Stock Incentive Plan	673,723	17.92	
Not approved by stockholders:			
2003 All-Employee Stock Incentive Plan (2)	43,571	17.68	
Total	1,277,300	24.93	9,409,188

Footnotes:

(1) Securities available for future issuance under these plans can be issued in various forms, including restricted stock and stock options.

(2) Officers and directors of Valero were not eligible to receive grants under this plan.

Our equity plans are described further in Note 13 of Notes to Consolidated Financial Statements for the fiscal year ended December 31, 2017, included in Valero s Annual Report on Form 10-K.

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EXECUTIVE COMPENSATION

The following tables disclose compensation paid to or earned by our named executive officers for 2017. We use captions and headings in these tables that correspond to the SEC regulations requiring these disclosures. The footnotes to these tables provide important information to explain the values presented in the tables.

Summary Compensation Table

This table summarizes the compensation paid to our named executive officers for fiscal years 2017, 2016, and 2015. The elements of compensation listed in the table are described in the Compensation Discussion and Analysis section of this proxy statement and in the table s footnotes.

Principal Position (1)	Year	Salary ($)	Stock Awards ($)(2)(3)	Option Awards ($)(4)	Non-Equity Incentive Plan Compensation ($)(5)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($)(6)	All Other Compensation ($)(7)	Total ($)
Joseph W.	**2017**	**1,585,000**	**12,734,060**		**3,800,000**	**4,269,202**	**143,998**	**22,532,260**
Gorder,	2016	1,450,000	10,610,898		2,925,000	3,334,310	132,410	18,452,618
Chairman of the Board, President,								
and CEO	2015	1,300,000	8,870,341		3,900,000	3,252,393	212,411	17,535,145
Michael S.	**2017**	**930,000**	**4,687,459**		**1,625,000**	**3,118,093**	**87,568**	**10,448,120**
Ciskowski,	2016	890,000	4,057,373		1,320,000	1,855,463	91,783	8,214,619
EVP and CFO	2015	845,000	3,809,824		1,859,000	1,551,671	83,683	8,149,178
R. Lane Riggs,	**2017**	**700,000**	**2,710,576**		**925,000**	**1,743,387**	**96,683**	**6,175,646**
	2016	640,000	2,191,016		725,000	1,206,237	73,248	4,835,501
EVP and COO	2015	600,000	1,661,614		960,000	1,046,542	69,005	4,337,161
Jay D. Browning,	**2017**	**620,000**	**2,039,272**		**790,000**	**1,436,316**	**86,737**	**4,972,325**
	2016	595,000	1,773,224		640,000	973,148	71,101	4,052,473
	2015	575,000	1,591,603		920,000	1,012,273	66,816	4,165,692

EVP and General Counsel								
Gary K. Simmons,	**2017**	**600,000**	**1,398,749**		**620,000**	**1,345,120**	**88,961**	**4,052,830**
	2016	565,000	1,203,887		500,000	876,063	57,980	3,202,930
SVP Supply, Int l Ops. & Systems Optimization (8)								

Footnotes to Summary Compensation Table:

(1) The persons listed in this table are referred to in this proxy statement as our named executive officers.

(2) The amount shown is the grant date fair value of stock awards (restricted stock and performance shares) computed under Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation Stock Compensation (FASB ASC Topic 718). Under FASB ASC Topic 718, the grant date fair values that we must disclose for our performance share awards include the values of certain tranches of unvested performance shares that were awarded in years prior to the fiscal year shown in the table. The computations of grant date fair values for performance shares are more fully described in footnote (5) to the Grants of Plan-Based Awards table in this proxy statement.

The dollar values included in the Stock Awards column include the following components:

	Gorder	Ciskowski	Riggs	Browning	Simmons
Restricted Stock	5,704,000	2,042,400	1,251,200	884,800	611,200
Performance Shares	7,030,060	2,645,059	1,459,376	1,154,472	787,549
Total (in dollars)	12,734,060	4,687,459	2,710,576	2,039,272	