

ULTRAMAR DIAMOND SHAMROCK CORP
Form 425
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Subject Company: Ultramar Diamond Shamrock Corporation
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The following is an investor presentation by Valero Energy Corporation, dated
September 2001:

VALERO ENERGY
CORPORATION

[Photographs of Valero Energy Corporation]

Management Presentation
September 2001

SAFE HARBOR STATEMENT

Statements contained in this presentation are forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and beliefs and are subject to a number of uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The forward-looking statements contained in this presentation include statements about future financial results and the proposed Valero/UDS merger. The following factors, among others, could cause results to differ materially from those described in the forward-looking statements: the risk that Valero's and UDS' businesses will not be integrated successfully; costs related to the merger; failure of the Valero or UDS stockholders or the Federal Trade Commission to approve the merger as proposed; and other economic, business, competitive and/or regulatory factors affecting Valero's and UDS' businesses generally as set forth in Valero's and UDS' filings with the Securities and Exchange Commission, including their Annual Reports on Form 10-K, especially Management's Discussion and Analysis sections, Quarterly Reports on Form 10-Q and their Current Reports on Form 8-K. Valero and UDS are under no obligation to update or alter their forward-looking statements whether as a result of new information, future events or otherwise.

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RECENT DEVELOPMENTS

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- Closed acquisition of El Paso Energy's Corpus Christi, Texas refinery & South Texas refined products pipeline systems
- Closed acquisition of Huntway Refining Company
- Announced pending acquisition of Ultramar Diamond Shamrock

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SUCCESSFUL GROWTH STRATEGY

1996

One refinery in Corpus Christi, TX

1997

Launched strategic growth plan
- 2 million BPD capacity in 5 yrs.

[Bar Graph Depicting the Following Information]

Basis refineries acquired - tripled refining capacity

2,000

1998

Paulsboro refinery acquired adding East Coast presence

985

735

530

2000

Benicia refinery acquired from Exxon adding West Coast refining and retail exposure

170

1996

1997

1998

2000

2001

Throughput Capacity (MBPD)

2001

Acquired El Paso's Corpus Christi refinery and Huntway Refining Co.

Announced UDS Acquisition

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RECENT ACQUISITIONS

- Huntway Refining Company
 - 2 small asphalt refineries in California
 - Benicia, CA 13,000 BPD
 - Wilmington, CA 6,000 BPD
- El Paso's Corpus Christi refinery and Texas refined products pipeline system
 - Immediately accretive to earnings and cash flow
 - Integrated into Corpus Christi Refinery
 - 340,000 BPD, high-complexity system

UDS ACQUISITION

- Valero to acquire UDS for combination of cash and stock
 - \$2 billion cash + approx. 45 million shares Valero stock
 - Assumption of approx. \$2 billion of debt

[Photograph of
UDS Gas Station]

[Photograph of
Benecia refinery]

CREATES PREMIER U.S. REFINER & MARKETER

- Significantly accretive to earnings and cash flow
- Enhanced earnings stability
 - Exposure to "quality" refining markets
 - Nationally recognized retail operations
 - Shamrock Logistics, L.P.
- Increased size & liquidity
 - Likely inclusion in S&P 500
 - Potential multiple expansion
- Positions company for further growth...and the future

THE REFINING & MARKETING MAJOR

[Map of the United States and Eastern Canada depicting the locations of refineries, terminals, crude pipelines, products pipelines, ethylene/propylene pipelines, retail marketing presence with legends for the following facilities:]

VALERO:

- Benecia, California
 - 180,000 bpd capacity
- Wilmington, California
 - 6,000 bpd capacity
- Krotz Springs, Louisiana
 - 85,000 bpd capacity

UDS:

- Golden Eagle, California
 - 168,000 bpd capacity
- Wilmington, California
 - 135,000 bpd capacity
- Quebec, Canada
 - 167,000 bpd capacity

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- Paulsboro, New Jersey
 - 185,000 bpd capacity
- Corpus Christi, Texas
 - 340,000 bpd capacity
- Houston, Texas
 - 125,000 bpd capacity
- Texas City, Texas
 - 230,000 bpd capacity
- Denver, Colorado
 - 27,000 bpd capacity
- Ardmore, Oklahoma
 - 85,000 bpd capacity
- McKee, Texas
 - 170,000 bpd capacity
- Three Rivers, Texas
 - 98,000 bpd capacity

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MAJOR RETAIL PRESENCE

- 2,000 company-operated sites
 - 4th largest operator in the U.S. [Photograph of UDS Gas Station]
 - Largest operator in TX, OK, CO and NM
- Over 2,500 dealers/jobbers and truck stops
- Over \$1.2 billion in annual merchandise sales and growing

[Photograph of Valero Gas Station]

- 80 Valero branded sites and 260 Exxon-branded locations in the California market
- 30% increase in volumes since acquisition

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SHAMROCK LOGISTICS, L.P.

- April 2001 IPO
 - 3,600 miles of pipelines and terminals
 - Transports over 75% of UDS' Mid-Continent crude and refined products
 - Market value \$650 million
 - Current yield 6-7%
 - 19.2 million units
 - 76% UDS ownership
- [Map of Colorado, Kansas, New Mexico, Oklahoma and Texas identifying refineries, refined product pipelines, crude oil pipelines and terminal locations.]

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GROWING SHAMROCK LOGISTICS, L.P.

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- Valero committed to growing Shamrock Logistics, L.P. and steadily increasing distributions
 - Contractual options to acquire 2 additional facilities from UDS at attractive prices
 - Other qualified UDS assets
 - Potential Valero assets include pipelines and terminals acquired from El Paso and other assets
 - Acquisition opportunities

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ESTIMATED TRANSACTION TIMETABLE

May 7	Announcement
May 25	Filed Registration and Proxy Statements with SEC
May 30	Filed HSR documents with FTC
June 29	Second Request received from FTC
August 24	Registration and Proxy Statements declared effective
September 27	Stockholder Meetings of Valero and UDS to approve transaction
Fourth Quarter	Anticipated Closing

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ANTICIPATED SYNERGIES (\$ in millions)

	Year 1	Year 2+	
Initial Estimates			
Crude Sourcing & Logistics	\$75	\$80	
Marketing	60	75	
Administrative, Procurement & Best Practices	55	85	
Total	\$190	\$240	

- Top down analysis shows significant upside to current estimates
 - McKinsey & Co. engaged to provide support
- Bottom up confirmation process underway to validate synergy targets

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PRO-FORMA RESULTS

	2000 (1)	2001 Est. (2)	Base Case (3)
Volumes (MBPD)	1,600	1,800	2,000
USGC 3-2-1 Margin(4)	\$4.31	\$4.65	\$2.95
Synergies (millions)	\$-0-	\$-0-	\$200
Net Income (millions)	\$660	\$996	\$866

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Earnings Per Share \$6.13 \$9.09 \$7.85

- (1) Historical combined results as reported in Form S-4
- (2) Based on each companies' current earnings guidance for 2001 of \$8.50 per share for Valero and \$7.25 per share for UDS
- (3) Base Case assumes 5-year average margins (1996-2000) and 2002 projected operating volumes
- (4) 3-2-1 Refining Margin based on 2 times USGC Gasoline-WTI plus USGC Heating Oil-WTI divided by 3

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STRONG PRO-FORMA CASH FLOW

(\$ in millions, except per share amounts)

	2001	Base Case
EPS	\$9.09	\$7.85
Cash Flow from Operating Sources	\$1,800	\$1,600
Est. Capital Requirements	(\$875)	(\$535)
Available Cash	\$925	\$1,065

Uses of Available Cash:

- Pay down debt
- Strategic capital investments
- Repurchase stock
- Maintain flexibility for future acquisitions

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ESTIMATED CAPITAL REQUIREMENTS

[Pie Chart depicting the following amounts (in millions):

- Common Dividends \$35
- El Paso & Huntway Acquisitions \$190
- Earn-out Payments \$200
- Turnarounds \$200
- Maintenance & Environmental \$250]

2001 est.
\$875 million

[Pie Chart depicting the following amounts (in millions):

- Common Dividends \$35
- Turnarounds \$200
- Maintenance & Environmental \$300]

Base Case
\$535 million

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GASOLINE FUNDAMENTALS

[Graph depicting monthly U.S. Gasoline Inventories for January through December in thousands of barrels

[Graph depicting monthly Gasoline Margin for January through December for USGC Gasoline-WTI

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for calendar year 2000, calendar year 2001 year-to-date and showing the range for the past 5 years.]

in dollars per barrel for calendar year 2000, calendar year 2001 year-to-date and showing the range for the past 5 years.]

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DISTILLATE FUNDAMENTALS

[Graph depicting monthly U.S. Distillate Inventories for January through December in thousands of barrels for calendar year 2000, calendar year 2001 year-to-date and showing the range for the past 5 years.]

[Graph depicting monthly Distillate Margin for January through December for USGC Heating Oil-WTI in dollars per barrel for calendar year 2000, calendar year 2001 year-to-date and showing the range for the past 5 years.]

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CONTINUED STRONG SOUR CRUDE DISCOUNTS

Arab Medium to WTI

[Graph depicting sour crude discounts in six-month intervals from January 1998 through July 2001.]

- Sour crude discounts trending at higher levels over last 18 months
- Recent Iraqi actions have created volatility in sour crude pricing
 - Discounts improving with resumption of exports and refinery maintenance

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LONG TERM SOUR CRUDE DISCOUNTS FAVORABLE

2001 - 2005 Worldwide Production Growth (MMBPD)				
	+3.1		+4.2	
+1.4		+1.6		- Sweet/sour differential to remain wide
Sweet Crude	Sour Crude	Sweet Crude	Sour Crude	- Sour crude production increasing faster than sweet crude
				- Pressure on ANS to continue post-merger

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Based on 1.6% oil	Based on 2% oil
demand growth	demand growth
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STRATEGIC DIRECTION FOR THE NEW VALERO

- Maximize value of combined company assets
 - Capture opportunities created by merger
- Continue to pursue accretive acquisitions and high return projects
- Growth opportunities include:
 - Refining & Retail
 - Mid-Stream
 - Petrochemical
 - Cogen
 - Asphalt

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2002 EARNINGS EXPECTED TO BEAT 2001

- Margins don't have to be better next year for Valero to earn more than it earned in 2001
 - UDS for the full year
 - Over \$200 million in synergies
 - El Paso and Huntway assets for the full year
 - Upgrades and expansions
- Remain confident that stock will soon reflect earnings power of combined entity

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APPENDIX

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KEY MARGIN DRIVERS

Feedstocks & Fuel:	2000	2001 est. (1)	5-year Avg. (2)
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WTI - Sour Crude	\$3.53	\$4.90	\$2.64
WTI - ANS	\$2.04	\$2.27	\$1.69
WTI - Sweet Crude	\$ (.49)	\$ (.63)	(\$.19)
Natural Gas (MMBtu)	\$4.32	\$4.73	\$2.69

Products:

Gasoline - WTI (USGC)	\$4.66	\$4.67	\$3.45
CARB Gasoline - ANS	\$14.74	\$14.51	\$10.85
Heating Oil - WTI (USGC)	\$3.60	\$3.05	\$1.98
3-2-1 Refining Margin(3)	\$4.31	\$4.13	\$2.95

- (1) Actual prices through July, forward curve prices August through December
 (2) Average prices 1996 through 2000
 (3) 3-2-1 Refining Margin equals (2 times Gasoline-WTI plus Heating Oil-WTI) divided by 3

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VLO/UDS COMBINED - PRODUCT SLATE

(MBPD)

	Gulf Coast	East Coast	West Coast	Mid Cont.	Total
Gasoline	405	155	290	170	1,020
Distillates	200	100	85	65	450
Jet/Kero	80	35	25	20	160
No. 6 Oil	40	20	10	5	75
Lubes & Asphalt	15	25	10	15	65
Petrochemicals	40	10	-	10	60
Natural Gas Liquids	15	5	20	5	45
Other	75	20	30	-	125
Total	870	370	470	290	2,000

Based on estimated production capacity in each region.

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VLO/UDS COMBINED - PREMIUM PRODUCT FOCUS

[Pie Chart depicting the following:

- Conventional Premium 7%
- Reformulated Fuels 44%
- Conventional Unleaded 49%]

GASOLINE

[Pie Chart depicting the following:

- HSD 24%
- Jet/Kero Distillates 25%
- LSD 51%]

DISTILLATES

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VLO/UDS COMBINED - PRODUCT MARKET CHANNELS

[Pie Chart depicting the following:

- Retail 16%
- Wholesale 24%
- Bulk 60%]

GASOLINE

[Pie Chart depicting the following:

- Retail 4%
- Wholesale 32%
- Bulk 64%]

DISTILLATES

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VALERO/UDS MERGER CONSIDERATION

- In May, 2001 Valero Energy and Ultramar Diamond Shamrock agreed to a part-cash/part-stock merger in which Valero would exchange all of the shares of UDS for consideration with a value representing a 31.3% premium to UDS' stock price, based on the average closing price of UDS for the 10 day period prior to April 26th.
- The total consideration equates to \$27.50 in cash and a fixed exchange ratio of 0.614 Valero shares for each outstanding share of UDS common stock, representing an aggregate consideration of approximately \$2 billion in cash plus approximately 44.4 million Valero shares (subject to possible adjustment as described below).
- A UDS stockholder can elect to receive consideration in the form of cash, Valero stock or a combination. Whatever the form, the mechanism is designed such that the per-share consideration will have the same value, based on the average price of Valero common stock during a 10 day measurement period ending 3 days before closing, regardless of the form of consideration. That per-share value, whether paid in the form of stock or cash, will be the sum of (a) \$27.50 and (b) the average value of 0.614 Valero shares during the measurement period.
- The elections will be subject to proration, as the total number of Valero shares to be issued and the total amount of cash to be paid in the merger to UDS stockholders as a group are each fixed except that Valero may add more stock, valued at the measurement period value and in lieu of an equivalent amount of cash, if needed to maintain the tax-free treatment of the merger. If stock is oversubscribed, then UDS stockholders who have elected stock will nevertheless receive cash for some of their UDS shares, on a pro rata basis, and vice versa if cash is oversubscribed. Also, if based on the average price of Valero stock during the measurement period the limit on the percentage of UDS shares that may be converted to stock consideration is greater than 50%, Valero at its option, may reduce that limit to 50%.

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VALERO/UDS MERGER CONSIDERATION

Equalization Mechanism
MM, except per share figures

Transaction Structure

Total UDS Shares 72.3

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Cash Portion (Value of \$55.00 Offer at 50%)		Stock Portion (Value of 1.228x Offer at 50%)	
Cash Offer per Share	\$27.50	Stock Exchange Ratio	0.614x
Cash Offered in Transaction (\$27.50 x 72.3 Shares) \$1,988		Number of Valero Shares (0.614 x 72.3 Shares) 44.4	

Valero Share Price	Cash Value at 50%	Exchange Ratio at 50%	Stock Value at 50%	Blended Trans-action Value Per UDS Share	Total Cash Offered by Valero	Total Value of Stock Offered by Valero	Total Consi-deration Offered by Valero	Percent of UDS Shares Purch. Cash	Total Shares Offered by Valero	Percent UDS Shares for Valero Stock
\$25.00	\$27.50	0.614x	\$15.35	\$42.85	\$1,766	\$1,332	\$3,098	57.0%	53.3	43.0%
30.00	27.50	0.614x	18.42	45.92	1,892	1,428	3,320	57.0%	47.6	43.0%
33.73*	27.50	0.614x	20.71	48.21	1,988	1,498	3,486	57.0%	44.4	43.0%
35.00	27.50	0.614x	21.49	48.99	1,988	1,554	3,542	56.1%	44.4	43.9%
40.00	27.50	0.614x	24.56	52.06	1,988	1,776	3,764	52.8%	44.4	47.2%
45.00	27.50	0.614x	27.63	55.13	1,988	1,988	3,986	49.9%	44.4	50.1%
50.00	27.50	0.614x	30.70	58.20	1,988	2,220	4,208	47.3%	44.4	52.7%
A	B	C	D	E	F	G	H	I	J	K
			=AxC	=B+D	=\$1,988-M	=AxJ	=F+G	=F/H	44.4+L	=G/H

NOTES:

- Assumes at least 43% of the consideration will be required to be paid in Valero stock in order of the transaction with respect to the stock consideration. Pursuant to the terms of the merger percentage required to be paid in stock will not be determined until closing and may be higher for this example.
- \$33.73 represents the breakeven price below which additional stock may be issued to preserve t

- Investors and security holders are urged to read the joint proxy statement/prospectus that has been sent to Valero and UDS stockholders regarding the proposed merger because it contains important information. The joint proxy statement/prospectus has been filed with the Securities and Exchange Commission by Valero and UDS. Investors and security holders may obtain a free copy of the

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joint proxy statement/prospectus and other documents filed by Valero and UDS with the Commission at the Commission's web site at www.sec.gov. The joint proxy statement/prospectus and these other documents may also be obtained free of charge from Valero and UDS. Stockholders should read the definitive joint proxy statement/prospectus carefully before making a decision concerning the merger.

- Valero and UDS, and their respective directors, executive officers and certain other of their respective employees, may be soliciting proxies from their respective stockholders in favor of the approval of the merger. Information regarding the persons who may, under SEC rules, be deemed to be participants in the solicitation of Valero and UDS stockholders in connection with the merger is set forth, in the case of Valero, in Valero's proxy statement for its 2001 annual meeting, filed with the SEC on March 28, 2001, and in the case of UDS, in UDS's proxy statement for its 2001 annual meeting, filed with the SEC on March 27, 2001, and additional information is set forth in the definitive proxy statement/prospectus referred to above.