VALERO L P
Form S-4
November 23, 2004

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As Filed with the Securities and Exchange Commission on November 23, 2004

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Valero L.P.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**4610**	**74-2956831**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

One Valero Way
San Antonio, Texas 78249
(210) 345-2000

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

CURTIS V. ANASTASIO
PRESIDENT AND CHIEF EXECUTIVE OFFICER
Valero GP, LLC
One Valero Way
San Antonio, Texas 78249
(210) 345-2000

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies To:

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Houston, Texas 77010	**Houston, Texas 77002**	**New York, New York 10019**
(713) 651-5151	**(713) 220-4200**	**(212) 403-1000**

Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after the effectiveness of this Registration Statement and the satisfaction or waiver of all other conditions to the merger of Kaneb Pipe Line Partners, L.P., or Kaneb Partners, with a subsidiary of the Registrant pursuant to the Agreement and Plan of Merger by and among the Registrant, Kaneb Partners and the other parties thereto described in the enclosed document.

If the securities being registered on this form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Units	26,268,524	N/A	$1,373,481,161	$174,020

(1) Represents the maximum number of common units of the registrant issuable upon the completion of the Kaneb Partners merger described herein to unitholders of Kaneb Partners.

(2) Pursuant to Securities Act Rule 457(c), (f)(1) and (f)(3), and estimated solely for purposes of calculating the registration fee, the proposed maximum aggregate offering price is $1,373,481,161, which equals (i) the product of (a) the average of the high and low prices of a unit of Kaneb Partners, of $59.12, as reported on the New York Stock Exchange on November 16, 2004 and (b) the total number of units of Kaneb Partners to be canceled and converted into the Registrant's common units (which is 23,232,090).

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED NOVEMBER 23, 2004

The information in this document is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This document is not an offer to sell these securities, and we are not soliciting offers to buy these securities, in any state where the offer or sale is not permitted.

Dear Shareholders/Unitholders:

Kaneb Services LLC, Kaneb Pipe Line Partners, L.P. and Valero L.P. have agreed to combine our businesses. As a result of the transaction, Kaneb Services LLC, which we refer to as Kaneb Services, and Kaneb Pipe Line Partners, L.P., which we refer to as Kaneb Partners, will become wholly owned subsidiaries of Valero L.P.

In the merger of Kaneb Services with a subsidiary of Valero L.P., each Kaneb Services common share you hold will be converted into the right to receive $43.31 in cash. Immediately after completing the Kaneb Services merger, we intend to complete the merger of Kaneb Partners with a subsidiary of Valero L.P.

In the Kaneb Partners merger, each Kaneb Partners unit you hold will be converted into the right to receive a number of Valero L.P. common units equal to

- 1.1307, if the average sales price of a Valero L.P. common unit is equal to or less than $54.39;
- the ratio of $61.50 to the average Valero L.P. sales price, if the average Valero L.P. sales price is between $54.39 and $60.11; or
- 1.0231, if the average Valero L.P. sales price is equal to or greater than $60.11.

The average Valero L.P. sales price is the average of the average of the daily high and low sale price of a Valero L.P. common unit as reported on the NYSE Composite Transaction Reporting System for the ten consecutive NYSE full trading days ending at the close of trading on the NYSE full trading day immediately prior to the satisfaction or waiver of the conditions to the Kaneb Partners merger.

The merger agreement between Valero L.P. and Kaneb Services must be approved by the Kaneb Services shareholders, and the merger agreement between Valero L.P. and Kaneb Partners must be approved by Kaneb Partners unitholders. In addition, the issuance of Valero L.P. common units to Kaneb Partners unitholders in the Kaneb Partners merger requires the approval of Valero L.P. common unitholders and of Valero L.P. subordinated unitholders (which are Valero Energy Corporation and its affiliates), each voting separately as a class. Each of us has scheduled a special meeting of its unitholders or shareholders to vote on these matters on [   ]. Regardless of the number of units or shares that you own or whether you plan to attend a meeting, it is important that your units or shares be represented and voted at the meeting. Voting instructions are inside.

See "Risk Factors" beginning on page 25 of this document for a discussion of risks relevant to the mergers.

Common units of Valero L.P., including common units issued to Kaneb Partners unitholders as a result of the Kaneb Partners merger, will continue to be quoted on the New York Stock Exchange under the symbol "VLI". Common shares of Kaneb Services, which are quoted on the New York Stock Exchange under the symbol "KSL," and units of Kaneb Partners, which are quoted on the New York Stock Exchange under the symbol "KPP," will be delisted if the mergers are consummated.

The board of directors of Kaneb Services has unanimously approved the Kaneb Services merger and the Kaneb Services merger agreement, and has determined that the Kaneb Services merger is in the best interests of Kaneb Services and Kaneb Services' shareholders. Accordingly, the board of directors of Kaneb Services recommends that Kaneb Services' shareholders vote to approve and adopt the Kaneb Services merger agreement.

The board of directors of Kaneb Pipe Line Company LLC, Kaneb Partners' general partner, has unanimously approved the Kaneb Partners merger and the Kaneb Partners merger agreement, and has determined that the Kaneb Partners merger is in the best interests of Kaneb Partners and Kaneb Partners' unitholders. Accordingly, the board of directors of Kaneb Partners' general partner recommends that Kaneb Partners' unitholders vote to approve the Kaneb Partners merger agreement.

The board of directors of Valero GP, LLC, the general partner of Valero L.P.'s general partner, has unanimously approved each of the merger agreements, including the issuance of Valero L.P. common units in the Kaneb Partners merger, and has determined that the transactions are in the best

interests of Valero L.P. and Valero L.P.'s unitholders. Accordingly, the board of directors of Valero GP, LLC recommends that Valero L.P. common unitholders vote to approve the issuance of Valero L.P. common units in the Kaneb Partners merger.

Your vote is important regardless of the number of units or shares you own. Since the proposals relating to the mergers and the issuance of Valero L.P. common units in the Kaneb Partners merger require approval of a majority of the outstanding units or common shares, as the case may be, if you fail to vote or if you abstain, it will have the same effect as a vote against the mergers. Please vote as soon as possible to make sure that your units or shares are represented at the special meeting. To vote your units or common shares, please complete and return the enclosed proxy card. You also may cast your votes in person at the appropriate special meeting.

Very truly yours,

VALERO L.P.	KANEB SERVICES LLC	KANEB PIPE LINE PARTNERS, L.P.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the Valero L.P. common units to be issued under this document or determined if this document is accurate or complete. Any representation to the contrary is a criminal offense.

This document is dated , and is first being mailed to Kaneb Services shareholders and Valero L.P. and Kaneb Partners unitholders on or about .

This document incorporates by reference important business and financial information about Valero L.P., Kaneb Services and Kaneb Partners that is not included in or delivered with this document. Please read "Where You Can Find More Information."

You can obtain any of the documents incorporated by reference into this document from Valero L.P., Kaneb Services or Kaneb Partners, as the case may be, or from the Securities and Exchange Commission's website at http://www.sec.gov. Documents incorporated by reference are available from Valero L.P., Kaneb Services and Kaneb Partners without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference into this document. You may obtain documents incorporated by reference into this document by requesting them in writing or by telephone from the appropriate company as follows:

Valero L.P.	**Kaneb Pipe Line Partners, L.P. or Kaneb Services LLC**
Investor Relations	Investor Relations
One Valero Way	2435 N. Central Expressway, Suite 700
San Antonio, Texas 78249	Richardson, Texas 75080
(210) 345-2000	(972) 699-4041

You should request the documents incorporated by reference no later than to obtain timely delivery. Please be sure to include your complete name and address in your request. If you request any documents, we will mail them to you by first class mail, or another equally prompt means, within one business day after we receive your request.

All information included or incorporated by reference in this document concerning Valero L.P. has been furnished by Valero L.P. All information included or incorporated by reference in this document concerning Kaneb Services has been furnished by Kaneb Services. All information included or incorporated by reference in this document concerning Kaneb Partners has been furnished by Kaneb Partners.

VALERO L.P.

One Valero Way
San Antonio, Texas 78249
(210) 345-2000

NOTICE OF SPECIAL MEETING OF UNITHOLDERS

To Be Held on

To the Unitholders of Valero L.P.:

We will hold a special meeting of unitholders of Valero L.P. at Valero L.P.'s headquarters at One Valero Way, San Antonio, Texas 78249, on , , , at 10:00 a.m., local time, for the purposes of considering and voting on the following matters, as described in the accompanying document:

1. a proposal to approve the issuance of Valero L.P. common units pursuant to the Agreement and Plan of Merger, dated as of October 31, 2004, by and among Valero L.P., Kaneb Pipe Line Partners, L.P. and the other parties thereto, as it may be amended from time to time. This proposal is more fully described in the accompanying document;

2. a proposal to adjourn the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the issuance of Valero L.P. common units described in proposal 1; and

3. any other business as may properly come before the special meeting or any adjournments or postponements thereof.

The board of directors of Valero GP, LLC, the general partner of Valero L.P.'s general partner, has unanimously approved each of the merger agreements, including the issuance of Valero L.P. common units in the Kaneb Partners merger, and has determined that the transactions are in the best interests of Valero L.P. and Valero L.P.'s unitholders. Accordingly, the board of directors of Valero GP, LLC recommends that Valero L.P. common unitholders vote to approve the issuance of Valero L.P. common units in the Kaneb Partners merger.

The proposal regarding the issuance of Valero L.P. common units in the Kaneb Partners merger requires the affirmative vote of both the holders of a majority of Valero L.P.'s outstanding common units and the holders of a majority of Valero L.P.'s outstanding subordinated units. Since the approval of the proposal regarding the issuance of Valero L.P. common units in the Kaneb Partners merger requires the affirmative vote of the holders of a majority of Valero L.P.'s outstanding common units, abstentions and broker non-votes will have the same effect as a vote against this proposal.

The proposal regarding the adjournment of the Valero L.P. special meeting, if necessary, to solicit additional proxies in connection with obtaining approval of the issuance of Valero L.P. common units in the Kaneb Partners merger requires the affirmative vote of the holders of a majority of the Valero L.P. common units and Valero L.P. subordinated units, voting together as a single class, present in person or by proxy and entitled to vote.

Holders of record of Valero L.P. common units at the close of business on will be entitled to notice of and to vote, separately as a class, at the special meeting and any adjournments or postponements thereof.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE VOTE IN ONE OF THE FOLLOWING WAYS:

USE THE TOLL-FREE TELEPHONE NUMBER SHOWN ON THE PROXY CARD;

USE THE INTERNET WEBSITE SHOWN ON THE PROXY CARD; OR

MARK, SIGN, DATE AND PROMPTLY RETURN THE ENCLOSED PROXY CARD IN THE POSTAGE-PAID ENVELOPE. IT REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

By order of the board of directors of
Valero GP, LLC,
as general partner of Riverwalk
Logistics, L.P., the general partner of
Valero L.P.

Bradley C. Barron
Secretary

San Antonio, Texas
, 200

KANEB SERVICES LLC

2435 North Central Expressway, Suite 700
Richardson, Texas 75080
(972) 699-4062

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To Be Held on

To the Shareholders of Kaneb Services LLC:

We will hold a special meeting of the shareholders of Kaneb Services LLC ("Kaneb Services") on , , , at a.m., local time, at , for the purpose of considering and voting upon the following matters, as described in the accompanying document:

1. a proposal to approve and adopt the Agreement and Plan of Merger, dated as of October 31, 2004, by and among Valero L.P., Kaneb Services and the other parties thereto, as it may be amended from time to time, under which, among other things, Kaneb Services will merge with a subsidiary of Valero L.P.;

2. a proposal to adjourn the special meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve and adopt the merger agreement described in the immediately above proposal; and

3. any other business as may properly come before the special meeting or any adjournments or postponements thereof.

The board of directors of Kaneb Services has unanimously approved the Kaneb Services merger and the Kaneb Services merger agreement, and has determined that the Kaneb Services merger is in the best interests of Kaneb Services and Kaneb Services' shareholders. Accordingly, the board of directors of Kaneb Services recommends that Kaneb Services' shareholders vote to approve and adopt the Kaneb Services merger agreement.

The proposal to approve and adopt the Kaneb Services merger agreement requires the affirmative vote of the holders of a majority of Kaneb Services' outstanding common shares, including the affirmative vote of holders of at least a majority of the outstanding Kaneb Services common shares (other than those beneficially owned by Valero L.P., Kaneb Services, Kaneb Pipe Line Company LLC or Kaneb Pipe Line Partners, L.P., or their respective affiliates) present in person or by proxy at the Kaneb Services special meeting. Since the approval of the Kaneb Services merger agreement requires the affirmative vote of the holders of a majority of Kaneb Services' outstanding common shares, abstentions and broker non-votes will have the same effect as a vote against this proposal.

The proposal regarding the adjournment of the Kaneb Services special meeting, if necessary, to solicit additional proxies in connection with obtaining approval of the Kaneb Services merger agreement requires the affirmative vote of the holders of a majority of the Kaneb Services common shares present in person or by proxy and entitled to vote.

Holders of record of Kaneb Services common shares at the close of business on will be entitled to notice of and to vote at the special meeting and any adjournments or postponements thereof.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE VOTE IN ONE OF THE FOLLOWING WAYS:

USE THE TOLL-FREE TELEPHONE NUMBER SHOWN ON THE PROXY CARD;

USE THE INTERNET WEBSITE SHOWN ON THE PROXY CARD; OR

MARK, SIGN, DATE AND PROMPTLY RETURN THE ENCLOSED PROXY CARD IN THE POSTAGE-PAID ENVELOPE. IT REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

By order of the board of directors of Kaneb Services LLC

Howard C. Wadsworth
Vice President, Treasurer and Secretary

Richardson, Texas
, 200

KANEB PIPE LINE PARTNERS, L.P.

2435 North Central Expressway, Suite 700
Richardson, Texas 75080
(972) 699-4062

NOTICE OF SPECIAL MEETING OF UNITHOLDERS

To Be Held on

To the Unitholders of Kaneb Pipe Line Partners, L.P.:

We will hold a special meeting of the unitholders of Kaneb Pipe Line Partners, L.P. ("Kaneb Partners") on , , , at a.m., local time, at , for the purpose of considering and voting upon the following matters as described in the accompanying document:

1. to consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of October 31, 2004, by and among Valero L.P., Kaneb Partners and the other parties thereto, as it may be amended from time to time, under which, among other things, Kaneb Partners will merge with a subsidiary of Valero L.P.;

2. a proposal to adjourn the special meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger agreement described in the immediately above proposal; and

3. any other business as may properly come before the special meeting or any adjournments or postponements thereof.

The board of directors of Kaneb Pipe Line Company LLC, Kaneb Partners' general partner, has unanimously approved the Kaneb Partners merger and the Kaneb Partners merger agreement, and has determined that the Kaneb Partners merger is in the best interests of Kaneb Partners and Kaneb Partners' unitholders. Accordingly, the board of directors of Kaneb Partners' general partner recommends that Kaneb Partners' unitholders vote to approve the Kaneb Partners merger agreement.

The proposal to approve the Kaneb Partners merger agreement requires the affirmative vote of the holders of a majority of Kaneb Partners' outstanding units, including the affirmative vote of the holders of at least a majority of Kaneb Partners' outstanding units (other than those beneficially owned by Valero L.P., Kaneb Pipe Line Company LLC, Kaneb Services LLC or any of their respective affiliates) present in person or by proxy at the Kaneb Partners special meeting. Since the approval of the Kaneb Partners merger agreement requires the affirmative vote of the holders of a majority of Kaneb Partners' outstanding units, abstentions and broker non-votes will have the same effect as a vote against this proposal.

In the absence of a quorum at the Kaneb Partners special meeting, the affirmative vote of the general partner or the holders of a majority of Kaneb Partners' units present in person or by proxy at the Kaneb Partners special meeting is required to approve the adjournment of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the Kaneb Partners merger proposal. If a quorum is present at the Kaneb Partners special meeting, the vote of the holders of at least a majority of Kaneb Partners' outstanding units is required to approve the adjournment of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the Kaneb Partners merger proposal.

Holders of record of Kaneb Partners units at the close of business on will be entitled to notice of and to vote at the special meeting and any adjournments or postponements thereof.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE VOTE IN ONE OF THE FOLLOWING WAYS:

USE THE TOLL-FREE TELEPHONE NUMBER SHOWN ON THE PROXY CARD;

USE THE INTERNET WEBSITE SHOWN ON THE PROXY CARD; OR

MARK, SIGN, DATE AND PROMPTLY RETURN THE ENCLOSED PROXY CARD IN THE POSTAGE-PAID ENVELOPE. IT REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

By order of the board of directors of Kaneb Pipe Line Company LLC, as general partner of Kaneb Pipe Line Partners, L.P.

Edward D. Doherty
Chairman of the Board and Chief
Executive Officer

Richardson, Texas
, 200

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QUESTIONS AND ANSWERS
ABOUT VOTING PROCEDURES FOR THE SPECIAL MEETINGS

Q:
Why Am I Receiving These Materials?

A:
Valero L.P., Kaneb Services and Kaneb Partners have agreed to combine their businesses by merging subsidiaries of Valero L.P. with each of Kaneb Services and Kaneb Partners. The mergers cannot be completed without the required approvals of Valero L.P. unitholders, Kaneb Services shareholders and Kaneb Partners unitholders, as described in this document, and the purpose of this document is to provide information to you about the proposed transactions and to solicit your vote in favor of the transaction.

Q:
Why Are There Two Mergers?

A:
Kaneb conducts its business through two separate public entities, Kaneb Services and Kaneb Partners. In addition, Kaneb Services wholly owns Kaneb Pipe Line Company LLC, the general partner of Kaneb Partners, and Kaneb Pipe Line Company LLC owns approximately 18% of the limited partner interest in Kaneb Partners. It is the parties' intention that Valero L.P. will acquire the entire Kaneb business, including both Kaneb Services and Kaneb Partners. Accordingly, the transaction has been structured to accomplish this by providing for a merger of Kaneb Services with a Valero L.P. subsidiary as well as a merger of Kaneb Partners with another Valero L.P. subsidiary, resulting in Kaneb Services and Kaneb Partners becoming indirect wholly owned subsidiaries of Valero L.P. The parties expect that, if the mergers are completed, the Kaneb Partners merger will be completed immediately after the Kaneb Services merger.

Q:
Where and When Are the Special Meetings?

A:
The Valero L.P. special meeting will take place at Valero L.P.'s headquarters at One Valero Way, San Antonio, Texas 78249 on , , , at a.m., local time.

The Kaneb Services special meeting will take place at , on , , , at a.m., local time.

The Kaneb Partners special meeting will take place at , on , , , at a.m., local time.

Q:
What Are Unitholders and Shareholders Being Asked to Vote on at the Special Meetings?

A:
Valero L.P. common and subordinated unitholders will vote on a proposal to approve the issuance of Valero L.P. common units in the Kaneb Partners merger. Kaneb Services shareholders will vote on a proposal to approve and adopt the Kaneb Services merger agreement. Kaneb Partners unitholders will vote on a proposal to approve the Kaneb Partners merger agreement.

Valero L.P. unitholders, Kaneb Services shareholders and Kaneb Partners unitholders will also be asked to vote on proposals to adjourn the special meetings, if necessary, in order to solicit additional proxies, if there are not sufficient votes at the time of the special meetings, for the purpose of approving the transactions described above, and may also be asked to consider other matters as may properly come before the special meetings. At the present time, Valero L.P., Kaneb Services and Kaneb Partners know of no other matters that will be presented for consideration at the special meetings.

Q:
What Vote Is Required to Obtain Unitholder or Shareholder Approval of the Proposals Relating to the Mergers?

A:
For Valero L.P., the affirmative vote of the holders of a majority of the outstanding Valero L.P. common units and a majority of the outstanding Valero L.P. subordinated units, each voting separately as a class, is needed to approve the issuance of Valero L.P. common units in the Kaneb Partners merger. An affiliate of Valero L.P. beneficially owns all of the Valero L.P. subordinated units,

and it is currently expected that all of the Valero L.P. subordinated units will be voted in favor of the approval of the proposals to be presented to Valero L.P. unitholders at the Valero L.P. special meeting.

For Kaneb Services, the affirmative vote of the holders of a majority of Kaneb Services' outstanding common shares, including the affirmative vote of holders of at least a majority of the outstanding Kaneb Services common shares (other than those beneficially owned by Valero L.P., Kaneb Services, Kaneb Pipe Line Company LLC or Kaneb Partners or any of their respective affiliates) present in person or by proxy at the Kaneb Services special meeting, is required to approve and adopt the Kaneb Services merger agreement.

For Kaneb Partners, the affirmative vote of the holders of a majority of Kaneb Partners' outstanding units, including the affirmative vote of the holders of at least a majority of Kaneb Partners' outstanding units (other than those beneficially owned by Valero L.P., Kaneb Services, Kaneb Partners, Kaneb Pipe Line Company LLC or any of their respective affiliates) present in person or by proxy at the Kaneb Partners special meeting, is required to approve the Kaneb Partners merger agreement.

As of the record date of the Valero L.P. special meeting, directors and executive officers of Valero GP, LLC and their affiliates had the right to vote Valero L.P. common units, or approximately [ ]% of the outstanding Valero L.P. common units entitled to vote at the Valero L.P. special meeting. We currently expect that all of the directors and executive officers of Valero GP, LLC will vote their common units in favor of the issuance of common units in the Kaneb Partners merger, although none of them has entered into any agreement obligating them to do so.

As of the record date of the Kaneb Services special meeting, directors and executive officers of Kaneb Services and Kaneb Partners and their affiliates had the right to vote Kaneb Services common shares, or approximately [ ]% of the outstanding Kaneb Services common shares entitled to vote at the Kaneb Services special meeting. Mr. John Barnes, Chairman and Chief Executive Officer of Kaneb Services, and Mr. Edward Doherty, President and Chief Executive Officer of Kaneb Partners' general partner, each entered into a support agreement under which they agreed, among other things, to vote their Kaneb Services common shares in favor of the approval of the Kaneb Services merger agreement. As of the date of these support agreements, October 31, 2004, Mr. Barnes held voting power with respect to 248,368 Kaneb Services common shares, and Mr. Doherty held voting power with respect to 31,990 Kaneb Services common shares. We currently expect that all of the directors and executive officers of Kaneb Services and Kaneb Partners and their affiliates will vote their common shares in favor of approving and adopting the Kaneb Services merger agreement, although, except for Messrs. Barnes and Doherty as noted above, none of them has entered into any agreement obligating them to do so.

As of the record date of the Kaneb Partners special meeting, directors of Kaneb Partners' general partner and executive officers of Kaneb Partners and Kaneb Services and their affiliates had the right to vote Kaneb Partners units, or approximately [ ]% of the outstanding Kaneb Partners units entitled to vote at the Kaneb Partners special meeting. Messrs. Barnes and Doherty each entered into a support agreement under which they agreed, among other things, to vote their Kaneb Partners units in favor of the approval of the Kaneb Partners merger agreement. As of the date of these support agreements, October 31, 2004, Mr. Barnes held voting power with respect to 20,000 Kaneb Partners units, and Mr. Doherty held voting power with respect to 86,700 Kaneb Partners units. We currently expect that all of the directors and executive officers of Kaneb Partners and Kaneb Services and their affiliates will vote their Kaneb Partners units in favor of approving the Kaneb Partners merger agreement, although, except for Messrs. Barnes and Doherty as noted above, none of them has entered into any agreement obligating them to do so.

Q:

What Should I Do Now?

A:

After carefully reading and considering the information contained in this document, please respond by completing, signing and dating your proxy card or voting instructions and returning it in the enclosed, postage-paid envelope, or by submitting your proxy or voting instructions by telephone or Internet as soon as possible so that your shares may be represented at your special meeting. The enclosed proxy card contains instructions for voting by mail, telephone or Internet. Please follow these instructions carefully. The proxies identified on the proxy card will vote your units, common units or common shares, as the case may be, in accordance with your instructions.

Q:

What If I Don't Vote?

A:

If you do not return your proxy or if you abstain, it will have the same effect as a vote against the proposals related to the approval of the mergers and the issuance of the Valero L.P. common units in the Kaneb Partners merger. If you sign and return your proxy card but do not indicate how you want to vote, your proxy will be counted as a vote in favor of our proposals, unless your shares are held in "street name," as described below.

Q:

If My Units or Shares Are Held in "Street Name" by My Broker, Will My Broker Vote My Units or Shares for Me?

A:

If you do not provide voting instructions on how to vote any units, common units or common shares you own that are held of record by a brokerage firm, bank or other nominee (that is, in "street name"), your brokerage firm, bank or nominee will not be able to vote those shares or units for you on the proposals described in this document (referred to as broker non-votes). Broker non-votes will not be counted as units or shares entitled to vote that are present at the special meeting. Broker non-votes will have the same effect as a vote against the proposals related to the mergers and the issuance of the Valero L.P. common units in the Kaneb Partners merger. If your unit/shares are held in "street name," please be sure that you instruct the record holder of your units/shares how you wish them to be voted. Please check the voting form used by your broker to see if it offers you the opportunity to give your voting instructions by telephone or Internet.

Q:

Can I Change My Vote After I Have Delivered My Proxy?

A:

Yes. You can change your vote at any time before your proxy is voted at your special meeting. You can do this in one of three ways. First, you can revoke your proxy. Second, you can submit a new proxy. If you choose either of these two methods and you are a holder of record, you must submit your notice of revocation or your new proxy to the Secretary of Valero L.P., Kaneb Services or Kaneb Partners, as appropriate, before the applicable special meeting. However, if your shares are held in a street name account at a brokerage firm or bank, you should contact your brokerage firm or bank to change your vote. Third, if you are a holder of record, or if your shares are held in street name and you receive a valid proxy from your broker, you can attend your special meeting and vote in person.

Q:

When Do You Expect the Mergers to Be Completed?

A:

We are working to complete the mergers as quickly as practicable. While there can be no assurances as to the timing of the completion of the mergers, we are currently working to complete the mergers during the first quarter of 2005.

Q:

Who Can Help Answer My Questions?

A:

If you have any questions about the mergers or how to submit your proxy, or if you need additional copies of this document or the enclosed proxy cards, or voting instructions, you should contact:

If you are a Valero L.P. unitholder:
Valero L.P.
Attention: Bradley C. Barron, Secretary
One Valero Way
San Antonio, Texas 78249
(210) 345-2000

If you are a Kaneb Services shareholder or a Kaneb Partners unitholder:
Investor Relations
2435 N. Central Expressway, Suite 700
Richardson, Texas 75080
(972) 699-4041

SUMMARY

This brief summary may not contain all of the information that is important to you. To fully understand the mergers, you should carefully read this entire document and the other documents to which this document refers you. See "Where You Can Find More Information" on page 178.

The Mergers (Page 46)

We propose that Valero L.P. acquire the entire Kaneb business represented by Kaneb Services, Kaneb Partners and their subsidiaries. Specifically, we propose that Valero L.P. acquire Kaneb Services through the merger of a subsidiary of Valero L.P. into Kaneb Services, and that immediately thereafter Valero L.P. acquire Kaneb Partners through the merger of a subsidiary of Valero L.P. into Kaneb Partners. As a result of the mergers, Kaneb Services and Kaneb Partners will become indirect wholly owned subsidiaries of Valero L.P. We refer to the merger between Kaneb Services and a subsidiary of Valero L.P. as the Kaneb Services merger, and we refer to the merger between Kaneb Partners and a subsidiary of Valero L.P. as the Kaneb Partners merger. Valero L.P. has entered into separate but interrelated merger agreements with each of Kaneb Services and Kaneb Partners to accomplish these transactions. We have attached the Kaneb Services merger agreement as Appendix A to this document, and the Kaneb Partners merger agreement as Appendix B to this document. We urge you to read the merger agreements, as these are the legal documents that govern the mergers.

What You Will Receive in the Mergers (Page 101 and Page 116)

If you are a Kaneb Services shareholder, upon completion of the Kaneb Services merger, each of your Kaneb Services common shares will be converted into the right to receive $43.31 in cash. You are urged to obtain current trading price quotations for Kaneb Services common shares.

If you are a Kaneb Partners unitholder, upon completion of the Kaneb Partners merger each of your Kaneb Partners units will be converted into the right to receive a number of Valero L.P. common units equal to:

if the average Valero L.P. sales price is equal to or less than $54.39	if the average Valero L.P. sales price is between $54.39 and $60.11	if the average Valero L.P. sales price is equal to or greater than $60.11
1.1307	$61.50 ÷ average Valero L.P. sales price	1.0231

The average Valero L.P. sales price is the average of the average of the daily high and low sale price of a Valero L.P. common unit as reported on the NYSE Composite Transaction Reporting System for the ten consecutive NYSE full trading days ending at the close of trading on the NYSE full trading day immediately prior to the satisfaction or waiver of the conditions to the Kaneb Partners merger. The number of Valero L.P. common units that Kaneb Partners unitholders will receive in the Kaneb Partners merger is sometimes referred to as the exchange ratio. Kaneb Partners unitholders will be paid cash instead of any fractional share of Valero L.P. common units to which they are otherwise entitled.

If the average Valero L.P. sales price were determined as of the date of this document, it would be $57.89, the exchange ratio in the Kaneb Partners merger would be 1.0624, and as a result, upon completion of the Kaneb Partners merger current Kaneb Partners unitholders, in the aggregate, would own approximately 24,681,772 Valero L.P. common units, or approximately 64.7% of the outstanding Valero L.P. common units, and current Valero L.P. unitholders, in the aggregate, would own approximately 35.3% of the outstanding Valero L.P. common units following the Kaneb Partners merger. Under these assumptions, we expect that on completion of the merger the general partnership and limited partnership interest in Valero L.P. held by Valero Energy Corporation and its subsidiaries, which we refer to as Valero Energy, will equate to an approximate 23% interest in Valero L.P. As of September 30, 2004, prior to the completion of the mergers, the aggregate general partnership and limited partnership interest in Valero L.P. held by Valero Energy and its subsidiaries was approximately

45.6%. Because the trading price of Valero L.P. common units will likely fluctuate between the date of this document and the closing date of the Kaneb Partners merger, these percentages are indicated as an example only and may change. You are urged to obtain current quotations for Valero L.P. common units and Kaneb Partners units.

Valero L.P.'s partnership agreement caps the incentive distribution rights payable to Valero L.P.'s general partner at 23% of cash distributions in excess of $0.66, the highest incentive distribution threshold. By contrast, Kaneb Partners' partnership agreement contains an approximate 29% cap above $0.70 per unit. Because Valero L.P.'s partnership agreement will govern the combined partnership, Kaneb Partners' unitholders will benefit from the lower cap as holders of Valero L.P. common units following the merger. For a description of Valero L.P.'s distribution policy, please read "Comparison of the Rights of Valero L.P. and Kaneb Partners Unitholders Incentive Distribution Rights."

Comparative Per Unit Market Price Information

On October 29, 2004, the last trading day before we announced the mergers, the closing price for Valero L.P. common units on the NYSE was $56.20 and for Kaneb Partners units was $50.76. On , Valero L.P. common units closed at $ per unit, and Kaneb Partners units closed at $ per unit.

The market value of the Valero L.P. common units that will be issued in exchange for Kaneb Partners units upon the completion of the Kaneb Partners merger will not be known at the time Kaneb Partners unitholders vote on the approval of the Kaneb Partners merger agreement. The market prices of Valero L.P. common units and Kaneb Partners units will likely fluctuate prior to the mergers, and the exchange ratio to Kaneb Partners unitholders will be related to the average sales price of Valero L.P. common units measured during a ten consecutive full trading-day measurement period ending two days prior to closing of the mergers. You should obtain current trading price quotations for Valero L.P. common units and Kaneb Partners units. In addition, set forth below is a table showing the implied value of the Kaneb Partners merger consideration to Kaneb Partners unitholders based on a range of hypothetical average sales prices of Valero L.P. common units as measured in the ten consecutive full trading-day measurement period contemplated by the Kaneb Partners merger agreement. This table is for illustrative purposes only, and the actual prices at which Valero L.P. common units may trade between the date hereof and the closing of the Kaneb Partners merger may be above or below the range set forth below.

Valero L.P. common unit hypothetical mean average sales price	Exchange ratio	Implied value of one Kaneb Partners unit
$50.00	1.1307	$56.54
$53.00	1.1307	$59.93
$54.39	1.1307	$61.50
$58.00	1.0603	$61.50
$60.11	1.0231	$61.50
$62.00	1.0231	$63.43
$65.00	1.0231	$66.50

Opinions of Financial Advisors (Pages 54 to 76)

Valero L.P.'s Financial Advisor

In connection with the mergers, Credit Suisse First Boston LLC delivered a written opinion to the board of directors of Valero GP, LLC, in its capacity as general partner of the general partner of

Valero L.P., as to the fairness, from a financial point of view, to Valero L.P. of the aggregate consideration to be paid by Valero L.P. in the Kaneb Services merger and the Kaneb Partners merger. The full text of Credit Suisse First Boston's written opinion, dated October 31, 2004, is attached to this document as Appendix C. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. Credit Suisse First Boston's opinion was provided to the board of directors of Valero GP, LLC in connection with its evaluation, on behalf of Valero L.P., of the aggregate consideration payable by Valero L.P. in the mergers, does not address any other aspect of the proposed mergers and does not constitute a recommendation to any unitholder or shareholder as to how such unitholder or shareholder should vote or act with respect to any matters relating to the mergers.

Kaneb Services' Financial Advisor

Among other factors considered in deciding to recommend to the full board of directors of Kaneb Services the Kaneb Services merger agreement and the Kaneb Services merger, the special committee of the board of directors of Kaneb Services received a written opinion from the special committee's financial advisor, Raymond James & Associates, Inc., that, as of the date of the opinion, the consideration to be received by Kaneb Services shareholders in the Kaneb Services merger is fair to the Kaneb Services shareholders, from a financial point of view. We have attached the full text of Raymond James' written opinion as Appendix D to this document. You should read this opinion completely to understand the assumptions made, matters considered and limitations on the review undertaken by Raymond James in providing its opinion. The opinion of Raymond James is addressed to the special committee of the board of directors of Kaneb Services and does not constitute a recommendation to any shareholders or unitholders as to any matters relating to the mergers.

Kaneb Partners' Financial Advisor

Among other factors considered in deciding to recommend to the full board of directors of Kaneb Partners' general partner the Kaneb Partners merger agreement and the Kaneb Partners merger, the special committee of the board of directors of Kaneb Partners' general partner received a written opinion addressed to the board of directors of Kaneb Partners' general partner from the special committee's financial advisor, Houlihan Lokey Howard & Zukin Financial Advisors, Inc., that, as of the date of the opinion, the exchange ratio in the Kaneb Partners merger is fair to the Kaneb Partners unitholders (excluding Kaneb Partners' general partner or any of its affiliates or associates, and excluding any director or member of management of Kaneb Services, Kaneb Partners' general partner and their respective affiliates) from a financial point of view. We have attached the full text of Houlihan Lokey's written opinion as Appendix E to this document. You should read this opinion completely to understand the assumptions made, matters considered and limitations on the review undertaken by Houlihan Lokey in providing its opinion. The opinion of Houlihan Lokey is addressed to the board of directors of Kaneb Partners' general partner and does not constitute a recommendation to any unitholders or shareholders as to any matters relating to the mergers.

Distribution Policy

Pending completion of the merger, the parties are permitted by the merger agreements to continue paying regular quarterly distributions on units or common shares at current rates, consistent with their usual practice and timing.

If you are a Kaneb Partners unitholder, you will receive one quarterly distribution with respect to the calendar quarter that the Kaneb Partners merger is completed. Valero L.P. and Kaneb Partners have agreed to coordinate the declaration and payment of quarterly distributions in respect of the Valero L.P. common units and the Kaneb Partners units and the record dates and payment dates relating to the units, so that every Kaneb Partners unitholder will receive their quarterly distribution, but will not receive more than one quarterly distribution, for any single calendar quarter with respect to their Kaneb Partners units or any Valero L.P. common units that a Kaneb Partners' unitholder receives in connection with the Kaneb Partners merger.

Since Kaneb Services funds its distributions with cash from distributions that it receives from Kaneb Partners, Kaneb Services only pays cash distributions concurrently with cash distributions that it receives from Kaneb Partners. If the Kaneb Services merger is completed during any calendar quarter on a date after the record date of a declared Kaneb Services cash distribution, if you are a Kaneb Services shareholder, you will receive that cash distribution in addition to the $43.31 per Kaneb Services common share consideration payable in the Kaneb Services merger as described above under " What You Will Receive in the Mergers." If the Kaneb Services merger is completed during any calendar quarter on a date before the record date of a declared Kaneb Services cash distribution, you will not receive any cash distributions with respect to that quarter. There will be no Kaneb Services cash distributions other than the regular quarterly cash distributions that are made concurrently with the regular quarterly Kaneb Partners cash distributions.

Once the Kaneb Partners merger is completed, Kaneb Partners unitholders will become Valero L.P. common unitholders and, when distributions are approved and declared by Valero L.P.'s general partner, they will receive distributions on their Valero L.P. common units in accordance with Valero L.P.'s partnership agreement. It is the intent of Valero L.P. to increase its quarterly distribution from the current $0.80 per unit to $0.855 per Valero L.P. common unit following the closing of the Kaneb Partners merger. Any distribution on Valero L.P. common units will be subject to applicable law and the provisions of Valero L.P.'s partnership agreement, as well as approval by Valero GP, LLC's board of directors. See "Risk Factors" for a further discussion of factors that may affect Valero L.P.'s ability to make or increase distributions to unitholders.

Reasons for the Mergers (Pages 50 to 54)

The board of directors of Valero GP, LLC, the general partner of Valero L.P.'s general partner, the board of directors and the special committee of the board of directors of Kaneb Services and the board of directors and the special committee of the board of directors of Kaneb Partners' general partner each considered a number of factors in connection with their decisions to approve the merger agreements and recommend unitholder or shareholder approval. See "The Mergers Recommendation of Valero L.P.'s General Partner; Valero L.P.'s Reasons for the Mergers"; "The Mergers Recommendation of the Kaneb Services Board of Directors; Kaneb Services' Reasons for the Merger"; and "The Mergers Recommendation of Kaneb Partners' General Partner; Kaneb Partners' Reasons for the Merger."

Recommendations to Unitholders/Shareholders (Pages 50 to 54)

Valero L.P. unitholders

The board of directors of Valero GP, LLC, the general partner of Valero L.P.'s general partner, has unanimously approved the Kaneb Services merger agreement and the Kaneb Partners merger agreement and approved the issuance of Valero L.P. common units in the Kaneb Partners merger, and has determined that these transactions are in the best interests of Valero L.P. and Valero L.P.'s unitholders. Accordingly, the board of directors of Valero GP, LLC recommends that Valero L.P. common unitholders vote "FOR" the approval of the issuance of Valero L.P. common units in the Kaneb Partners merger.

Kaneb Services shareholders

The board of directors of Kaneb Services has unanimously approved the Kaneb Services merger and the Kaneb Services merger agreement, and has determined that the Kaneb Services merger is in the best interests of Kaneb Services and Kaneb Services shareholders. Accordingly, the board of directors of Kaneb Services recommends that Kaneb Services' common shareholders vote "FOR" the approval and adoption of the Kaneb Services merger agreement.

Kaneb Partners unitholders

The board of directors of Kaneb Partners' general partner has unanimously approved the Kaneb Partners merger and the Kaneb Partners merger agreement, and has determined that the Kaneb Partners merger is in the best interests of Kaneb Partners and Kaneb Partners' unitholders. Accordingly, the board of directors of Kaneb Partners' general partner recommends that Kaneb Partners' unitholders vote "FOR" the approval of the Kaneb Partners merger agreement.

Kaneb Directors and Officers Have Interests in the Mergers that Are Different than Yours (Page 96)

In considering the recommendations of the board of directors of Kaneb Services and the Kaneb Partners' general partner, you should be aware that some executive officers and members of the boards of directors of Kaneb Services and Kaneb Partners' general partner have interests in the mergers that are different or in addition to the interests of the Kaneb Services shareholders or the Kaneb Partners unitholders generally. The boards of directors of Kaneb Services and Kaneb Partners' general partner and each of their respective special committees were aware of these interests and considered them, among other matters, in approving the merger agreements and the transactions contemplated thereby. These different or additional interests relate to:

- change of control and incentive plan severance payments;
- the treatment of outstanding Kaneb Services stock options and Kaneb Services restricted common share awards;
- the treatment of Kaneb Services deferred stock units issued under deferred compensation plans and agreements; and
- the indemnification and provision of liability insurance for Kaneb Services and Kaneb Partners' general partner's directors and executive officers.

Material U.S. Federal Income Tax Considerations (Page 76)

The tax consequences of the mergers are very complicated, and the particular tax consequences of the mergers to you will depend on your own situation. The tax discussions in this document focus on the U.S. federal income tax consequences generally applicable to individuals who are residents or citizens of the United States that hold their common units or common shares as capital assets, and these discussions have only limited application to other taxpayers or persons who are subject to special tax treatment. We urge you to consult your tax advisor for a full understanding of the federal, state, local and foreign tax consequences of the mergers to you. For a more detailed discussion of the material U.S. federal income tax consequences of the mergers, please read "The Mergers Material U.S. Federal Income Tax Considerations" beginning on page 76 of this document.

For U.S. federal income tax purposes with respect to Kaneb Services shareholders, Valero L.P. and Kaneb Services will report the Kaneb Services merger as a sale of common shares by Kaneb Services shareholders to Valero L.P. in exchange for the Kaneb Services merger consideration. Consistent with this method of reporting, a Kaneb Services shareholder will recognize gain or loss in the Kaneb Services merger equal to the difference between the amount realized and the shareholder's adjusted tax basis in his common shares exchanged in the Kaneb Services merger. A Kaneb Services shareholder's amount realized will equal the sum of the Kaneb Services merger consideration received by the shareholder plus the shareholder's share of Kaneb Services' nonrecourse liabilities.

Except with respect to the payment of cash instead of issuing fractional Valero L.P. common units and as described below with respect to the recalculation of each Valero L.P. unitholder's and Kaneb Partners unitholder's share of nonrecourse liabilities, no gain or loss will be recognized for U.S. federal income tax purposes by the Kaneb Partners unitholders or the Valero L.P. unitholders as a result of the Kaneb Partners merger.

Each Valero L.P. unitholder and Kaneb Partners unitholder will be deemed to have received a cash distribution equal to the excess, if any, of the unitholder's share of the nonrecourse liabilities immediately before the effective time of the Kaneb Partners merger and the unitholder's share of the nonrecourse liabilities immediately following the effective time of the Kaneb Partners merger. If the amount of cash deemed distributed to a Valero L.P. unitholder or former Kaneb Partners unitholder exceeds a unitholder's basis in his Valero L.P. common units, a unitholder will recognize gain in an amount equal to that excess. The application of the rules governing the allocation of nonrecourse liabilities in the context of the Kaneb Partners merger is complex and subject to uncertainty. Valero L.P. and Kaneb Partners do not anticipate that there will be a material decrease in the amount of nonrecourse liabilities allocable to a Kaneb Partners unitholder or a Valero L.P. unitholder as a result of the Kaneb Partners merger.

Accounting Treatment

Valero L.P. will account for the mergers using the purchase method of accounting. Under that method of accounting, the aggregate consideration that Valero L.P. pays for Kaneb Services and Kaneb Partners will be allocated to their assets and liabilities based on their fair values, with any excess being treated as goodwill. Valero L.P. currently expects to record approximately $1 billion of goodwill upon completion of the mergers, but that estimate is subject to change pending the completion of an independent appraisal.

Dissenters' Rights of Appraisal (Page 175)

Valero L.P. Unitholders and Kaneb Partners Unitholders

Under Delaware law and the Valero L.P. and Kaneb Partners partnership agreements, Valero L.P. unitholders and Kaneb Partners unitholders do not have the right to dissent from the mergers and obtain appraisal rights.

Kaneb Services Shareholders

The Kaneb Services' limited liability company agreement provides that shareholders will have appraisal rights in the same manner and to the same extent that appraisal rights would be available to a stockholder of a Delaware corporation under the Delaware General Corporation Law. Under the Delaware General Corporation Law, any stockholder who does not wish to accept the merger consideration has the right to dissent from the merger and to seek an appraisal of, and to be paid the fair value (exclusive of any element of value arising from the accomplishment or expectation of the merger) for his or her shares of common stock, so long as the stockholder complies with the provisions of Section 262 of the Delaware General Corporation Law. Any Kaneb Services shareholder that does not wish to accept the merger consideration can exercise the shareholders' rights of appraisal by complying with the provisions of Section 262 of the Delaware General Corporation Law. The amount as determined by the Delaware court may be higher or lower than the value of the cash offered by Valero L.P. in the Kaneb Services merger.

The Companies

Valero L.P.
One Valero Way
San Antonio, Texas 78249
(210) 345-2000

Valero L.P., through its subsidiaries, owns and operates crude oil and refined products pipeline, terminalling and storage facilities throughout the United States. Valero L.P. has no employees. Valero

GP, LLC, the general partner of Valero L.P.'s general partner, is responsible for the management of Valero L.P. As of November 22, 2004, Valero GP, LLC employed approximately 299 individuals who perform services for Valero L.P. Headquartered in San Antonio, Texas, Valero L.P. had over $850 million of assets at September 30, 2004, and over $165 million of revenues in the first three quarters of 2004.

For additional information about Valero L.P. and its business, see "Where You Can Find More Information" on page 178.

Kaneb Services LLC
2435 North Central Expressway, Suite 700
Richardson, Texas 75080
(972) 699-4062

Kaneb Services manages and operates a refined petroleum products and anhydrous ammonia pipeline business and a petroleum products and specialty liquids terminal storage business through one of its subsidiaries' general partner interest in Kaneb Partners, which in turn owns those systems and facilities through its subsidiaries. Kaneb Services' wholly owned subsidiary, Kaneb Pipe Line Company LLC, owns the general partner interest and 5.1 million limited partner units of Kaneb Partners. Kaneb Services also provides product marketing services through some of its subsidiaries. As of October 31, 2004, Kaneb Services and its affiliates employed approximately 1,136 persons, 1,117 of which are also included in the Kaneb Partners' total number of employees, below. Headquartered in Richardson, Texas, Kaneb Services, including the operations of Kaneb Partners, had over $1.3 billion in assets as of September 30, 2004 and approximately $760 million of revenues during the first three quarters of 2004.

For additional information about Kaneb Services and its business, see "Where You Can Find More Information" on page 178.

Kaneb Pipe Line Partners, L.P.
2435 North Central Expressway, Suite 700
Richardson, Texas 75080
(972) 699-4062

Kaneb Partners is engaged in the refined petroleum products and anhydrous ammonia pipeline business and the terminalling of petroleum products and specialty liquids. Kaneb Partners was formed in September 1989 to acquire, own and operate the pipeline system and operations that had been previously conducted by Kaneb Pipe Line Company LLC, the current general partner of Kaneb Partners. The general partner of Kaneb Partners owns a 1% interest as general partner of Kaneb Partners and a 1% interest as general partner of Kaneb Pipe Line Operating Partnership, L.P. Kaneb Partners' pipeline operations are conducted through Kaneb Pipe Line Operating Partnership, L.P., of which Kaneb Partners is the sole limited partner and Kaneb Partners' general partner is the sole general partner. The terminalling business of Kaneb Partners is conducted through Support Terminals Operating Partnership, L.P. and its affiliated partnerships and corporate entities. Kaneb Partners has no employees. The business of Kaneb Partners is conducted by Kaneb Partners' general partner and its affiliate, Kaneb LLC, which employs all persons necessary for the operation of the Kaneb Partners' business. As of October 31, 2004, approximately 1,117 individuals were employed by Kaneb Partners' general partner and its affiliate to provide services to Kaneb Partners. Headquartered in Richardson, Texas, Kaneb Partners had over $1.3 billion in assets as of September 30, 2004 and approximately $468 million of revenues in the first three quarters of 2004.

For additional information about Kaneb Partners and its business, see "Where You Can Find More Information" on page 178.

Conditions to Completion of the Mergers (Page 110 and Page 127)

Each of Valero L.P.'s and Kaneb Services' obligations to complete the Kaneb Services merger depend upon the satisfaction or, where legally permissible, waiver of a number of mutual conditions, including:

- the approval of the Kaneb Services merger agreement by Kaneb Services shareholders,
- the approval of the issuance of Valero L.P. common units in the Kaneb Partners merger by Valero L.P. unitholders,
- the absence of any law, order or injunction making the Kaneb Services merger or the Kaneb Partners merger illegal or otherwise prohibiting the consummation of either merger,
- the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, which we refer to as the HSR Act, without the imposition of any condition or requirement that would be expected to have a material adverse effect on either party and its affiliates taken as a whole prior to the Kaneb Services merger or on the combined company after the completion of the Kaneb Services merger, and
- the receipt of required regulatory approvals.

Also, Valero L.P.'s and Kaneb Services' obligations to complete the Kaneb Services merger are separately subject to the satisfaction or, where legally permissible, waiver of several additional conditions, including, in general, the material accuracy of the other party's representations and warranties and the material performance of the other party's material covenants. Additionally, Valero L.P.'s obligations to complete the Kaneb Services merger are subject to the receipt by Valero L.P. of legal opinions regarding the U.S. federal income tax consequences of the Kaneb Services merger and the Kaneb Partners merger, and that the Kaneb Partners merger will be capable of being completed immediately following the completion of the Kaneb Services merger.

Each of Valero L.P.'s and Kaneb Partners' obligations to complete the Kaneb Partners merger depend upon the satisfaction or, where legally permissible, waiver of a number of mutual conditions, including:

- the approval of the Kaneb Partners merger agreement by Kaneb Partners unitholders,
- the approval of the issuance of Valero L.P. common units in the Kaneb Partners merger by Valero L.P. unitholders,
- the absence of any law, order or injunction making the merger illegal or otherwise prohibiting the consummation of the merger,
- the expiration or termination of the applicable waiting period under the HSR Act without the imposition of any condition that would be expected to have a material adverse effect on either party and its affiliates taken as a whole prior to the Kaneb Partners merger or on the combined company after the completion of the Kaneb Partners merger,
- the receipt of required regulatory approvals, and
- the completion of the Kaneb Services merger.

Also, Valero L.P.'s and Kaneb Partners' obligations to complete the Kaneb Partners merger are separately subject to the satisfaction or, where legally permissible, waiver of several additional conditions, including, in general, the material accuracy of the other party's representations and warranties and the material performance of the other party's material covenants, in Valero L.P.'s case, its receipt of legal opinions regarding the U.S. federal income tax consequences of the Kaneb Partners merger and the Kaneb Services merger, and in Kaneb Partners' case, its receipt of legal opinions regarding the U.S. federal income tax consequences of the Kaneb Partners merger and Valero L.P.'s reaffirmation in this document of its intent to increase its quarterly distribution from the current $0.80 per unit to $0.855 per Valero L.P. common unit following the closing of the Kaneb Partners merger.

Where the law permits, a party to each of the merger agreements could elect to waive a condition to its obligation to complete the relevant merger although that condition has not been satisfied. We cannot be certain when the conditions to the mergers will be satisfied or waived or that the mergers will be completed on the contemplated schedule.

Termination of the Merger Agreements; Termination Fees (Page 111 and Page 128)

Valero L.P. and Kaneb Services can jointly agree at any time to terminate the Kaneb Services merger agreement without completing the Kaneb Services merger, even if Valero L.P. unitholders and Kaneb Services shareholders have approved the Kaneb Services merger agreement, so long as the board of directors of Kaneb Services and the board of directors of the general partner of Valero L.P.'s general partner approve the termination.

In addition, each of Valero L.P. and Kaneb Services, without the consent of the other, can terminate the Kaneb Services merger agreement in a number of situations, such as:

- following the final denial of a required regulatory approval,
- upon the failure to obtain requisite unitholder and shareholder approvals, or
- upon the other company's material breach of a representation, warranty or covenant.

Either of Valero L.P. or Kaneb Services may terminate the Kaneb Services merger agreement if the Kaneb Services merger has not been completed by August 31, 2005, unless the primary reason the Kaneb Services merger has not been completed by that date is a breach of the Kaneb Services merger agreement by the party seeking to terminate the Kaneb Services merger agreement.

Valero L.P. and Kaneb Partners can jointly agree at any time to terminate the Kaneb Partners merger agreement without completing the Kaneb Partners merger, even if Kaneb Partners and Valero L.P. unitholders have approved the Kaneb Partners merger agreement, so long as the boards of directors of the general partner of Valero L.P.'s general partner and Kaneb Partners' general partner approve the termination. In addition, each of Valero L.P. and Kaneb Partners, without the consent of the other, can terminate the Kaneb Partners merger agreement in substantially the same situations as those described for the Kaneb Services merger agreement above.

Also, under the limited circumstances specified in the relevant merger agreement the Kaneb Services board of directors and Kaneb Partners' general partner may change their recommendations to their shareholders and unitholders, respectively, regarding approval of the merger agreements and terminate the relevant merger agreement, in order to enter into another transaction arising out of an unsolicited acquisition proposal that meets several requirements listed in the relevant merger agreement for being deemed a superior offer to the Kaneb Services merger or the Kaneb Partners merger. Kaneb Services' and Kaneb Partners' right to change their recommendations and terminate the relevant merger agreement in this manner is conditioned upon, among other things, Kaneb Services and Kaneb Partners complying with the "no solicitation" provisions of the relevant merger agreement and paying a termination fee as described below and Valero L.P. being given an opportunity to respond to the alternative offer.

Both the Kaneb Services merger agreement and the Kaneb Partners merger agreement provide that in several circumstances a party may be required to pay a termination fee to the other party to its merger agreement. These circumstances are described more fully beginning on pages 113 and 130 of this document.

The termination fee payable by Valero L.P. in certain of these circumstances under the Kaneb Services merger agreement and the Kaneb Partners merger agreement is $25 million, except that the maximum aggregate termination fee payable by Valero L.P. under both agreements cannot exceed

$25 million. The termination fee payable by Kaneb Services in certain of these circumstances under the Kaneb Services merger agreement is $15 million and the termination fee payable by Kaneb Partners in certain of these circumstances under the Kaneb Partners merger agreement is $25 million, except that the maximum aggregate termination fee payable by both Kaneb Services and Kaneb Partners under both agreements cannot exceed $25 million. These termination fees may have the effect of discouraging other companies from seeking to acquire or merge with any of Valero L.P., Kaneb Services or Kaneb Partners.

Regulatory Approvals (Page 76)

Under the federal antitrust laws, we cannot complete the mergers until we furnish specified materials and information to the Antitrust Division of the U.S. Department of Justice and the U.S. Federal Trade Commission and satisfy waiting period requirements under the HSR Act. We may also be required to obtain regulatory approvals from, or make filings with, various state and foreign authorities in connection with the mergers. We expect that we will be able to obtain all required regulatory approvals, but we cannot assure you when or if these regulatory approvals will be obtained or what, if any, conditions the regulatory authorities will place on the granting of these approvals.

Special Meetings; Record Dates (Pages 35 to 44)

Valero L.P. Unitholders

You can vote at the Valero L.P. special meeting if you owned Valero L.P. common units at the close of business on . On that date, there were Valero L.P. common units outstanding and entitled to vote. An affiliate of Valero L.P. beneficially owns all of the Valero L.P. subordinated units, and it is currently expected that all of the Valero L.P. subordinated units will be voted in favor of the approval of the proposals to be presented to Valero L.P. unitholders at the Valero L.P. special meeting. You can cast one vote for each Valero L.P. common unit that you owned on that date.

Kaneb Services Shareholders

You can vote at the Kaneb Services special meeting if you owned Kaneb Services common shares at the close of business on . On that date, there were Kaneb Services common shares outstanding and entitled to vote, and of these shares were beneficially owned by Valero L.P., Kaneb Services, Kaneb Partners, Kaneb Partners' general partner or their respective affiliates. You can cast one vote for each Kaneb Services common share that you owned on that date.

Kaneb Partners Unitholders

You can vote at the Kaneb Partners special meeting if you owned Kaneb Partners units at the close of business on . On that date, there were Kaneb Partners units outstanding and entitled to vote, and of these units were beneficially owned by Valero L.P., Kaneb Services, Kaneb Partners, Kaneb Partners' general partner or their respective affiliates. You can cast one vote for each Kaneb Partners unit that you owned on that date.

Comparison of the Rights of Valero L.P. and Kaneb Partners Unitholders (Pages 133 to 164)

Kaneb Partners unitholders will own Valero L.P. common units following the completion of the Kaneb Partners merger, and their rights associated with these common units will be governed by, in addition to Delaware law, Valero L.P.'s partnership agreement, which differs in a number of respects from Kaneb Partners' partnership agreement. For information regarding the rights of Valero L.P. unitholders as compared to those of Kaneb Partners unitholders, see "Comparison of the Rights of Valero L.P. and Kaneb Partners Unitholders."

Regardless of when the mergers occur, Valero L.P., Kaneb Services and Kaneb Partners expect to furnish their shareholders or unitholders with tax information for the year 2004 by March 15, 2005. That information will be included in a Schedule K-1 that sets forth the investor's allocable share of the entity's items of income, gain, loss, deduction and credit.

SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA

The following selected unaudited pro forma condensed combined financial data has been derived from and should be read together with the unaudited pro forma condensed combined financial statements and related notes on page 166 through page 174. This information reflects the combined effect of both the Kaneb Services merger and the Kaneb Partners merger described herein and is based on the historical consolidated balance sheets and related historical consolidated statements of income of Valero L.P., Kaneb Services and Kaneb Partners, giving effect to the mergers using the purchase method of accounting for business combinations. This information is for illustrative purposes only and should be read in conjunction with the full financial statements of Valero L.P., Kaneb Services and Kaneb Partners for each respective period which are included in their SEC filings incorporated herein by reference. See "Where You Can Find More Information."

The entities may have performed differently had they always been combined. You should not rely on the selected unaudited pro forma condensed combined financial data as being indicative of the historical results that would have been achieved had the entities always been combined or the future results that Valero L.P. will experience after the mergers. None of the amounts reflect any effects of anticipated cost savings or other financial benefits expected to result from the mergers.

	Unaudited Pro Forma Condensed Combined Financial Data	
	Year Ended December 31, 2003	Nine Months Ended September 30, 2004
	(in thousands, except per unit amounts)	
Statement of Income Data:		
Revenues	$ 1,042,935	$ 921,306
Operating income	187,402	158,669
Income from continuing operations	116,612	92,317
Income from continuing operations per unit applicable to limited partners	2.33	1.74
Cash distributions per limited partner unit	2.95	2.40

	September 30, 2004
	(in thousands)
Balance Sheet Data:	
Property and equipment, net	$ 2,474,494
Total assets	3,742,273
Long-term debt, less current portion	1,632,882
Total equity	1,896,283

SELECTED HISTORICAL FINANCIAL DATA

How We Prepared the Financial Data

The following tables set forth selected historical financial information for Valero L.P., Kaneb Services and Kaneb Partners for the periods and at the dates indicated. The selected historical financial information has been derived from the audited and unaudited financial statements of each entity for the periods indicated. The selected historical financial information for each of the three years in the period ended December 31, 2003 is derived from and should be read in conjunction with the audited financial statements and accompanying notes for such periods incorporated by reference into this document. The selected historical financial information for the nine-month periods ended September 30, 2003 and 2004 is derived from and should be read in conjunction with the unaudited financial statements and accompanying notes for such periods that are also incorporated by reference into this document.

Valero L.P.

The following table contains selected financial data derived from the audited and unaudited financial statements of Valero L.P. and its predecessor (as defined below).

Prior to July 1, 2000, Valero L.P.'s pipeline, terminalling and storage assets were owned and operated by Ultramar Diamond Shamrock Corporation (UDS, now part of Valero Energy). These assets and their related operations are referred to herein as the Ultramar Diamond Shamrock Logistics Business and that business is referred to as the "Predecessor" in the following table. The selected financial data for the year ended December 31, 1999 and for the six months ended June 30, 2000 reflect the operations of the Ultramar Diamond Shamrock Logistics Business as if it had existed as a single separate entity of UDS.

Effective July 1, 2000, UDS transferred the Ultramar Diamond Shamrock Logistics Business to Shamrock Logistics Operations, L.P. (Shamrock Logistics Operations), a wholly owned subsidiary of Shamrock Logistics, L.P. (Shamrock Logistics). Shamrock Logistics was wholly owned by UDS. Shamrock Logistics, which later became Valero L.P., is referred to as the "Successor" in the following table. The transfer of the Ultramar Diamond Shamrock Logistics Business to Shamrock Logistics Operations represented a reorganization of entities under common control and was recorded at historical cost. On April 16, 2001, Shamrock Logistics completed its initial public offering of common units, which represented 26.4% of its outstanding partnership interests.

Effective December 31, 2001, UDS merged with and into Valero Energy. That acquisition included the acquisition of UDS' majority ownership interest in Shamrock Logistics. The consolidated balance sheet of Shamrock Logistics as of December 31, 2001 was not adjusted to fair value due to the significant level of public ownership interest in Shamrock Logistics. Effective January 1, 2002, Shamrock Logistics became Valero L.P. The selected financial data for the six months ended December 31, 2000 and for the years ended December 31, 2001, 2002 and 2003 represent the consolidated operations of Valero L.P.

SELECTED HISTORICAL FINANCIAL DATA Continued

Valero L.P. Continued

The amounts in the tables below are in thousands, except per unit data.

	Predecessor		Successor					
				Years Ended December 31,			Nine Months Ended September 30,	
	Year Ended December 31, 1999	Six Months Ended June 30, 2000	Six Months Ended December 31, 2000	2001	2002	2003 (5)	2003	2004
							(unaudited)	
Statement of Income Data:								
Revenues (1)	$ 109,773	$ 44,503	$ 47,550	$ 98,827	$ 118,458	$ 181,450	$ 131,053	$ 166,106
Operating income	66,222	17,665	23,484	46,505	57,230	83,037	59,823	73,591
Income from continuing operations (2)	42,798	49,970	20,687	45,873	55,143	69,593	50,194	59,063
Basic and diluted income from continuing operations per unit applicable to limited partners (3)				1.82	2.72	3.02	2.23	2.37
Cash distributions per unit applicable to limited partners				1.70	2.75	2.95	2.20	2.40

	Predecessor	Successor					
		December 31,				September 30,	
	December 31, 1999	2000	2001 (4)	2002	2003 (5)	2003	2004
						(unaudited)	
Balance Sheet Data:							
Property and equipment, net	$ 284,954	$ 280,017	$ 349,012	$ 349,276	$ 765,002	$ 757,151	$ 793,393
Total assets	308,214	329,484	387,070	415,508	827,557	818,774	858,878
Long-term debt, including debt due to parent (less current portion)	10,462	117,752	25,660	108,911	353,257	357,646	395,114
Partners' equity/net parent investment (4)	254,807	204,838	342,166	293,895	438,163	437,168	438,903

See the footnote references beginning on page 19.

SELECTED HISTORICAL FINANCIAL DATA Continued

Kaneb Services

Kaneb Services owns (indirectly through its wholly-owned subsidiary, Kaneb Pipe Line Company LLC), among other assets, a 1% general partner interest in Kaneb Partners, an approximate 1% general partner interest in the operating partnership, Kaneb Pipe Line Operating Partnership, L.P., and 5.1 million limited partner units representing an 18% limited partner interest in Kaneb Partners. For financial statement purposes, Kaneb Services consolidates the financial statements of Kaneb Partners; therefore, the financial data of Kaneb Services reflected below include amounts related to Kaneb Partners. The 81% public unitholders' limited partner interest in Kaneb Partners is reflected as interest of outside non-controlling partners. The amounts in the tables below are in thousands, except per unit data.

	Years Ended December 31,					Nine Months Ended September 30,	
	1999	**2000**	**2001**	**2002 (6)**	**2003**	**2003**	**2004**
						(unaudited)	
Statement of Income Data:							
Revenues	$ 370,326	$ 537,418	$ 535,338	$ 669,828	$ 865,791	$ 651,715	$ 759,623
Operating income	64,911	61,174	79,791	106,359	128,504	98,680	104,376
Interest of outside non-controlling partners in Kaneb Partners income	(33,479)	(32,693)	(45,951)	(52,639)	(61,908)	(49,151)	(49,109)
Income from continuing operations	44,257	12,643	28,323	47,228	33,396	28,222	20,201
Basic income from continuing operations per share	4.22	1.19	2.57	4.13	2.89	2.45	1.72
Diluted income from continuing operations per share	4.06	1.15	2.46	4.02	2.84	2.41	1.70
Cash distributions per share			0.725	1.65	1.825	1.35	1.465

	December 31,					September 30,	
	1999	**2000**	**2001**	**2002 (6)**	**2003**	**2003**	**2004**
						(unaudited)	
Balance Sheet Data:							
Property and equipment, net	$ 316,956	$ 321,448	$ 481,396	$ 1,092,276	$ 1,113,020	$ 1,106,618	$ 1,135,685
Total assets	427,608	429,852	571,767	1,244,101	1,291,567	1,283,456	1,350,287
Long-term debt, less current portion	167,028	184,052	277,302	718,162	636,308	599,490	685,775
Interest of outside non-controlling partners in Kaneb Partners	124,820	119,981	168,219	316,631	407,635	410,040	397,305
Shareholders' equity	86,833	71,369	33,932	63,654	77,721	77,057	80,960

See the footnote reference on page 20.

SELECTED HISTORICAL FINANCIAL DATA Continued

Kaneb Partners

In August 1989, Kaneb Pipe Line Company LLC formed Kaneb Partners to own and operate its refined petroleum products pipeline business. The amounts presented below exclude amounts related to Kaneb Services. The amounts in the tables below are in thousands, except per unit data.

	Years Ended December 31,					Nine Months Ended September 30,	
	1999	2000	2001	2002 (6)	2003	2003	2004
						(unaudited)	
Statement of Income Data:							
Revenues	$ 158,028	$ 156,232	$ 207,796	$ 386,630	$ 570,414	$ 428,109	$ 468,039
Operating income	64,413	59,571	82,091	105,721	128,501	98,655	102,358
Income from continuing operations	49,436	46,194	64,141	73,078	83,934	66,126	67,123
Basic and diluted income from continuing operations per unit applicable to limited partners	2.81	2.43	3.03	2.96	2.74	2.19	2.11
Cash distributions per unit applicable to limited partners	2.80	2.80	2.90	3.16	3.30	2.46	2.55

	December 31,					September 30,	
	1999	2000	2001	2002 (6)	2003	2003	2004
						(unaudited)	
Balance Sheet Data:							
Property and equipment, net	$ 316,883	$ 321,355	$ 481,274	$ 1,092,192	$ 1,112,970	$ 1,106,559	$ 1,135,660
Total assets	365,953	375,063	548,371	1,215,410	1,264,682	1,256,940	1,310,276
Long-term debt, less current portion	155,987	166,900	262,624	694,330	617,696	579,882	662,191
Partners' equity	168,288	160,767	219,517	392,284	492,571	495,512	479,933

Footnotes to Valero L.P., Kaneb Services and Kaneb Partners Selected Historical Financial Data:

(1) Effective January 1, 2000, the Ultramar Diamond Shamrock Logistics Business filed revised tariffs on many of its crude oil and refined product pipelines to reflect the total cost of the pipeline, the current throughput capacity, the current throughput utilization and other market conditions. If the revised tariffs had been implemented effective January 1, 1999, revenues for the year ended December 31, 1999 would have been $87.9 million, a decrease of $21.9 million from the historical revenues of $109.8 million.

(2) Income from continuing operations for the six months ended June 30, 2000 and the year ended December 31, 1999 includes $30.8 million of income tax benefit and $26.5 million of income tax expense, respectively. Effective July 1, 2000, UDS transferred the Ultramar Diamond Shamrock Logistics Business to Shamrock Logistics Operations. As a limited partnership, Shamrock Logistics Operations was not subject to federal or state income taxes. Due to this change in tax status, the deferred income tax liability of $38.2 million as of June 30, 2000 was written off in the statement of income of the Ultramar Diamond Shamrock Logistics Business for the six months ended June 30, 2000. The resulting income tax benefit of $30.8 million for the six months ended June 30, 2000 includes the write-off of the deferred income tax liability less income tax expense of $7.4 million for the six months ended June 30, 2000. The income tax expense for periods prior to July 1, 2000 was based on the effective income tax rate for the Ultramar Diamond Shamrock Logistics Business of 38%. The effective income tax rate exceeds the U.S. federal statutory income tax rate due to state income taxes.

(3) Income from continuing operations per unit applicable to limited partners is computed by dividing income from continuing operations applicable to limited partners, after deduction of the general partner's 2% interest and incentive distributions, by the weighted average number of limited partnership units outstanding for each class of unitholder. Basic and diluted income from continuing operations per unit applicable to limited partners is the same. Income from continuing operations per unit applicable to limited partners for periods prior to April 16, 2001, the date of Shamrock Logistics' initial public offering, is not shown as units had not been issued.

(4) The selected financial data as of December 31, 2001 includes the acquisition of the Wichita Falls Business, which Valero L.P. acquired on February 1, 2002 from Valero Energy. Because Valero L.P. and the Wichita Falls Business came under the common control of Valero Energy commencing on

December 31, 2001, the acquisition represented a reorganization of entities under common control and therefore required a restatement of the December 31, 2001 consolidated balance sheet of

SELECTED HISTORICAL FINANCIAL DATA Continued

Valero L.P. to include the Wichita Falls Business as if it had been combined with Valero L.P. as of December 31, 2001. The partners' equity amount as of December 31, 2001 includes $50.6 million of net parent investment resulting from Valero L.P.'s acquisition of the Wichita Falls Business. Upon execution of the acquisition on February 1, 2002, partners' equity/net parent investment was reduced by $51.3 million.

(5)

On March 18, 2003, Valero Energy contributed the Valero South Texas Pipeline and Terminal Business and certain feedstock storage tanks to Valero L.P. for $350.3 million, including transaction costs.

(6)

On December 24, 2002, Kaneb Partners acquired a 400-mile petroleum products pipeline and four terminals in North Dakota and Minnesota from Tesoro Refining and Marketing Company for approximately $100 million in cash.

On November 1, 2002, Kaneb Partners acquired an approximate 2,000-mile anhydrous ammonia pipeline system from Koch Pipeline Company, L.P. for approximately $139 million in cash. This fertilizer pipeline system originates in southern Louisiana, proceeds north through Arkansas and Missouri, and then branches east into Illinois and Indiana and north and west into Iowa and Nebraska.

On September 18, 2002, Kaneb Partners acquired eight bulk liquid storage terminals in Australia and New Zealand from Burns Philp & Co. Ltd. for approximately $47 million in cash.

On February 28, 2002, Kaneb Partners acquired all of the liquids terminalling subsidiaries of Statia Terminals Group NV ("Statia") for approximately $178 million in cash (net of acquired cash). The acquired Statia subsidiaries had approximately $107 million in outstanding debt.

The results of operations for each of the above acquisitions are included in the consolidated financial statements of Kaneb Partners commencing on the date of each respective acquisition.

COMPARATIVE PER UNIT DATA

Upon the completion of the Kaneb Services merger, each outstanding Kaneb Services common share will be converted into the right to receive $43.31 in cash. Because the Kaneb Services merger is a cash transaction, comparative per share information is not applicable and therefore is not reflected below.

The table below presents the following information applicable to the limited partners of Valero L.P. and Kaneb Partners: (A) historical per unit information for Valero L.P.; (B) pro forma per unit information of the combined company after giving effect to both the Kaneb Services and Kaneb Partners mergers; and (C) historical and equivalent pro forma per unit information for Kaneb Partners.

The combined company pro forma per unit information was derived by combining information from the historical consolidated financial statements of Valero L.P., Kaneb Services and Kaneb Partners using the purchase method of accounting for the mergers as described under "Unaudited Pro Forma Condensed Combined Financial Statements." You should read this table together with the historical consolidated financial statements of Valero L.P., Kaneb Services and Kaneb Partners that are filed with the Securities and Exchange Commission and incorporated by reference into this document. Please read the "Where You Can Find More Information" section of this document. You should not rely on the pro forma per unit information as being indicative of historical results that would have been achieved had the entities always been combined or the future results that Valero L.P. will experience after the mergers. The following tables present per unit data applicable to limited partners for the periods indicated.

	Year Ended December 31, 2003			
	Valero L.P.		Kaneb Partners	
	Historical	Combined Company Pro Forma (1)	Historical	Equivalent Pro Forma (2)
Basic and diluted income from continuing operations per unit	$ 3.02	$ 2.33	$ 2.74	$ 2.51
Cash distributions per unit (3)	2.95	2.95	3.30	3.17
Book value per unit (4)	18.60	38.66	17.36	41.59

	Nine Months Ended September 30, 2004			
	Valero L.P.		Kaneb Partners	
	Historical	Combined Company Pro Forma (1)	Historical	Equivalent Pro Forma (2)
Basic and diluted income from continuing operations per unit	$ 2.37	$ 1.74	$ 2.11	$ 1.87
Cash distributions per unit (3)	2.40	2.40	2.55	2.58
Book value per unit (4)	18.62	38.69	16.91	41.62

(1) The combined company pro forma information includes the effect of the mergers on the basis described in the notes to the unaudited pro forma condensed combined financial statements included elsewhere in this document. The 5.1 million Kaneb Partners units held by Kaneb Services are excluded in determining the combined company pro forma information above, as these units are held by Valero L.P. in the Kaneb Services merger and will be cancelled concurrently with the Kaneb Partners merger.

(2) Kaneb Partners' equivalent pro forma amounts have been calculated by multiplying the combined company pro forma per unit amounts by an assumed exchange ratio. The exchange ratio is assumed to be 1.0757 Valero L.P. common units for each Kaneb Partners unit. This assumed ratio

is based on the average of the closing prices of Valero L.P. common units during the period from two trading days prior to announcement of the mergers to two trading days following the announcement of the mergers.

(3)
The Valero L.P. combined company pro forma amount reflects historical cash distributions per common unit declared with respect to each respective period. Valero L.P. intends to increase its quarterly cash distribution following the mergers to an equivalent $3.42 annual distribution per limited partner unit. This proposed increase, which is subject to applicable law and the provisions of Valero L.P.'s partnership agreement, as well as approval by Valero GP, LLC's board of directors, is not reflected in the pro forma amounts.

(4)
Book value per unit is based on limited partners' equity divided by limited partner units outstanding at the end of each respective period.

MARKET PRICES AND DISTRIBUTION INFORMATION

Upon the completion of the Kaneb Services merger, each outstanding Kaneb Services common share, which is traded on the NYSE under the symbol "KSL," will be converted into the right to receive $43.31 in cash. As the Kaneb Services merger is a cash transaction, market price and distribution information is not applicable and therefore is not reflected below.

Valero L.P. common units are traded on the NYSE under the symbol "VLI," and Kaneb Partners units are traded on the NYSE under the symbol "KPP." The following table sets forth, for the periods indicated, the range of high and low sales prices per unit for Valero L.P. common units and Kaneb Partners units, on the NYSE composite tape, as well as information concerning quarterly cash distributions paid on those units. The sales prices are as reported in published financial sources.

	Valero L.P. Common Units			Kaneb Partners Units		
	High	**Low**	**Distributions (1)**	**High**	**Low**	**Distributions (1)**
2002						
First Quarter	$ 42.23	$ 35.70	$ 0.65	$ 44.00	$ 34.35	$ 0.79
Second Quarter	39.90	35.40	0.70	42.06	36.05	0.79
Third Quarter	37.65	32.00	0.70	38.55	30.99	0.79
Fourth Quarter	39.85	35.10	0.70	38.18	31.60	0.79
2003						
First Quarter	40.64	35.00	0.70	38.00	35.55	0.81
Second Quarter	44.20	36.41	0.75	44.40	36.80	0.81
Third Quarter	44.80	40.75	0.75	46.38	41.91	0.84
Fourth Quarter	50.25	43.22	0.75	51.08	46.58	0.84
2004						
First Quarter	55.25	48.40	0.80	53.98	48.78	0.84
Second Quarter	55.30	43.60	0.80	53.29	40.80	0.855
Third Quarter	56.01	49.00	0.80	51.85	46.20	0.855
Fourth Quarter (through November 22, 2004)	59.10	54.85	(2)	59.88	50.50	(2)

(1) Represents cash distributions per unit declared and paid in the subsequent quarter with respect to the stated quarter.

(2) Cash distributions with respect to quarters subsequent to the third quarter of 2004 have neither been declared nor paid.

As of the record date for the special meeting, Valero L.P. had [ ] outstanding common units, beneficially held by approximately [ ] holders. Under Valero L.P.'s partnership agreement, within 45 days after the end of each quarter, it must distribute all of its cash on hand as of the end of that quarter, less reserves established by its general partner. This cash is generally referred to as "available cash," as defined in the Valero L.P. partnership agreement. The payment of quarterly cash distributions by Valero L.P. in the future, therefore, will depend on the amount of "available cash" on hand at the end of each quarter.

As of the record date for the special meeting, Kaneb Partners had [ ] outstanding units, beneficially held by approximately [ ] holders. Kaneb Partners' partnership agreement requires it to distribute all of its "available cash," as such term is defined in the Kaneb Partners partnership agreement, within 45 days after the end of each quarter. Generally, under the Kaneb Partners partnership agreement, "available cash" means, for the applicable quarter, all cash receipts for such quarter and any reductions in reserves established in prior quarters less all cash disbursements made in such quarter and additions to reserves, as determined by the Kaneb Partners general partner.

If the Kaneb Partners merger is not completed, the payment of quarterly cash distributions by Kaneb Partners in the future will depend on the amount of "available cash" on hand at the end of each quarter.

It is the intent of Valero L.P. to increase its quarterly distribution from the current $0.80 per unit to $0.855 per Valero L.P. common unit following the closing of the Kaneb Partners merger. Any distribution on Valero L.P. common units will be subject to applicable law and the provisions of Valero L.P.'s partnership agreement, as well as approval by Valero GP, LLC's board of directors.

RISK FACTORS

You should carefully consider the following risk factors relating to the mergers and the business of Valero L.P. and the combined company, as well as all other information included or incorporated by reference in this document, before deciding how to vote.

Risks Related to the Mergers

Valero L.P. may fail to realize all of the anticipated benefits of the mergers.

Integration of the operations of Valero L.P., Kaneb Services and Kaneb Partners will be a complex, time-consuming and costly process. Failure to timely and successfully integrate these entities may have a material adverse effect on Valero L.P.'s business, financial condition and results of operations. The combined company will also be exposed to other risks that are commonly associated with transactions similar to the mergers, such as unanticipated liabilities and costs, some of which may be material, and diversion of management's attention from other business matters or opportunities. As a result, we may not be able to realize the operating efficiencies, cost savings or other benefits expected from the mergers. In addition, the costs we incur in implementing these efficiencies, cost savings and other benefits, including our ability to terminate, amend or renegotiate prior contractual commitments of Valero L.P., Kaneb Services or Kaneb Partners, may be greater than expected. Currently, Valero L.P. derives approximately 98% of its revenues from Valero Energy and approximately 2% from unrelated third parties. Valero L.P.'s unrelated third-party customer base is expected to increase from the current 2% to approximately 74% on a pro forma basis. We may not be able to retain all of Kaneb Partners' customers after the merger or be able to achieve anticipated increases in third-party business, which could have a material adverse effect on the combined company's financial condition and, as a result, its ability to make cash distributions to the combined company's unitholders at expected levels.

Because the market price of Kaneb Partners units or Valero L.P. common units may fluctuate, Kaneb Partners unitholders cannot be sure of the exchange ratio and the market value of the Valero L.P. common units issued in the Kaneb Partners merger.

Upon completion of the Kaneb Partners merger, each then-outstanding Kaneb Partners unit automatically will be converted into the right to receive between 1.0231 and 1.1307 Valero L.P. common units, with the precise number depending upon the price of Valero L.P. common units during a measurement period preceding the closing of the Kaneb Partners merger. See "The Kaneb Partners Merger Agreement Consideration To Be Received in the Kaneb Partners Merger by Kaneb Partners Unitholders." Changes in the price of Valero L.P. common units prior to the Kaneb Partners merger may affect the value of the consideration that Kaneb Partners unitholders will receive on the date of the Kaneb Partners merger. Unit price changes may result from a variety of factors, including general market and economic conditions, changes in interest rates, changes in businesses, operations and prospects and regulatory considerations, many of which factors are beyond our control. Neither Kaneb Partners nor Valero L.P. is permitted to terminate the Kaneb Partners merger agreement or resolicit the vote of its unitholders solely because of changes in market prices.

The prices of Valero L.P. common units and Kaneb Partners units at the closing of the Kaneb Partners merger may, and likely will, vary from their respective prices on the date the Kaneb Partners merger agreement was executed, on the date of this document and on the date of the special unitholder meetings. As a result, the value represented by the exchange ratio may also vary. Because the date that the Kaneb Partners merger is completed will likely be later than the date of the special unitholder meetings, at the time of your meeting, you may not know the exact market value of the Valero L.P. common units that Kaneb Partners unitholders will receive upon completion of the Kaneb Partners merger.

The completion of the mergers will effectively require the amendment or refinancing of Valero L.P.'s, Kaneb Services' and Kaneb Partners' credit facilities.

The completion of the mergers will result in events of default under Kaneb Services' and Kaneb Partners' credit facilities. To avoid a default, the combined company must refinance or amend these credit facilities at or before the completion of the mergers. Valero L.P. currently intends to refinance or amend these credit facilities at or before the completion of the mergers. If Kaneb Services' and Kaneb Partners' credit facilities are not refinanced or amended prior to the completion of the mergers, the resulting defaults would have a material adverse effect on the combined company. Also, as a result of the mergers, Valero L.P. would no longer be in compliance with certain financial tests under its existing credit facility. If Valero L.P. were not able to amend its credit facility to increase the amount available for borrowing and modify the financial tests in the credit facility, the resulting default would have a material adverse effect on the combined company.

Risks Related to the Combined Company

Valero L.P.'s future financial and operating flexibility may be adversely affected by restrictions in its debt agreements and by its leverage.

Following the completion of the mergers, the combined company will have a substantially increased level of consolidated debt. On a pro forma basis, we expect the combined company's consolidated debt to be approximately $1.6 billion immediately following the completion of the mergers. Among other things, this increased leverage may be viewed negatively by credit rating agencies, which could result in increased cost to Valero L.P. of accessing the capital markets. In November 2004, following the public announcement of the mergers, several credit rating agencies announced potential actions with respect to the credit ratings of Valero L.P. and its subsidiaries and Kaneb Partners and its subsidiaries. For example, Standard & Poor's Ratings Services placed both Valero L.P. and Kaneb Partners on CreditWatch with negative implications and indicated that, upon completion of the mergers, it is likely to change Valero L.P.'s credit rating from BBB with a negative outlook to BBB- with a negative outlook. Also, Moody's Investor Service affirmed but assigned a negative outlook to the senior unsecured credit rating of Valero L.P.'s operating subsidiary and upgraded a negative outlook to the senior unsecured credit rating of Kaneb Partners' operating subsidiary to Baa3 with a negative outlook, and Fitch Ratings placed the senior unsecured notes of Kaneb Partners' operating subsidiary on Ratings Watch negative. Any further downgrade could significantly increase our capital costs or adversely affect our ability to raise capital in connection with completing the mergers.

Debt service obligations, restrictive covenants in its revolving credit facility and the indentures governing its outstanding senior notes and maturities resulting from this leverage may adversely affect Valero L.P.'s ability to finance future operations, pursue acquisitions and fund other capital needs and Valero L.P.'s ability to pay cash distributions to unitholders, and may make Valero L.P.'s results of operations more susceptible to adverse economic or operating conditions. During an event of default under any of its debt agreements, Valero L.P. would be prohibited from making cash distributions to its unitholders.

Additionally, Valero L.P. may not be able to access the capital markets in the future at economically attractive terms, which may adversely affect its future financial and operating flexibility and its ability to pay cash distributions at current rates.

Valero L.P. may not be able to generate sufficient cash from operations to enable it to pay expected quarterly distributions on the Valero L.P. common units every quarter.

The amount of cash Valero L.P. is able to distribute on its common units is principally dependent on the amount of cash it is able to generate from operations, which will fluctuate from quarter to quarter based on its performance. The amount of cash flow Valero L.P. generates from operations is in turn principally dependent on the average daily volumes of crude oil and refined products transported through its pipelines and stored in its terminals and storage facilities, the tariff rates, terminalling and storage fees Valero L.P. charges, and the level of operating costs Valero L.P. incurs.

Other factors affecting the actual amount of cash that Valero L.P. will have available include the following:

- the required principal and interest payments on its debt;
- payments under interest rate swaps;
- the costs of acquisitions;
- restrictions contained in its debt instruments;
- the level of its capital expenditures;
- fluctuations in its working capital needs;
- issuances of debt and equity securities; and
- adjustments in cash reserves made by the general partner in its discretion.

Cash distributions to Valero L.P. unitholders are dependent primarily on cash flow, including cash flow from financial reserves and working capital borrowings, and not solely on profitability, which is affected by non-cash items. Therefore, Valero L.P. may make cash distributions during periods when it records losses and may not make cash distributions during periods when it records net income.

Valero Energy and its affiliates may have conflicts of interest and limited fiduciary responsibilities, which may permit them to favor their own interests to the detriment of Valero L.P.'s common unitholders.

Valero Energy and its affiliates currently have in the aggregate an approximate 43.6% limited partner interest in Valero L.P. and own and control Valero L.P.'s general partner. Following the completion of the mergers, Valero Energy and its affiliates are expected to retain in the aggregate an approximate 21% limited partner interest in Valero L.P. and will continue to own and control Valero L.P.'s general partner. In addition to controlling the business and management of Valero L.P. through its ownership of Valero L.P.'s general partner, Valero Energy engages in numerous transactions with Valero L.P. and its subsidiaries in the ordinary course of business. While the merger will significantly reduce the volume of Valero L.P.'s business that is represented by dealings with Valero Energy as compared to the value of its business that is represented by unaffiliated third party customers, the revenues expected to be attributable to the Valero Energy business are expected to continue to represent a significant portion, approximately 26%, of Valero L.P.'s revenues after the merger.

Conflicts of interest may arise between Valero Energy and its affiliates, including Valero L.P.'s general partner, on the one hand, and Valero L.P. and its limited partners, on the other hand. When these conflicts arise, Valero L.P.'s general partner may take actions that could be construed as favoring its own interests and the interests of its affiliates over the interests of the Valero L.P. unitholders. These conflicts include, among others, the following situations:

- Valero Energy, as the primary shipper in Valero L.P.'s existing pipelines and as an anticipated significant shipper in the combined company's pipelines, has an economic incentive to seek lower tariff rates for Valero L.P.'s pipelines, lower terminalling fees and lower storage fees;
- Some officers of Valero Energy, who provide services to Valero L.P., also devote significant time to the businesses of Valero Energy and are compensated by Valero Energy for the services rendered by them;

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Neither the Valero L.P. partnership agreement nor any other agreement requires Valero Energy to pursue a business strategy that favors Valero L.P. or utilizes its assets, including any increase in refinery production or pursuing or growing markets linked to Valero L.P.'s assets. Valero Energy's directors and officers have a fiduciary duty to make these decisions in the best interests of the stockholders of Valero Energy;

Valero Energy and its affiliates may engage in limited competition with Valero L.P.;

Valero Energy may use other transportation methods or providers for up to 25% of the crude oil processed and refined products produced at the Ardmore, McKee and Three Rivers refineries and is not required to use Valero L.P.'s pipelines if there is a material change in the market conditions for the transportation of crude oil and refined products, or in the markets for refined products served by these refineries, that has a material adverse effect on Valero Energy;

For some of the refined product pipelines and terminals connected to Valero Energy's Corpus Christi East, Corpus Christi West and Three Rivers refineries, Valero Energy has agreed to specified minimum commitment percentages for certain pipelines and terminals, but may use other transportation and storage methods and providers for any volumes exceeding such minimum commitments;

The Valero L.P. partnership agreement allows Valero L.P.'s general partner to take into account the interests of parties other than Valero L.P., such as Valero Energy, in resolving conflicts of interest, which has the effect of limiting its fiduciary duty to the Valero L.P. unitholders;

Valero L.P.'s general partner may limit its liability and reduce its fiduciary duties, while also restricting the remedies available to unitholders. As a result of acquiring Valero L.P. common units, holders consent to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable state law;

Valero L.P.'s general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuance of additional limited partner interests and reserves, each of which can affect the amount of cash that is paid to holders of Valero L.P. common units;

Valero L.P.'s general partner determines in its sole discretion which costs incurred by Valero Energy and its affiliates are reimbursable by Valero L.P.;

Valero L.P.'s general partner may cause Valero L.P. to pay Valero L.P.'s general partner or its affiliates for any services rendered on terms that are fair and reasonable to Valero L.P. or enter into additional contractual arrangements with any of these entities on Valero L.P.'s behalf;

Valero L.P.'s general partner controls the enforcement of obligations owed to Valero L.P. by Valero Energy and its affiliates, including under various storage tank agreements, throughput agreements, terminalling agreements and pipeline and terminal usage agreements;

Valero L.P.'s general partner decides whether to retain separate counsel, accountants or others to perform services for Valero L.P.; and

In some instances, Valero L.P.'s general partner may cause Valero L.P. to borrow funds in order to permit the payment of distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units or to make incentive distributions or to hasten the expiration of the subordination period.

Valero L.P.'s partnership agreement gives Valero L.P.'s general partner broad discretion in establishing financial reserves for the proper conduct of Valero L.P.'s business, including interest payments. These reserves will affect the amount of cash available for distribution. Valero L.P.'s general partner may establish reserves for distributions on the subordinated units, but only if those reserves will not prevent Valero L.P. from distributing the full minimum quarterly distribution, plus any arrearages, on the Valero L.P. common units for the following four quarters.

Cost reimbursements paid to and fees due Valero Energy and its affiliates are substantial, reduce Valero L.P.'s cash available for distribution and could adversely affect Valero L.P.'s ability to make cash distributions to unitholders.

Prior to making any distributions on its common units, Valero L.P. has agreed to pay Valero Energy and its affiliates fees and reimbursements for expenses incurred by Valero Energy and its affiliates on behalf of Valero L.P. For the year ended December 31, 2003, Valero L.P. paid to affiliates of Valero Energy operating and general and administrative expenses in the amount of approximately $30.3 million. For the nine months ended September 30, 2004, Valero L.P. paid to affiliates of Valero Energy approximately $31.3 million in operating and general and administrative expenses.

Included in these amounts is an annual fee of $3.5 million payable to affiliates of Valero Energy for services provided in connection with Valero L.P.'s crude oil storage tank operations. Also included in these amounts is an annual services fee of $1.2 million for other corporate services payable under Valero L.P.'s services agreement. The services fee will be increased each year through 2008 by $1.2 million plus Valero Energy's average percentage increase in salaries. The services agreement may be adjusted to account for changed service levels due to Valero L.P.'s acquisition, sale or construction of assets. Valero L.P. expects that the annual services fee will be increased following the completion of the mergers, in order to reflect the additional operational costs to be incurred by affiliates of Valero Energy on behalf of Valero L.P.'s general partner as a result of the significant increase in size and diversification of the business of the combined company.

Also included in these amounts are reimbursements paid to Valero Energy and its affiliates for expenses incurred in connection with all other services they provide to Valero L.P., such as salaries, bonuses and benefits for pipeline operations personnel. The amount of reimbursable expenses is determined by Valero L.P.'s general partner in its sole discretion.

An impairment of goodwill could reduce the combined company's earnings.

Valero L.P. had recorded $4.7 million of goodwill on its consolidated balance sheet as of September 30, 2004. Valero L.P. currently expects to record approximately $1 billion of goodwill upon completion of the mergers, but that estimate is subject to change pending the completion of an independent appraisal. Consequently, following the merger, we expect that approximately $1 billion, representing approximately 27% of the combined company's consolidated assets on a pro forma as adjusted basis, may be recorded as goodwill. Goodwill is recorded when the purchase price of a business exceeds the fair market value of the acquired tangible and separately measurable intangible net assets. U.S. generally accepted accounting principles, or GAAP, will require the combined company to test goodwill for impairment on an annual basis or when events or circumstances occur indicating that goodwill might be impaired. If the combined company were to determine that any of its remaining balance of goodwill was impaired, it would be required to take an immediate charge to earnings with a corresponding reduction of partners' equity and increase in balance sheet leverage as measured by debt to total capitalization.

Increases in interest rates could adversely affect the combined company's business and the trading price of the combined company's common units.

The combined company will have significant exposure to increases in interest rates. Assuming that the mergers had been completed on September 30, 2004, the combined company would have approximately $1.6 billion of consolidated debt on a pro forma basis, of which $1.3 billion would be at fixed interest rates and $0.3 billion would be at variable interest rates after giving effect to interest rate swap agreements. However, the combined company's results of operations, cash flows and financial position could be materially adversely affected by significant increases in interest rates above current levels. Further, the trading price of the combined company's common units will be sensitive to changes in interest rates and any rise in interest rates could adversely impact such trading price.

The combined company's pipeline integrity program may impose significant costs and liabilities on it.

In December 2003, the U.S. Department of Transportation issued a final rule (effective as of February 14, 2004) requiring pipeline operators to develop integrity management programs to comprehensively evaluate their pipelines, and take measures to protect the integrity of pipeline segments located in what the rule refers to as "high consequence areas." The final rule resulted from the enactment of the Pipeline Safety Improvement Act of 2002. At this time, we cannot predict the effect of this rule on the combined company. However, the combined company will continue Valero L.P.'s and Kaneb Partners' pipeline integrity management programs, which are intended to assess and maintain the integrity of their pipelines. While the costs associated with the pipeline integrity testing itself are not large, the results of these tests could cause the combined company to incur significant and unanticipated capital and operating expenditures for repairs or upgrades deemed necessary to ensure the continued safe and reliable operation of its pipelines.

The combined company may be responsible for response and other costs for pipeline spills in Massachusetts and Maryland.

As a result of its 1993 purchase of ST Services from Grace Energy Corporation, Kaneb Partners may be responsible for remediation costs related to a jet fuel pipeline abandoned prior to 1978. Further, Kaneb Partners may be responsible for clean up costs in connection with the 2000 rupture of a fuel oil pipeline in Maryland owned by a third party as a result of work performed by a subsidiary of Kaneb Partners. We cannot at this point determine the ultimate outcome of these matters or the extent of liabilities, if any, and whether such potential liabilities will have an adverse impact on the financial condition of the combined company. For additional information on Kaneb Partners' potential environmental responsibilities, please see Kaneb Partners' most recent annual report on Form 10-K, incorporated by reference in this document and listed under "Where You Can Find More Information."

The combined company's exposure to a diversified national and international geographic asset and product mix may have an adverse impact on its results of operations.

The combined company's business will be geographically diversified both in the United States and internationally, which will expose the combined company to supply and demand risks in new markets. A significant overall decrease in supply or demand for refined petroleum products or ammonia in the mainly agricultural markets served by Kaneb Partners' East Pipeline, North Pipeline or the Ammonia Pipeline may have an adverse effect on the combined company's financial condition. Also, the product mix handled by the combined company will be significantly diversified, and the transportation or the terminalling of specialty chemicals may expose the combined company to significant environmental risks, which could have a material adverse impact on the combined company's results of operations. Further, the combined company will have significant international terminalling operations, which will expose it to risks particular to such operations. A significant decrease in supply or demand at the combined company's main international terminals in Point Tupper, Canada or St. Eustatius, The Netherlands Antilles, as well as foreign currency risks and other risks associated with operations in foreign legal and political environments, could have an adverse impact on the combined company's financial results.

Common unitholders may not have limited liability if a court finds that limited partner actions constitute control of Valero L.P.'s business.

Under Delaware law, common unitholders could be held liable for Valero L.P.'s obligations to the same extent as a general partner if a court determined that the right of limited partners to remove Valero L.P.'s general partner or to take other action under the partnership agreement constituted participation in the "control" of Valero L.P.'s business.

Under Delaware law, the general partner generally has unlimited liability for the obligations of the partnership, such as its debts and environmental liabilities, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. In addition, Section 17-607 of the Delaware Revised Uniform Limited Partnership Act provides that, under some circumstances, a limited partner may be liable to Valero L.P. for the amount of a distribution for a period of three years from the date of the distribution.

Tax Risks Related to the Kaneb Partners Merger

You are urged to read the "The Mergers Material U.S. Federal Income Tax Considerations" section of this document for a more complete discussion of the following U.S. federal income tax risks related to the Kaneb Partners merger and owning and disposing of Valero L.P. common units received in the Kaneb Partners merger.

No ruling has been requested from the Internal Revenue Service with respect to the tax consequences of the Kaneb Partners merger.

While it is anticipated that no gain or loss will be recognized by a Valero L.P. unitholder or Kaneb Partners unitholder as a result of the Kaneb Partners merger (except with respect to cash received instead of a fractional Valero L.P. common unit or a net decrease in a unitholder's share of nonrecourse liabilities), no ruling has been or will be requested from the Internal Revenue Service, or IRS, with respect to the U.S. federal income tax consequences of the Kaneb Partners merger. Instead, Valero L.P. and Kaneb Partners are relying on the opinions of their respective tax counsel as to certain U.S. federal income tax consequences of the Kaneb Partners merger, and tax counsel's conclusions may not be sustained if challenged by the IRS.

The Kaneb Partners merger may result in income recognition by Valero L.P. unitholders and Kaneb Partners unitholders.

As a result of the Kaneb Partners merger, each Valero L.P. unitholder's and Kaneb Partners unitholder's share of nonrecourse liabilities will be recalculated. Each Valero L.P. unitholder and Kaneb Partners unitholder will be deemed to have received a cash distribution equal to the excess, if any, of the unitholder's share of nonrecourse liabilities immediately before the effective time of the Kaneb Partners merger and the unitholder's share of nonrecourse liabilities immediately following the effective time of the Kaneb Partners merger. If the amount of the cash deemed distributed to a Valero L.P. unitholder or former Kaneb Partners unitholder exceeds a unitholder's basis in his Valero L.P. common units, a unitholder will recognize gain in an amount equal to that excess. The application of the rules governing the allocation of nonrecourse liabilities in the context of the Kaneb Partners merger is complex and subject to uncertainty.

The intended tax consequences of the Kaneb Partners merger are dependent upon Valero L.P. being classified as a partnership for tax purposes.

If Valero L.P. were classified as a corporation for U.S. federal income tax purposes, it is likely the Kaneb Partners merger would be a fully taxable transaction to the Kaneb Partners unitholders.

Tax Risks Related to Owning Valero L.P. Common Units

A successful IRS contest that Valero L.P. should be classified as a corporation for tax purposes would substantially reduce the cash available for distribution to Valero L.P. unitholders following the Kaneb Partners merger.

The anticipated after-tax economic benefit of owning Valero L.P. common units depends largely on Valero L.P. being classified as a partnership for U.S. federal income tax purposes. Valero L.P. has not requested, and does not plan to request, a ruling from the IRS on this or any other matter affecting it.

If Valero L.P. were classified as a corporation for U.S. federal income tax purposes, it would pay U.S. federal income tax on its income at the corporate tax rate, which is currently a maximum of 35%, and it likely would pay state taxes as well. Distributions to Valero L.P. unitholders would generally be taxed again to them as corporate distributions, and Valero L.P.'s items of income, gains, losses or deductions would not flow through to Valero L.P. unitholders. Because U.S. federal income tax would be imposed upon Valero L.P. if it were classified as a corporation, the cash available for distribution to Valero L.P. unitholders would be substantially reduced. Therefore, treatment of Valero L.P. as a corporation would result in a material reduction in the after-tax return to Valero L.P. unitholders, likely causing a substantial reduction in the value of Valero L.P. common units. Additionally, if either Kaneb Services or Kaneb Partners were classified as a corporation for U.S. federal income tax purposes, it would pay U.S. federal income tax on its income at the corporate tax rate and it would likely pay state tax as well. This treatment would result in a material reduction in the after-tax return to Valero L.P. unitholders, likely causing a substantial reduction in the value of Valero L.P. common units.

A change in current U.S. federal income tax law or a change in Valero L.P.'s business could cause Valero L.P. to be taxed as a corporation for U.S. federal income tax purposes or otherwise subject it to entity-level taxation. Valero L.P.'s partnership agreement provides that, if a law is enacted or an existing law is modified or interpreted in a manner that subjects it to taxation as a corporation or otherwise subjects it to entity-level taxation for federal, state or local income tax purposes, then the minimum quarterly distribution and the target distribution levels will be decreased to reflect that impact on it.

A successful IRS contest of the tax positions Valero L.P. takes may adversely impact the market for Valero L.P. common units, and the costs of any contests will be borne by Valero L.P. unitholders and its general partner.

Valero L.P. has not requested a ruling from the IRS with respect to any matter affecting it. The IRS may adopt positions that differ from the conclusions of Valero L.P.'s tax counsel expressed in this document or from the positions Valero L.P. takes. It may be necessary to resort to administrative or court proceedings to sustain some or all of Valero L.P.'s tax counsel's conclusions or the positions Valero L.P. takes. A court may not concur with Valero L.P.'s tax counsel's conclusions or the positions Valero L.P. takes. Any contest with the IRS may materially and adversely impact the market for Valero L.P. common units and the price at which they trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees, will be borne indirectly by Valero L.P.'s unitholders and its general partner.

Valero L.P. unitholders may be required to pay taxes even if they do not receive any cash distributions.

Valero L.P. unitholders are required to pay U.S. federal income taxes and, in some cases, state, local and foreign income taxes on their share of Valero L.P.'s taxable income even if they do not receive any cash distributions from Valero L.P. They may not receive cash distributions from Valero L.P. equal to their share of Valero L.P.'s taxable income or even equal to the actual tax liability that results from their share of Valero L.P.'s taxable income.

Tax gain or loss on a disposition of Valero L.P. common units could be different than expected.

If a Valero L.P. unitholder sells his Valero L.P. common units, the unitholder will recognize gain or loss equal to the difference between the amount realized and his adjusted tax basis in those common units. Prior distributions to a unitholder in excess of the total net taxable income he was allocated for a common unit, which decreased his tax basis in that common unit, will, in effect, become taxable income to him if the common unit is sold at a price greater than his tax basis in that common unit, even if the price he receives is less than his original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income to such unitholder. Should the IRS successfully contest some positions Valero L.P. takes, Valero L.P. unitholders could recognize more gain on the sale of common units than would be the case under those positions without the benefit of decreased income in prior years. Also, if a Valero L.P. unitholder sells common units, he may incur a tax liability in excess of the amount of cash he receives from the sale.

Tax-exempt entities and foreign persons face unique tax issues from owning Valero L.P. common units that may result in adverse tax consequences to them.

Ownership of Valero L.P. common units by tax-exempt entities, such as individual retirement accounts (known as IRAs) and foreign persons raises issues unique to them. For example, virtually all of Valero L.P.'s income allocated to unitholders who are organizations exempt from U.S. federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to foreign persons will be reduced by withholding taxes at the highest effective U.S. federal income tax rate for individuals, and foreign persons will be required to file U.S. federal income tax returns and pay tax on their share of Valero L.P.'s taxable income.

Valero L.P. will treat each purchaser of Valero L.P. common units as having the same tax benefits without regard to the specific common units purchased. The IRS may challenge this treatment, which could adversely affect the value of Valero L.P.'s common units.

Because Valero L.P. cannot match transferors and transferees of its common units, it adopts depreciation and amortization positions that may not conform with all aspects of applicable Treasury Regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to a Valero L.P. unitholder. It also could affect the timing of these tax benefits or the amount of gain from a sale of Valero L.P. common units and could have a negative impact on the value of the Valero L.P. common units or result in audit adjustments to the Valero L.P. unitholder's tax returns.

Valero L.P.'s unitholders will likely be subject to state and local taxes in states where they do not live as a result of an investment in Valero L.P.'s units.

In addition to U.S. federal income taxes, Valero L.P. unitholders will likely be subject to other taxes, including state and local income taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which Valero L.P. does business or owns property and in which they do not reside. Valero L.P. unitholders may be required to file state and local income tax returns and pay state and local income taxes in many or all of the jurisdictions in which Valero L.P. does business or owns property. Further, they may be subject to penalties for failure to comply with those requirements. It is the responsibility of each Valero L.P. unitholder to file all of his own federal, state and local tax returns. Valero L.P.'s tax counsel has not rendered an opinion on the state or local tax consequences of ownership of the Valero L.P. common units.

**CAUTIONARY STATEMENT CONCERNING
FORWARD-LOOKING STATEMENTS**

This document, including information incorporated by reference in this document (see "Where You Can Find More Information"), contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of each of Valero L.P., Kaneb Services and Kaneb Partners, as well as certain information relating to the mergers, including, without limitation:

- statements relating to the expected cost savings and accretion to reported earnings estimated to result from the mergers;
- statements with respect to various actions to be taken or requirements to be met in connection with completing the mergers or integrating Valero L.P., Kaneb Services and Kaneb Partners after the mergers;
- statements relating to revenue, income and operations of the combined company after the mergers; and
- statements preceded by, followed by or that include the words "believes," "expects," "anticipates," "estimates" or similar expressions.

These statements are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The following factors, among others, could cause actual results to differ materially from those described in the forward-looking statements throughout this document and the materials incorporated by reference in this document:

- expected cost savings from the mergers may not be fully realized or realized within the expected time frame;
- revenues following the mergers may be lower than expected;
- changes may occur in the supply of and demand for and the price of crude oil, petroleum products or the other products or services provided or consumed by our entities;
- costs or difficulties related to obtaining regulatory approvals for and to completing the mergers and, following the mergers, to the integration of the businesses of Valero L.P., Kaneb Services and Kaneb Partners, may be greater than expected;
- general economic conditions, either internationally or nationally or in the jurisdictions in which Valero L.P., Kaneb Services and Kaneb Partners are doing business, may be less favorable than expected;
- legislative or regulatory changes, including changes in environmental regulation, may adversely affect the businesses in which Valero L.P., Kaneb Services and Kaneb Partners are engaged;
- there may be environmental risks and liability under federal, state and foreign environmental laws and regulations;
- changes may occur in the securities or capital markets; and
- other economic, business, competitive and/or regulatory factors may affect Valero L.P.'s, Kaneb Services' and Kaneb Partners' businesses generally as described in Valero L.P.'s, Kaneb Services' and Kaneb Partners' filings with the Securities and Exchange Commission, or SEC.

VALERO L.P. SPECIAL MEETING

General

This document is first being mailed by Valero L.P. to the holders of Valero L.P. common units on or about , and is accompanied by the notice of the Valero L.P. special meeting and a form of proxy that is solicited by Valero L.P.'s general partner for use at the Valero L.P. special meeting, to be held at Valero L.P.'s headquarters at One Valero Way, San Antonio, Texas 78249, on , , , at a.m., local time, and at any adjournments or postponements of the Valero L.P. special meeting.

Matters to Be Considered

The purpose of the Valero L.P. special meeting is:

- to consider and vote upon a proposal to approve the issuance of Valero L.P. common units pursuant to the Agreement and Plan of Merger, dated as of October 31, 2004, by and among Valero L.P., Kaneb Partners and the other parties thereto, as it may be amended from time to time;
- to approve a proposal to adjourn the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the issuance of Valero L.P. common units described in the preceding bullet; and
- to transact any other business as may properly come before the special meeting or any adjournments or postponements thereof.

Proxies

Valero L.P.'s general partner is soliciting your proxy to give you the opportunity to vote at the Valero L.P. special meeting. When you deliver a valid proxy, the units represented by that proxy will be voted in accordance with your instructions.

You may grant a proxy by:

- signing and mailing your proxy card;
- calling the toll-free telephone number shown on your proxy or voting instruction card and following the recorded instructions; or
- transmitting your voting instructions over the Internet by going to the address shown on your proxy or voting instruction card.

If you are a holder of record, or if your units are held in street name and you have a valid proxy from your broker, you also may cast your vote in person at the meeting. If you hold units of Valero L.P. through a broker or other custodian, please follow the voting instructions provided by that firm.

Mail

To grant your proxy by mail, please complete your proxy card, and sign, date and return it in the enclosed, postage-paid envelope. To be valid, a returned proxy card must be signed and dated. If you vote by telephone or the Internet, do not mail back your proxy card.

Telephone

You may use the toll-free telephone number listed on your proxy card to grant your proxy. You must have your proxy card ready and:

- dial the toll-free number;
- enter the control number located on your proxy card; and
- follow the recorded instructions.

Internet

You may transmit your voting instructions over the Internet by going to the website address shown on your proxy card. You will be asked to enter the six-digit control number you will find on your proxy card. Then follow the instructions. Votes directed by the Internet must be received by on , 200 . (As with all Internet usage, the user must pay all access fees and telephone charges.)

In Person

If you attend the Valero L.P. special meeting in person, you may vote your units by ballot at the Valero L.P. special meeting if you are a holder of record, or if your units are held in street name and you have a valid proxy from your broker.

You may revoke your proxy at any time prior to the closing of the polls at the Valero L.P. special meeting by delivering to the Secretary of Valero GP, LLC a signed notice of revocation or a later-dated signed proxy or by attending the Valero L.P. special meeting and voting in person. Attendance at the Valero L.P. special meeting will not in itself constitute the revocation of your proxy.

Written notices of revocation and other communications with respect to the revocation of Valero L.P. proxies should be addressed to Valero L.P., One Valero Way, San Antonio, Texas 78249, Attention: Secretary. All units represented by valid proxies received in response to this solicitation, and not revoked before they are exercised, will be voted in the manner specified in the proxies.

If you sign and return your proxy card, but do not indicate how you want to vote, your proxy will be voted in favor of the proposals to be voted on at the Valero L.P. special meeting.

Valero L.P.'s general partner currently is unaware of any matters, other than the matters we have described in this document, that may be presented for action at the Valero L.P. special meeting. If other matters do properly come before the Valero L.P. special meeting, however, it is intended that units represented by proxies will be voted, or not voted, by the individuals named in the proxies in their discretion.

Solicitation of Proxies

Valero L.P. will bear the entire cost of soliciting proxies from Valero L.P. common unitholders, except that Valero L.P. on the one hand and Kaneb Services and Kaneb Partners on the other hand each has agreed to pay one-half of the costs of filing, printing and mailing this document and related proxy materials. In addition to the solicitation of proxies by mail, Valero L.P. will request that banks, brokers and other record holders send proxies and proxy materials to the beneficial owners of Valero L.P. common units held by them and secure their voting instructions if necessary. Valero L.P. has also made arrangements with to assist it in soliciting proxies and has agreed to pay customary fees plus expenses for those services. Valero L.P. also may use several of the regular employees of Valero GP, LLC, the general partner of Valero L.P.'s general partner, who will not be specially compensated, to solicit proxies from Valero L.P. common unitholders, either personally or by telephone, telegram, facsimile, Internet or special delivery letter.

Record Date and Voting Rights

In accordance with the provisions of Delaware law, Valero L.P.'s partnership agreement and the rules of the New York Stock Exchange, Valero L.P. has fixed as the record date for determining those Valero L.P. unitholders entitled to notice of and to vote at the Valero L.P. special meeting. Accordingly, only Valero L.P. unitholders of record at the close of business on the record date will be entitled to notice of and to vote at the Valero L.P. special meeting. At the close of business on the record date, there were Valero L.P. common units outstanding held by holders of record. The presence, in person or by proxy, of a majority of Valero L.P. common units and a majority of Valero L.P. subordinated units is necessary to constitute a quorum at the Valero L.P. special meeting. Each Valero L.P. common unit outstanding on the record date entitles its holder to one vote.

Valero L.P. common units held by persons attending the Valero L.P. special meeting in person but not voting, and Valero L.P. common units for which Valero L.P. has received proxies but with respect to which holders of those units have abstained from voting, will be counted as present at the Valero L.P. special meeting for purposes of determining the presence or absence of a quorum for the transaction of business at the Valero L.P. special meeting. Brokers that hold Valero L.P. common units in nominee or street name for customers who are the beneficial owners of those units are prohibited from giving a proxy to vote units held for those customers on the matters to be considered and voted upon at the Valero L.P. special meeting without specific instructions from those customers. These "broker non-votes" will not be counted as Valero L.P. common units entitled to vote that are present at the Valero L.P. special meeting, and will only be counted for purposes of determining whether a quorum exists.

The issuance of additional Valero L.P. common units in the Kaneb Partners merger requires the affirmative vote of the holders of a majority of the outstanding Valero L.P. common units and a majority of the outstanding Valero L.P. subordinated units, each voting separately as a class. An affiliate of Valero L.P. beneficially owns all of the Valero L.P. subordinated units, and it is currently expected that all of the Valero L.P. subordinated units will be voted in favor of the approval of the proposals to be presented to Valero L.P. unitholders at the Valero L.P. special meeting.

Approval of the proposal to adjourn the Valero L.P. special meeting, if necessary, to solicit additional proxies in connection with obtaining approval of the issuance of Valero L.P. common units in the Kaneb Partners merger requires the affirmative vote of the holders of a majority of the Valero L.P. common units and Valero L.P. subordinated units, voting together as a single class, present in person or by proxy and entitled to vote.

Because of the requirement that the issuance of additional Valero L.P. common units in the Kaneb Partners merger be approved by the affirmative vote of the holders of a majority of the Valero L.P. common units voting separately as a class, abstentions and broker non-votes will have the same effect as a vote against the proposal to approve the issuance of Valero L.P. common units in the Kaneb Partners merger. Abstentions and broker non-votes will have no effect on the vote on the proposal to approve the adjournment of the Valero L.P. special meeting if necessary to solicit additional proxies in connection with obtaining approval of the proposals to approve the issuance of Valero L.P. common units in the Kaneb Partners merger.

Valero L.P.'s general partner urges Valero L.P. unitholders to complete, date and sign the accompanying proxy and return it promptly in the enclosed, postage-paid envelope, transmit your voting instructions over the Internet or by telephone.

As of November 19, 2004, directors and executive officers of Valero GP, LLC, the general partner of Valero L.P.'s general partner, beneficially owned 294,060 Valero L.P. common units, constituting approximately 2.2% of the outstanding Valero L.P. common units. Additional information with respect to beneficial ownership of Valero L.P. common units by directors and executive officers of the Valero

GP, LLC, and certain key employees of Valero Energy's affiliates is set forth in Valero L.P.'s Annual Report on Form 10-K for the year ended December 31, 2003. See "Where You Can Find More Information."

Recommendation of Valero L.P.'s General Partner

The board of directors of Valero GP, LLC, the general partner of Valero L.P.'s general partner, has unanimously approved each of the merger agreements and the issuance of Valero L.P. common units in the Kaneb Partners merger, and has determined that the transactions are in the best interests of Valero L.P. and Valero L.P.'s unitholders. Accordingly, the board of directors of Valero GP, LLC recommends that Valero L.P. common unitholders vote to approve the issuance of Valero L.P. common units in the Kaneb Partners merger.

KANEB SERVICES SPECIAL MEETING

General

This document is first being mailed by Kaneb Services to the holders of Kaneb Services common shares on or about , and is accompanied by the notice of the Kaneb Services special meeting and a form of proxy that is solicited by the Kaneb Services board of directors for use at the Kaneb Services special meeting, to be held on , , , at a.m., local time, at , , and at any adjournments or postponements of the Kaneb Services special meeting.

Matters to Be Considered

The purpose of the Kaneb Services special meeting is:

- to consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of October 31, 2004, by and among Valero L.P., Kaneb Services and the other parties thereto, as it may be amended from time to time;
- to approve a proposal to adjourn the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve and adopt the merger agreement described in the preceding bullet; and
- to transact any other business as may properly come before the special meeting or any adjournments or postponements thereof.

Proxies

The Kaneb Services board of directors is soliciting your proxy to give you the opportunity to vote at the Kaneb Services special meeting. When you deliver a valid proxy, the shares represented by that proxy will be voted in accordance with your instructions.

You may grant a proxy by:

- signing and mailing your proxy card; or
- calling the toll-free telephone number shown on your proxy or voting instruction card and following the recorded instructions; or
- transmitting your voting instructions over the Internet by going to the address shown on your proxy or voting instruction card.

If you are a holder of record, or if your shares are held in street name and you have a valid proxy from your broker, you also may cast your vote in person at the meeting. If you hold units of Kaneb Services through a broker or other custodian, please follow the voting instructions provided by that firm.

Mail

To grant your proxy by mail, please complete your proxy card, and sign, date and return it in the enclosed, postage-paid envelope. To be valid, a returned proxy card must be signed and dated. If you vote by telephone or the Internet, do not mail back your proxy card.

Telephone

You may use the toll-free telephone number listed on your proxy card to grant your proxy. You must have your proxy card ready and:

- dial the toll-free number;
- enter the control number located on your proxy card; and
- follow the recorded instructions.

Internet

You may transmit your voting instructions over the Internet by going to the website address shown on your proxy card. You will be asked to enter the six-digit control number you will find on your proxy card. Then follow the instructions. Votes directed by the Internet must be received by on , 200 . (As with all Internet usage, the user must pay all access fees and telephone charges.)

In Person

If you attend the Kaneb Services special meeting in person, you may vote your shares by ballot at the Kaneb Services special meeting if you are a holder of record, or if your Kaneb Services common shares are held in street name and you have a valid proxy from your broker.

You may revoke your proxy at any time prior to the closing of the polls at the Kaneb Services special meeting by delivering to the Secretary of Kaneb Services a signed notice of revocation or a later-dated signed proxy or by attending the Kaneb Services special meeting and voting in person. Attendance at the Kaneb Services special meeting will not in itself constitute the revocation of a proxy.

Written notices of revocation and other communications with respect to the revocation of Kaneb Services proxies should be addressed to Kaneb Services LLC, 2435 North Central Expressway, Suite 700, Richardson, Texas 75080, Attention: Secretary. All shares represented by valid proxies received in response to this solicitation, and not revoked before they are exercised, will be voted in the manner specified in the proxies.

If you sign and return your proxy card but do not indicate how you want to vote, your proxy will be voted in favor of the proposals to be voted on at the Kaneb Services special meeting.

The Kaneb Services board of directors currently is unaware of any other matters that may be presented for action at the Kaneb Services special meeting. If other matters do properly come before the Kaneb Services special meeting, however, it is intended that the shares represented by proxies will be voted, or not voted, by the individuals named in the proxies in their discretion.

Solicitation of Proxies

Kaneb Services will bear the entire cost of soliciting proxies from Kaneb Services shareholders, except that Valero L.P. on the one hand and Kaneb Services and Kaneb Partners on the other hand each has agreed to pay one-half the costs of filing, printing and mailing this document and related proxy materials. In addition to the solicitation of proxies by mail, Kaneb Services will request that banks, brokers and other record holders send proxies and proxy materials to the beneficial owners of Kaneb Services common shares held by them and secure their voting instructions if necessary. Kaneb Services has also made arrangements with [ ] to assist it in soliciting proxies, and has agreed to pay customary fees plus expenses for those services. Kaneb Services also may use several of its regular employees, who will not be specially compensated, to solicit proxies from Kaneb Services shareholders, either personally or by telephone, telegram, facsimile, Internet or special delivery letter.

Record Date and Voting Rights

In accordance with the provisions of Delaware law, Kaneb Services' limited liability company agreement and the rules of the NYSE, Kaneb Services has fixed as the record date for determining those Kaneb Services shareholders entitled to notice of and to vote at the Kaneb Services special meeting. Accordingly, only Kaneb Services shareholders of record at the close of business on the Kaneb Services record date will be entitled to notice of and to vote at the Kaneb Services special meeting. At the close of business on the Kaneb Services record date, there were Kaneb Services common shares outstanding held by holders of record, and of these shares were beneficially owned by Valero L.P., Kaneb Services, Kaneb Partners, Kaneb Partners' general partner or their respective affiliates. The presence, in person or by proxy, of Kaneb Services common shares representing a majority of Kaneb Services common shares outstanding and entitled to vote is necessary to constitute a quorum at the Kaneb Services special meeting. Each Kaneb Services common share outstanding on the Kaneb Services record date entitles its holder to one vote.

Kaneb Services common shares held by persons attending the Kaneb Services special meeting in person but not voting, and Kaneb Services common shares for which Kaneb Services has received proxies but with respect to which holders of those shares have abstained from voting, will be counted as present at the Kaneb Services special meeting for purposes of determining the presence or absence of a quorum for the transaction of business at the Kaneb Services special meeting. Brokers that hold Kaneb Services common shares in nominee or street name for customers who are the beneficial owners of those shares are prohibited from giving a proxy to vote shares held for those customers on the matters to be considered and voted upon at the Kaneb Services special meeting without specific instructions from those customers. These "broker non-votes" will not be counted as Kaneb Services common shares entitled to vote that are present at the Kaneb Services special meeting, and will not be counted for purposes of determining whether a quorum exists.

The approval and adoption of the Kaneb Services merger agreement requires the affirmative vote of the holders of a majority of Kaneb Services' outstanding common shares, including the affirmative vote of holders of at least a majority of the outstanding Kaneb Services common shares (other than those beneficially owned by Valero L.P., Kaneb Services, Kaneb Partners, Kaneb Partners' general partner or their respective affiliates) present in person or by proxy at the Kaneb Services special meeting.

Approval of the proposal to adjourn the Kaneb Services special meeting, if necessary, to solicit additional proxies in connection with obtaining approval and adoption of the Kaneb Services merger agreement requires the affirmative vote of the holders of a majority of the Kaneb Services common shares present in person or by proxy and entitled to vote.

Because approval and adoption of the Kaneb Services merger agreement requires the affirmative vote of the holders of a majority of the outstanding Kaneb Services common shares, abstentions and broker non-votes will have the same effect as votes against approval and adoption of the Kaneb Services merger agreement. Broker non-votes will have no effect on the vote on the proposal to approve the adjournment of the Kaneb Services special meeting if necessary to solicit additional proxies in connection with obtaining approval of the Kaneb Services merger agreement.

The Kaneb Services board of directors urges Kaneb Services shareholders to complete, date and sign the accompanying proxy and return it promptly in the enclosed, postage-paid envelope or transmit your voting instructions over the Internet or by telephone.

As of October 31, 2004, directors and executive officers of Kaneb Services beneficially owned 792,234 Kaneb Services common shares, constituting approximately 6.73% of the outstanding Kaneb Services common shares. Additional information with respect to beneficial ownership of Kaneb Services common shares by directors and executive officers of Kaneb Services is incorporated by reference to

Kaneb Services' Definitive Proxy Statement on Schedule 14A filed on April 26, 2004. See "Where You Can Find More Information."

Recommendation of the Kaneb Services Board of Directors

The board of directors of Kaneb Services has unanimously approved the Kaneb Services merger and the Kaneb Services merger agreement, and has determined that the Kaneb Services merger is in the best interests of Kaneb Services and Kaneb Services' shareholders. Accordingly, the board of directors of Kaneb Services recommends that Kaneb Services' shareholders vote to approve and adopt the Kaneb Services merger agreement.

KANEB PARTNERS SPECIAL MEETING

General

This document is first being mailed by Kaneb Partners to the holders of Kaneb Partners units on or about , and is accompanied by the notice of the Kaneb Partners special meeting and a form of proxy that is solicited by Kaneb Partners' general partner for use at the Kaneb Partners special meeting, to be held on , , , at a.m., local time, at , , and at any adjournments or postponements of the Kaneb Partners special meeting.

Matters to Be Considered

The purpose of the Kaneb Partners special meeting is:

- to consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of October 31, 2004, by and among Valero L.P., Kaneb Partners and the other parties thereto, as it may be amended from time to time;
- to approve a proposal to adjourn the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger agreement described in the preceding bullet; and
- to transact any other business as may properly come before the special meeting or any adjournments or postponements thereof.

Proxies

Kaneb Partners' general partner is soliciting your proxy to give you the opportunity to vote at the Kaneb Partners special meeting. When you deliver a valid proxy, the units represented by that proxy will be voted in accordance with your instructions.

You may grant a proxy by:

- signing and mailing your proxy card; or
- calling the toll-free telephone number shown on your proxy or voting instruction card and following the recorded instructions; or
- transmitting your voting instructions over the Internet by going to the address shown on your proxy or voting instruction card.

If you are a holder of record, or if your units are held in street name and you have a valid proxy from your broker, you also may cast your vote in person at the meeting. If you hold units of Kaneb Partners through a broker or other custodian, please follow the voting instructions provided by that firm.

Mail

To grant your proxy by mail, please complete your proxy card and sign, date and return it in the enclosed, postage-paid envelope. To be valid, a returned proxy card must be signed and dated. If you vote by telephone or the Internet, do not mail back your proxy card.

Telephone

You may use the toll-free telephone number listed on your proxy card to grant your proxy. You must have your proxy card ready and:

dial the toll-free number;

enter the control number located on your proxy card; and

follow the recorded instructions.

Internet

You may transmit your voting instructions over the Internet by going to the website address shown on your proxy card. You will be asked to enter the six-digit control number you will find on your proxy card. Then follow the instructions. Votes directed by the Internet must be received by on , 200 . (As with all Internet usage, the user must pay all access fees and telephone charges.)

In Person

If you attend the Kaneb Partners special meeting in person, you may vote your units by ballot at the Kaneb Partners special meeting if you are a holder of record, or if your units are held in street name and you have a valid proxy from your broker.

You may revoke your proxy at any time prior to the closing of the polls at the Kaneb Partners special meeting by delivering to the Secretary of Kaneb Partners a signed notice of revocation or a later-dated signed proxy or by attending the Kaneb Partners special meeting and voting in person. Attendance at the Kaneb Partners special meeting will not in itself constitute the revocation of a proxy.

Written notices of revocation and other communications with respect to the revocation of Kaneb Partners proxies should be addressed to Kaneb Pipe Line Partners, L.P., 2435 North Central Expressway, Suite 700, Richardson, Texas 75080, Attention: Secretary. All units represented by valid proxies received in response to this solicitation, and not revoked before they are exercised, will be voted in the manner specified in the proxies.

If you sign and return your proxy card but do not indicate how you want to vote, your proxy will be voted in favor of the proposals to be voted on at the Kaneb Partners special meeting.

Kaneb Partners' general partner currently is unaware of any other matters that may be presented for action at the Kaneb Partners special meeting. If other matters do properly come before the Kaneb Partners special meeting, however, it is intended that the units represented by proxies will be voted, or not voted, by the individuals named in the proxies in their discretion.

Solicitation of Proxies

Kaneb Partners will bear the entire cost of soliciting proxies from Kaneb Partners unitholders, except that Valero L.P. on the one hand and Kaneb Services and Kaneb Partners on the other hand each has agreed to pay one-half the costs of filing, printing and mailing this document and related proxy materials. In addition to the solicitation of proxies by mail, Kaneb Partners will request that banks, brokers and other record holders send proxies and proxy materials to the beneficial owners of Kaneb Partners units held by them and secure their voting instructions if necessary. Kaneb Partners has also made arrangements with [ ] to assist it in soliciting proxies, and has agreed to pay customary fees plus expenses for those services. Kaneb Partners also may use several of its regular employees, who will not be specially compensated, to solicit proxies from Kaneb Partners unitholders, either personally or by telephone, telegram, facsimile, Internet or special delivery letter.

Record Date and Voting Rights

In accordance with the provisions of Delaware law, Kaneb Partners' partnership agreement and the rules of the NYSE, Kaneb Partners has fixed as the record date for determining those Kaneb Partners unitholders entitled to notice of and to vote at the Kaneb Partners special meeting. Accordingly, only Kaneb Partners unitholders of record at the close of business on the Kaneb Partners record date will be entitled to notice of and to vote at the Kaneb Partners special meeting. At the close of business on the Kaneb Partners record date, there were Kaneb Partners units outstanding held by holders of record, and of these units were beneficially owned by Valero L.P., Kaneb Services, Kaneb Partners, Kaneb Partners' general partner or their respective affiliates. The presence, in person or by proxy, of Kaneb Partners units representing a majority of Kaneb Partners units outstanding is necessary to constitute a quorum at the Kaneb Partners special meeting. Each Kaneb Partners unit outstanding on the Kaneb Partners record date entitles its holder to one vote.

Kaneb Partners units held by persons attending the Kaneb Partners special meeting in person but not voting, and Kaneb Partners units for which Kaneb Partners has received proxies but with respect to which holders of those units have abstained from voting, will be counted as present at the Kaneb Partners special meeting for purposes of determining the presence or absence of a quorum for the transaction of business at the Kaneb Partners special meeting. Brokers that hold Kaneb Partners units in nominee or street name for customers who are the beneficial owners of those units are prohibited from giving a proxy to vote units held for those customers on the matters to be considered and voted upon at the Kaneb Partners special meeting without specific instructions from those customers. These "broker non-votes" will not be counted as Kaneb Partners units entitled to vote that are present at the Kaneb Partners special meeting, and will only be counted for purposes of determining whether a quorum exists.

The approval of the Kaneb Partners merger agreement requires the affirmative vote of the holders of a majority of Kaneb Partners' outstanding units, including the affirmative vote of the holders of at least a majority of Kaneb Partners' outstanding units (other than those beneficially owned by Valero L.P., Kaneb Partners, Kaneb Partners' general partner, Kaneb Services or any of their respective affiliates) present in person or by proxy at the Kaneb Partners special meeting.

In the absence of a quorum at the Kaneb Partners special meeting, the affirmative vote of the general partner or the holders of a majority of Kaneb Partners' units present in person or by proxy at the Kaneb Partners special meeting is required to approve the adjournment of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the Kaneb Partners merger proposal. If a quorum is present at the Kaneb Partners special meeting, the vote of the holders of at least a majority of Kaneb Partners' outstanding units is required to approve the adjournment of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the Kaneb Partners merger proposal.

Because approval of the Kaneb Partners merger agreement requires the affirmative vote of the holders of a majority of the outstanding Kaneb Partners units, abstentions and broker non-votes will have the same effect as votes against approval of the Kaneb Partners merger agreement. Because approval of the proposal to approve the adjournment of the Kaneb Partners special meeting to solicit additional proxies requires the affirmative vote of a majority of Kaneb Partners' outstanding units if a quorum is present at the Kaneb Partners special meeting, abstentions and broker non-votes will have the same effect as votes against approval of the Kaneb Partners adjournment proposal.

Kaneb Partners' general partner urges Kaneb Partners unitholders to complete, date and sign the accompanying proxy and return it promptly in the enclosed, postage-paid envelope or transmit your voting instructions over the Internet or by telephone.

As of October 31, 2004, directors and executive officers of Kaneb Partners and Kaneb Services and their affiliates beneficially owned 213,392 Kaneb Partners units, constituting approximately 0.75% of the outstanding Kaneb Partners units. Additional information with respect to beneficial ownership of Kaneb Partners units by directors and executive officers of Kaneb Partners and Kaneb Services and their affiliates is set forth in Kaneb Partners' Annual Report on Form 10-K for the year ended December 31, 2003. See "Where You Can Find More Information."

Recommendation of Kaneb Partners' General Partner

The board of directors of Kaneb Partners' general partner has unanimously approved the Kaneb Partners merger and the Kaneb Partners merger agreement, and has determined that the Kaneb Partners merger is in the best interests of Kaneb Partners and Kaneb Partners' unitholders. Accordingly, the board of directors of Kaneb Partners' general partner recommends that Kaneb Partners' unitholders vote to approve the Kaneb Partners merger agreement.

THE MERGERS

General

The board of directors of Valero GP, LLC, the general partner of Valero L.P.'s general partner, the Kaneb Services board of directors and the board of directors of Kaneb Partners' general partner have approved the relevant merger agreements and the mergers. In the mergers, subsidiaries of Valero L.P. will merge into Kaneb Services and Kaneb Partners.

Background of the Mergers

In late June, 2004, Curtis V. Anastasio, President and Chief Executive Officer of Valero GP, LLC, the general partner of Valero L.P.'s general partner, spoke with Edward D. Doherty, Chairman of the Board and Chief Executive Officer of Kaneb Pipe Line Company, LLC, Kaneb Partners' general partner and expressed an interest in a potential combination of Valero L.P.'s, Kaneb Partners', and Kaneb Services' businesses. Mr. Anastasio and Mr. Doherty agreed to meet to discuss a potential transaction.

On July 7, 2004, Mr. Anastasio and Joseph W. Gorder, Senior Vice President of Corporate Development of Valero Energy (in his capacity of providing services to Valero L.P. under Valero L.P.'s services agreement with Valero Energy), met with Mr. Doherty to discuss the possibility of a unit-for-unit merger of Kaneb Partners and Valero L.P. Mr. Anastasio also expressed an interest in acquiring in a merger all of the outstanding common shares of Kaneb Services for cash.

On July 12, 2004, Mr. Doherty met with John R. Barnes, Chairman of the Board, President and Chief Executive Officer of Kaneb Services and member of the board of directors of Kaneb Partners' general partner, to inform him of, and to discuss the terms of, Valero L.P.'s July 7th proposal. During that week, Mr. Barnes contacted Sangwoo Ahn, who serves as presiding director of executive sessions of non-management directors of Kaneb Services and Kaneb Partners' general partner, to inform him of Valero L.P.'s interest.

Later in July, Mr. Barnes met with Mr. Anastasio to discuss further Valero L.P.'s interest in acquiring Kaneb Partners and Kaneb Services.

During the first week of August, Mr. Barnes briefed the directors of Kaneb Partners' general partner and Kaneb Services on Valero L.P.'s July 7th proposal and on the discussions with Valero L.P. The directors also discussed the performance of and outlook for Kaneb Partners and Kaneb Services. Also during that week, an investment bank contacted Mr. Barnes on behalf of an entity primarily engaged in the propane business regarding the possibility of an acquisition involving Kaneb Services, Kaneb Partners and the entity. Mr. Barnes also informed the directors of Kaneb Partners' general partner and Kaneb Services of this contact. Mr. Barnes notified the investment banker that he believed pursuing such an acquisition would not be in the best interests of Kaneb since the propane business did not fit within Kaneb's business strategies. As a result, discussions with this entity never commenced.

On August 5, 2004, Mr. Barnes called Mr. Anastasio and advised him that the members of the boards of directors of Kaneb Partners' general partner and Kaneb Services believed that the consideration proposed by Valero L.P. in its July 7th proposal for the units of Kaneb Partners and the common shares of Kaneb Services would have to be meaningfully increased in order to reach levels that would interest the members of the respective boards. During that call, at Mr. Anastasio's request, Mr. Barnes agreed to send Mr. Doherty and Michael L. Rose, Chief Operating Officer of Kaneb Partners' general partner, to Valero L.P.'s offices in San Antonio, Texas so that each party could learn more about the business and operations of the other party. In mid-August, Mr. Doherty and Mr. Rose met with Mr. Anastasio and other representatives from Valero L.P. in San Antonio, Texas. Mr. Anastasio talked with Mr. Barnes again on August 17, 2004.

On August 27, 2004, Mr. Doherty received a revised proposal from Valero, L.P. concerning the possible acquisition of Kaneb Partners and Kaneb Services which included an increase over the originally proposed consideration. Mr. Doherty and Mr. Anastasio then spoke by telephone regarding the offers for both Kaneb Partners and Kaneb Services and the possibility of a further improvement in the offers. Thereafter, Mr. Doherty informed Mr. Barnes of the revised proposal and subsequent telephone conversation.

On October 1, 2004, Mr. Anastasio and Mr. Gorder met with Messrs. Barnes and Doherty and delivered a further revised proposal to acquire Kaneb Partners and Kaneb Services in merger transactions. This proposal provided that Valero L.P. would acquire all of the outstanding units of Kaneb Partners in a merger in which Kaneb Partners unitholders would receive the equivalent of $60.39 in value of Valero L.P. common units for each unit of Kaneb Partners, based upon Valero L.P.'s then-prevailing unit price. Under this proposal, Valero L.P. would also agree to express its intent to increase its per unit annual distribution from $3.20 to $3.42 after closing of the merger. In addition, Valero L.P. offered to acquire in a merger all of the outstanding common shares of Kaneb Services for $475 million in cash. Those present discussed the revised Valero L.P. proposal. The next day, Mr. Anastasio informed Mr. Barnes that Valero L.P. was willing to increase the aggregate consideration to acquire all of the outstanding common shares of Kaneb Services to $500 million.

On October 4, 2004, Mr. Barnes contacted the board members of Kaneb Partners' general partner and Kaneb Services and updated them on the terms of the revised Valero L.P. proposal. The members of the boards of directors of Kaneb Services and Kaneb Partners' general partner authorized Mr. Barnes to begin negotiations for a business combination with Valero L.P.

On October 5, 2004, Mr. Anastasio and Mr. Gorder met with the board of directors of Valero GP, LLC to inform the board of the possible opportunity to acquire Kaneb Partners and Kaneb Services and to update them on the status of negotiations. After giving an overview of Kaneb Partners' and Kaneb Services' businesses, Mr. Anastasio and Mr. Gorder focused on the strategic rationale for the transaction. They then summarized discussions with Mr. Barnes and Mr. Doherty. The board of directors of Valero GP, LLC authorized Mr. Anastasio and Mr. Gorder to continue negotiations for an acquisition of Kaneb Partners and Kaneb Services. The board also authorized the engagement of Credit Suisse First Boston LLC to evaluate the aggregate consideration to be paid by Valero L.P. in the proposed transactions.

On October 7, 2004, Mr. Anastasio and Mr. Gorder met with Mr. Barnes and Mr. Doherty. Mr. Barnes reiterated the position of Kaneb Partners and Kaneb Services that the proposed acquisitions of those entities must be separately negotiated, and it was agreed that acceptable terms for a merger with Kaneb Partners must be reached before the acquisition of Kaneb Services was negotiated. The discussions focused on the consideration to be paid by Valero L.P. for each outstanding unit of Kaneb Partners, the structure of the Kaneb Partners merger, voting agreements to be entered into by certain board members, governance matters, the treatment of employees and a timetable for each party's due diligence review of the other. Following these discussions, in which the terms of the Kaneb Partners merger were improved, the parties to the meeting agreed that terms for the acquisition of Kaneb Partners substantially similar to the terms of the Kaneb Partners merger described in this document should be submitted to the parties' respective boards of directors. After reaching those terms, Mr. Barnes then indicated to the Valero L.P. representatives that he would be willing to begin negotiations to acquire all the outstanding common shares of Kaneb Services. Discussions continued the next day among Mr. Barnes, Mr. Doherty and Mr. Anastasio. Mr. Anastasio indicated that Valero L.P. would be willing to pay $525 million for Kaneb Services. Mr. Barnes agreed to recommend that proposal to the board of directors of Kaneb Services. At no time during the negotiations did Valero L.P. offer a single package of consideration for both Kaneb Services and Kaneb Partners, nor did any representative of Kaneb Partners or Kaneb Services indicate that Valero L.P. should allocate or reallocate the consideration offered from one entity to the other.

On October 13, 2004, the members of the boards of directors of Kaneb Partners' general partner and Kaneb Services were updated at telephonic meetings by Mr. Barnes on the terms of the proposed Kaneb Partners transaction and the proposed Kaneb Services transaction discussed at the October 7th and 8th meetings.

On October 15, 2004, the board of directors of Kaneb Services formed a special committee composed of three directors who were not officers or employees of Kaneb Services or any of its affiliates, Frank M. Burke Jr., Charles R. Cox and Hans Kessler. The special committee was formed to evaluate the fairness of the proposed transaction to the shareholders of Kaneb Services, other than the directors and members of management of Kaneb Services and Kaneb Partners' general partner, and to make a recommendation to the board of directors of Kaneb Services as to whether the board of directors should approve the proposed transaction with Valero L.P. and recommend that the shareholders of Kaneb Services approve the transaction. The Kaneb Services special committee was also authorized to retain legal and financial advisors to assist it.

After the Kaneb Services board of directors meeting on October 15, 2004, the Kaneb Services special committee met and retained legal counsel and a financial advisor, Raymond James. At meetings on October 18 and 25, 2004, the Kaneb Services special committee was briefed upon its legal duties and received reports from its legal and financial advisors on the status of due diligence and the negotiations with Valero L.P. over the terms of the Kaneb Services merger. During this time, counsel for the Kaneb Services special committee was contacted by counsel for Kaneb Services inquiring about various aspects of the negotiations with Valero L.P. and asking for the Kaneb Services special committee's counsel's input on the structuring of various provisions in the Kaneb Services merger agreement.

On October 15, 2004, the board of directors of Kaneb Partners' general partner formed a special committee composed of three directors who were not officers or employees of Kaneb Partners' general partner or any of its affiliates, Sangwoo Ahn, Murray R. Biles and James R. Whatley. The special committee was formed to evaluate the fairness of the proposed combination of Valero L.P. and Kaneb Partners to the unitholders of Kaneb Partners, other than Kaneb Partners' general partner and its affiliates and the directors and members of management of Kaneb Services and Kaneb Partners' general partner, and to make a recommendation to the board of directors of Kaneb Partners' general partner as to whether the board of directors should approve the proposed merger and recommend that the unitholders of Kaneb Partners approve the proposed merger. The Kaneb Partners special committee was also authorized to retain legal and financial advisors to assist it in the fulfillment of its purpose.

After the meeting of Kaneb Partners' general partner's board of directors on October 15, 2004, the Kaneb Partners special committee met and retained legal counsel as well as a financial advisor, Houlihan Lokey. At a meeting on October 27, 2004, the Kaneb Partners special committee was briefed upon its legal duties and received reports from its legal and financial advisors on the status of due diligence and the negotiations with Valero L.P. over the terms of the Kaneb Partners merger. During this time, counsel for the Kaneb Partners special committee was contacted by counsel for Kaneb Partners inquiring about various aspects of the negotiations with Valero L.P. and asking for the Kaneb Partners special committee's counsel's input on the structuring of various provisions in the Kaneb Partners merger agreement.

During this period, the parties held mutual due diligence sessions and discussions and negotiations continued among the parties relating to completing mutually acceptable definitive documentation reflecting the terms of the mergers.

On October 28, 2004, the board of directors of Valero GP, LLC met to review with management, Credit Suisse First Boston and Valero L.P.'s legal advisor, Wachtell, Lipton, Rosen & Katz, the status of the negotiations and the proposed terms of the mergers between Valero L.P. and the Kaneb entities. During this meeting, the members of the board of directors reviewed the terms of the draft merger agreements, discussed next steps and reviewed with counsel the legal duties and responsibilities of Valero GP, LLC's board in connection with the proposed mergers. During these reviews, members of the board discussed the transactions and asked questions of Valero GP, LLC's management and legal and financial advisors. Also at this meeting, Credit Suisse First Boston reviewed with the board of directors of Valero GP, LLC its financial analysis of the aggregate consideration to be paid by Valero

L.P. in the mergers and informed the board that, assuming no material changes in the terms of the mergers or the information it considered in arriving at its opinion, it believed it would be in a position to render to the board, at the time of the finalization of definitive agreements for the mergers, an opinion to the effect that, as of the date of its opinion and subject to the matters described in its opinion, the aggregate consideration to be paid by Valero L.P. in the mergers was fair, from a financial point of view, to Valero L.P. Credit Suisse First Boston's written opinion was subsequently delivered to the board on October 31, 2004, the date on which the merger agreements were executed. Valero GP, LLC's board of directors then carefully considered the benefits and risks of the mergers. Following further discussion, Valero GP, LLC's board unanimously determined that the mergers were in the best interests of Valero L.P. and the Valero L.P. unitholders, approved each of the merger agreements, and resolved to recommend that Valero L.P. common unitholders vote to approve the issuance of Valero L.P. common units in the Kaneb Partners merger, and authorized management to finalize and execute definitive agreements reflecting the mergers not materially different than the terms presented to the board.

On October 30, 2004, the Kaneb Services special committee held a meeting to discuss the proposed transaction, and at that meeting received detailed legal and financial guidance. Counsel to the Kaneb Services special committee reviewed with the committee its legal duties, and explained the draft Kaneb Services merger agreement in detail, including provisions regarding shareholder approval and the board's ability to consider other offers. The Kaneb Services special committee then received Raymond James' opinion that the transaction was fair to Kaneb Services' shareholders from a financial point of view, and a detailed explanation of this opinion. Following a thorough discussion of the proposed transaction, including questions to counsel and Raymond James, the Kaneb Services special committee unanimously determined that the transactions contemplated by the Kaneb Services merger agreement were fair to the shareholders of Kaneb Services, other than the directors and members of management of Kaneb Services and Kaneb Partners' general partner, and resolved to recommend to the board of directors of Kaneb Services that it should approve the Kaneb Services merger agreement and the merger with Valero L.P. and should recommend that the shareholders of Kaneb Services approve and adopt the Kaneb Services merger agreement.

Also on October 30, 2004, the Kaneb Partners special committee held a separate meeting to discuss the proposed transaction, and at that meeting received detailed legal and financial guidance. Counsel to the Kaneb Partners special committee reviewed with the committee its legal duties, and explained the draft Kaneb Partners merger agreement in detail, including provisions regarding shareholder approval and the ability to consider other offers. The Kaneb Partners special committee then received Houlihan Lokey's opinion that the exchange ratio in the Kaneb Partners merger was fair to Kaneb Partners' unitholders (other than Kaneb Partners' general partner and its affiliates and the directors and members of management of Kaneb Services and Kaneb Partners' general partner) from a financial point of view, and a detailed explanation of this opinion. Following a thorough discussion of the proposed transaction, including a number of questions to counsel and Houlihan Lokey, the special committee of Kaneb Partners' general partner unanimously determined that the transactions contemplated by the Kaneb Partners merger agreement were fair to the unitholders of Kaneb Partners, other than Kaneb Partners' general partner and its affiliates and the directors and members of management of Kaneb Services and Kaneb Partners' general partner, and resolved to recommend to the board of directors of Kaneb Partners' general partner that it should approve the Kaneb Partners merger agreement and the merger with Valero L.P. and should recommend that the unitholders of Kaneb Partners approve the Kaneb Partners merger agreement.

On October 31, 2004, Kaneb Partners' general partner's board of directors met to review with Kaneb Partners' general partner's management and legal and financial advisors the status of the negotiations and the proposed terms and conditions of the Kaneb Partners merger with Valero L.P. During this meeting, the members of the board of directors reviewed updates on the terms and conditions of the Kaneb Partners merger agreement previously discussed and reviewed the legal duties and responsibilities of Kaneb Partners' general partner's board in connection with the proposed merger. The special committee of Kaneb Partners' general partner reported on its deliberations, including the receipt of the Houlihan Lokey fairness opinion, and presented to the full board its determination that the transactions contemplated by the Kaneb Partners merger agreement were fair to the unitholders of Kaneb Partners, other than Kaneb Partners' general partner and its affiliates and the directors and members of management of Kaneb Partners' general partner and Kaneb Services, and its recommendation to the board of directors that the board of directors should approve the Kaneb Partners merger agreement and the merger with Valero L.P. and should recommend that the unitholders of Kaneb Partners approve the Kaneb Partners merger agreement. Kaneb Partners' general partner's board of directors then carefully considered the benefits and risks of a merger with Valero L.P. Following a thorough discussion and based on the special committee's recommendation, Kaneb Partners' general partner's board unanimously determined that the Kaneb Partners merger was advisable, approved the Kaneb Partners merger agreement, determined that the terms of the Kaneb Partners merger agreement and the transactions contemplated by the Kaneb Partners merger agreement were advisable and in the best interests of Kaneb Partners, Kaneb Partners' general partner and the unitholders of Kaneb Partners, determined to recommend the Kaneb Partners merger agreement, the Kaneb Partners merger and the other transactions contemplated by the Kaneb Partners merger agreement to the unitholders of Kaneb Partners for approval and adoption, and recommended that the unitholders of Kaneb Partners approve the Kaneb Partners merger agreement.

On October 31, 2004, Kaneb Services' board of directors held a separate meeting to review with Kaneb Services' management and legal and financial advisors the status of the negotiations and the proposed terms and conditions of the merger with Valero L.P. During this meeting, the members of the board of directors reviewed updates on the terms and conditions of the Kaneb Services merger agreement previously discussed and reviewed the legal duties and responsibilities of Kaneb Services' board in connection with the proposed Kaneb Services merger. The special committee of Kaneb Services reported on its deliberations, including the receipt of the Raymond James fairness opinion, and presented to the full board its determination that the transactions contemplated by the Kaneb Services merger agreement were fair to the shareholders of Kaneb Services, other than the directors and members of management of Kaneb Services and Kaneb Partners' general partner, and its recommendation that the board of directors should approve the Kaneb Services merger agreement and the merger with Valero L.P. and should recommend that the shareholders of Kaneb Services approve the Kaneb Services merger agreement. Kaneb Services' board of directors then carefully considered the benefits and risks of a merger with Valero L.P. Following a thorough discussion and based on the special committee's recommendation, Kaneb Services' board unanimously determined that the Kaneb Services merger was advisable, approved the Kaneb Services merger agreement, determined that the terms of the Kaneb Services merger agreement and the transactions contemplated by the Kaneb Services merger agreement were advisable and in the best interests of Kaneb Services and the holders of Kaneb Services common shares, determined to recommend the Kaneb Services merger agreement, the Kaneb Services merger and the other transactions contemplated by the Kaneb Services merger agreement to the holders of Kaneb Services common shares for approval and adoption, and recommended that the holders of Kaneb Services common shares approve and adopt the Kaneb Services merger agreement.

Later on October 31, 2004, after the Kaneb Partners' general partner and Kaneb Services board meetings, Valero L.P., Kaneb Partners, Kaneb Partners' general partner and Kaneb Services entered into the respective merger agreements. On the morning of November 1, 2004, prior to the opening of the markets, the parties issued a joint press release announcing the merger agreements.

Recommendation of Valero L.P.'s General Partner; Valero L.P.'s Reasons for the Mergers

The board of directors of Valero GP, LLC, the general partner of Valero L.P.'s general partner, has unanimously approved each of the merger agreements, including the issuance of Valero L.P. common units in the Kaneb Partners merger, and has determined that the transactions are in the best interests of Valero L.P. and Valero L.P.'s unitholders. Accordingly, the board of directors of Valero GP, LLC recommends that Valero L.P. common unitholders vote to approve the issuance of Valero L.P. common units in the Kaneb Partners merger.

In reaching its decision, the board of directors of Valero GP, LLC consulted with its management and Valero L.P.'s legal and financial advisors, and considered a variety of factors, including:

- Its familiarity with and review of the pipeline, terminalling and storage industry and its understanding of Valero L.P.'s business, operations, financial condition, earnings, prospects and potential strategic opportunities.

- The combined company would be the largest terminal operator and second largest petroleum liquids pipeline operator in the United States, and the expectation that the business of Valero L.P. would benefit from the increased size and geographic diversity of the operations of the combined company.

- The combined company would be less dependent on Valero Energy and the impact of the transaction on the relationship between Valero L.P. and Valero Energy.

- The complementary nature of the businesses and geographical footprints of Valero L.P., Kaneb Partners and Kaneb Services.

- The anticipated effectiveness of the mergers in implementing and accelerating Valero L.P.'s strategy to expand its pipeline, terminalling and storage capacity and to undertake favorable-return projects to grow its business.

- The business, operations, financial condition, earnings, assets, liabilities, prospects and management of Kaneb Services and Kaneb Partners, taking into account the results of Valero L.P.'s due diligence review of Kaneb Services and Kaneb Partners.

- The anticipated financial impact of the proposed transaction on the combined company's financial position and performance and the potential reaction of investors, rating agencies and other members of the financial community, taking into account Valero L.P.'s planned financing of the transaction and the pro forma indebtedness of the combined company.

- The expectation that the mergers would result in synergies, including cost-saving opportunities, for the combined company's operations, and the risk that those synergies might not be achieved in the amounts or at the times expected and the risks generally accompanying the process of integrating acquired businesses.

- The members' own business judgments based upon their knowledge of Valero L.P. and the mid-stream energy sector.

- Credit Suisse First Boston's opinion, dated October 31, 2004, to the board of directors of Valero GP, LLC as to the fairness, from a financial point of view and as of the date of the opinion, of the aggregate consideration to be paid by Valero L.P. in the Kaneb Services merger and Kaneb Partners merger.

- The structure of the mergers and the financial and other terms of the Kaneb Services merger agreement and the Kaneb Partners merger agreement, including the fact that the transaction would involve the acquisition of two distinct public companies and the likelihood that both mergers, once agreed to, would be completed.

- The anticipated tax and accounting treatment of Valero L.P. and Valero L.P. unitholders in the mergers.

The interests of officers and directors of Kaneb Services with respect to the mergers apart from their interests as Kaneb Services shareholders.

The expected impact of the mergers under employment agreements, benefit plans and other compensatory arrangements of the entities.

The regulatory approvals and processes that would be required in order to complete the mergers and the likelihood of receiving such approvals without conditions that would have a material adverse effect on the entities or the transaction, as well as the expected timeframe to complete the mergers.

In view of the variety of factors considered in its evaluation of the mergers and the complexity of these matters, the Valero GP, LLC board of directors did not find it useful and did not attempt to rank, quantify or otherwise assign relative weights to the factors described above. In addition, individual board members may have given different weight to different factors. The Valero GP, LLC board of directors conducted an overall analysis of these factors, including thorough discussions with, and questioning of, its management and Valero L.P.'s legal and financial advisors, and considered the factors overall to be favorable to, and support, its determination.

The Valero GP, LLC board of directors recommends that Valero L.P. unitholders vote "FOR" the proposal to approve the issuance of the Valero L.P. common units in the Kaneb Partners Merger.

Recommendation of the Kaneb Services Board of Directors; Kaneb Services' Reasons for the Merger

The board of directors of Kaneb Services has unanimously approved the Kaneb Services merger and approved the Kaneb Services merger agreement and has determined that the Kaneb Services merger is in the best interests of Kaneb Services and Kaneb Services' shareholders. Accordingly, the board of directors of Kaneb Services recommends that Kaneb Services' shareholders vote to approve and adopt the Kaneb Services merger agreement.

In reaching its decision, the board of directors of Kaneb Services relied, among other things, upon the recommendation of the Kaneb Services special committee that it take these actions. The Kaneb Services special committee, in reaching its decision to make this recommendation, consulted with its legal and financial advisors, and considered a variety of factors, including the following:

The special committee's understanding of the business, prospects and possible strategic opportunities of Kaneb Services.

The challenges that would potentially face an independent Kaneb Services in the future, including, among other things, management succession, the increasing competition for types of assets the company needed to acquire if it was to continue to grow and possible developments in the interest rate environment.

The value of the consideration provided for in the Kaneb Services merger, as well as the other terms of the Kaneb Services merger agreement.

Raymond James' opinion that the consideration in the Kaneb Services merger was fair to Kaneb Services' public shareholders from a financial point of view.

The detailed presentation prepared by Raymond James, which in the Kaneb Services special committee's view demonstrated the favorable nature of the transaction.

The special committee members' own business judgments based upon their knowledge of Kaneb Services and the mid-stream energy sector.

The loss of the Kaneb shareholders' opportunity to continue with the current tax structure as a result of the cash form of consideration in the Kaneb Services merger.

The terms of the Kaneb Services merger agreement, including provisions that permit Kaneb Services to respond to an unsolicited offer to acquire Kaneb Services, and the termination fee payable upon a termination of the Kaneb Services merger agreement.

The expected impact of the mergers under employment agreements, benefit plans and other compensatory arrangements.

- The interests of officers and directors of Kaneb Services with respect to the mergers apart from their interests as Kaneb Services shareholders.

- The regulatory approvals and processes that would be required in order to complete the mergers and the likelihood of receiving these approvals without conditions that would have a material adverse effect on the entities or the transaction, as well as the expected timeframe to complete the mergers.

In view of the variety of factors considered in its evaluation of the Kaneb Services merger and the complexity of these matters, the Kaneb Services special committee did not find it useful and did not attempt to rank, quantify or otherwise assign relative weights to the factors described above. In addition, individual members may have given different weight to different factors. The Kaneb Services special committee conducted an overall analysis of these factors, including thorough discussions with, and questioning of, its management and its legal and financial advisors, and considered the factors overall to be favorable to, and support, its determination.

The board of directors of Kaneb Services recommends that Kaneb Services' shareholders vote "FOR" the approval and adoption of the Kaneb Services merger agreement.

Recommendation of Kaneb Partners' General Partner; Kaneb Partners' Reasons for the Merger

The board of directors of Kaneb Partners' general partner has unanimously approved the Kaneb Partners merger and approved the Kaneb Partners merger agreement and has determined that the Kaneb Partners merger is in the best interests of Kaneb Partners and Kaneb Partners' unitholders. Accordingly, the board of directors of Kaneb Partners' general partner recommends that Kaneb Partners' unitholders vote to approve the Kaneb Partners merger agreement.

In reaching its decision, the board of directors of Kaneb Partners' general partner relied, among other things, upon the recommendation of the Kaneb Partners special committee that it take these actions. The Kaneb Partners special committee, in reaching its decision to make this recommendation, consulted with its legal and financial advisors, and considered a variety of factors, including the following:

- The special committee's understanding of the business, prospects and possible strategic opportunities of Kaneb Partners.

- The special committee's understanding of the business, prospects and possible strategic opportunities of Valero L.P., including the results of Kaneb Partners's due diligence review of Valero L.P.

- The exchange ratio in the Kaneb Partners merger for the Kaneb Partners units.

- Houlihan Lokey's opinion that the exchange ratio in the Kaneb Partners merger was fair to Kaneb Partners' public unitholders from a financial point of view.

- The detailed presentation prepared by Houlihan Lokey, which in the Kaneb Partners special committee's view demonstrated the favorable nature of the transaction.

- The special committee members' own business judgments based upon their knowledge of Kaneb Partners and the mid-stream energy sector.

- The terms of the Kaneb Partners merger agreement, including provisions that permit Kaneb Partners to respond to an unsolicited offer to acquire Kaneb Partners, and the termination fee payable upon a termination of the Kaneb Partners merger agreement.

- The fact that the Kaneb Partners unitholders who receive Valero L.P. common units in the Kaneb Partners merger are expected to have, as a result of the exchange ratio in the Kaneb

Partners merger, an increased aggregate distribution on their Valero L.P. common units as compared with the distribution currently received on their Kaneb Partners units.

The business and contractual relationships between Valero L.P. and Valero Energy, including the fact that the incentive distribution rights payable to Valero L.P.'s general partner are capped at 23% of cash distributions in excess of $0.66 (as opposed to the current 29% cap above $0.70 per unit for Kaneb Partners' general partner).

The combination of Kaneb Partners and Valero L.P. should permit Kaneb Partners unitholders who receive Valero common units to benefit from:

- a larger operating platform, which will permit greater anticipated growth both internally and through acquisitions;
- geographic and product diversification;
- increased liquidity and investor visibility;
- potential cost savings and opportunities to increase revenues; and
- greater stability.

The relative contributions of Kaneb Partners and Valero L.P. to the merged entity, in terms of earnings and distributable cash flow, as compared with the percentage of the Valero L.P. common units Kaneb Partners unitholders will receive as a result of the Kaneb Partners merger.

The fact that, in general, Kaneb Partners unitholders will not recognize a material gain or a loss for U.S. federal income tax purposes with respect to the Valero L.P. common units they receive as a result in the Kaneb Partners merger.

The expected impact of the mergers under employment agreements, benefit plans and other compensatory arrangements.

The interests of officers and directors of Kaneb Partners and its general partner with respect to the mergers apart from their interests as Kaneb Partners unitholders.

The regulatory approvals and processes that would be required in order to complete the mergers and the likelihood of receiving these approvals without conditions that would have a material adverse effect on the entities or the transaction, as well as the expected timeframe to complete the mergers.

In view of the variety of factors considered in its evaluation of the Kaneb Partners merger and the complexity of these matters, the Kaneb Partners special committee did not find it useful and did not attempt to rank, quantify or otherwise assign relative weights to the factors described above. In addition, individual members may have given different weight to different factors. The Kaneb Partners special committee conducted an overall analysis of these factors, including thorough discussions with, and questioning of, its management and its legal and financial advisors, and considered the factors overall to be favorable to, and support, its determination.

The board of directors of Kaneb Partners' general partner recommends that Kaneb Partners' unitholders vote "FOR" the approval of the Kaneb Partners merger agreement.

Opinion of Valero L.P.'s Financial Advisor

In connection with Credit Suisse First Boston's engagement, Valero L.P. requested that Credit Suisse First Boston evaluate the fairness, from a financial point of view, to Valero L.P. of the aggregate consideration to be paid by Valero L.P. in the Kaneb Services merger and the

Kaneb Partners merger. Credit Suisse First Boston delivered to the board of directors of Valero GP, LLC, in its capacity as general partner of the general partner of Valero L.P., a written opinion dated October 31, 2004 to the effect that, as of that date and based on and subject to the matters described in its opinion, the aggregate consideration to be paid by Valero L.P. in the mergers was fair, from a financial point of view, to Valero L.P.

The full text of Credit Suisse First Boston's written opinion, dated October 31, 2004, to the board of directors of Valero GP, LLC, which sets forth the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached as Appendix C and is incorporated into this document by reference. Holders of Valero L.P. common units are encouraged to read this opinion carefully in its entirety. Credit Suisse First Boston's opinion was provided to the board of directors of Valero GP, LLC as general partner of the general partner of Valero L.P. in connection with its evaluation, on behalf of Valero L.P., of the aggregate consideration payable by Valero L.P. in the mergers. Credit Suisse First Boston's opinion relates only to the fairness of the aggregate consideration from a financial point of view to Valero L.P., does not address any other aspect of the proposed mergers and does not constitute a recommendation to any unitholder or shareholder as to how such unitholder or shareholder should vote or act with respect to any matters relating to the mergers. The summary of Credit Suisse First Boston's opinion in this document is qualified in its entirety by reference to the full text of the opinion. References in the summary below to the "Valero Entities" refer to Valero L.P., together with its general partner and Valero GP, LLC, and references in this summary to the "Kaneb Entities" refer to Kaneb Services, together with Kaneb Partners and its general partner.

In arriving at its opinion, Credit Suisse First Boston reviewed the Kaneb Services merger agreement and the Kaneb Partners merger agreement as well as publicly available business and financial information relating to Valero L.P., Kaneb Services and Kaneb Partners. Credit Suisse First Boston also reviewed other information relating to Valero L.P., Kaneb Services and Kaneb Partners, including financial forecasts, as adjusted in the case of Kaneb Services and Kaneb Partners, provided to or discussed with Credit Suisse First Boston by the managements of the Valero Entities and the Kaneb Entities and met with the managements of the Valero Entities and the Kaneb Entities to discuss the businesses and prospects of Valero L.P., Kaneb Services and Kaneb Partners. Credit Suisse First Boston also considered financial and market data of Valero L.P., Kaneb Services and Kaneb Partners and compared that data with similar data for publicly held companies in businesses Credit Suisse First Boston deemed similar to those of Valero L.P., Kaneb Services and Kaneb Partners, and considered, to the extent publicly available, the financial terms of other business combinations and transactions which have been effected. Credit Suisse First Boston also considered other information, financial studies, analyses and investigations and financial, economic and market criteria that it deemed relevant.

In connection with its review, Credit Suisse First Boston did not assume any responsibility for independent verification of any of the information that was reviewed or considered by it and relied on that information being complete and accurate in all material respects. With respect to the financial forecasts for Valero L.P., Kaneb Services and Kaneb Partners, including adjustments to the financial forecasts for Kaneb Services and Kaneb Partners prepared by the Valero Entities' management, Credit Suisse First Boston was advised by the managements of the Valero Entities and the Kaneb Entities, and assumed, that such forecasts were reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of the Valero Entities and the Kaneb Entities as to the future financial performance of Valero L.P., Kaneb Services and Kaneb Partners and of the management of the Valero Entities as to the potential cost savings and other synergies anticipated to result from the mergers. Credit Suisse First Boston assumed, with the Valero Entities' consent, that the financial results reflected in such forecasts would be realized in the amounts and at the times projected in all respects material to Credit Suisse First Boston's analyses. Credit Suisse First Boston also assumed, with the Valero Entities' consent, that no tax liability will be payable by Valero L.P., Kaneb Services, Kaneb Partners and their respective affiliates as a result of the mergers for federal income tax purposes. Credit Suisse First Boston further assumed, with the Valero Entities' consent, that in the course of obtaining any necessary regulatory or third party consents, approvals or agreements in connection with the mergers, no delay, limitation, restriction or condition would be imposed that would have a material adverse effect on Valero L.P., Kaneb Services, Kaneb Partners or the contemplated benefits of the mergers and that the mergers would be consummated in accordance with the terms of the merger agreements, without waiver, modification or amendment of any material term, condition or agreement in the merger agreements.

Credit Suisse First Boston was not requested to, and it did not, make an independent evaluation or appraisal of the assets or liabilities, contingent or otherwise, of Valero L.P., Kaneb Services or Kaneb Partners, and Credit Suisse First Boston was not furnished with any such evaluations or appraisals. Credit Suisse First Boston's opinion was necessarily based on information made available to it as of, and upon financial, economic, market and other conditions as they existed and could be evaluated on, the date of Credit Suisse First Boston's opinion. Credit Suisse First Boston did not express any opinion as to what the actual value of Valero L.P. common units will be when issued in the Kaneb Partners merger or the prices at which Valero L.P. common units will trade at any time. Credit Suisse First Boston's opinion only addressed the fairness, from a financial point of view, to Valero L.P. of the aggregate consideration to be paid by Valero L.P. in the mergers and did not address the allocation of the aggregate consideration or any other aspect or implication of the mergers or any related transaction. Credit Suisse First Boston's opinion did not address the relative merits of the mergers as compared to other business strategies or transactions that might be available to Valero L.P., and it did not address the underlying business decision of Valero L.P. to proceed with the mergers. Credit Suisse First Boston was not requested to, and it did not, participate in the negotiation or structuring of the mergers. Although Credit Suisse First Boston evaluated the aggregate consideration to be paid by Valero L.P. in the mergers from a financial point of view, Credit Suisse First Boston was not requested to, and it did not, recommend the specific consideration payable in the proposed transaction, which consideration was determined between the Valero Entities and the Kaneb Entities. Except as described above, Valero L.P. imposed no other limitations on Credit Suisse First Boston with respect to the investigations made or procedures followed in rendering the opinion.

In preparing its opinion, Credit Suisse First Boston performed a variety of financial and comparative analyses, including those described below. The summary of Credit Suisse First Boston's analyses described below is not a complete description of the analyses underlying Credit Suisse First Boston's opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Credit Suisse First Boston made qualitative judgments as to the significance and relevance of each analysis and factor that it considered. Credit Suisse First Boston arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole, and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis. Credit Suisse First Boston accordingly believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In its analyses, Credit Suisse First Boston considered industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Valero L.P., Kaneb Services and Kaneb Partners. No company, transaction or business used in Credit Suisse First Boston's analyses as a comparison is identical to Valero L.P., Kaneb Services or Kaneb Partners or the proposed mergers, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the entities, business segments or transactions analyzed. The estimates contained in Credit Suisse First Boston's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, Credit Suisse First Boston's analyses are inherently subject to substantial uncertainty.

Credit Suisse First Boston's opinion and financial analyses were only one of many factors considered by the board of directors of Valero GP, LLC in its evaluation of the proposed mergers and should not be viewed as determinative of the views of the board of directors of Valero GP, LLC or the Valero Entities' management with respect to the mergers or the aggregate consideration.

The following is a summary of the material financial analyses prepared for the board of directors of Valero GP, LLC in connection with Credit Suisse First Boston's opinion dated October 31, 2004. The financial analyses summarized below include information presented in tabular format. In order to fully understand Credit Suisse First Boston's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Credit Suisse First Boston's financial analyses. For purposes of this summary of Credit Suisse First Boston's analyses, the term "implied aggregate equity consideration payable in the mergers" refers to the estimated value of the aggregate equity consideration to be paid by Valero L.P. in the mergers of $1,953 million, consisting of:

- the aggregate cash consideration to be paid in the Kaneb Services merger of approximately $525 million based on the cash consideration of $43.31 payable in the Kaneb Services merger for each outstanding common share of Kaneb Services; and

- the estimated value of the aggregate consideration to be paid in the Kaneb Partners merger of $1,428 million based on consideration of $61.50 in the form of Valero L.P. common units issuable for each outstanding Kaneb Partners unit not owned by Kaneb Services.

Kaneb Entities Analyses

Discounted Cash Flow Analysis

Credit Suisse First Boston performed discounted cash flow analyses of Kaneb Partners and Kaneb Services to calculate the estimated present value of the distributable cash flows that each of Kaneb Partners and Kaneb Services could generate over calendar years 2005 through 2009, both before and after giving effect to potential cost savings and other synergies anticipated by the Valero Entities' management to result from the proposed mergers. Calendar year 2005 estimated financial data for Kaneb Partners and Kaneb Services were based on internal estimates of the Kaneb Entities' management as adjusted by the Valero Entities' management, and estimated financial data for Kaneb Partners and Kaneb Services beyond calendar year 2005 were based on internal estimates of the Valero Entities' management. Credit Suisse First Boston applied a range of distributable cash flow terminal value multiples of 13.0x to 14.0x to each of Kaneb Partners' and Kaneb Services' calendar year 2009 estimated distributable cash flow. The present value of the cash flows and terminal values were calculated using discount rates ranging from 9.0% to 10.0% in the case of Kaneb Partners and 10.0% to 12.0% in the case of Kaneb Services. This analysis indicated the following implied aggregate equity reference ranges for Kaneb Partners and Kaneb Services both before and after giving effect to potential synergies resulting from the mergers, as compared to the implied aggregate equity consideration payable in the mergers:

Implied Aggregate Equity Reference Range for Kaneb Partners and Kaneb Services		Implied Aggregate Equity Consideration Payable in the Mergers
Without Synergies	**With Synergies**	
$1,667 million $1,831 million	$1,938 million $2,130 million	$1,953 million

Selected Transactions Analysis

Using publicly available information, Credit Suisse First Boston reviewed the purchase price multiples in the following two selected transactions involving publicly traded master limited partnerships in the energy midstream industry:

Acquiror	Target
Enterprise Products Partners L.P.	GulfTerra Energy Partners, L.P.
Kinder Morgan Energy Partners, L.P.	Santa Fe Pacific Pipeline Partners, L.P.

All multiples for the selected transactions were based on publicly available financial information. Credit Suisse First Boston reviewed, in the case of the Enterprise Products Partners L.P./GulfTerra Energy Partners, L.P. transaction, the purchase price as a multiple of GulfTerra Energy's calendar year estimated 2003 distributable cash flow and, in the case of the Kinder Morgan Energy Partners, L.P./Santa Fe Pacific Pipeline Partners, L.P. transaction, the purchase price as a multiple of Santa Fe Pacific Pipeline's latest 12 months distributable cash flow at the time of announcement. Credit Suisse First Boston also reviewed, in the case of the Enterprise Products/GulfTerra Energy transaction, the transaction value as a multiple of GulfTerra Energy's calendar year estimated 2003 earnings before interest, taxes, depreciation and amortization, commonly referred to as EBITDA, and, in the case of the Kinder Morgan/Santa Fe Pacific Pipeline transaction, the transaction value as a multiple of Santa Fe Pacific Pipeline's latest 12 months EBITDA at the time of announcement. Credit Suisse First Boston then applied a selected range of distributable cash flow and EBITDA multiples derived from the selected transactions to corresponding estimated financial data of the Kaneb Entities for calendar year 2004. Estimated financial data for the Kaneb Entities were based on internal estimates of the Kaneb Entities' management as adjusted by the Valero Entities' management. This analysis indicated the following implied aggregate equity reference range for Kaneb Partners and Kaneb Services, as compared to the implied aggregate equity consideration payable in the mergers:

Implied Aggregate Equity Reference Range for Kaneb Partners and Kaneb Services	Implied Aggregate Equity Consideration Payable in the Mergers
$1,800 million $2,050 million	$1,953 million

Selected Companies Analysis

Kaneb Partners. Using publicly available information, Credit Suisse First Boston reviewed financial and market information of Kaneb Partners and the following selected publicly traded master limited partnerships in the energy midstream industry:

Kinder Morgan Energy Partners, L.P.

Enterprise Products Partners L.P.

Enbridge Energy Partners, L.P.

TEPPCO Partners, L.P.

Northern Border Partners, L.P.

Plains All American Pipeline, L.P.

Magellan Midstream Partners, L.P.

Buckeye Partners, L.P.

Sunoco Logistics Partners L.P.

Pacific Energy Partners, L.P.

Valero L.P.

All multiples were based on closing market prices on October 29, 2004. Estimated financial data for the selected companies were based on publicly available research analysts' estimates. Estimated financial data for Kaneb Partners were based on internal estimates of the Kaneb Entities' management as adjusted by the Valero Entities' management. Credit Suisse First Boston reviewed market prices as a multiple of estimated distributable cash flow for calendar years 2004 and 2005 and also reviewed annualized latest quarterly distribution yields. Credit Suisse First Boston then applied a selected range of calendar years 2004 and 2005 estimated distributable cash flow multiples derived from the selected companies to corresponding estimated financial data of Kaneb Partners and a selected range of distribution yields derived from the selected companies to the annualized latest quarterly distribution of Kaneb Partners.

Kaneb Services. Using publicly available information, Credit Suisse First Boston also reviewed financial and market information of Kaneb Services and Kinder Morgan, Inc. Credit Suisse First Boston applied a selected range of calendar years 2004 and 2005 estimated distributable cash flow multiples to corresponding estimated financial data of Kaneb Services. Estimated financial data for Kaneb Services were based on internal estimates of the Kaneb Entities' management as adjusted by the Valero Entities' management.

This analysis indicated the following implied aggregate equity reference range for Kaneb Partners and Kaneb Services, as compared to the implied aggregate equity consideration payable in the mergers:

Implied Aggregate Equity Reference Range for Kaneb Partners and Kaneb Services	Implied Aggregate Equity Consideration Payable in the Mergers
$1,559 million $1,722 million	$1,953 million

Valero L.P. Analyses

Discounted Cash Flow Analysis

Credit Suisse First Boston performed a discounted cash flow analysis of Valero L.P. to calculate the estimated present value of the standalone distributable cash flows that Valero L.P. could generate over calendar years 2005 through 2009, based on internal estimates of the Valero Entities' management. Credit Suisse First Boston applied a range of distributable cash flow terminal value multiples of 13.0x to 15.0x to Valero L.P.'s calendar year 2009 estimated distributable cash flow. The present value of the cash flows and terminal values were calculated using discount rates ranging from 9.0% to 10.0%. This analysis indicated the following implied per common unit reference range for Valero L.P., as compared to the closing price of Valero L.P. common units on October 29, 2004:

Implied Per Common Unit Reference Range for Valero L.P.	Closing Price of Valero L.P. Common Units on October 29, 2004
$49.80 $57.18	$56.20

Selected Companies Analysis

Using publicly available information, Credit Suisse First Boston reviewed financial and market information of Valero L.P. and the publicly traded master limited partnerships in the energy midstream industry referenced above under the heading "Kaneb Entities Analyses Selected Companies Analysis." All multiples were based on closing market prices on October 29, 2004. Estimated financial data for the selected companies were based on publicly available research analysts' estimates. Estimated financial data for Valero L.P. were based on internal estimates of the Valero Entities' management. Credit Suisse First Boston reviewed market prices as a multiple of estimated distributable cash flow for calendar years 2004 and 2005 and also reviewed annualized latest quarterly distribution yields. Credit Suisse First Boston then applied a selected range of calendar years 2004 and 2005 estimated distributable cash flow multiples derived from the selected companies to corresponding estimated financial data of Valero L.P. and a selected range of distribution yields derived from the selected companies to the annualized latest quarterly distribution of Valero L.P. This analysis indicated the following implied per common unit reference range for Valero L.P., as compared to the closing price of Valero L.P. common units on October 29, 2004:

Implied Per Common Unit Reference Range for Valero L.P.	Closing Price of Valero L.P. Common Units on October 29, 2004
$51.00 $57.00	$56.20

Pro Forma Accretion/Dilution Analysis

Credit Suisse First Boston analyzed the potential pro forma financial effect of the proposed mergers on Valero L.P.'s calendar year 2005 estimated distributable cash flow. This analysis was performed by utilizing the exchange ratios at the high and low boundaries of the exchange ratio collar in the Kaneb Partners merger as well as the exchange ratio implied in the Kaneb Partners merger by the closing price of Valero L.P. common units on October 29, 2004. Each exchange ratio case was analyzed both before and after giving effect to potential cost savings and other synergies anticipated by the Valero Entities' management to result from the proposed mergers. Estimated financial data for Valero L.P. were based on internal estimates of the Valero Entities' management. Estimated financial data for Kaneb Services and Kaneb Partners were based on internal estimates of the Kaneb Entities' management as adjusted by the Valero Entities' management. This analysis indicated that the proposed mergers could be:

- accretive to Valero L.P.'s calendar year 2005 estimated distributable cash flow utilizing the exchange ratio at the high band of the exchange ratio collar in the Kaneb Partners merger, regardless of whether potential cost savings and other synergies are realized;

- accretive to Valero L.P.'s calendar year 2005 estimated distributable cash flow utilizing either the exchange ratio at the low band of the exchange ratio collar in the Kaneb Partners merger or the exchange ratio implied in the Kaneb Partners merger by the closing price of Valero L.P. common units on October 29, 2004, in each case assuming potential cost savings and other synergies are fully realized; and

- dilutive to Valero L.P.'s calendar year 2005 estimated distributable cash flow utilizing either the exchange ratio at the low band of the exchange ratio collar in the Kaneb Partners merger or the exchange ratio implied in the Kaneb Partners merger by the closing price of Valero L.P. common units on October 29, 2004, in each case assuming no potential cost savings and other synergies are realized.

The actual results achieved by the combined company may vary from projected results and the variations may be material.

Other Factors

In rendering its opinion, Credit Suisse First Boston also reviewed and considered other factors, including:

- selected trading multiples of Valero L.P., Kaneb Services and Kaneb Partners based on closing market prices on October 29, 2004 and implied transaction multiples of Kaneb Services, Kaneb Partners and the Kaneb Entities;

- the implied equity ownership percentages of holders of Valero L.P. common units in the combined company immediately upon consummation of the Kaneb Partners merger utilizing the exchange ratios at the high and low boundaries of the exchange ratio collar in the Kaneb Partners merger as well as the exchange ratio implied in the Kaneb Partners merger by the closing price of Valero L.P. common units on October 29, 2004;

- historical trading prices and trading volumes of Kaneb Services common shares and Kaneb Partners units;

- the daily ratio of the closing price of Kaneb Partners units to the closing price of Valero L.P. common units during the period October 29, 2001 through October 29, 2004, the average of this ratio calculated over various periods ended October 29, 2004, as compared to the exchange ratio implied in the Kaneb Partners merger by the closing price of Valero L.P. common units on October 29, 2004, and the percentage premium implied by that exchange ratio relative to historical ratio averages;

- the implied value of the aggregate consideration in the mergers based on illustrative average sales prices of Valero L.P. common units outside the high and low boundaries of the exchange ratio collar; and

- the percentage that the synergies anticipated by Enterprise Products Partners L.P. in its acquisition of GulfTerra Energy Partners, L.P. constituted of GulfTerra's calendar year 2003 estimated EBITDA and distributable cash flow, as compared to the potential synergies anticipated by Valero's management to result from the mergers as a percentage of the calendar year 2004 estimated combined EBITDA and combined distributable cash flow of Kaneb Partners and its general partner.

Miscellaneous

Credit Suisse First Boston was retained by Valero L.P. solely for purposes of evaluating, and rendering an opinion as to, the aggregate consideration payable by Valero L.P. in the mergers. Valero L.P. selected Credit Suisse First Boston based on Credit Suisse First Boston's experience and reputation. Credit Suisse First Boston is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

Valero L.P. has agreed to pay Credit Suisse First Boston customary fees for its financial advisory services in connection with the mergers. Valero L.P. also has agreed to reimburse Credit Suisse First Boston for its out-of-pocket expenses, including fees and expenses of legal counsel and any other advisor retained by Credit Suisse First Boston, and to indemnify Credit Suisse First Boston and related parties against liabilities, including liabilities under the federal securities laws, and other items arising out of its engagement.

Credit Suisse First Boston and its affiliates in the past have provided, currently are providing and in the future may provide financial and investment banking services to Valero Energy, an affiliate of Valero L.P., unrelated to the proposed mergers, for which services Credit Suisse First Boston and its affiliates have received, and expect to receive, compensation. In the ordinary course of business, Credit Suisse First Boston and its affiliates may actively trade the securities of Valero L.P., Kaneb Services, Kaneb Partners and some of their affiliates for their own account or for the account of customers and, accordingly, may at any time hold a long or short position in those securities.

Opinion of Kaneb Services' Financial Advisor

The Kaneb Services special committee retained Raymond James & Associates, Inc. to deliver its opinion as to the fairness, from a financial point of view, of the consideration to be received by Kaneb Services shareholders in connection with the Kaneb Services merger. On October 30, 2004, at a meeting of the Kaneb Services special committee, Raymond James delivered its written opinion that, as of that date, the merger consideration contemplated under the Kaneb Services merger agreement was fair, from a financial point of view, to the holders of Kaneb Services' common shares.

The full text of Raymond James' written opinion, dated October 30, 2004, which sets forth, among other things, the assumptions made, matters considered and limits on the review undertaken by Raymond James in connection with the opinion, is attached as Appendix D to this document and is incorporated into this document by reference. Kaneb Services' shareholders are urged to read Raymond James' opinion in its entirety. The summary of the Raymond James opinion set forth in this document is qualified in its entirety by reference to the full text of the opinion.

The Raymond James opinion is addressed to the Kaneb Services special committee for its consideration of the proposed Kaneb Services merger and is not a recommendation to any Kaneb Services shareholder as to whether the Kaneb Services merger is in that shareholder's best interest or as to whether any shareholder should vote for or against the Kaneb Services merger.

In connection with its review of the proposed Kaneb Services merger and the preparation of its opinion, Raymond James, among other things:

- Reviewed the financial terms and conditions as stated in the draft Kaneb Services merger agreement dated October 29, 2004;
- Reviewed Kaneb Services' Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and Kaneb Services' quarterly reports on Form 10-Q for the fiscal quarters ended March 31, 2004 and June 30, 2004;
- Reviewed other financial and operating information requested from and/or provided by Kaneb Services;
- Reviewed certain other publicly available information on Kaneb Services; and
- Discussed with members of the senior management of Kaneb Services certain information relating to the aforementioned and any other matters which it deemed relevant to its inquiry.

For the purposes of its opinion, Raymond James assumed and relied upon the accuracy and completeness of all information supplied or otherwise made available to it by Kaneb Services, Valero L.P. or any other party, and Raymond James undertook no duty or responsibility to verify independently any of this information. Raymond James did not perform an independent appraisal of the assets or liabilities of Kaneb Services. With respect to financial forecasts and other information and data provided to or otherwise reviewed by or discussed with Raymond James, Raymond James assumed that these forecasts and other information and data were reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of management, and Raymond James relied upon each party to promptly advise it of any inaccuracies in information previously provided or if any information previously provided needed to be updated during the period of its review.

The Raymond James opinion was based upon market, economic, financial and other circumstances and conditions existing and disclosed to Raymond James as of the date of its opinion. Any material change in such circumstances and conditions would require a reevaluation of this opinion, which Raymond James has not been requested to undertake.

The Raymond James opinion did not address the relative merits of the Kaneb Services merger or any other business strategy considered by Kaneb Services' board of directors in contemplation of the Kaneb Services merger.

The following is a summary of the financial analyses Raymond James presented to the Kaneb Services special committee on October 30, 2004 in connection with the delivery of its opinion. No company or transaction used in the analyses described below is directly comparable to Kaneb Services or the contemplated Kaneb Services merger. The information summarized in the tables that follow should be read in conjunction with the accompanying text.

Comparable Publicly Traded Company Analysis

Raymond James compared selected financial ratios for Kaneb Services with a group of companies that Raymond James considered to be reasonably comparable to Kaneb Services for purposes of its analysis. The comparable companies Raymond James analyzed in the preparation of its opinion were companies that controlled the general partner interest of publicly traded master limited partnerships, and included Crosstex Energy, Inc., Enbridge, Inc., and Kinder Morgan Inc.

Raymond James' analysis included, among other things, a review of: (1) equity market value; (2) the general partner interest in distributions from the associated master limited partnership; and (3) ratios of price per share to earnings per share. Raymond James calculated the ratio of price per share as of October 29, 2004 to earnings per share using projected 2004 and 2005 earnings per share estimates, as provided by First Call, a national data service that monitors and publishes compilations of earnings estimates by selected research analysts regarding companies of interest to institutional investors. The estimates published by First Call were not prepared in connection with the Kaneb Services merger or at Raymond James' request and might or might not prove to be accurate. Raymond James' analysis suggested the following relevant ranges for the comparable companies:

Ratio	Low	Mean	High
Price / 2004 EPS	17.1	22.1	31.6
Price / 2005 EPS	15.5	20.7	30.0

Raymond James compared these ratios to Kaneb Services' price to earnings ratios at both the latest closing price and the Kaneb Services merger consideration. Since the subject companies all pay income tax, in order to compare them to Kaneb Services, Raymond James applied an assumed tax rate of 32.5% to Kaneb Services' projected earnings. Applying this tax rate to First Call's projected earnings per share of $2.10 for 2004 and $2.14 for 2005 resulted in earnings of $1.42 and $1.45, respectively. Based on Kaneb Services' October 29, 2004 closing price of $31.40, the calculated price to earnings ratio is 22.1x for 2004 and 21.7x for 2005. Using the Kaneb Services merger consideration of $43.41 per share, the calculated price to earnings ratio is 30.5x for 2004 and 29.9x for 2005.

None of the comparable companies is identical to Kaneb Services. Accordingly, a complete analysis of the results of the foregoing calculations cannot be limited to a quantitative review of such results and involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the public valuation of the comparable companies, as well as that of Kaneb Services.

Precedent Transaction Analysis

Raymond James analyzed the purchase price and transaction value multiples for the Kaneb Services merger based upon an analysis of eight comparable precedent transactions involving the acquisition of a General Partner, or GP, of a publicly traded Master Limited Partnership, or MLP.

Acquirer	Seller
BPL Acquisition L.P.	Glenmoor, Ltd.
Enterprise Products GTM, LLC	El Paso Corporation
El Paso Corporation	Goldman Sachs
La Grange Energy	AGL Resources et al.
Goldman Sachs	El Paso Corporation
WEG Acquisitions, LP	Williams Companies, Inc.
Tejas Energy, LLC	EPC Partners II, Inc.
Suburban Energy Services Group, LLC	Millennium Chemicals, Inc.

Raymond James' analysis of each of these included, among other things, a review of: (1) the purchase price of the GP and any MLP units held by the GP; (2) the equity value of the MLP units held by the GP; (3) the ratios of the GP purchase price to the most recent annualized distributions received for the GP interest; and (4) the ratios of the purchase price of the GP and the associated MLP units held by the GP to the sum of the most recent annualized distributions received for the GP interest and the MLP units held by the GP. Raymond James' analysis suggested the following relevant range for the precedent transactions:

Ratio	Low	Mean	High
GP Purchase Price / Annualized GP Distribution	5.1x	9.6x	14.3x
GP and MLP Unit Purchase Price / Annualized GP and MLP Distribution	9.4x	9.8x	10.2x

Using the Kaneb Services merger consideration of $43.31 per share, the ratio of Kaneb Services' implied GP purchase price to annualized GP distribution is 24.2x, and the ratio of implied GP and MLP unit purchase price to annualized GP and MLP distribution is 18.5x.

None of the comparable precedent transactions considered by Raymond James was identical to the proposed Kaneb Services merger. An analysis of the results, therefore, requires complex considerations and judgments regarding the financial and operating characteristics of Kaneb Services and the companies involved in the comparable precedent transactions analysis, as well as other facts that could affect their transaction values.

Premiums Paid Analysis

Raymond James analyzed publicly available information relating to eight selected corporate transactions. The precedent transactions were chosen based on a review of target companies that had general business, operating and financial characteristics representative of companies in the industry in which Kaneb Services operates. The comparable precedent transactions Raymond James reviewed in the preparation of its opinion included:

Acquirer	Target
Dominion Resources	Consolidated Natural Gas Co.
NiSource	Columbia Energy Group
El Paso Energy	The Coastal Corporation
Advantage Management Group	Kenan Transport Company
Enbridge Inc.	Midcoast Energy Resources
Duke Energy	Westcoast Energy
Vulcan Capital	Plains Resouces
Enterprise Products Partners	GulfTerra Energy Partners

For this group of comparable precedent transactions, Raymond James calculated; (1) the purchase price's premium to the unaffected stock price of the target one day prior to announcement of the transaction; (2) the purchase price's premium to the unaffected stock price of the target one week prior to announcement of the transaction; and (3) the purchase price's premium to the unaffected stock price of the target one month prior to announcement of the transaction. Raymond James' analysis suggested the following relevant ranges for the precedent transactions:

Premium to:	Low	Mean	High
Target stock price one day prior	2.2%	21.1%	34.6%
Target stock price one week prior	3.7%	26.2%	45.8%
Target stock price one month prior	2.1%	23.3%	45.7%

Based on the Kaneb Services merger consideration of $43.31 per share, the calculated premium to be paid in the Kaneb Services merger is 37.9% one day prior, 33.6% one week prior, and 35.0% one month prior to the November 1, 2004 announcement of the transaction.

None of the comparable precedent transactions considered by Raymond James was identical to the proposed Kaneb Services merger. An analysis of the results, therefore, requires complex considerations and judgments regarding the financial and operating characteristics of Kaneb Services and the companies involved in the comparable precedent transactions analysis, as well as other facts that could affect their transaction values.

Discounted Cash Flow Analysis

Raymond James performed a discounted cash flow analysis. Ordinarily in performing a discounted cash flow analysis, Raymond James would use financial projections for a multi-year period. Kaneb Services, however, only creates projections for the coming year in the belief that it is not possible to forecast with any accuracy over a longer period of time. Thus, Raymond James informed the special committee that it was not possible to perform a discounted cash flow analysis in which the projected cash flows for a number of years are discounted back to present value. Therefore, Raymond James estimated the present value of future cash flows by capitalizing Kaneb Services' projected 2005 equity cash flow. Raymond James, however, was able to estimate the total value of future cash flows by capitalizing the predicted equity cash flow to Kaneb Services for 2005. The capitalization rate used was the reciprocal of the discount rate less an assumed growth rate. Raymond James calculated a discount rate range of 7.5% to 9.0% using the Capital Asset Pricing Model. The growth rate range used was 0% to 3% per year, and Raymond James assumed that Kaneb Services would not make a material acquisition in the future since none was currently planned and any attempt to evaluate the positive or negative effects of such an acquisition would be entirely dependent upon the assumptions used.

Using Kaneb Services' projected 2005 equity cash flow of $27.8 million, which is based on internal estimates of Kaneb Services' management, Raymond James calculated a range of Kaneb Services equity value per share. Using a 9.0% discount rate and 0% growth rate, the calculated Kaneb Services equity value per share is $25.48. Using a 7.5% discount rate and 3% growth rate, the calculated Kaneb Services equity value per share is $50.96.

Miscellaneous

The preparation of a fairness opinion is a complex process and involves various judgments and determinations as to the most appropriate and relevant assumptions and financial analyses and the application of these methods to the particular circumstances involved. Such an opinion is therefore not readily susceptible to partial analyses or summary description and taking portions of the analyses set out above, without considering the analyses as a whole, would, in the opinion of Raymond James, create an incomplete and misleading picture of the processes underlying the analyses considered in rendering Raymond James' opinion. In arriving at its opinion, Raymond James did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Raymond James believes that its analyses must be considered as a whole and that selecting portions of its analyses, without considering all analyses, would create an incomplete view of the process underlying its opinion. These analyses were prepared solely as a part of Raymond James' analysis of the fairness, from a financial point of view, to the Kaneb Services shareholders of the consideration to be paid by Valero L.P. under the Kaneb Services merger agreement. The summary in this document of Raymond James' opinion is qualified in its entirety by reference to the full text of Raymond James' opinion.

Under a letter agreement dated October 21, 2004, Kaneb Services has agreed to pay Raymond James customary fees for the delivery of its fairness opinion. In addition, Kaneb Services has agreed to reimburse Raymond James for its reasonable out-of-pocket expenses (including reasonable legal fees) incurred by Raymond James in connection with the engagement. No portion of Raymond James' fee was contingent upon the consummation of the Kaneb Services merger or the conclusions reached by Raymond James in its opinion.

As a condition of the engagement, Kaneb Services has also agreed to indemnify Raymond James, its directors, officers, agents, employees and controlling persons against certain liabilities, including liabilities under the federal securities laws, relating to or arising out of Raymond James' engagement.

Raymond James & Associates, Inc., a subsidiary of Raymond James Financial, Inc., is a nationally recognized investment banking firm. Raymond James and its affiliates, as part of their investment banking activities, are regularly engaged in the valuation of businesses and their securities in connection with merger transactions and other types of acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. Kaneb Services selected Raymond James as its financial advisor on the basis of Raymond James' experience and expertise in mergers and acquisitions transactions. In the ordinary course of business, Raymond James or its affiliates may actively trade the debt and equity securities of Kaneb Services, Kaneb Partners and Valero L.P. for its or any such affiliate's own account or for the account of customers and, accordingly, may hold a long or short position in such securities.

Opinion of Kaneb Partners' Financial Advisor

Houlihan Lokey acted as financial advisor to the Kaneb Partners special committee in connection with the proposed Kaneb Partners merger and evaluated the fairness, from a financial point of view, of the exchange ratio of the number of Valero L.P. common units into which each Kaneb Partners unit will be converted upon completion of the Kaneb Partners merger, as described in the Kaneb Partners merger agreement, to Kaneb Partners unitholders, other than Kaneb Partners' general partner and its affiliates and the officers and members of management of Kaneb Partners' general partner and Kaneb Services. The fairness opinion was prepared to assist the Kaneb Partners special committee in evaluating the terms of the proposed Kaneb Partners merger.

On October 30, 2004, at a meeting of the Kaneb Partners special committee held to evaluate the Kaneb Partners merger and to form a recommendation to Kaneb Partners' general partner's board of directors, Houlihan Lokey presented to the Kaneb Partners special committee its summary analyses and indicated that, subject to review of the final Kaneb Partners merger transaction documents, Houlihan Lokey was prepared to deliver its written opinion that the exchange ratio in the Kaneb Partners merger is fair, from a financial point of view, to the Kaneb Partners unitholders, other than Kaneb Partners' general partner and its affiliates and the officers and members of management of Kaneb Partners' general partner and Kaneb Services. On October 31, 2004, at a meeting of Kaneb Partners' general partner's board of directors held to evaluate the Kaneb Partners merger, Houlihan Lokey delivered to Kaneb Partners' general partner's board of directors an oral opinion, which was confirmed by delivery of the opinion to Kaneb Partners' general partner's board of directors on the same date, to the effect that, as of that date and based on and subject to various assumptions made, matters considered and limitations described in the opinion, the exchange ratio in the Kaneb Partners merger is fair, from a financial point of view, to the Kaneb Partners unitholders, other than Kaneb Partners' general partner and its affiliates and the officers and members of management of Kaneb Partners' general partner and Kaneb Services.

The full text of Houlihan Lokey's opinion describes, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Houlihan Lokey. Houlihan Lokey's opinion is attached as Appendix E to this document. The Kaneb Partners unitholders are encouraged to read Houlihan Lokey's opinion carefully in its entirety.

Houlihan Lokey's opinion is directed only to the fairness, from a financial point of view, of the exchange ratio in the Kaneb Partners merger to the Kaneb Partners unitholders, other than Kaneb Partners' general partner and its affiliates and the officers and members of management of Kaneb Partners' general partner and Kaneb Services, and does not address any other aspect of the Kaneb Partners merger. In particular, in arriving at its opinion, Houlihan Lokey did not analyze, compare or address the relative value of

- the consideration to be received by any or all of Kaneb Partners' general partner and its affiliates and the officers and members of management of Kaneb Partners' general partner and Kaneb Services, on the one hand, and

- the Valero L.P. common units to be received by all other Kaneb Partners unitholders under the exchange ratio in the Kaneb Partners merger, on the other hand.

Houlihan Lokey expresses no opinion as to what the value of Valero L.P.'s common units will be when issued under the Kaneb Partners merger or the prices at which the Valero L.P. common units will trade in the future.

The opinion does not address Kaneb Partners' underlying business decision to effect the Kaneb Partners merger or constitute a recommendation to the Kaneb Partners unitholders as to how such Kaneb Partners unitholders should vote with respect to the Kaneb Partners merger or any other matter. Houlihan Lokey has not been requested to, and did not, solicit third party indications of interest in acquiring all or any part of Kaneb Partners. Furthermore, at Kaneb Partners' general partner's board of directors' request, Houlihan Lokey has not negotiated the Kaneb Partners merger agreement or advised Kaneb Partners' general partner's board of directors with respect to the merits of the Kaneb Partners merger as compared to other business strategies or transactions that might be available to Kaneb, and has not been asked to, and does not, offer any opinion as to the material terms of the Kaneb Partners merger agreement other than the exchange ratio or the form of the Kaneb Partners merger. The exchange ratio in the Kaneb Partners merger was determined through negotiations between Kaneb and Valero L.P. and not as a result of a recommendation by Houlihan Lokey, and the decision to enter into the Kaneb Partners merger was solely that of Kaneb Partners' general partner's board of directors.

In connection with its opinion, Houlihan Lokey made such reviews, analyses and inquiries, as deemed necessary and appropriate under the circumstances. Among other things, Houlihan Lokey:

- reviewed Kaneb Partners' annual reports on Form 10-K for the fiscal years ended December 31, 2001, 2002 and 2003 and quarterly reports on Form 10-Q for the two quarters ended June 30, 2004, and Kaneb Partners-prepared interim financial statements for the period ended September 30, 2004, which Kaneb Partners' management identified as being the most current financial statements available;

- reviewed Valero L.P.'s annual reports on Form 10-K for the fiscal years ended December 31, 2001, 2002 and 2003 and quarterly reports on Form 10-Q for the two quarters ended June 30, 2004, and Valero L.P.-prepared interim financial statements for the period ended September 30, 2004, which Valero L.P.'s management identified as being the most current financial statements available;

- reviewed the Kaneb Partners merger agreement;

- reviewed the Kaneb Partners partnership agreement;

- reviewed the Valero L.P. partnership agreement;

- met with certain members of the senior management of Kaneb Partners and Valero L.P. to discuss the operations, financial condition, future prospects and projected operations and performance of Kaneb Partners and Valero L.P.;

- reviewed forecasts and projections prepared by Kaneb Partners' management with respect to Kaneb Partners for the years ending December 31, 2004 through 2005;

- reviewed forecasts and projections prepared by Valero L.P.'s management with respect to Valero L.P. for the years ending December 31, 2004 through 2009;

- reviewed drafts of certain documents to be delivered at the closing of the Kaneb Partners merger;

- reviewed the historical market prices and trading volume for Kaneb Partners' and Valero L.P.'s publicly traded securities;

- reviewed other publicly available financial data for companies that Houlihan Lokey deemed comparable to Kaneb Partners and Valero L.P., and publicly available prices paid in other transactions that Houlihan Lokey considered similar to the Kaneb Partners merger; and

- conducted such other studies, analyses and inquiries as Houlihan Lokey deemed appropriate.

Houlihan Lokey has not independently verified the accuracy and completeness of the information supplied to Houlihan Lokey with respect to Kaneb Partners and Valero L.P. and does not assume any responsibility with respect to it. With respect to the estimates, financial forecasts, pro forma effects (including debt financing) and calculations of cost savings and other synergies referred to above, Houlihan Lokey has assumed, at Kaneb Partners' general partner's special committee's direction, that they have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of management of Kaneb Partners and management of Valero L.P. as to the future performance of their respective companies and that there has been no material change in the assets, financial condition, business or prospects of Kaneb Partners and Valero L.P. since the date of the most recent financial statements made available to Houlihan Lokey. Houlihan Lokey has assumed, with Kaneb Partners' general partner's special committee's approval, that the estimates, financial forecasts, pro forma effects (including debt financing) and calculations of cost savings and other synergies referred to above will be achieved at the times and in the amounts and rates projected. Houlihan Lokey has assumed, with Kaneb Partners' general partner's special committee's consent, that all interim and permanent financings contemplated in connection with the Kaneb Partners merger will be obtained without any material adverse effect on Kaneb Partners and/or Valero L.P. and the Kaneb Partners merger will qualify as a tax-free merger for U.S. federal income tax purposes. Houlihan Lokey has assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the Kaneb Partners merger will be obtained without any adverse effect on either or both of Kaneb and Valero L.P. and the Kaneb Partners merger.

Houlihan Lokey's opinion is necessarily based on business, economic, market and other conditions as they exist and can be evaluated by Houlihan Lokey at the date of its opinion. Except as described above and in Houlihan Lokey's analyses described below, Kaneb Partners' general partner's special committee imposed no other instructions or limitations on Houlihan Lokey with respect to the investigations made or the procedures followed by Houlihan Lokey in rendering its opinion.

Houlihan Lokey's Analysis

In connection with rendering its opinion, Houlihan Lokey performed a variety of financial and comparative analyses, including, but not limited to, those described below. The preparation of a fairness opinion is a complex process and involves various judgments and determinations as to the most appropriate and relevant assumptions and financial analyses and the application of these methods to the particular circumstances involved. Fairness opinions are therefore not necessarily susceptible to partial analysis or summary description.

Accordingly, Houlihan Lokey believes that its analyses and the summary set forth below must be considered as a whole and that selecting portions of its analyses, or focusing on information in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying the analyses performed by Houlihan Lokey in connection with its opinion. In arriving at its opinion, Houlihan Lokey did not attribute any particular weight to any analyses or factors considered by Houlihan Lokey and did not form an opinion as to whether any individual analysis or factor (positive or negative), considered in isolation, supported or failed to support Houlihan Lokey's opinion. Rather, Houlihan Lokey arrived at its final opinion based on the results of all analyses undertaken and assessed as a whole, and believes all of the factors considered and analyses it performed in connection with its opinion operated collectively to support its determination as to the fairness of the exchange ratio in the Kaneb Partners merger, from a financial point of view, to the Kaneb Partners unitholders, other than Kaneb Partners' general partner and its affiliates and the officers and members of management of Kaneb Partners' general partner and Kaneb Services.

The analyses performed by Houlihan Lokey are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by the analyses. The analyses were prepared solely as part of Houlihan Lokey's analysis of the fairness of the exchange ratio in the Kaneb Partners merger, from a financial point of view, to the Kaneb Partners unitholders, other than Kaneb Partners' general partner and its affiliates and the officers and members of management of Kaneb Partners' general partner and Kaneb Services.

The following is a summary of the material financial analyses performed by Houlihan Lokey in connection with providing its opinion to the special committee of the board of directors of Kaneb Partners' general partner.

Pro Forma Kaneb Partners Merger Analysis

Houlihan Lokey analyzed the potential pro forma impact of the Kaneb Partners merger on Kaneb's

- distribution per common unit,
- distribution coverage ratio (defined as distributable cash flow, as defined below, divided by distributions to common unit holders) and
- distributable cash flow (defined as EBITDA less cash interest expense and maintenance capital expenditures)

per common unit for fiscal year 2005 by comparing Kaneb Partners' metrics on a stand-alone basis to the metrics to the Kaneb Partners unitholders pro forma for the Kaneb Partners merger. For purposes of its pro forma analysis, at the direction of Kaneb Partners' general partner's special committee, Houlihan Lokey made various assumptions relating to annual expected, Kaneb Partners merger related synergies.

According to the terms of the Kaneb Partners merger agreement, a base line exchange ratio was established based on Valero L.P.'s common unit trading price as of October 7, 2004, which implies an exchange ratio of 1.0742 Valero L.P. common units for each Kaneb Partners unit. A fixed value collar was set at +/-5.0% of the base line exchange ratio. Within this fixed value collar, the exchange ratio in the Kaneb Partners merger fluctuates based on changes in Valero L.P.'s common unit price, and the Kaneb Partners unitholders will receive a fixed value per Kaneb Partners unit of $61.50. Outside the exchange ratio in the Kaneb Partners merger collar, the exchange ratio in the Kaneb Partners merger remains fixed. Specifically, the exchange ratio in the Kaneb Partners merger is fixed at 1.1307, which we refer to as the Maximum Exchange Ratio, at the lower end of the exchange ratio in the Kaneb Partners merger collar (-5.0% of the base line exchange ratio) and 1.0231, which we refer to as the Minimum Exchange Ratio, at the upper end of the exchange ratio in the Kaneb Partners merger collar (+5.0% of the base line exchange ratio). In Houlihan Lokey's analysis, the hypothetical current exchange ratio is 1.1043, based on Valero L.P.'s common unit, 10-day average trading price as of October 29, 2004.

Utilizing a pro forma 2005 common unit distribution target of $3.42, Houlihan Lokey analyzed the expected accretion or dilution resulting from the Kaneb Partners merger under three possible exchange ratio scenarios: the Minimum Exchange Ratio, Current Exchange Ratio and Maximum Exchange Ratio.

Distribution Per Common Unit	**Minimum**	**Current**	**Maximum**
2005 Pro forma Distribution per Common Unit	$ 3.42	$ 3.42	$ 3.42
Exchange Ratio	1.0231	1.1043	1.13107
2005 Equivalent Distribution per Kaneb Common Unit	$ 3.50	$ 3.78	$ 3.87
Current Projected Distribution per Kaneb Partners Unit	$ 3.42	$ 3.42	$ 3.42
Accretion	2.3%	10.5%	13.2%

Houlihan Lokey also analyzed the distribution coverage ratio on a pro forma basis for the Kaneb Partners merger compared to Kaneb's forecast 2005 distribution coverage ratio on a stand alone basis under the Minimum Exchange Ratio, Current Exchange Ratio and Maximum Exchange Ratio scenarios, with and without the Kaneb Partners merger related synergies. Under all three exchange ratio scenarios, with and without the Kaneb Partners merger related synergies, the distribution coverage ratio is expected to be lower pro forma for the Kaneb Partners merger.

Distribution Coverage Ratio	Minimum	Current	Maximum
Without Synergies			
2005 Pro forma Coverage Ratio	1.13	1.09	1.07
2005 Kaneb Coverage Ratio	1.28	1.28	1.28
% Change	-11.7%	-14.8%	-16.2%
With Synergies			
2005 Pro forma Coverage Ratio	1.24	1.20	1.18
2005 Kaneb Coverage Ratio	1.28	1.28	1.28
% Change	-3.1%	-6.7%	-7.8%

Houlihan Lokey noted that the distribution coverage ratio for comparable companies referenced below for fiscal year 2003 ranged from 0.92 to 1.34, with a mean 1.09 of and a median of 1.06. Kaneb Partners' and Valero L.P.'s distribution coverage ratios for fiscal year 2003 are 1.21 and 1.32, respectively.

Additionally, utilizing the forecast 2005 distributable cash flow per common unit on a pro forma basis for the Kaneb Partners merger compared to Kaneb Partners' 2005 forecast distributable cash flow per common unit on a stand alone basis, Houlihan Lokey analyzed the accretion or dilution that would result from the Kaneb Partners merger under the Minimum Exchange Ratio, Current Exchange Ratio and Maximum Exchange Ratio scenarios, with and without the Kaneb Partners merger related synergies.

Distributable Cash Flow	Minimum	Current	Maximum
Without Synergies			
2005 Pro forma Distributable Cash Flow per Common Unit	$ 3.87	$ 3.72	$ 3.67
Exchange Ratio	1.023	1.104	1.131
2005 Pro forma Distributable Cash Flow per Kaneb Partners Unit	$ 3.96	$ 4.11	$ 4.15
2005 Distributable Cash Flow per Kaneb Partners Unit	$ 4.39	$ 4.39	$ 4.39
Dilution	-9.8%	-6.4%	-5.5%
With Synergies			
2005 Pro forma Distributable Cash Flow per Common Unit	$ 4.25	$ 4.09	$ 4.04
Exchange Ratio	1.023	1.104	1.131
2005 Pro forma Distributable Cash Flow per Kaneb Partners Unit	$ 4.35	$ 4.52	$ 4.57
2005 Distributable Cash Flow per Kaneb Partners Unit	$ 4.39	$ 4.39	$ 4.39
Accretion / Dilution	-0.9%	3.0%	4.1%

Contribution Analysis

Utilizing financial projections provided by Kaneb Partners and Valero L.P. management, Houlihan Lokey analyzed the Kaneb Partners unitholders' and Valero L.P.'s common unit holders' respective contribution of forecasted EBITDA and distributable cash flow to the combined company for fiscal years 2004 and 2005, on a pro forma basis for the Kaneb Partners merger, under two scenarios. The first, pre-transaction, scenario excludes the purchase of Kaneb Services by Valero L.P. and the second, post-transaction, scenario includes the purchase of Kaneb Services by Valero L.P. Houlihan Lokey derived the effective, economic interests contributed by the Kaneb Partners unitholders, Valero L.P.'s common units holders and Kaneb Partners' and Valero L.P.'s general partners based on Kaneb Partners' and Valero L.P.'s then existing general partners' incentive distribution structures. Additionally, Houlihan Lokey analyzed the Kaneb Partners unitholders' and Valero L.P.'s common unit holders' respective contributions to equity value and enterprise value for the combined company, on a pro forma basis for the Kaneb Partners merger, under each scenario. Kaneb and Valero L.P. management projections utilized in Houlihan Lokey's contribution analysis did not include the Kaneb Partners merger related synergies. Houlihan Lokey performed its contribution analysis for the Current Exchange Ratio and Minimum Exchange Ratio scenarios.

	Pre-Transaction		Post Transaction	
Current Exchange Ratio Scenario	**Kaneb Partners**	**Valero L.P.**	**Kaneb Partners**	**Valero L.P.**
2004				
EBITDA	53.3%	46.7%	N/A	N/A
distributable cash flow	50.0%	50.0%	N/A	N/A
Equity Value	52.7%	47.3%	N/A	N/A
Enterprise Value	53.3%	46.7%	N/A	N/A
2005				
EBITDA	54.6%	45.4%	45.7%	54.3%
distributable cash flow	52.8%	47.2%	50.4%	49.6%
Equity Value	52.7%	47.3%	52.7%	47.3%
Enterprise Value	53.3%	46.7%	44.3%	55.7%

	Pre-Transaction		Post-Transaction	
Minimum Exchange Ratio Scenario	**Kaneb Partners**	**Valero L.P.**	**Kaneb Partners**	**Valero L.P.**
2004				
Equity Value	50.8%	49.2%	N/A	N/A
Enterprise Value	51.9%	48.1%	N/A	N/A
2005				
Equity Value	50.8%	49.2%	50.8%	49.2%
Enterprise Value	51.9%	48.1%	42.9%	57.1%

Historical Exchange Ratio / Market Price Premium Analysis

Houlihan Lokey reviewed the common unit trading prices of Kaneb Partners and Valero L.P. as of October 29, 2004 and for the preceding day and the average unit/common unit trading prices for the 10-day, 20-day, 30-day, 60-day, 90-day, 120-day, one-year, two-year and three-year periods preceding October 29, 2004, and calculated the difference between the Minimum Exchange Ratio, Current Exchange Ratio and Maximum Exchange Ratio and the historical exchange ratio of the two company's units for the various periods as shown below. Houlihan Lokey's market price premium analysis indicated the premiums illustrated below, based on the fixed, common unit price of $61.50, which is within the collar in the Kaneb Partners merger exchange ratio, and Valero L.P.'s common unit trading price as of October 29, 2004.

		Exchange Ratio Analysis			Market Price Premium Analysis*	
Period	**Kaneb Partners/Valero L.P. Historical Exchange Ratio**	**Minimum Exchange Ratio % Change**	**Current Exchange Ratio % Change**	**Maximum Exchange Ratio % Change**	**Kaneb Partners Historical Stock Price**	**Implied Premium**
1-Day	0.903	13.3%	22.3%	25.2%	$50.76	21.2%
10-Day Average	0.929	10.2%	18.9%	21.8%	$51.68	19.0%
20-Day Average	0.924	10.7%	19.5%	22.4%	$51.87	18.6%
30-Day Average	0.926	10.5%	19.3%	22.2%	$51.71	18.9%
60-Day Average	0.928	10.3%	19.0%	21.9%	$50.60	21.5%
90-Day Average	0.929	10.2%	18.9%	21.8%	$49.35	24.6%
120-Day Average	0.931	9.9%	18.6%	21.5%	$47.89	28.4%
1-Year Average	0.968	5.7%	14.1%	16.8%	$47.98	28.2%
2-Year Average	0.979	4.5%	12.8%	15.5%	$42.28	45.4%
3-Year Average	0.989	3.4%	11.6%	14.3%	$39.03	57.6%

*

Based on the fixed, common unit price of $61.50, which is the fixed price within the collar in the Kaneb Partners merger exchange ratio.

Analysis of Comparable Companies

Houlihan Lokey reviewed and analyzed the financial information and ratios and public market multiples of the following eight publicly traded master limited partnerships, or MLPs, in the energy midstream industry:

Buckeye Partners, L.P.

Enbridge Energy Partners, L.P.

Kinder Morgan Energy Partners, L.P.

Magellan Midstream Partners, L.P.

Pacific Energy Partners, L.P.

Plains All American Pipeline, L.P.

Sunoco Logistics Partners, L.P.

TEPPCO Partners, L.P.

Houlihan Lokey chose the foregoing selected companies because they are publicly traded MLPs in the energy midstream industry with operations that Houlihan Lokey believes to be comparable to Kaneb and Valero L.P. for the purposes of this analysis. For the MLPs, Kaneb Partners and Valero L.P., Houlihan Lokey then calculated:

the ratio of enterprise value, calculated as equity value plus total debt less cash and cash equivalents, to latest twelve month (or LTM) and estimated EBITDA for the fiscal years ending December 31, 2004 and 2005. Historical EBITDA information was based upon publicly available information. Estimates for 2004 and 2005 EBITDA for the selected MLPs were compiled from analysts' estimates;

the ratio of common unit price to common unit LTM and estimated distributions for the fiscal years ending December 31, 2004 and 2005. Historical common unit distribution information was based upon publicly available information. Estimates for 2004 and 2005 common unit distributions for the selected MLPs were compiled from analysts' estimates; and

the ratio of common equity value to distributable cash flow to common unit holders for the fiscal years ending December 31, 2004 and 2005. Estimates for 2004 and 2005 distributable cash flows for the selected MLPs were compiled from analysts' estimates.

Houlihan Lokey's comparable companies analysis indicated the following market multiples compared to Kaneb Partners' and Valero L.P.'s stand alone market multiples and Kaneb Partners' multiples implied by the Kaneb Partners merger. Houlihan Lokey compared Kaneb Partners' multiples implied by the Kaneb Partners merger, using the fixed, common unit price of $61.50, which is within the collar in the Kaneb Partners merger exchange ratio.

	EV / EBITDA			**Common Unit Price / Common Unit Distribution**			**Common Equity / Distributable Cash to Common Unit Holders**	
Selected MLPs	**LTM**	**2004E**	**2005E**	**LTM**	**2004E**	**2005E**	**2004E**	**2005E**
Mean	13.6x	11.6x	10.7x	15.5x	15.2x	14.6x	13.7x	13.2x
Median	13.2x	11.0x	10.4x	15.5x	15.3x	14.7x	13.6x	13.2x
High	16.2x	13.8x	12.4x	17.7x	16.9x	16.2x	15.5x	14.3x
Low	11.7x	10.5x	9.4x	12.7x	12.7x	12.6x	12.5x	12.1x
Kaneb Partners	11.0x	10.8x	10.6x	15.0x	14.9x	14.5x	12.3x	12.2x
Valero L.P.	13.0x	12.6x	12.2x	17.8x	17.6x	16.9x	14.0x	13.7x
Implied Kaneb Partners Merger Multiples	12.6x	12.4x	12.2x	18.2x	18.0x	17.6x	14.9x	14.8x

Houlihan Lokey noted that none of the MLPs is either identical or directly comparable to Kaneb Partners or Valero L.P. and that any analysis of the selected MLPs necessarily involves complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading of the selected MLPs.

Analysis of Transaction Comparables

Houlihan Lokey reviewed selected, precedent transactions involving the acquisition of oil- and/or gas-related assets or companies for which enterprise value and LTM EBITDA information was available. Houlihan Lokey's transaction study is based on announced and completed acquisitions with announcement dates between January 1, 2002 and October 29, 2004. Houlihan Lokey reviewed twenty-five transactions involving oil-related assets or companies and nineteen involving natural gas related assets or companies. Financial data for the selected transactions were based on publicly available information, including publicly available analyst reports. Houlihan Lokey then calculated, where available, enterprise value to LTM EBITDA multiples for each selected, precedent transaction and compared the results to the 12.6x LTM EBITDA multiple implied by the Kaneb Partners merger, using the fixed, common unit price of $61.50, which is within the exchange ratio in the Kaneb Partners merger collar.

A summary of the calculated enterprise value to LTM EBITDA multiples for the selected, precedent transactions is illustrated below.

	All Transactions	Oil	Gas
Mean	7.6x	7.6x	7.5x
Median	7.6x	8.1x	7.5x
High	14.5x	14.5x	11.8x
Low	3.8x	3.8x	4.8x

Houlihan Lokey noted that none of the selected, precedent transactions are either identical or directly comparable to the Kaneb Partners merger and that any analysis of selected, precedent transactions necessarily involves complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition values of the companies concerned.

Selected MLP Unit-for-Unit Merger Transactions

Houlihan Lokey separately reviewed two merger transactions that it deemed to be comparable to the Kaneb Partners merger. Both transactions involved publicly traded MLPs in the energy midstream industry in unit-for-unit merger transactions. Summary data for these transactions is illustrated below.

	Enterprise / GulfTerra Implied Multiples	Kinder Morgan / Santa Fe Implied Multiples	Kaneb / Valero L.P. Implied Multiples
Transaction Equity Value to LTM Aggregate Distributable Cash Flow	N/A	18.5x	17.1x
Transaction Enterprise Value to LTM EBITDA	11.8x	12.7x	12.6x
Implied Transaction Market Price Premiums			
1-Day	2.2%	38.5%	21.2%
10-Day	3.7%	23.6%	19.0%
30-Day	5.8%	25.6%	18.9%

Miscellaneous

The Kaneb Partners special committee selected Houlihan Lokey as their financial advisor in connection with the Kaneb Partners merger because Houlihan Lokey is a nationally recognized investment banking firm that is engaged in providing financial advisory services, including fairness opinions, in connection with mergers and acquisitions, leveraged buyouts, business and securities valuations for a variety of regulatory and planning purposes, recapitalizations, financial restructurings and private placements of debt and equity securities.

Under the terms of the engagement letter dated October 18, 2004, Kaneb Partners has agreed to pay Houlihan Lokey a customary fee for its services in connection with its engagement as financial advisor. No portion of Houlihan Lokey's fees was contingent upon the consummation of the Kaneb Partners merger or the conclusions reached by Houlihan Lokey in its opinion. Kaneb Partners has agreed to reimburse Houlihan Lokey for its reasonable out-of-pocket expenses. Kaneb Partners has also agreed to indemnify and hold harmless Houlihan Lokey and its affiliates, and their respective directors, officers, shareholders, employees, agents, representatives, advisors and controlling persons from and against all losses, claims, damages or liabilities arising out of, related to or in connection with its engagement by Kaneb Partners.

In the ordinary course of trading activities of Houlihan Lokey affiliates, Houlihan Lokey may from time to time have long or short positions in and buy or sell debt or equity securities or options on securities of Kaneb Partners and other companies that are or may be involved in the Kaneb Partners merger.

Regulatory Approvals Required for the Mergers

Valero L.P., Kaneb Services and Kaneb Partners have agreed to use their respective reasonable best efforts to obtain all regulatory approvals required in order to consummate the mergers. Valero L.P., Kaneb Services and Kaneb Partners have either filed, or intend to file promptly after the date of this document, applications and notifications to obtain the required regulatory approvals. Valero L.P., Kaneb Services and Kaneb Partners cannot provide any assurances that the required regulatory approvals will be obtained, as to what, if any, conditions the regulatory authorities will place on the granting of the approvals that may affect the combined company and, if obtained, as to the date of any of these approvals or the absence of any litigation challenging them or the mergers.

The HSR Act prohibits Valero L.P., Kaneb Services and Kaneb Partners from completing the mergers until certain information and materials have been provided to the U.S. Federal Trade Commission, or FTC, and the Antitrust Division of the U.S. Department of Justice, and certain waiting periods have expired or been terminated. On November 12, 2004, Valero L.P., Kaneb Services and Kaneb Partners filed their Premerger Notification and Report Forms under the HSR Act with the FTC and the Antitrust Division. The waiting period will expire at 11:59 p.m., New York City Time on December 13, 2004, unless it is terminated earlier by the FTC and the Antitrust Division or is extended if the FTC or the Antitrust Division requests additional information or documentary material. If such a request is made, the waiting period will be extended until 11:59 p.m., New York City time, on the thirtieth day after substantial compliance by Valero L.P., Kaneb Services and Kaneb Partners with the request. Even after the waiting period expires or has been terminated, the FTC or the Antitrust Division could take any action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the mergers or to compel a divestiture of the shares being acquired or substantial assets of Valero L.P., Kaneb Services or Kaneb Partners. Other parties, including State Attorneys General and private parties, could also seek to review and/or challenge the mergers on antitrust grounds. We can give no assurance that a challenge to the mergers on antitrust grounds will not be made or, if such challenge is made, that it would not be successful.

We also may be required to make filings and obtain regulatory approvals from various other governmental authorities. Where necessary or advisable, the parties intend to make such filings. See "The Kaneb Services Merger Agreement Additional Covenants Reasonable Best Efforts"; "The Kaneb Services Merger Agreement Conditions"; "The Kaneb Partners Merger Agreement Additional Covenants Reasonable Best Efforts" and "The Kaneb Partners Merger Agreement Conditions."

Material U.S. Federal Income Tax Considerations

The following discussion summarizes the material U.S. federal income tax considerations of the Kaneb Services merger and the Kaneb Partners merger that are applicable to Valero L.P. unitholders, Kaneb Partners unitholders and Kaneb Services shareholders, as well as the material U.S. federal income tax considerations that are applicable to owning Valero L.P. common units received in the Kaneb Partners merger. This discussion is based upon current provisions of the Internal Revenue Code of 1986, as amended, or Code, existing and proposed Treasury regulations promulgated thereunder, including temporary regulations, and current administrative rulings and court decisions, all of which are subject to change, possibly with retroactive effect. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below.

This discussion does not purport to be a complete discussion of all U.S. federal income tax consequences of the mergers or Valero L.P. common unit ownership. Moreover, this discussion focuses on Valero L.P. unitholders, Kaneb Partners unitholders and Kaneb Services shareholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, nonresident aliens, other unitholders or shareholders subject to special tax treatment, such as tax-exempt institutions, foreign persons, individual retirement accounts, or IRAs, real estate investment trusts, or REITs, mutual funds, traders in securities that elect to mark-to-market, Kaneb Partners unitholders who acquired Kaneb Partners common units from Kaneb Partners in exchange for property other than cash, or persons who hold Valero L.P. common units, Kaneb Partners common units or Kaneb Services common shares as part of a hedge, straddle, constructive sale or conversion transaction. Also, this discussion assumes that the Valero L.P. common units, Kaneb Partners common units and Kaneb Services common shares are held as capital assets (within the meaning of Section 1221 of the Code) at the effective time of the mergers and that Valero L.P. common units will be held as capital assets after the mergers.

Furthermore, except as specifically provided, this discussion does not address the tax considerations arising under the U.S. federal estate or gift tax laws or under the laws of any state, local, foreign or other taxing jurisdiction or under any applicable treaty.

If a Valero L.P. unitholder, Kaneb Partners unitholder or Kaneb Services shareholder is an entity classified as a partnership for U.S. federal income tax purposes, the tax treatment of each partner of such partnership generally will depend upon the status of the partner and upon the activities of the partnership. A partner in a partnership that holds Valero L.P. common units, Kaneb Partners common units or Kaneb Services common shares is encouraged to consult his own tax advisor.

Valero L.P., Kaneb Services and Kaneb Partners strongly urge each Valero L.P. unitholder, Kaneb Partners unitholder and Kaneb Services shareholder to consult with, and rely upon, his own tax advisor in analyzing the U.S. federal income tax consequences to him of the mergers and subsequent ownership and disposition of Valero L.P. common units received in the Kaneb Partners merger in light of his own particular circumstances as well as any tax consequences arising under the U.S. federal estate or gift tax laws or under the laws of any state, local, foreign or other taxing jurisdiction or under any applicable treaty.

Material U.S. Federal Income Tax Considerations of the Mergers

No ruling has been or will be requested from the Internal Revenue Service, or IRS, with respect to any of the U.S. federal income tax consequences of the Kaneb Services merger or the Kaneb Partners merger. Instead, subject to the assumptions, qualifications and limitations set forth below, Valero L.P. and Kaneb Partners will rely on the opinions of their respective tax counsel.

It is a condition of Valero L.P.'s obligations to complete the mergers that Valero L.P. receive an opinion from each of Andrews Kurth LLP and Wachtell, Lipton, Rosen & Katz to the effect that:

- none of Valero L.P., the general partner of Valero L.P., Valero GP, LLC or the respective merger subsidiaries will recognize any income or gain as a result of the Kaneb Services merger or the Kaneb Partners merger (other than any gain resulting from any decrease in partnership liabilities pursuant to Section 752 of the Code);

- no gain or loss will be recognized by Valero L.P. unitholders as a result of the Kaneb Services merger or the Kaneb Partners merger (other than any gain resulting from any decrease in partnership liabilities pursuant to Section 752 of the Code); and

- 90% of the combined gross income of Valero L.P., Kaneb Services and Kaneb Partners for the most recent four complete calendar quarters ending before the closing date of the mergers for which the necessary financial information is available is from sources treated as "qualifying income" within the meaning of Section 7704(d) of the Code.

It is a condition of Kaneb Partners' obligations to complete the Kaneb Partners merger that Kaneb Partners receive an opinion of Fulbright & Jaworski L.L.P. to the effect that, except with respect to fractional Valero L.P. common units:

- Kaneb Partners will not recognize any income or gain as a result of the Kaneb Partners merger (other than any gain resulting from any decrease in partnership liabilities pursuant to Section 752 of the Code); and

- no gain or loss will be recognized by Kaneb Partners unitholders as a result of the Kaneb Partners merger (other than any gain resulting from any decrease in partnership liabilities pursuant to Section 752 of the Code); provided that this opinion shall not extend to any holder who acquired Kaneb Partners common units from Kaneb Partners in exchange for property other than cash.

These opinions of tax counsel will be based upon customary assumptions and representations, including representations made by Valero L.P., Valero GP, LLC, Kaneb Partners, Kaneb Pipe Line Company and Kaneb Services. Each of Andrews Kurth and Wachtell, Lipton, Rosen and Katz presently intends to deliver to Valero L.P., and Fulbright & Jaworski L.L.P. presently intends to deliver to Kaneb Partners, on the closing date of the mergers, an opinion that satisfies the requirements set forth in the preceding paragraphs. If either Valero L.P. or Kaneb Partners fails to receive an opinion that satisfies the requirements set forth in the preceding paragraphs and agrees to waive the condition relating to the receipt of its respective opinion, the applicable partnership would circulate revised materials to its unitholders and would resolicit proxies from its unitholders in the event the expected U.S. federal income tax consequences of the mergers to its unitholders are materially different from those described below.

Unlike a ruling, an opinion of tax counsel represents only that tax counsel's best legal judgment and is not binding on the IRS or the courts. Accordingly, no assurance can be given that the above-described opinions and the opinions and statements made hereafter in this section of the discussion will be sustained by a court if contested by the IRS. The remainder of this section of the discussion assumes that the U.S. federal income tax consequences of the mergers will be consistent with the opinions of tax counsel.

The Kaneb Services Merger

The Kaneb Services merger will be a taxable transaction that Valero L.P. and Kaneb Services will report for U.S. federal income tax purposes with respect to the Kaneb Services shareholders as a sale of such shareholder's common shares to Valero L.P. in exchange for the Kaneb Services merger consideration.

Under this method of reporting, a Kaneb Services shareholder will recognize gain or loss in the Kaneb Services merger equal to the difference between the amount realized and the shareholder's adjusted tax basis in the common shares deemed sold in the Kaneb Services merger. A Kaneb Services shareholder's amount realized will equal the sum of the amount of cash received plus his share of Kaneb Services nonrecourse liabilities immediately prior to the effective time of the Kaneb Services merger. Because the amount realized includes a shareholder's share of Kaneb Services nonrecourse liabilities, the gain recognized on the sale of his common shares could result in a U.S. federal income tax liability that exceeds the amount of cash received in the Kaneb Services merger.

Except as noted below, the gain or loss recognized by a Kaneb Services shareholder under this method of reporting will be taxed as a capital gain or loss and will be a long-term capital gain or loss if the shareholder held his common shares for more than 12 months as of the effective time of the Kaneb Services merger. However, a portion of the recognized gain or loss will be separately computed and taxed as ordinary income or loss under Section 751 of the Code to the extent attributable to Kaneb Services' "unrealized receivables" and "inventory items." For this purpose, Kaneb Services is deemed to own a share of Kaneb Partners' "unrealized receivables" and "inventory items." The term "unrealized receivables" includes potential recapture items such as depreciation recapture. The amount of ordinary income attributable to "unrealized receivables" and "inventory items" may exceed a Kaneb Services shareholder's net taxable gain realized upon the exchange of his common shares pursuant to the Kaneb Services merger and may be recognized even if there is a net taxable loss realized on the exchange. Thus, a Kaneb Services shareholder may recognize both ordinary income and a capital loss upon an exchange of his common shares in the Kaneb Services merger. Capital loss may offset capital gains and net capital loss may offset no more than $3,000 of ordinary income in the case of individuals.

Alternatively, the Kaneb Services merger could be treated for U.S. federal income tax purposes as a sale by Kaneb Services of its assets (subject to its liabilities) in exchange for the Kaneb Services merger consideration, followed by a liquidation of Kaneb Services in which the Kaneb Services merger consideration is distributed to the Kaneb Services shareholders in liquidation of their common shares. The amount of gain recognized by the Kaneb Services shareholders under this alternative treatment would not be expected to be materially greater and the character of that gain would not be expected to be materially different than as described above, although in the case of any capital gain, the portion of that gain that is taxed as long-term or short-term capital gain may differ.

The Kaneb Partners Merger

If two partnerships merge or consolidate into one partnership, the resulting partnership will be considered for U.S. federal income tax purposes as a continuation of the merging or consolidating partnership the partners of which own more than 50% in the capital and profits interest of the resulting partnership. Although not free from doubt because the determination of which partnership will continue is dependent upon, among other matters, the value of the Valero L.P. common units at the effective time of the Kaneb Partners merger, Valero L.P. believes that the partners of Valero L.P. immediately prior to the Kaneb Partners merger will own greater than 50% of the aggregate interest in the capital and profits of Valero L.P. following the Kaneb Partners merger and, as a result, believes that Valero L.P. will be treated as the continuing partnership for U.S. federal income tax purposes.

Assuming Valero L.P. will be the continuing partnership, Valero L.P. and Kaneb Partners will report the Kaneb Partners merger for U.S. federal income tax purposes as if Kaneb Partners contributed to Valero L.P. all of Kaneb Partners' assets and liabilities attributable to the Kaneb Partners unitholders other than Kaneb Services in exchange for the Valero L.P. common units and cash paid instead of fractional Valero L.P. common units, followed by a liquidation of Kaneb Partners in which the Valero L.P. common units and cash are distributed to the Kaneb Partners unitholders other than Kaneb Services in liquidation of their Kaneb Partners common units. Except as described below with respect to a net decrease in a unitholder's share of nonrecourse liabilities and subject to the discussion below with respect to fractional common units, no gain or loss will be recognized by a Valero L.P. unitholder or a Kaneb Partners unitholder for U.S. federal income tax purposes as a result of the Kaneb Partners merger. Following the Kaneb Partners merger, a Kaneb Partners unitholder that receives Valero L.P. common units will be treated as a partner of Valero L.P. Please read " Material U.S. Federal Income Tax Considerations of Valero L.P. Common Unit Ownership Limited Partner Status."

Alternatively, if former Kaneb Partners unitholders own greater than 50% of the aggregate interest in the capital and profits of the resulting partnership following the Kaneb Partners merger, the resulting partnership would instead be treated as a continuation of Kaneb Partners for U.S. federal income tax purposes. In that event, the Kaneb Partners merger would be treated for U.S. federal income tax purposes as a contribution by Valero L.P. of all of its assets and liabilities to Kaneb Partners in exchange for Kaneb Partners units, followed by a liquidation of Valero L.P. in which Kaneb Partners common units are distributed to the Valero L.P. unitholders in exchange for their Valero L.P. common units. Except as described below with respect to a net decrease in a unitholder's share of nonrecourse liabilities, no gain or loss would be recognized by a Valero L.P. unitholder or a Kaneb Partners unitholder for U.S. federal income tax purposes as a result of the Kaneb Partners merger, and the U.S.

federal income tax consequences described below, other than the discussion with respect to fractional common units, would instead apply to the Valero L.P. unitholders with respect to the deemed distribution of Kaneb Partners common units to Valero L.P. unitholders in the Kaneb Partners merger.

The remainder of this section of the discussion is based on the assumption that following the Kaneb Partners merger Valero L.P. will be treated as the continuing partnership for U.S. federal income tax purposes.

A Kaneb Partners unitholder's holding period in the Valero L.P. common units received in the Kaneb Partners merger will not be determined by reference to the holding period of the unitholder's Kaneb Partners common units. Instead, a Kaneb Partners unitholder's holding period for the portion of each Valero L.P. common unit received in the Kaneb Partners merger that is attributable to Kaneb Partners' capital assets or assets used in its business (as defined in Section 1231 of the Code) will include Kaneb Partners' holding periods in those assets. The holding periods for the portion of each Valero L.P. common unit received by a Kaneb Partners unitholder attributable to other assets of Kaneb Partners, such as inventory and receivables, if any, will begin on the day following the Kaneb Partners merger.

As a result of the Kaneb Partners merger, a Kaneb Partners unitholder will be deemed to have received a cash distribution equal to the excess, if any, of the unitholder's share of Kaneb Partners nonrecourse liabilities immediately before the effective time of the Kaneb Partners merger over the unitholder's share of the Valero L.P. nonrecourse liabilities immediately following the effective time of the Kaneb Partners merger. Similarly, a Valero L.P. unitholder will be deemed to have received a cash distribution equal to the excess, if any, of the unitholder's share of Valero L.P. nonrecourse liabilities immediately before the effective time of the Kaneb Partners merger over the unitholder's share of the Valero L.P. nonrecourse liabilities immediately following the effective time of the Kaneb Partners merger. If the amount of the cash deemed distributed to a Kaneb Partners unitholder or Valero L.P. unitholder exceeds a unitholder's basis in his Valero L.P. common units immediately following the effective time of the Kaneb Partners merger, a unitholder will recognize gain for U.S. federal income tax purposes in an amount equal to that excess. A non-pro rata deemed distribution of money may result in ordinary income to an existing Valero L.P. unitholder, regardless of his tax basis in his Valero L.P. common units following the effective time of the Kaneb Partners merger, if the distribution reduces the unitholder's share of Valero L.P.'s "unrealized receivables," including depreciation recapture, and/or substantially appreciated "inventory items." Please read " Material U.S. Federal Income Tax Considerations of Valero L.P. Common Unit Ownership Tax Consequences of Valero L.P. Common Unit Ownership Treatment of Distributions."

A unitholder's share of the nonrecourse liabilities is determined under Section 752 of the Code and Treasury regulations promulgated thereunder. The application of these rules in the context of the Kaneb Partners merger is complex and subject to uncertainty. While there can be no assurance, Valero L.P. and Kaneb Partners do not anticipate that there will be a material decrease in the amount of nonrecourse liabilities allocable to a Kaneb Partners unitholder or a Valero L.P. unitholder as a result of the Kaneb Partners merger.

As discussed above, Valero L.P. and Kaneb Partners intend to report the Kaneb Partners merger, in part, as if Kaneb Partners received the cash paid instead of fractional Valero L.P. common units and then distributed such cash to the Kaneb Partners unitholders in liquidation of Kaneb Partners. Under this method of reporting, Valero L.P. and Kaneb Partners believe that Kaneb Partners would be treated as if it sold a portion of its assets to Valero L.P. for the cash deemed received plus a portion of its liabilities deemed assumed by Valero L.P. Any resulting gain recognized from this sale would be allocated to all the Kaneb Partners unitholders for U.S. federal income tax purposes, whether or not they receive any of the cash. As a result, a Kaneb Partner unitholder could be allocated taxable gain from this sale that exceeds the amount, if any, of the cash he receives instead of a fractional Valero L.P. common unit. Valero L.P. and Kaneb Partners believe that the amount of any such gain allocated to a Kaneb Partners unitholder would not be material.

The U.S. federal income tax consequences described above are dependent upon Valero L.P. being classified as a partnership for U.S. federal income tax purposes. If Valero L.P. were classified as a corporation for U.S. federal income tax purposes, the Kaneb Partners merger would likely be a fully taxable transaction for the Kaneb Partners unitholders. Please read " Material U.S. Federal Income Tax Considerations of Valero L.P. Common Unit Ownership Partnership Status." Additionally, if prior to the mergers either Kaneb Services or Kaneb Partners were classified as a corporation for U.S. federal income tax purposes, it is possible that the mergers may result in a taxable liquidation of such entity, resulting in an immediate corporate tax liability for such entity as if it had sold all of its assets, and such a liquidation could also result in taxable gain to Valero L.P., which gain would flow through and be taxable to the Valero L.P. unitholders (including for this purpose former Kaneb Partners unitholders).

Kaneb Partners uses the year ending December 31 as its taxable year and the accrual method of accounting for U.S. federal income tax purposes. As a result of the Kaneb Partners merger, Kaneb Partners' taxable year will end and Kaneb Partners will be required to file a final U.S. federal income tax return for the taxable year ending upon the date the Kaneb Partners merger is effected. Each Kaneb Partners unitholder will be required to include in income his share of Kaneb Partners' income, gain, loss and deduction for this period. In addition, a Kaneb Partners unitholder who has a taxable year ending on a date other than December 31 and after the date the Kaneb Partners merger is effected must include his share of Kaneb Partners' income, gain, loss and deduction in income for his taxable year, with the result that he may be required to include in income for his taxable year his share of more than one year of income, gain, loss and deduction from Kaneb Partners.

Information Reporting and Backup Withholding

Kaneb Services shareholders and Kaneb Partners unitholders may be subject, under some circumstances, to information reporting and possibly backup withholding with respect to the amount of cash received in the mergers unless they provide proof of an applicable exemption or a correct taxpayer identification number and otherwise comply with applicable requirements of the backup withholding rules. Any amount withheld under the backup withholding rules is not an additional tax and may be refunded or credited against a shareholder's or unitholder's federal income tax liability, so long as the required information is furnished to the IRS.

Material U.S. Federal Income Tax Considerations of Valero L.P. Common Unit Ownership

No ruling has been or will be requested from the IRS regarding classification of Valero L.P. as a partnership for federal income tax purposes or any other matter affecting Valero L.P. following the mergers or the consequences of owning Valero L.P. common units received in the Kaneb Partners merger. Instead, Valero L.P. will rely on opinions and advice of Andrews Kurth with respect to these matters. Unlike a ruling, an opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or the courts. Accordingly, no assurance can be given that the opinions and statements made below will be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially and adversely impact the market for the Valero L.P. common units and the prices at which Valero L.P. common units trade. In addition, the costs of any contest with the IRS will be borne directly or indirectly by the unitholders and the general partner of Valero L.P. Furthermore, the tax treatment of ownership of Valero L.P. common units may be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

For the reasons described below, Andrews Kurth has not rendered an opinion with respect to the following specific federal income tax issues:

- the treatment of a unitholder whose Valero L.P. common units are loaned to a short seller to cover a short sale of Valero L.P. common units (please read " Tax Consequences of Valero L.P. Common Unit Ownership Treatment of Short Sales");

whether Valero L.P.'s monthly convention for allocating taxable income and losses is permitted by existing Treasury regulations (please read " Disposition of Valero L.P. Common Units Allocations Between Transferors and Transferees");

whether Valero L.P.'s method for depreciating Section 743 adjustments is sustainable (please read " Tax Consequences of Valero L.P. Common Unit Ownership Section 754 Election"); and

whether a Kaneb Partners unitholder will be able to utilize suspended passive losses related to his Kaneb Partners common units, if any, to offset income from Valero L.P. common units (please read " Tax Consequences of Valero L.P. Common Unit Ownership Limitations on Deductibility of Losses").

Partnership Status

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner of a partnership is required to take into account his share of items of income, gain, loss and deduction of the partnership in computing his federal income tax liability, regardless of whether cash distributions are made to him by the partnership. Distributions by a partnership to a partner are generally not taxable unless the amount of cash distributed is in excess of the partner's adjusted basis in his partnership interest.

Section 7704 of the Code provides that publicly-traded partnerships will, as a general rule, be taxed as corporations. However, an exception, referred to as the "qualifying income exception," exists with respect to publicly-traded partnerships of which 90% or more of the gross income for every taxable year consists of "qualifying income." Qualifying income includes income and gains derived from the exploration, development, mining or production, processing, refining, transportation and marketing of any mineral or natural resource. Other types of qualifying income include interest other than from a financial business, dividends, gains from the sale of real property and gains from the sale or other disposition of assets held for the production of income that otherwise constitutes qualifying income. Valero L.P. estimates that less than [ ]% of its gross income after the completion of the mergers is not qualifying income; however, this estimate could change from time to time. Based upon and subject to this estimate, the factual representations made by Valero L.P. and its general partner and a review of the applicable legal authorities, Andrews Kurth is of the opinion that at least 90% of the combined gross income of Valero L.P., Kaneb Services and Kaneb Partners constitutes qualifying income.

Except as described below with respect to Support Terminals Operating Partnership, L.P., a Kaneb Partners subsidiary, no ruling has been or will be sought from the IRS and the IRS has made no determination as to the status of Valero L.P., the operating partnership, Kaneb Services or Kaneb Partners as partnerships for federal income tax purposes or whether Valero L.P.'s operations generate "qualifying income" under Section 7704 of the Code. Support Terminals Operating Partnership, L.P. received a ruling from the IRS in 1993 to the effect that fees earned from its terminalling operations for petroleum or other qualifying products will be "qualifying income" for purposes of the qualifying income exception. Although that ruling was based on the facts as they existed in 1993, Kaneb Partners believes the current operations of Support Terminals Operating Partnership, L.P. continue to conform with the facts disclosed and representations made in the request for the ruling.

Valero L.P. will rely on the opinion of Andrews Kurth that, based upon the Code, its regulations, published revenue rulings and court decisions and the representations and covenants described below, Valero L.P. and the Valero L.P. operating partnership will each be classified as a partnership for federal income tax purposes.

In rendering its opinion, counsel has relied on factual representations and covenants made by Valero L.P. and its general partner. The representations made by Valero L.P. and its general partner upon which counsel has relied include:

- Neither Valero L.P. nor the Valero L.P. operating partnership will elect to be treated as a corporation; and

- For each taxable year, more than 90% of Valero L.P.'s gross income will be income from sources that Andrews Kurth has opined or will opine is "qualifying income" within the meaning of Section 7704(d) of the Code.

If Valero L.P. fails to meet the qualifying income exception, other than a failure which is determined by the IRS to be inadvertent and which is cured within a reasonable time after discovery, Valero L.P. will be treated as if it had transferred all of its assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which it fails to meet the qualifying income exception, in return for stock in that corporation, and then distributed that stock to the unitholders in liquidation of their interests in Valero L.P. This contribution and liquidation should be tax-free to unitholders and Valero L.P. so long as Valero L.P., at that time, does not have liabilities in excess of the tax basis of its assets. Thereafter, Valero L.P. would be treated as a corporation for federal income tax purposes.

If Valero L.P. were taxable as a corporation in any taxable year, either as a result of a failure to meet the qualifying income exception or otherwise, its items of income, gain, loss and deduction would be reflected only on its tax return rather than being passed through to the unitholders, and its net income would be taxed at corporate rates. In addition, any distribution made to a Valero L.P. unitholder would be treated as either taxable dividend income, to the extent of Valero L.P.'s current or accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder's tax basis in his Valero L.P. common units, or taxable capital gain, after the unitholder's tax basis in his Valero L.P. common units is reduced to zero. Accordingly, taxation as a corporation would result in a material reduction in a unitholder's cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the Valero L.P. common units.

The discussion below is based on the conclusion that Valero L.P. will be classified as a partnership for federal income tax purposes.

Limited Partner Status

Unitholders who have become limited partners of Valero L.P. will be treated as partners of Valero L.P. for federal income tax purposes. Also:

- assignees who have executed and delivered transfer applications and are awaiting admission as limited partners; and

- unitholders whose Valero L.P. common units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their Valero L.P. common units

will be treated as partners of Valero L.P. for federal income tax purposes. As there is no direct authority addressing assignees of Valero L.P. common units who are entitled to execute and deliver transfer applications and become entitled to direct the exercise of attendant rights, but who fail to execute and deliver transfer applications, the opinion of Andrews Kurth does not extend to these persons. Furthermore, a purchaser or other transferee of Valero L.P. common units who does not execute and deliver a transfer application may not receive some federal income tax information or reports furnished to the record holders of Valero L.P. common units unless the units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application for those units.

A beneficial owner of Valero L.P. common units whose units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to those units for federal income tax purposes. Please read " Tax Consequences of Valero L.P. Common Unit Ownership Treatment of Short Sales."

Income, gain, deductions or losses would not appear to be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner for federal income tax purposes would therefore be fully taxable as ordinary income. These holders are urged to consult their own tax advisors with respect to their status as partners in Valero L.P. for federal income tax purposes.

Tax Consequences of Valero L.P. Common Unit Ownership

Flow-through of Taxable Income. Valero L.P. will not pay any federal income tax. Instead, each unitholder will be required to report on his income tax return his share of the income, gains, losses and deductions of Valero L.P. without regard to whether corresponding cash distributions are received by him. Consequently, Valero L.P. may allocate income to a unitholder even if he has not received a cash distribution. Each unitholder will be required to include in income his allocable share of the income, gains, losses and deductions for the taxable year ending with or within his taxable year. Valero L.P.'s taxable year ends on December 31.

Treatment of Distributions. Distributions by Valero L.P. to a unitholder generally will not be taxable to the unitholder for federal income tax purposes to the extent of his tax basis in his Valero L.P. common units immediately before the distribution. Cash distributions in excess of a unitholder's tax basis generally will be considered to be gain from the sale or exchange of the Valero L.P. common units, taxable in accordance with the rules described under " Disposition of Valero L.P. Common Units" below. Any reduction in a unitholder's share of Valero L.P. liabilities for which no partner, including the general partner, bears the economic risk of loss, known as "nonrecourse liabilities," will be treated as a distribution of cash to that unitholder. To the extent distributions by Valero L.P. cause a unitholder's "at risk" amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. Please read " Limitations on Deductibility of Losses."

A decrease in a unitholder's percentage interest in Valero L.P. because of the issuance of additional Valero L.P. common units will decrease his share of Valero L.P. nonrecourse liabilities, and thus will result in a corresponding deemed distribution of cash. A non-pro rata distribution of money or property may result in ordinary income to a unitholder, regardless of his tax basis in his Valero L.P. common units, if the distribution reduces the unitholder's share of Valero L.P.'s "unrealized receivables," including depreciation recapture, and/or substantially appreciated "inventory items," both as defined in the Code, and collectively, "Section 751 assets." To that extent, he will be treated as having been distributed his proportionate share of the Section 751 assets and having exchanged those assets with Valero L.P. in return for the non-pro rata portion of the actual distribution made to him. This latter deemed exchange will generally result in the unitholder's realization of ordinary income. That income will equal the excess of the non-pro rata portion of that distribution over the unitholder's tax basis for the share of Section 751 assets deemed relinquished in the exchange.

Basis of Valero L.P. Common Units. A unitholder's initial tax basis for his Valero L.P. common units received in the Kaneb Partners merger will be equal to his tax basis in the Kaneb Partners common units exchanged therefore, plus his share of Valero L.P. nonrecourse liabilities, minus his share of Kaneb Partners nonrecourse liabilities immediately before the Kaneb Partners merger. That initial tax basis will be increased by his share of Valero L.P. income and by any increases in his share of Valero L.P. nonrecourse liabilities. That basis will be decreased, but not below zero, by distributions, by the unitholder's share of Valero L.P. losses, by any decreases in his share of Valero L.P. nonrecourse liabilities and by his share of Valero L.P.'s expenditures that are not deductible in computing taxable income and are not required to be capitalized. A unitholder will have no share of Valero L.P. debt which is recourse to the general partner, but will have a share, generally based on his share of profits, of nonrecourse liabilities. Please read " Disposition of Valero L.P. Common Units Recognition of Gain or Loss."

Limitations on Deductibility of Losses. The ability of a unitholder to deduct his share of Valero L.P. losses is limited first by his tax basis and the amount he has at risk, and second, by application of the passive loss rules.

The deduction by a unitholder of his share of Valero L.P. losses will first be limited to the tax basis in his Valero L.P. common units and, in the case of an individual unitholder or a corporate unitholder, if more than 50% of the value of the corporate unitholder's stock is owned directly or indirectly by five or fewer individuals or some tax exempt organizations, to the amount for which the unitholder is considered to be "at risk" with respect to Valero L.P. activities, if that is less than his tax basis. A unitholder must recapture losses deducted in previous years as income from such activity to the extent that distributions cause his at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that his tax basis or at risk amount, whichever is the limiting factor, is subsequently increased. Upon the taxable disposition of a Valero L.P. common unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above that gain previously suspended by the at risk or basis limitations is no longer utilizable.

In general, a unitholder will be at risk to the extent of the tax basis of his Valero L.P. common units, excluding any portion of that basis attributable to his share of Valero L.P. nonrecourse liabilities, reduced by any amount of money he borrows to acquire or hold his Valero L.P. common units, if the lender of those borrowed funds owns an interest in Valero L.P., is related to the unitholder or can look only to the Valero L.P. common units for repayment. A unitholder's at risk amount will increase or decrease as the tax basis of the unitholder's Valero L.P. common units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of Valero L.P. nonrecourse liabilities.

Second, the passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities, which are generally corporate or partnership activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately with respect to each publicly-traded partnership. Consequently, any passive losses generated by Valero L.P. will be available to offset only passive income generated by Valero L.P. in the future and will not be available to offset income from other passive activities or investments, including Valero L.P.'s investments or investments in other publicly-traded partnerships, or salary or active business income. Passive losses that are not deductible because they exceed a unitholder's share of income Valero L.P. generates may be deducted in full when he disposes of his entire ownership interest in Valero L.P. in a fully taxable transaction with an unrelated party. The passive activity loss rules are applied after other applicable limitations on deductions, including the at risk rules and the basis limitation.

A unitholder's share of Valero L.P. net income may be offset by any suspended passive losses, but it may not be offset by any other current or carryover losses from other passive activities, including those attributable to other publicly-traded partnerships.

There is no guidance as to whether suspended passive activity losses of Kaneb Partners common units, if any, will be available to offset passive activity income that is allocated to a former Kaneb Partners common unitholder from Valero L.P. activities after the Kaneb Partners merger. The IRS may contend that Valero L.P. is not the same partnership as Kaneb Partners and, accordingly, the passive loss limitations will not allow use of such losses until such time as all of such holder's Valero L.P. common units are sold. A Valero L.P. common unitholder may take the position, however, that Valero L.P. should be deemed a continuation of Kaneb Partners for this purpose such that any suspended Kaneb Partners losses would be available to offset Valero L.P. taxable income allocated to such holder.

Because of the lack of guidance with respect to this issue, counsel is unable to opine as to whether suspended passive activity losses arising from Kaneb Partners activities will be available to offset Valero L.P. taxable income allocated to a former Kaneb Partners common unitholder following the Kaneb Partners merger.

Limitations on Interest Deductions. The deductibility of a non-corporate taxpayer's "investment interest expense" is generally limited to the amount of that taxpayer's "net investment income." Investment interest expense includes:

- interest on indebtedness properly allocable to property held for investment;
- Valero L.P.'s interest expense attributed to portfolio income; and
- the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a Valero L.P. common unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment. The IRS has indicated that net passive income earned by a publicly-traded partnership will be treated as investment income to unitholders. In addition, the unitholder's share of Valero L.P.'s portfolio income will be treated as investment income.

Entity-Level Collections. If Valero L.P. is required or elects under applicable law to pay any federal, state or local income tax on behalf of any unitholder or the general partner or any former unitholder, Valero L.P. is authorized to pay those taxes from its funds. That payment, if made, will be treated as a distribution of cash to the partner on whose behalf the payment was made. If the payment is made on behalf of a person whose identity cannot be determined, Valero L.P. is authorized to treat the payment as a distribution to all current unitholders. Valero L.P. is authorized to amend the partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of Valero L.P. common units and to adjust later distributions so that after giving effect to these distributions the priority and characterization of distributions otherwise applicable under the partnership agreement is maintained as nearly as is practicable. Payments by Valero L.P. as described above could give rise to an overpayment of tax on behalf of an individual partner in which event the partner would be required to file a claim in order to obtain a credit or refund.

Allocation of Income, Gain, Loss and Deduction. In general, if Valero L.P. has a net profit, items of income, gain, loss and deduction will be allocated among the general partner and the unitholders in accordance with their percentage interests in Valero L.P. At any time that incentive distributions are made to the general partner, gross income will be allocated to the general partner to the extent of these distributions. If Valero L.P. has a net loss for the entire year, that loss will be allocated first to the general partner and the unitholders in accordance with their percentage interests to the extent of their positive capital accounts and, second, to the general partner.

Specified items of income, gain, loss and deduction will be allocated to account for the difference between the tax basis and fair market value of property contributed to Valero L.P. by the general partner and its affiliates, referred to in this discussion as "Contributed Property." The effect of these allocations to a Kaneb Partners unitholder as a result of the Kaneb Partners merger will be essentially the same as if the tax basis of Valero L.P.'s assets were equal to their fair market value at the time of merger. Conversely, specified items of income, gain, loss and deduction will be allocated to account for the difference between the tax basis and fair market value of property deemed contributed to Valero L.P. by Kaneb Partners in the Kaneb Partners merger. The effect of these allocations to a Valero L.P.

unitholder as a result of the Kaneb Partners merger will be essentially the same as if the tax basis of Kaneb Partners assets were equal to their fair market value at the time of merger. In addition, items of recapture income will be allocated to the extent possible to the partner who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by some unitholders. Finally, although Valero L.P. does not expect that its operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of Valero L.P. income and gain will be allocated in an amount and manner to eliminate the negative balance as quickly as possible.

An allocation of items of Valero L.P. income, gain, loss or deduction, other than an allocation required by the Code to eliminate the difference between a partner's book capital account credited with the fair market value of Contributed Property, and "tax" capital account, credited with the tax basis of Contributed Property referred to in this discussion as the "Book-Tax Disparity," will generally be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a partner's share of an item will be determined on the basis of his interest in Valero L.P., which will be determined by taking into account all the facts and circumstances, including his relative contributions to Valero L.P., the interests of all the partners in profits and losses, the interest of all the partners in cash flow and other nonliquidating distributions and rights of all the partners to distributions of capital upon liquidation.

Andrews Kurth is of the opinion that, with the exception of the issues described in " Tax Consequences of Valero L.P. Common Unit Ownership Section 754 Election" and " Disposition of Valero L.P. Common Units Allocations Between Transferors and Transferees," allocations under the Valero L.P. partnership agreement will be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction.

Treatment of Short Sales. A unitholder whose Valero L.P. common units are loaned to a "short seller" to cover a short sale of Valero L.P. common units may be considered as having disposed of those units. If so, he would no longer be a partner for those Valero L.P. common units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period:

- any of Valero L.P.'s income, gain, loss or deduction with respect to those Valero L.P. common units would not be reportable by the unitholder;
- any cash distributions received by the unitholder as to those Valero L.P. common units would be fully taxable; and
- all of these distributions would appear to be ordinary income.

Counsel has not rendered an opinion regarding the treatment of a unitholder where Valero L.P. common units are loaned to a short seller to cover a short sale of Valero L.P. common units; therefore unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller should modify any applicable brokerage account agreements to prohibit their brokers from borrowing their Valero L.P. common units. The IRS has announced that it is actively studying issues relating to the tax treatment of short sales of partnership interests. Please also read " Disposition of Valero L.P. Common Units Recognition of Gain or Loss."

Alternative Minimum Tax. Each unitholder will be required to take into account his distributive share of any items of Valero L.P. income, gain, loss or deduction for purposes of the alternative minimum tax. The current minimum tax rate for noncorporate taxpayers is 26% on the first $175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Valero L.P. strongly recommends that unitholders consult with their tax advisors as to the impact of owning Valero L.P. common units on their liability for the alternative minimum tax.

Tax Rates. In general the highest effective United States federal income tax rate for individuals currently is 35% and the maximum United States federal income tax rate for net capital gains of an individual currently is 15% if the asset disposed of was held for more than 12 months at the time of disposition.

Section 754 Election. Valero L.P. has made the election permitted by Section 754 of the Code. That election is irrevocable without the consent of the IRS. The election generally permits Valero L.P. to adjust a Valero L.P. common unit purchaser's tax basis in Valero L.P.'s assets ("inside basis") under Section 743(b) of the Code to reflect his purchase price. This election does not apply to a person who purchases Valero L.P. common units directly from Valero L.P. The Section 743(b) adjustment belongs to the purchaser and not to other unitholders. For purposes of this discussion, a unitholder's inside basis in Valero L.P.'s assets will be considered to have two components, (1) his share of the tax basis in Valero L.P.'s assets ("common basis") and (2) his Section 743(b) adjustment to that basis.

Treasury regulations under Section 743 of the Code require that, if the remedial allocation method is adopted (which Valero L.P. has adopted), a portion of the Section 743(b) adjustment attributable to recovery property be depreciated over the remaining cost recovery period for the Section 704(c) built-in gain. Under Treasury regulation Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Code rather than cost recovery deductions under Section 168 is generally required to be depreciated using either the straight-line method or the 150% declining balance method. Under the Valero L.P. partnership agreement, Valero L.P. has adopted a position to preserve the uniformity of Valero L.P. common units even if that position is not consistent with these Treasury regulations. Please read "Tax Treatment of Operations" and "Uniformity of Valero L.P. Common Units."

Although Andrews Kurth is unable to opine as to the validity of this approach because there is no clear authority on this issue, Valero L.P. intends to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of the property, or treat that portion as non-amortizable to the extent attributable to property the common basis of which is not amortizable. This method is consistent with the regulations under Section 743 but is arguably inconsistent with Treasury regulation Section 1.167(c)-1(a)(6). To the extent this Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, Valero L.P. will apply the rules described in the Treasury regulations and legislative history. If Valero L.P. determines that this position cannot reasonably be taken, it may take a depreciation or amortization position under which all purchasers acquiring Valero L.P. common units in the same month would receive depreciation or amortization, whether attributable to common basis or a Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in Valero L.P.'s assets. This kind of aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to some unitholders. Please read " Uniformity of Valero L.P. Common Units."

A Section 754 election is advantageous if the transferee's tax basis in his Valero L.P. common units is higher than those units' share of the aggregate tax basis of Valero L.P.'s assets immediately prior to the transfer. In that case, as a result of the election the transferee would have a higher tax basis in his share of Valero L.P. assets for purposes of calculating, among other items, depreciation and depletion deductions and gain or loss on a sale of Valero L.P.'s assets. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in his Valero L.P. common units is lower than those units' share of the aggregate tax basis of the Valero L.P.'s assets immediately prior to the transfer. Thus the fair market value of the Valero L.P. common units may be affected either favorably or unfavorably by the election.

The calculations involved in the Section 754 election are complex and will be made on the basis of assumptions as to the value of Valero L.P.'s assets and other matters. There are no assurances that the determinations Valero L.P. makes will not be successfully challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in Valero L.P.'s opinion the expense of compliance exceed the benefit of the election, it may seek permission from the IRS to revoke its Section 754 election. If permission is granted a subsequent purchaser of Valero L.P. common units may be allocated more income than he would have been allocated had the election not been revoked.

Tax Treatment of Operations

Accounting Method and Taxable Year. Valero L.P. uses the year ending December 31 as its taxable year and the accrual method of accounting for federal income tax purposes. Each unitholder will be required to include in income his share of income, gain, loss and deduction for Valero L.P.'s taxable year ending within or with his taxable year. In addition, a unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his Valero L.P. common units following the close of Valero L.P.'s taxable year but before the close of his taxable year must include his share of income, gain, loss and deduction in income for his taxable year, with the result that he will be required to include in income for his taxable year his share of more than one year of income, gain, loss and deduction. Please read " Disposition of Valero L.P. Common Units Allocations Between Transferors and Transferees."

Tax Basis, Depreciation and Amortization. The tax basis of Valero L.P.'s assets will be used for purposes of computing depreciation and cost recovery deductions and ultimately gain or loss on the disposition of these assets. The federal income tax burden associated with the difference between the fair market value of Valero L.P.'s assets and their tax basis immediately prior to the Kaneb Partners merger will be borne by Valero L.P.'s general partner, its affiliates and the Valero L.P. unitholders as of that time, and the federal income tax burden associated with the difference between the fair market value of Kaneb Partners' assets and their tax basis immediately prior to the Kaneb Partners merger will be borne by the Kaneb Partners unitholders as of that time. Please read " Tax Consequences of Valero L.P. Common Unit Ownership Allocation of Income, Gain, Loss and Deduction."

To the extent allowable, Valero L.P. may elect to use the depreciation and cost recovery methods that will result in the largest deductions being taken in the early years after assets are placed in service. Valero L.P. is not entitled to any amortization deductions with respect to any goodwill conveyed to it on formation. Property subsequently acquired or constructed may be depreciated using accelerated methods permitted by the Code.

If Valero L.P. disposes of depreciable property by sale, foreclosure, or otherwise, all or a portion of any gain, determined by reference to the amount of depreciation previously deducted and the nature of the property, may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a partner who has taken cost recovery or depreciation deductions with respect to property Valero L.P. owns will likely be required to recapture some or all of those deductions as ordinary income upon a sale of his interest in Valero L.P. Please read " Tax Consequences of Valero L.P. Common Unit Ownership Allocation of Income, Gain, Loss and Deduction" and " Disposition of Valero L.P. Common Units Recognition of Gain or Loss."

Valuation and Tax Basis of Valero L.P. Properties. The federal income tax consequences of the ownership and disposition of Valero L.P. common units will depend in part on Valero L.P.'s estimates of the relative fair market values, and the initial tax bases, of Valero L.P.'s assets. Although Valero L.P. may from time to time consult with professional appraisers regarding valuation matters, it will make many of the relative fair market value estimates itself. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or basis are later found to be incorrect, the character and amount of items of income, gain, loss or deductions previously reported by unitholders might change, and unitholders might be required to adjust their tax liability for prior years and incur interest and penalties with respect to those adjustments.

Disposition of Valero L.P. Common Units

Recognition of Gain or Loss. Gain or loss will be recognized on a sale of Valero L.P. common units equal to the difference between the amount realized and the unitholder's tax basis for the units sold. A unitholder's amount realized will be measured by the sum of the cash or the fair market value of other property received by him plus his share of the Valero L.P. nonrecourse liabilities. Because the amount realized includes a unitholder's share of the Valero L.P. nonrecourse liabilities, the gain recognized on the sale of Valero L.P. common units could result in a tax liability in excess of any cash received from the sale.

Prior distributions in excess of cumulative net taxable income for a Valero L.P. common unit that decreased a unitholder's tax basis in that unit will, in effect, become taxable income if the unit is sold at a price greater than the unitholder's tax basis in that unit, even if the price received is less than his original cost.

Except as noted below, gain or loss recognized by a unitholder, other than a "dealer" in Valero L.P. common units, on the sale or exchange of a Valero L.P. common unit held for more than one year will generally be taxable as capital gain or loss. Capital gain recognized by an individual on the sale of Valero L.P. common units held more than 12 months will generally be taxed at a maximum rate of 15%. A portion of this gain or loss, which will likely be substantial, however, will be separately computed and taxed as ordinary income or loss under Section 751 of the Code to the extent attributable to assets giving rise to depreciation recapture or other "unrealized receivables" or to "inventory items" Valero L.P. owns. The term unrealized receivables includes potential recapture items including depreciation recapture. Ordinary income attributable to unrealized receivables, inventory items and depreciation recapture may exceed net taxable gain realized upon the sale of a Valero L.P. common unit and may be recognized even if there is a net taxable loss realized on the sale of a Valero L.P. common unit. Thus a unitholder may recognize both ordinary income and a capital loss upon a sale of Valero L.P. common units. Net capital loss may offset capital gains and no more than $3,000 of ordinary income in the case of individuals and may only be used to offset capital gain in the case of corporations.

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all those interests. Upon a sale or other disposition of less than all of those interests, a portion of that tax basis must be allocated to the interests sold using an "equitable apportionment" method. Although the ruling is unclear as to how the holding period of these interests is determined once they are combined, Treasury regulations allow a selling unitholder who can identify Valero L.P. common units transferred with an ascertainable holding period to elect to use the actual holding period of the units transferred. Thus, according to the ruling, a unitholder will be unable to select high or low basis Valero L.P. common units to sell as would be the case with corporate stock, but, according to the Treasury regulations, may designate specific units sold for purposes of determining the holding period of the units transferred. A unitholder electing to use the actual holding period of Valero L.P. common units transferred must consistently use that identification method for all subsequent sales or exchanges of Valero L.P. common units. Valero L.P. strongly recommends that a unitholder considering the purchase of additional Valero L.P. common units or a sale of Valero L.P. common units purchased in separate transactions consult his tax advisor as to the possible consequences of this ruling and application of the final regulations.

Specific provisions of the Code affect the taxation of some financial products and securities, including partnership interests, by treating a taxpayer as having sold an "appreciated" partnership interest, one in which gain would be recognized if it were sold, assigned or terminated at its fair market value, if the taxpayer or related persons enter(s) into:

- a short sale;
- an offsetting notional principal contract; or
- a futures or forward contract with respect to the partnership interest or substantially identical property.

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to the partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related person then acquires the partnership interest or substantially identical property. The Secretary of Treasury is also authorized to issue regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

Allocations Between Transferors and Transferees. In general, Valero L.P.'s taxable income and losses will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of Valero L.P. common units owned by each of them as of the opening of the applicable exchange on the first business day of the month (the "allocation date"). However, gain or loss realized on a sale or other disposition of Valero L.P.'s assets other than in the ordinary course of business will be allocated among the unitholders on the allocation date in the month in which that gain or loss is recognized. As a result, a unitholder transferring Valero L.P. common units may be allocated income, gain, loss and deduction realized after the date of transfer.

The use of this method may not be permitted under existing Treasury regulations. Accordingly, Andrews Kurth is unable to opine on the validity of this method of allocating income and deductions between unitholders. If this method is not allowed under the Treasury regulations or only applies to transfers of less than all of the unitholder's Valero L.P. common units, Valero L.P. taxable income or losses might be reallocated among the unitholders. Valero L.P. is authorized to revise its method of allocation between unitholders as well as among unitholders whose interests vary during a taxable year to conform to a method permitted under future Treasury regulations.

A unitholder who owns Valero L.P. common units at any time during a quarter and who disposes of them prior to the record date set for a cash distribution for that quarter will be allocated items of income, gain, loss and deductions attributable to that quarter but will not be entitled to receive that cash distribution.

Notification Requirements. A unitholder who sells or exchanges Valero L.P. common units is required to notify Valero L.P. in writing of that sale or exchange within 30 days after the sale or exchange. Valero L.P. is required to notify the IRS of that transaction and to furnish specified information to the transferor and transferee. However these reporting requirements do not apply to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker. Additionally, a transferee of a common unit will be required to furnish a statement to the IRS, filed with its income tax return for the taxable year in which the sale or exchange occurred, that describes the amount of consideration paid for the common unit. Failure to satisfy these reporting obligations may lead to the imposition of substantial penalties.

Constructive Termination. Valero L.P. will be considered to have been terminated for tax purposes if there is a sale or exchange of 50% or more of the total interests in its capital and profits within a 12 month period. A constructive termination results in the closing of Valero L.P.'s taxable year for all unitholders. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of Valero L.P.'s taxable year may result in more than 12 months of Valero L.P.'s taxable income or loss being includable in his taxable income for the year of termination. Valero L.P. would be required to make new tax elections after a termination, including a new election under Section 754 of the Code, and a termination would result in a deferral of deductions for depreciation. A termination could also result in penalties if Valero L.P. were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject Valero L.P. to, any tax legislation enacted before the termination.

Uniformity of Valero L.P. Common Units

Because Valero L.P. cannot match transferors and transferees of Valero L.P. common units, it must maintain uniformity of the economic and tax characteristics of the Valero L.P. common units to a purchaser of these units. In the absence of uniformity, it may be unable to completely comply with a number of federal income tax requirements, both statutory and regulatory. A lack of uniformity can result from a literal application of Treasury regulation Section 1.167(c)-1(a)(6). Any non-uniformity could have a negative impact on the value of the Valero L.P. common units. Please read " Tax Consequences of Valero L.P. Common Unit Ownership Section 754 Election."

Valero L.P. intends to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of that property or treat that portion as nonamortizable, to the extent attributable to property the common basis of which is not amortizable, consistent with the regulations under Section 743 even though that position may be inconsistent with Treasury regulation Section 1.167(c)-1(a)(6). Please read " Tax Consequences of Valero L.P. Common Unit Ownership Section 754 Election." To the extent that the Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, Valero L.P. will apply the rules described in the Treasury regulations and legislative history. If Valero L.P. determines that this position cannot reasonably be taken, it may adopt a depreciation and amortization position under which all purchasers acquiring Valero L.P. common units in the same month would receive depreciation and amortization deductions, whether attributable to a common basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in Valero L.P.'s property. If this position is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to some unitholders and, risk the loss of depreciation and amortization deductions not taken in the year that these deductions are otherwise allowable. This position will not be adopted if Valero L.P. determines that the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If Valero L.P. chooses not to utilize this aggregate method, it may use any other reasonable depreciation and amortization method to preserve the uniformity of the intrinsic tax characteristics of any Valero L.P. common units that would not have a material adverse effect on the unitholders. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If this challenge were sustained, the uniformity of Valero L.P. common units might be affected and the gain from the sale of Valero L.P. common units might be increased without the benefit of additional deductions. Please read " Disposition of Valero L.P. Common Units Recognition of Gain or Loss."

Tax-Exempt Organizations and Other Investors

Ownership of Valero L.P. common units by employee benefit plans, other tax exempt organizations, nonresident aliens, foreign corporations, other foreign persons and regulated investment companies raises issues unique to those investors and, as described below, may have substantially adverse tax consequences to them.

Employee benefit plans and most other organizations exempt from federal income tax, including individual retirement accounts and other retirement plans are subject to federal income tax on unrelated business taxable income. Virtually all of the income of Valero L.P. allocated to a unitholder that is a tax-exempt organization will be unrelated business taxable income and will be taxable to them.

A regulated investment company or "mutual fund" is required to derive 90% or more of its gross income from specific sources including interest, dividends and gains from the sale of stocks or securities or foreign currency or specified related sources. It is not anticipated that any significant amount of the gross income of Valero L.P. will include that type of income. The American Jobs Creation Act of 2004, signed into law on October 22, 2004, also includes net income derived from the ownership of an interest in a "qualified publicly traded partnership" as qualified income to a regulated investment company. Valero L.P. expects that it will meet the definition of a qualified publicly traded partnership. However, this legislation is only effective for taxable years beginning after October 22, 2004.

Nonresident aliens and foreign corporations, trusts or estates that own Valero L.P. common units will be considered to be engaged in business in the United States because of the ownership of the units. As a consequence they will be required to file federal tax returns to report their share of Valero L.P. income, gain, loss or deduction and pay federal income tax at regular rates on their share of Valero L.P. net income or gain. Under rules applicable to publicly traded partnerships, Valero L.P. or its transfer agent will withhold at applicable rates on cash distributions made quarterly to foreign unitholders. Each foreign unitholder must obtain a taxpayer identification number from the IRS and submit that number to Valero L.P.'s transfer agent on a Form W-8 BEN or applicable substitute form in order to obtain credit for these withholding taxes.

In addition, because a foreign corporation that owns Valero L.P. common units will be treated as engaged in a United States trade or business, that corporation may be subject to the United States branch profits tax at a rate of 30%, in addition to regular federal income tax, on its share of Valero L.P. income and gain, as adjusted for changes in the foreign corporation's "U.S. net equity," which are effectively connected with the conduct of a United States trade or business. That tax may be reduced or eliminated by an income tax treaty between the United States and the country in which the foreign corporate unitholder is a "qualified resident." In addition, this type of unitholder is subject to special information reporting requirements under Section 6038C of the Code.

Under a ruling of the IRS, a foreign unitholder who sells or otherwise disposes of a Valero L.P. common unit will be subject to federal income tax on gain realized on the sale or disposition of that unit to the extent that the gain is effectively connected with a United States trade or business of the foreign unitholder. Apart from the ruling, a foreign unitholder will not be taxed or subject to withholding upon the sale or disposition of a Valero L.P. common unit if he has owned 5% or less in value of the Valero L.P. common units during the five-year period ending on the date of the disposition and if the Valero L.P. common units are regularly traded on an established securities market at the time of the sale or disposition.

Administrative Matters

Information Returns and Audit Procedures. Valero L.P. intends to furnish to each unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1, which describes his share of the income, gain, loss and deduction for Valero L.P.'s preceding taxable year. In preparing this information, which will not be reviewed by counsel, Valero L.P. will take various accounting and reporting positions, some of which have been mentioned earlier, to determine his share of income, gain, loss and deduction. There are no assurances that those positions will yield a result that conforms to the requirements of the Code, Treasury regulations or administrative interpretations of the IRS. Neither Valero L.P. nor any counsel can assure that the IRS will not successfully contend in court that those positions are impermissible. Any challenge by the IRS could negatively affect the value of the Valero L.P. common units.

The IRS may audit Valero L.P.'s federal income tax information returns. Adjustments resulting from an IRS audit may require each unitholder to adjust a prior year's tax liability, and possibly may result in an audit of his own return. Any audit of a unitholder's return could result in adjustments not related to Valero L.P.'s returns as well as those related to Valero L.P.'s returns.

Partnerships generally are treated as separate entities for purposes of federal income tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction is determined in a partnership proceeding rather than in separate proceedings with the partners. The Code requires that one partner be designated as the "tax matters partner" for these purposes. The partnership agreement names Valero L.P.'s general partner as Valero L.P.'s tax matters partner.

The tax matters partner will make some elections on Valero L.P.'s behalf and on behalf of unitholders. In addition, the tax matters partner can extend the statute of limitations for assessment of tax deficiencies against unitholders for items in Valero L.P.'s returns. The tax matters partner may bind a unitholder with less than a 1% interest in Valero L.P.'s profits to a settlement with the IRS unless that unitholder elects, by filing a statement with the IRS, not to give that authority to the tax matters partner. The tax matters partner may seek judicial review, by which all the unitholders are bound, of a final partnership administrative adjustment, and, if the tax matters partner fails to seek judicial review, judicial review may be sought by any unitholder having at least a 1% interest in profits or by any group of unitholders having in the aggregate at least a 5% interest in profits. However, only one action for judicial review will go forward, and each unitholder with an interest in the outcome may participate.

A unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on Valero L.P.'s return. Intentional or negligent disregard of this consistency requirement may subject a unitholder to substantial penalties.

Nominee Reporting. Persons who hold an interest in Valero L.P. as a nominee for another person are required to furnish to Valero L.P.:

- the name, address and taxpayer identification number of the beneficial owner and the nominee,
- whether the beneficial owner is
  - a person that is not a United States person,
  - a foreign government, an international organization or any wholly-owned agency or instrumentality of either of the foregoing, or
  - a tax-exempt entity,
- the amount and description of Valero L.P. common units held, acquired or transferred for the beneficial owner, and
- specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

Brokers and financial institutions are required to furnish additional information, including whether they are United States persons and specific information on Valero L.P. common units they acquire, hold or transfer for their own account. A penalty of $50 per failure, up to a maximum of $100,000 per calendar year, is imposed by the Code for failure to report that information to Valero L.P. The nominee is required to supply the beneficial owner of the Valero L.P. common units with the information furnished to Valero L.P.

Registration as a Tax Shelter. Prior to enactment of new legislation, the Code required that "tax shelters" be registered with the Secretary of the Treasury. The American Jobs Creation Act of 2004 eliminated this tax shelter registration requirement. Although Valero L.P. may not have been subject to this registration requirement on the basis that it would not constitute a tax shelter, Valero L.P. registered as a tax shelter with the Secretary of Treasury because of the absence of assurance that it would not be subject to tax shelter registration and in light of the substantial penalties which might be imposed if registration was required and not undertaken.

Reportable Transactions. Treasury regulations require taxpayers to report certain information on IRS Form 8886 if they participate in a "reportable transaction." Unitholders may be required to file this form with the IRS if Valero L.P. participates in a "reportable transaction." A transaction may be a reportable transaction based upon any of several factors. Each unitholder is urged to consult with his own tax advisor concerning the application of any of these factors to his ownership of Valero L.P. common units. The American Jobs Creation Act of 2004 contains provisions that impose significant penalties for failure to comply with these disclosure requirements. This new legislation also imposes disclosure and information maintenance obligations on "material advisors" that organize, manage, promote, sell, implement, insure or carry out any "reportable transaction." Each Valero L.P. common unitholder is urged to consult his own tax advisor concerning any possible disclosure obligation with respect to his ownership of Valero L.P. common units and should be aware that Valero L.P. and its material advisors intend to comply with the information maintenance and disclosure requirements.

Accuracy-related Penalties. An additional tax equal to 20% of the amount of any portion of an underpayment of tax that is attributable to one or more specified causes, including negligence or disregard of rules or regulations, substantial understatements of income tax and substantial valuation misstatements, is imposed by the Code. No penalty will be imposed, however, for any portion of an underpayment if it is shown that there was a reasonable cause for the underpayment of that portion and that the taxpayer acted in good faith regarding the underpayment of that portion.

A substantial understatement of income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or $5,000 ($10,000 for most corporations). The amount of any understatement subject to penalty generally is reduced if any portion is attributable to a position adopted on the return:

- for which there is, or was, "substantial authority," or

- as to which there is a reasonable basis and the pertinent facts of that position are disclosed on the return.

More stringent rules apply to "tax shelters," a term that in this context does not appear to include Valero L.P. If any item of income, gain, loss or deduction included in the distributive shares of unitholders might result in that kind of an "understatement" of income for which no "substantial authority" exists, Valero L.P. must disclose the pertinent facts on its return. In addition, Valero L.P. will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their returns to avoid liability for this penalty.

A substantial valuation misstatement exists if the value of any property, or the adjusted basis of any property, claimed on a tax return is 200% or more of the amount determined to be the correct amount of the valuation or adjusted basis. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds $5,000 ($10,000 for most corporations). If the valuation claimed on a return is 400% or more than the correct valuation, the penalty imposed increases to 40%.

State, Local and Other Tax Considerations

In addition to federal income taxes, each unitholder will be subject to other taxes, including state and local income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which Valero L.P. does business or owns property or in which the unitholder is a resident. Although an analysis of those various taxes is not presented here, each unitholder should consider their potential impact on his ownership of Valero L.P. common units. Each unitholder will be required to file state income tax returns and to pay state income taxes in some or all of the states in which Valero L.P. does business or owns property and may be subject to penalties for failure to comply with those requirements. In some states, tax losses may not produce a tax benefit in the year incurred and also may not be available to offset income in subsequent taxable years. Some of the states may require Valero L.P., or Valero L.P. may elect, to withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the state. Withholding, the amount of which may be greater or less than a particular unitholder's income tax liability to the state, generally does not relieve a nonresident unitholder from the obligation to file an income tax return in that state. Amounts withheld may be treated as if distributed to unitholders for purposes of determining the amounts distributed by Valero L.P. Please read " Tax Consequences of Valero L.P. Common Unit Ownership Entity-Level Collections." Based on current law and Valero L.P.'s estimate of its future operations, Valero L.P.'s general partner anticipates that any amounts required to be withheld will not be material.

It is the responsibility of each unitholder to investigate the legal and tax consequences, under the laws of pertinent states and localities, of his ownership of Valero L.P. common units. Accordingly, Valero L.P. and Kaneb Partners strongly recommend that each unitholder consult, and depend upon, his own tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all state and local tax returns, as well as United States federal tax returns, that may be required of him. Andrews Kurth has not rendered an opinion on the state, local or foreign tax consequences of ownership of Valero L.P. common units.

Kaneb Directors and Officers Have Interests in the Mergers that Are Different than Yours

General

In considering the recommendations of the boards of directors of Kaneb Services and Kaneb Partners' general partner, you should be aware that certain executive officers and members of the boards of directors of Kaneb Services and Kaneb Partners' general partner have certain interests in the mergers that are different or in addition to the interests of the Kaneb Services shareholders or the Kaneb Partners unitholders generally. These additional interests, to the extent material, are described below. The boards of directors of Kaneb Services and Kaneb Partners' general partner and each of their respective special committees were aware of these interests and considered them, among other matters, in approving the respective merger agreements and the transactions contemplated thereby. All dollar amounts set forth below are gross amounts and are not reduced for applicable tax withholding.

Severance Arrangements and Other Payments

Each of Messrs. Doherty, Barnes, Wadsworth and Rose is a party to a change of control agreement with Kaneb Services. Under the change of control agreements with each of Messrs. Doherty, Barnes and Wadsworth, if the employment of the covered executive officer is terminated, voluntarily or involuntarily, for any reason, during the one-year period following the merger, the terminated executive will be entitled to 299% of his average annual base salary (whether or not deferred) for the five years prior to the year in which the change of control occurs, or for such shorter period in the event his employment with Kaneb Services or any of its subsidiaries is less than five years. None of Messrs. Doherty, Barnes and Wadsworth is expected to continue his employment with the Kaneb entities or Valero L.P. or its affiliates following completion of the mergers. Pursuant to the change of control agreement with Mr. Rose, if his employment is terminated, voluntarily or involuntarily, for any reason, during the one-year period following the merger, Mr. Rose will be entitled to 200% of his then current annual base salary. The change of control agreements for Messrs. Doherty and Wadsworth provide that average annual base salary includes cash bonuses paid to the individual (whether or not deferred). If the employment of an executive officer who is party to a change of control agreement does not continue after the completion of the Kaneb Services merger, the amount due to the executive officer under his change of control agreement will be paid by wire transfer of immediately available funds (less applicable tax withholding) to the executive officer at the effective time of the Kaneb Services merger. If the employment of an executive officer who is party to a change of control agreement continues immediately after the completion of the Kaneb Services merger, the amount due to the executive officer will be paid into an escrow account prior to the completion of the Kaneb Services merger and may be withdrawn from the escrow account by the executive officer upon his written demand in the event of termination of his employment for any reason for a period of one year after the date of deposit by Kaneb Services of the escrowed funds. The severance amounts that would be payable under these agreements to each of Messrs. Doherty, Barnes, Wadsworth and Rose are $1,210,826, $1,076,472, $489,144 and $500,000, respectively, if the employment of the covered executive officers is terminated immediately after the occurrence of the mergers (assumed for purposes of these calculations to occur in January 2005).

The Kaneb LLC 2002 Long Term Incentive Plan, as amended and supplemented to date, was implemented by the board of directors of Kaneb Partners' general partner for the benefit of Mr. Barnes. A payment equal to 2% of the increase in aggregate unit value of Kaneb Partners, as computed under this plan, excluding increases derived from the issuance of additional units, from December 31, 2001 to the effective date of the mergers will be made by wire transfer of immediately available funds (less applicable tax withholding) at the effective time of the mergers. It is presently estimated, assuming Valero L.P.'s average sales price is $57.17 (the average closing price of Valero L.P. common units utilized in the pro forma financial information included in this document), Valero L.P.'s quarterly distribution after the effective time of the merger will be $3.42 per unit and a PMLP Yield, as defined in the plan, of 6.5%, that a cash payment of approximately $10.5 million will be made to the participant in the plan at the effective time of the mergers. For purposes of calculating the cash payment above, the average pipeline master limited partnership composite, as published by Smith Barney, for the month of September 2004 was used as the PMLP Yield.

Equity-Based Rights

In connection with the Kaneb Services merger, all outstanding options to purchase Kaneb Services common shares granted pursuant to the Kaneb Services 2001 Incentive Plan (including those held by Kaneb Services' and Kaneb Partners' general partner's executive officers and directors) will become fully vested, immediately exercisable and cancelled in exchange for the excess, if any, of $43.31 over the per share exercise price of the option multiplied by the number of common shares subject to the option exercisable as of the effective time of the Kaneb Services merger. The cash payments in settlement of the stock options held by the Kaneb Services executive officers and directors (less applicable tax withholding) will be made by wire transfer of immediately available funds at the effective time of the mergers. The following table sets forth the number of Kaneb Services common shares subject to stock options that are held by executive officers of Kaneb Partners' general partner and Kaneb Services as of October 31, 2004, and the amount that each officer and director would receive in exchange for the cancellation of those options in connection with the Kaneb Services merger. As of October 31, 2004, 311,379 of the 445,444 outstanding options held by the executive officers and directors listed below were not vested.

Name	Number of Kaneb Services Common Shares Subject to Options	Potential Payment upon Cancellation of Options
Edward D. Doherty	63,109	$ 2,359,848
John R. Barnes	300,000	4,368,000
Howard C. Wadsworth	5,050	144,788
Ronald D. Scoggins	6,329	149,238
James R. Whatley	16,700	580,940
Charles R. Cox	31,227	1,105,440
Sangwoo Ahn	23,029	794,759
Total	445,444	$ 9,503,013

The completion of the Kaneb Services merger will also cause an acceleration in the vesting periods of, and lapse of restrictions on, Kaneb Services restricted common share awards issued to the non-employee directors of Kaneb Services under the 2001 Incentive Plan. As of October 31, 2004, there were 60,000 common shares of Kaneb Services subject to future vesting/restrictions that will be accelerated upon consummation of the merger, of which 10,000 common shares of Kaneb Services are held by each of Messrs. Ahn, Biles, Burke, Cox, Kessler and Whatley.

Deferred Stock Units.

Over several years, beginning in 1996, pursuant to the terms of deferred compensation plans and agreements, certain executive officers and directors of Kaneb Services have elected to defer some of their compensation. These amounts are denominated in deferred stock units valued by reference to Kaneb Services common shares. In connection with the Kaneb Services merger, each outstanding deferred stock unit in respect of Kaneb Services common shares (including those held by Kaneb Services' and Kaneb Partners' general partner's executive officers and directors) credited under the deferred compensation plans or agreements will be converted into the obligation to pay cash in an amount equal to $43.31, plus accrued dividends and interest earned with respect to such unit in accordance with the terms of the deferred compensation plan or agreement. Currently, the cash payments in settlement of the deferred stock units held by the Kaneb Services executive officers and directors (less applicable tax withholding) will be made by wire transfer of immediately available funds no later than the effective time of the mergers. The following table sets forth the number of deferred stock units in respect of Kaneb Services common shares that are credited to the accounts of the executive officers of Kaneb Partners' general partner and Kaneb Services as of October 31, 2004 and the amount that each executive officer and director would receive in exchange for the conversion of those units in connection with the Kaneb Services merger. The number of deferred stock units and the amount of accrued dividends and interest below are calculated based on the compensation deferred by the executive officers and directors identified below, and the dividends and interest accrued in respect of such deferrals, through October 31, 2004.

Name	Number of Deferred Stock Units(1)	Accrued Dividends and Interest(2)	Potential Payment Upon Conversion of Deferred Stock Units
Edward D. Doherty	11,202	$ 20,364	$ 505,523
John R. Barnes	124,947	92,324	5,503,779
Howard C. Wadsworth	9,704	6,973	427,253
Ronald D. Scoggins	4,219	19,056	201,781
Total	150,072	$ 138,717	$ 6,638,336

(1) Includes deferred stock units under the Kaneb Services, Inc. Deferred Stock Unit Plan or the Kaneb Services, Inc. 1996 Supplemental Deferred Compensation Plan (collectively the "Xanser Deferred Stock Unit Plans"), the liability for which was assumed by Kaneb Services under the Employee Benefits Agreement, dated as of June 28, 2001 between Xanser Corporation (formerly known as Kaneb Services, Inc.) and Kaneb Services.

(2) In addition to the accrued dividends and interest payable by Kaneb Services set forth in the table above, Messrs. Doherty, Barnes and Wadsworth are entitled to $32,884, $548,393 and $41,885, respectively, for dividends and interest accrued in connection with deferred stock units issued under the Xanser Deferred Stock Unit Plans. These amounts are payable by, and obligations of, Xanser Corporation.

Prior to the completion of the Kaneb Services merger, subject to the consent of Valero L.P., which may not be unreasonably withheld, Kaneb Services may amend or terminate its deferred compensation plans and agreements to comply with Section 409A of the Internal Revenue Code, as amended, or to effectuate changes to these plans and agreements to permit distributions under these plans prior to the completion of the Kaneb Services merger in compliance with Section 409A of the Code. The amounts in the table above are based on amounts deferred and accrued dividends and interest through October 31, 2004 and assume that these plans and agreements have not been terminated and no distributions have been made thereunder prior to the completion of the Kaneb Services merger.

Directors' and Executive Officers' Indemnification and Insurance

The merger agreements provide that the indemnification provisions of the Kaneb Services limited liability company agreement, the Kaneb Partners partnership agreement and Kaneb Partners' general partner's limited liability company agreement as currently in effect will not be amended, repealed or otherwise modified for a period of at least six years after the completion of the respective mergers in any manner that would adversely affect the rights of the individuals who as of the completion of the respective mergers would be entitled to indemnification. In addition, Valero L.P. has agreed to indemnify and hold harmless all past and present officers and directors of Kaneb Services, Kaneb Partners' general partner or Kaneb Partners or any of their respective subsidiaries for acts or omissions occurring at and prior to the completion of the respective mergers and to advance reasonable expenses incurred by these officers and directors in connection with any action arising out of these actions or omissions. Valero L.P. has also agreed to pay all reasonable expenses and attorneys fees that may be incurred by an indemnified party in enforcing the indemnity provisions of the respective merger agreements to the extent the indemnified party is finally determined to be successful on the merits.

For a period of six years after the completion of the respective mergers, Valero L.P. has agreed that it will maintain in effect current policies of directors' and officers' liability insurance maintained by Kaneb Services, Kaneb Partners' general partner, Kaneb Partners or their respective subsidiaries with respect to matters arising on or before the effective time of the respective mergers, provided that Valero L.P. may substitute policies of at least the same coverage and amounts containing terms and conditions that are no less advantageous to the indemnified parties, and which coverages and amounts shall be no less than the coverages and amounts provided at that time for Valero L.P.'s officers and directors. However, Valero L.P. will not be required to pay an annual premium for this insurance in excess of two times the last annual premium paid by Kaneb Services, Kaneb Partners and Kaneb Partners' general partner, or their respective subsidiaries as the case may be, on October 31, 2004.

Xanser Distribution Agreement

Other than Messrs. Biles and Doherty, each of the members of the boards of directors of Kaneb Services and Kaneb Partners' general partner is also a director of Xanser Corporation (formerly known as Kaneb Services, Inc.) and Mr. Barnes is the Chairman, President and Chief Executive Officer of Xanser Corporation. In connection with the distribution of Kaneb Services common shares by Xanser to the shareholders of Xanser in June 2001, Kaneb Services entered into a distribution agreement with Xanser. Under the terms of this distribution agreement, among other things, certain federal, state and local tax liabilities were allocated between Kaneb Services and Xanser, and Kaneb Services agreed to indemnify Xanser for matters involving Kaneb Services' business. Also under the terms of the distribution agreement, Kaneb Services agreed, among other things, not to engage in an exchange for a majority of its common shares, unless the acquiring party met conditions including expressly assuming Kaneb Services' obligations under the distribution agreement.

THE KANEB SERVICES MERGER AGREEMENT

The following is a summary of the material terms and provisions of the Kaneb Services merger agreement. The Kaneb Services merger agreement is attached as Appendix A to this document and incorporated by reference in this document. We encourage you to carefully read the complete Kaneb Services merger agreement for the precise legal terms of the Kaneb Services merger agreement and other information that may be important to you.

Consideration to Be Received in the Kaneb Services Merger by Kaneb Services Shareholders

At the effective time of the Kaneb Services merger, each Kaneb Services common share automatically will be converted into the right to receive $43.31 in cash.

Exchange of Kaneb Services Common Shares

Prior to the completion of the Kaneb Services merger, Valero L.P. will appoint Computershare Limited, or a commercial bank or trust company that is reasonably acceptable to Kaneb Services, to act as the exchange agent. At or prior to the completion of the Kaneb Services merger, Valero L.P. will deposit with the exchange agent in trust for the benefit of holders of Kaneb Services common shares, cash to be issued and paid in exchange for outstanding Kaneb Services Common Shares. Holders of unexchanged Kaneb Services common shares will not be entitled to receive any amount payable by Valero L.P. until their certificates are surrendered after the Kaneb Services merger is completed.

Holders of Kaneb Services common shares of record as of the effective time of the Kaneb Services merger, other than holders exercising their right to dissent to the Kaneb Services merger, will receive from the exchange agent by mail a transmittal letter and instructions explaining how to surrender their Kaneb Services common shares to the exchange agent after the effective time of the Kaneb Services merger. Certificates representing Kaneb Services common shares should not be returned with the enclosed proxy card.

Kaneb Services shareholders who deliver a properly completed and signed transmittal letter and any other documents required by the instructions to the transmittal letter to the exchange agent, together with their Kaneb Services common share certificates, will receive an amount of cash to which each holder is entitled in accordance with the Kaneb Services merger agreement and as described above.

The exchange agent will deliver to Valero L.P. any cash to be paid to Kaneb Services shareholders in connection with the Kaneb Services merger that is not claimed by former Kaneb Services shareholders within one year after the effective time of the Kaneb Services merger. Thereafter, Valero L.P. will act as the exchange agent and former Kaneb Services shareholders may look only to Valero L.P. for payment of their cash payment. To the extent permitted by law, none of Valero L.P., Valero L.P. affiliates that are party to the Kaneb Services merger agreement, Kaneb Services or the exchange agent will be liable to any person for any amount properly delivered to a public official under applicable abandoned property, escheat or similar laws. To the extent permitted by applicable law, any amount that would escheat or become the property of any governmental entity will, immediately prior thereto, become the property of Valero L.P. free and clear of all claims or interests of any person previously entitled thereto.

Lost, Stolen or Destroyed Certificates

The instructions for effecting the surrender of Kaneb Services common share certificates will set forth procedures that must be taken by the Kaneb Services shareholders in connection with a Kaneb Services common share certificate that has been lost, destroyed or stolen. If any Kaneb Services common share certificate (other than any Kaneb Services common share certificate representing any dissenting shares) is lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such certificate to be lost, stolen or destroyed and, if required by Valero L.P., the posting by such person of a bond in such reasonable amount as Valero L.P. may direct as indemnity against any claim that may be made against it with respect to such certificate, following the consummation of the Kaneb Services merger the exchange agent will deliver in exchange for such lost, stolen or destroyed certificate the consideration and amounts payable with respect to the Kaneb Services common shares formerly represented thereby.

Withholding Rights

Valero L.P. will be entitled to deduct and withhold from the consideration otherwise payable to Kaneb Services shareholders such amounts as Valero L.P. is required to deduct and withhold with respect to the making of such payment under the Internal Revenue Code and the rules and regulations promulgated thereunder, or any provision of state, local or foreign tax law. To the extent that amounts are withheld or paid over to or deposited with the relevant governmental entity by Valero L.P., such amounts will be treated as having been paid to the Kaneb Services shareholder.

Treatment of Kaneb Services Equity Based Awards

Immediately prior to the Kaneb Services merger, each Kaneb Services stock option then outstanding will become fully vested and will be converted into the right to receive an amount of cash (without interest) equal to the product of (a) the total number of Kaneb Services common shares subject to such Kaneb Services stock option, multiplied by (b) the excess, if any, of $43.31 over the exercise price per share of Kaneb Services common shares under such Kaneb Services stock option, less (c) any applicable taxes required to be withheld. The cash payments in settlement of the stock options held by the Kaneb Services executive officers and directors (less applicable tax withholding) will be made by wire transfer of immediately available funds at the effective time of the mergers.

Upon the consummation of the Kaneb Services merger, all then outstanding and unsettled stock units in respect of Kaneb Services common shares held in the stock unit account under a Kaneb Services deferred unit share plan or agreement will be converted into an obligation by Valero L.P. to pay cash with a value equal to the product of (a) $43.31 and (b) the number of Kaneb Services common shares subject to such Kaneb Services Deferred Unit Share Plan. Currently, the cash payments in settlement of the deferred stock units held by the Kaneb Services executive officers and directors (less applicable tax withholding) are expected to be made by wire transfer of immediately available funds at the effective time of the mergers.

Completion of the Kaneb Services Merger

The Kaneb Services merger will be completed at the time and date stated in the certificate of merger that will be filed with the Secretary of State of the State of Delaware (the state of organization of Kaneb Services and Valero L.P.). Under the Kaneb Services merger agreement, this will occur on the second full NYSE trading day following the satisfaction or waiver of all conditions (excluding conditions, that by their nature, cannot be satisfied until closing) to the Kaneb Services merger, unless the Kaneb Services merger agreement has been terminated by its terms or unless otherwise agreed to by the parties in writing. We are currently working to complete the Kaneb Services merger during the first quarter of 2005.

Completion of the Kaneb Services merger could be delayed if there is a delay in obtaining the required regulatory approvals or in satisfying other conditions to the Kaneb Services merger. There can be no assurances as to whether, and on what date, Valero L.P. and Kaneb Services will obtain those approvals or that Valero L.P. and Kaneb Services will complete the Kaneb Services merger on the contemplated schedule. If the Kaneb Services merger is not completed on or before August 31, 2005, either Valero L.P. or Kaneb Services may terminate the Kaneb Services merger agreement, with the exception that a party may not terminate the Kaneb Services merger agreement if that party's failure to perform its obligations under the Kaneb Services merger agreement is the primary cause of the Kaneb Services merger not being completed by that date. See "   Conditions."

Representations and Warranties

In the Kaneb Services merger agreement, Kaneb Services makes representations and warranties to Valero L.P. related to, among other things:

- organizational existence, qualification to conduct business and organizational power;
- ownership of subsidiaries;
- capital structure;
- authority to enter into, and carry out the obligations under, the Kaneb Services merger agreement, and enforceability of the Kaneb Services merger agreement;
- absence of a breach of organizational documents or absence of a breach of agreements as a result of the Kaneb Services merger which would have a material adverse effect on Kaneb Services before or after the completion of the Kaneb Services merger;
- required governmental consents, approvals, filings and registrations;
- financial reports;
- filings with the SEC;
- absence of undisclosed liabilities;
- absence of specified changes or events since December 31, 2003;
- legal proceedings;
- compliance with applicable laws;
- material contracts;
- insurance;
- environmental liability;
- employee benefit plans and labor matters;

- property;
- intellectual property;
- inapplicability of state anti-takeover laws;
- inapplicability of its rights plan to the Kaneb Services merger;
- receipt of an opinion from its financial advisor;
- board approval;
- payment of fees to finders or brokers in connection with the Kaneb Services merger;
- tax matters;
- labor relations and collective bargaining agreements; and
- inapplicability of the Investment Company Act of 1940 and the Public Utility Holding Company Act of 1935.

In the Kaneb Services merger agreement, Valero L.P. makes representations and warranties to Kaneb Services related to, among other things:

- its being duly organized, validly existing in good standing and organizational power;

- authority to enter into, and carry out the obligations under, the merger agreement, and enforceability of the merger agreement;
- absence of a breach of organizational documents or material agreements as a result of the Kaneb Services merger;
- required governmental consents, approvals, filings and registrations;
- Valero L.P.'s general partner's approval;
- payment of fees to finders or brokers in connection with the Kaneb Services merger;
- receipt of an opinion from its financial advisor; and
- sufficiency of funds to enable Valero L.P. to consummate the transactions contemplated by the Kaneb Services merger agreement.

The representations and warranties contained in the Kaneb Services merger agreement are subject to materiality and knowledge qualifications in many respects, and do not survive the completion of the Kaneb Services merger.

Interim Operations

Restrictions on Valero L.P.'s and Kaneb Services' Interim Operations

Valero L.P. and Kaneb Services have agreed not take any action or omit to take any action which action or omission would reasonably be expected to prevent or materially delay or impede the consummation of the Kaneb Services merger, the other transactions contemplated by the Kaneb Services merger agreement or the payment of the consideration to the Kaneb Services shareholders under the Kaneb Services merger agreement.

Additional Restrictions on Kaneb Services' Interim Operations

Subject to limited exceptions, Kaneb Services has agreed to specific restrictions that prohibit it, subject to written consent of Valero L.P., which consent will not be unreasonably withheld or delayed, from certain actions. In general, it is required to conduct its businesses in the ordinary course consistent with past practices in all material respects, in substantially the same manner as previously conducted, and to use its reasonable best efforts to:

- preserve intact its present lines of business and maintain its rights and franchises;
- preserve its relationships with customers, suppliers and others having business dealings with them; and
- keep available the services of its current officers and other key employees,

in each case, so that its ongoing business is not impaired in any material respect at the time the Kaneb Services merger is completed.

Also, subject to specified exceptions, Kaneb Services has agreed to the following restrictions that prohibit it, subject to the written consent of Valero L.P., which consent will not be unreasonably withheld or delayed, from:

- entering into any new material line of business;

splitting, combining or reclassifying its equity securities or issuing or authorizing or proposing to issue any other securities in respect of, in lieu of or in substitution for its equity securities;

repurchasing, redeeming or otherwise acquiring its equity securities, or any securities convertible into or exercisable for its equity securities;

issuing, delivering, selling, pledging or disposing of any of its equity securities, voting debt or convertible securities or any rights, warrants, calls or options to acquire any of these securities or voting debt other than (i) in connection with certain issuances by its wholly owned subsidiaries; (ii) in connection with the Kaneb Services stock options outstanding as of October 31, 2004; (iii) in satisfaction of Kaneb Services deferred share units unsatisfied as of October 31, 2004; and (iv) issuances under the Kaneb Services rights agreement;

amending its or its subsidiaries' organizational documents;

disposing of assets (including the equity securities of its subsidiaries), other than immaterial assets, which are not equity securities or partnership units, in the ordinary course of business consistent with past practice;

making loans, advances, capital contributions or investments in any person other than specified intercompany loans or immaterial loans made in the ordinary course of business consistent with past practice, and only if those otherwise permitted immaterial loans do not present a material risk of making it more difficult to obtain any regulatory approval that is required in connection with the Kaneb Services merger;

incurring debt, other than additional borrowing under existing loan agreements;

increasing the compensation or paying any severance to any director, officer or employee or increasing any employee benefits (except for increases in base salary or wages to employees who are not directors or officers in the ordinary course of business consistent with past practice); granting any additional equity based awards (including Kaneb Services stock options or deferral or accrual of any amounts under the Kaneb Services deferred share unit arrangements); adopting, entering into, amending or taking any action to clarify a provision of any benefit plan (other than the 401(k) plan amendment announced prior to the execution of the merger agreements); funding or making any contribution to any benefit plan or any related trust or other funding vehicles, other than regularly scheduled contributions to trusts funding qualified plans; or adopting, entering into or amending any collective bargaining agreement or other arrangement relating to union or organized employees;

changing in any material respect, other than as required by changes in GAAP, its accounting methods in effect on December 31, 2003, changing its fiscal year or any method of tax accounting, making any material tax election or settling or compromising any material liability for taxes with certain exceptions;

entering into any contract or agreement that would be a material contract or terminating or amending in any material respect a material contract or waiving any material rights under any existing material contracts;

settling any claim, demand, lawsuit or state or federal regulatory proceeding (i) for damages to the extent such settlements in the aggregate exceed $500,000 or (ii) which seeks an injunction or any other equitable relief;

incurring or committing to any capital expenditures or related liabilities, other than those (i) not exceeding $1 million individually or $3 million in the aggregate or (ii) contemplated by the 2004 or 2005 capital budget of Kaneb Services;

declaring or paying distributions other than regular quarterly distributions not in excess of $0.495 per Kaneb Services common share, and regular distributions from a wholly owned subsidiary of Kaneb Services to its parent or another wholly owned subsidiary of that parent in accordance with past distribution practice; and

making any acquisitions, other than acquisitions in the ordinary course of business consistent with past practice that do not exceed $1 million individually or $3 million in the aggregate.

Kaneb Services also agreed that it would timely file all material filings and applications required to be made with any governmental entities, and further agreed to use commercially reasonable efforts to maintain current levels of insurance covering it and its subsidiaries.

Additional Covenants

In addition to the covenants relating to the conduct of the parties' businesses before completion of the Kaneb Services merger, each of Valero L.P. and Kaneb Services has agreed to perform additional specified covenants in the Kaneb Services merger agreement. The principal additional covenants are as follows:

No Solicitation

Kaneb Services has agreed that neither it nor any of its subsidiaries nor any of its officers and directors nor those of its subsidiaries will, and that it will cause its and its subsidiaries' employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its subsidiaries) not to, directly or indirectly:

- initiate, solicit, encourage or knowingly facilitate any inquiries or the making of an acquisition proposal;
- have any discussion with, or provide any confidential information or data to any third party relating to an acquisition proposal or engage in any negotiations concerning an acquisition proposal, subject to certain exceptions;
- approve or recommend, or propose publicly to approve or recommend, an acquisition proposal; or
- approve or recommend, or propose to approve or recommend, or enter into, any letter of intent, agreement in principle, merger agreement, acquisition agreement, option agreement or other similar agreement or propose publicly or agree to do any of the foregoing related to an acquisition proposal.

An "acquisition proposal" means any proposal or offer relating to, or a transaction to effect:

- a merger, reorganization, share exchange, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving Kaneb Services or any of its subsidiaries;
- any purchase or sale or other transfer of 10% or more of the consolidated assets of Kaneb Services (including stock of its subsidiaries) or its subsidiaries; or
- any purchase or sale of, or tender or exchange offer for, or other transfer of the equity securities of the Kaneb Services that, if completed, would result in any other person (or shareholders of such other person) beneficially owning securities representing 10% or more of the total voting power of Kaneb Services or the voting power of any of its subsidiaries.

However, an acquisition proposal under the Kaneb Services merger agreement does not include a proposal or offer solely involving the equity securities of Kaneb Partners if Kaneb Partners and its general partner comply with their obligations under the Kaneb Partners merger agreement.

Notwithstanding the above restrictions, the Kaneb Services merger agreement permits Kaneb Services to disclose to its shareholders a position with respect to a tender offer, as required by law. Also, the Kaneb Services merger agreement permits Kaneb Services, subject to the conditions described below, to engage in discussions or negotiations with, or provide information to, a third party who submits an unsolicited bona fide written acquisition proposal if all of the following apply:

- the special meeting of Kaneb Services shareholders to vote on the approval of the Kaneb Services merger agreement has not occurred other than by reason of a breach of Kaneb Services' obligations to hold the meeting under the Kaneb Services merger agreement;

- the board of directors of Kaneb Services concludes in good faith, after consultation with outside counsel, that entering into discussions or providing information to the third party is necessary for the directors to comply with their fiduciary duties under applicable law;

- before providing any information or data to any third party in connection with an acquisition proposal by that third party, (i) the third party enters into a customary confidentiality agreement on terms no less favorable to Kaneb Services than the confidentiality agreement between Kaneb Services and Valero L.P. and (ii) Kaneb Services contemporaneously provides to Valero L.P. a copy of any of that information or data being provided to the third party to the extent not previously provided or made available to Valero L.P.; and

- before providing any information or data to any third party or entering into discussions with any third party, Kaneb Services promptly:

  - notifies Valero L.P. of inquiries, proposals or offers received by, any information requested from, or any discussions sought to be initiated or continued with, any of its representatives; and

  - notifies Valero L.P. of the name of the person and the material terms and conditions of any inquiries, proposals or offers, along with a copy of the relevant proposed transaction agreements, if any, with such person.

In addition, the board of directors of Kaneb Services is permitted under the terms of the Kaneb Services merger agreement to make a change in board recommendation (as defined below under " Special Meetings"), only if all of the following apply:

- the special meeting of Kaneb Services' shareholders to vote on the approval of the Kaneb Services merger agreement has not occurred other than by reason of a breach of Kaneb Services' obligations to hold the meeting under the Kaneb Services merger agreement;

- Kaneb Services has received an unsolicited bona fide written acquisition proposal;

- the Kaneb Services' board of directors concludes in good faith that the acquisition proposal constitutes a "superior proposal"; and

- the Kaneb Services' board of directors concludes in good faith, after consultation with outside legal counsel, that making the change in board recommendation is necessary for such directors to comply with their fiduciary duties under applicable law.

For purposes of the provisions described above, a "superior proposal" means a bona fide written acquisition proposal for a majority of the Kaneb Services equity securities or all or substantially all of the consolidated assets of Kaneb Services and its subsidiaries that is on terms that the board of directors of Kaneb Services in good faith concludes, after receipt of the advice of its financial advisors and outside legal counsel, and taking into account all legal, financial, regulatory and other aspects of the proposal and the person making the proposal (including any break-up fees, expense reimbursement provisions and conditions to completion), as well as after giving effect to all of the adjustments to the terms of the Kaneb Services merger agreement which may be offered by Valero L.P.:

- is more favorable to Kaneb Services' shareholders from a financial point of view than the Kaneb Services merger; and

- is fully financed or reasonably capable of being fully financed and otherwise reasonably capable of being completed on the terms proposed.

No acquisition proposal will be considered a "superior proposal" unless Valero L.P. is first given, at least five business days in advance of the board of directors of Kaneb Services effecting a change in board recommendation, notice of the material terms and conditions of the acquisition proposal (including a copy of any proposed transaction agreements) and the opportunity to negotiate in good faith any change to the Kaneb Services merger Valero L.P. may wish to make in response to the other acquisition proposal.

In connection with these "no-solicitation" provisions, Kaneb Services has agreed that:

- it will promptly keep Valero L.P. reasonably informed of the status and terms of any inquiries, proposals, offers, discussions or negotiations, including the identity of the person making the inquiry, proposal or offer; and

- it will, and it will cause its officers and directors to, and it will use its reasonable best efforts to cause its representatives to, immediately cease and terminate any activities existing as of October 31, 2004, the date of the Kaneb Services merger agreement, with any persons conducted before that date in relation to any acquisition proposal.

Special Meetings

Kaneb Services has agreed to hold special meetings of its shareholders as soon as practicable on a date determined in accordance with the mutual agreement of Valero L.P. and Kaneb Services to consider and vote upon approval of the Kaneb Services merger agreement and the Kaneb Services merger. Kaneb Services has agreed that, except for as otherwise provided under the no-solicitation provisions of the Kaneb Services merger agreement (described immediately above) it will recommend to its shareholders the adoption of the Kaneb Services merger agreement and not change its recommendation or take any action inconsistent with its recommendation, unless Valero L.P. first changes its recommendation. Valero L.P. has agreed to hold a special meeting of its unitholders as soon as practicable to consider and vote upon approval of the issuance of Valero L.P. common in the Kaneb Partners merger. Valero L.P. has agreed, subject to the proper exercise of its fiduciary duties, that it will recommend to its unitholders the approval of the issuance of the Valero L.P. common units in the Kaneb Partners merger and not change its recommendation or take any action inconsistent with its recommendation unless Kaneb Partners first changes its recommendation to its unitholders or Kaneb Services changes its recommendation to its shareholders.

Voting of the Kaneb Partners Units Held by Kaneb Services at the Kaneb Partners Special Meeting

Kaneb Services has agreed that it will cause all Kaneb Partners units beneficially owned by it or any of its subsidiaries to be present for quorum purposes at the Kaneb Partners special meeting and will vote or cause to be voted these Kaneb Partners units in favor of the approval of the Kaneb Partners merger agreement and the transactions contemplated by the Kaneb Partners merger agreement, and against any other acquisition proposal at any meeting of Kaneb Partners unitholders at which such a proposal may be considered.

Reasonable Best Efforts

Kaneb Services has agreed to use its reasonable best efforts to take all actions and do all things necessary or advisable under the Kaneb Services merger agreement and applicable law to complete the Kaneb Services merger and the other transactions contemplated by the Kaneb Services merger agreement as soon as reasonably practicable. This cooperation may include contesting and resisting any action or proceeding that would make the Kaneb Services merger illegal or would otherwise prohibit or restrict the consummation of the Kaneb Services merger. This cooperation may also include holding separate or otherwise disposing of assets, or conducting business in a specified manner, except that the parties are not required to take any of these actions that would reasonably be expected to have a material adverse effect on either party and its affiliates (in the case of Kaneb Services including Kaneb Partners and its general partner) taken as a whole prior to the Kaneb Services merger or the combined company after the consummation of the Kaneb Services merger.

Employee Matters

Until one year after completion of the Kaneb Services merger, Valero L.P. has agreed with Kaneb Services to maintain employee benefits (other than equity-based benefits) to employees of Kaneb Services and its subsidiaries who continue to be employed by Valero L.P. or its affiliates after the completion of the Kaneb Services merger that are no less favorable in the aggregate than those generally provided to these continuing employees as of October 31, 2004.

Valero L.P. has also agreed with Kaneb Services to:

- make each of these continuing employees eligible to participate, without any waiting time, in any and all Valero L.P. employee benefit plans replacing benefit plans of employees of Kaneb Services and its subsidiaries after completion of the Kaneb Services merger;

- solely for purposes of levels of vacation and severance benefits under the severance and vacation plans providing benefits to these continuing employees after the completion of the Kaneb Services merger, Valero L.P. has agreed to credit each of these continuing employees for his or her years of service with Kaneb Services and its subsidiaries and predecessor employers before the completion of the Kaneb Services merger, to the same extent as each such employee was entitled, before the Kaneb Services merger, to credit for that service under any similar Kaneb Services benefit plans, except to the extent that credit would result in a duplication of benefits;

- generally waive any limitations regarding preexisting conditions and actively-at-work requirements under the welfare benefit plans in which these continuing employees may participate after completion of the Kaneb Services merger; and

- credit the eligible expenses incurred by these continuing employees under the Kaneb Services plans for purposes of satisfying their annual deductibles, co-insurance and out-of-pocket requirements under any plans that replace the Kaneb Services welfare benefit plans.

Insurance and Indemnification

Valero L.P. has agreed to:

- not to amend or repeal for a period of at least six years after completion of the Kaneb Services merger the indemnification provisions of the limited liability company agreement of Kaneb Services in any way that would adversely affect the rights of the individuals who at the time of the Kaneb Services merger would be entitled to indemnification under such provisions;

- indemnify, and provide advancement of expenses to, all past and present directors, officers and employees of each of Kaneb Services and its subsidiaries for acts or omissions occurring before the completion of the Kaneb Services merger;

- for a period of six years after the completion of the Kaneb Services merger, cause to be maintained the current policies of directors' and officers' liability insurance maintained by Kaneb Services, or subject to certain limitations on the maximum amount Valero L.P. is required to expend on the annual premium, policies of at least the same coverage and amounts containing terms and conditions that are no less advantageous to the insured, with respect to claims arising from facts or events that occurred on or before the completion of the Kaneb Services merger; and

- pay all reasonable expenses and attorneys fees that may be incurred by an indemnified party in enforcing the indemnity provisions of the Kaneb Services merger agreement to the extent the indemnified party is finally determined to be successful on the merits.

Expenses

Each of Kaneb Services and Valero L.P. has agreed to pay its own costs and expenses incurred in connection with the Kaneb Services merger and the Kaneb Services merger agreement, regardless of whether the Kaneb Services merger is consummated. Kaneb Services and the Kaneb Partners Entities, on the one hand, and Valero L.P., on the other hand, are, however, sharing equally the costs associated with printing and mailing this document, expenses incurred in connection with any filings under the HSR Act, and expenses incurred in connection with filing with the SEC the Registration Statement of which this document is a part.

Amending the Kaneb Services Rights Agreement

Kaneb Services has agreed that its board of directors will take all action to the extent necessary (including amending the Kaneb Services rights agreement) in order to render the Kaneb Services rights inapplicable to the Kaneb Services merger and the Kaneb Partners merger and the other transactions contemplated by the Kaneb Services merger agreement, and that except in connection with this amendment of the Kaneb Services rights agreement, the board of directors of Kaneb Services will not, without the prior written consent of Valero L.P.

- amend or waive any provision of the Kaneb Services rights agreement, or

- take any action with respect to, or make any determination under, the Kaneb Services rights agreement, including a redemption or exchange of the Kaneb Services rights,

in each case in order to, or that would reasonably be expected to, facilitate any third party acquisition proposal with respect to Kaneb Services.

Conditions

Valero L.P.'s and Kaneb Services' obligations to complete the Kaneb Services merger are subject to the satisfaction or waiver, if permitted by law, of the following mutual conditions:

- the approval of the Kaneb Services merger agreement by the holders of at least a majority of the Kaneb Services common shares, including the affirmative vote of the holders of at least a majority of the Kaneb Services common shares (other than those beneficially owned by Valero L.P., Kaneb Services or Kaneb Partners or any of their respective affiliates) present in person or by proxy at the Kaneb Services special meeting;

- the approval of the issuance of Valero L.P. common units in the Kaneb Partners merger by an affirmative vote of the holders of a majority of the Valero L.P. common units and a majority of the Valero L.P. subordinated units, each voting separately as a class;

- the absence of any law, order or injunction having the effect of making the Kaneb Services merger illegal or otherwise prohibiting completion of the Kaneb Services merger;

- the expiration or termination of the applicable waiting period under the HSR Act without the imposition of any condition or requirement that would be expected to have a material adverse effect on Valero L.P. and its affiliates that are party to the Kaneb Services merger agreement taken as a whole or the Kaneb Partners Entities and Kaneb Services taken as whole prior to the Kaneb Services merger or the combined company after the completion of the Kaneb Services merger; and

- the receipt of all other governmental and regulatory consents, approvals and authorizations required to complete the Kaneb Services merger, unless the failure to obtain those consents or approvals would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Valero L.P. or Kaneb Services and its affiliates.

Valero L.P.'s and Kaneb Services' obligations are also separately subject to the satisfaction or waiver, if permitted by law, of the following conditions:

- each representation and warranty of the other party that is qualified as to materiality or material adverse effect being true and correct, and each representation or warranty of each party that is not so qualified being true and correct in all material respects, except that no representations and warranties will be deemed to have failed to be true and correct unless that failure
  - disregarding all qualifications and exceptions as to materiality or material adverse effect would, individually or in the aggregate, reasonably be expected to have a material adverse effect on the party making the representation and warranty, or
  - in the case of representations and warranties made by the Kaneb Services and its subsidiaries, would have an adverse effect on Kaneb Services and its subsidiaries involving $20 million or more (individually or in the aggregate);
- the representations and warranties of the other party relating to organization and capitalization that are qualified as to materiality or material adverse effect being true and correct, and those that are not so qualified being true and correct in all material respects;
- the other party having provided a certificate of an executive officer with regard to the two preceding bullets; and
- the other party having complied in all material respects with all its material agreements and covenants in the Kaneb Services merger agreement, except for non-willful breaches that would not, individually or in the aggregate, have a material adverse effect on the combined company after the consummation of the Kaneb Services merger, and the other party having provided a certificate of an executive officer to that effect.

In addition, the obligations of Valero L.P. to complete the Kaneb Services merger are subject to the satisfaction or waiver of the following additional conditions:

- the receipt of opinions from its counsel with regard to the U.S. federal income tax consequences of the Kaneb Partners merger and the Kaneb Services merger; and
- the Kaneb Partners merger being capable of being consummated immediately after the consummation of the Kaneb Services merger.

Termination of the Kaneb Services Merger Agreement

Termination by Valero L.P. or Kaneb Services

Either Valero L.P., by action of the board of directors of Valero GP, LLC, or Kaneb Services, by action of its board of directors, may terminate the Kaneb Services merger agreement and abandon the Kaneb Services merger at any time prior to completion of the Kaneb Services merger if:

- Kaneb Services and Valero L.P. agree to terminate by mutual written consent;
- the Kaneb Services merger has not been completed on or before August 31, 2005, except that a party may not terminate the Kaneb Services merger agreement if that party's failure to perform its obligations under the Kaneb Services merger agreement is the primary cause of the Kaneb Services merger not being completed by that date;

a court or another governmental authority has issued a final and nonappealable order, decree or ruling or taken other action permanently restraining, enjoining or otherwise prohibiting the Kaneb Services merger; but only if the terminating party has used its reasonable best efforts to avoid or remove the prohibition, and the primary cause of the injunction or restraint prohibiting the Kaneb Services merger was not the terminating party's failure to comply with the reasonable best efforts provisions in the Kaneb Services merger agreement;

- a court or another governmental authority has failed to issue an order or ruling that is necessary to satisfy the conditions to the Kaneb Services merger, and the denial of a request to issue this order or ruling has become final and nonappealable; but only if the terminating party has used its reasonable best efforts to obtain the order or ruling, and the primary cause of the failure to obtain the necessary order or ruling was not the terminating party's failure to comply with the reasonable best efforts provisions in the Kaneb Services merger agreement; or

- Kaneb Services shareholders have failed to approve the Kaneb Services merger agreement, or Valero L.P. unitholders have failed to approve the issuance of the Valero L.P. common units in the Kaneb Partners merger, at the applicable special meeting.

Termination by Valero L.P.

Valero L.P., by action of the board of directors of the general partner of its general partner, may terminate the Kaneb Services merger agreement and abandon the Kaneb Services merger at any time prior to completion of the Kaneb Services merger if:

- Kaneb Services' board of directors:
  - fails to recommend to Kaneb Services shareholders the approval of the Kaneb Services merger agreement;
  - effects (or proposes to effect) a change in board recommendation with respect to the Kaneb Services merger;
  - fails to call the Kaneb Services special meeting;
- Kaneb Services fails to prepare and mail to Kaneb Services shareholders the joint proxy statement/prospectus;
- Kaneb Services breaches its representations, warranties or covenants contained in the Kaneb Services merger agreement so that the conditions described above relating to the absence of a breach of representation, warranty or covenant by Kaneb Services are not capable of being satisfied on or before August 31, 2005; or
- the Kaneb Partners merger agreement has been terminated without the completion of the Kaneb Partners merger.

Termination by Kaneb Services

Kaneb Services, by action of its board of directors, may terminate the Kaneb Services merger agreement and abandon the Kaneb Services merger at any time prior to completion of the Kaneb Services merger if:

- Valero L.P.'s general partner:
  - fails to recommend to Valero L.P. unitholders the approval of the issuance of Valero L.P. common units in the Kaneb Partners merger;
  - effects (or proposes to effect) a change in board recommendation with respect to the issuance of Valero L.P. common units in the Kaneb Partners merger;
  - fails to call the Valero L.P. special meeting; or
- Valero L.P. fails to prepare and mail to Valero L.P. unitholders the joint proxy statement/prospectus;

Valero L.P. breaches its representations, warranties or covenants contained in the Kaneb Services merger agreement so that the conditions described above relating to the absence of a breach of representation, warranty or covenant by Valero L.P. are not capable of being satisfied on or before August 31, 2005; or

the board of directors of Kaneb Services gives written notice to Valero L.P. that Kaneb Services intends to enter into a binding written agreement for a superior proposal, but only if:

Kaneb Services has complied with the no solicitation provisions of the Kaneb Services merger agreement described under " Additional Covenants No Solicitation" in all material respects;

Kaneb Services has notified Valero L.P. in writing that it has received a superior proposal and that it intends to enter into a binding agreement with respect to that superior proposal, and has attached the most current version (or a summary of material terms) of the superior proposal to that notice; and

Valero L.P. does not make, within five business days after receipt of Kaneb Services' written notice, an offer that the board of directors of Kaneb Services' general partner reasonably concludes in good faith (following consultation with its financial advisor and legal counsel) to be as favorable to Kaneb Services shareholders as the superior proposal.

Termination Fee to Be Paid by Kaneb Services

Kaneb Services has agreed to pay Valero L.P. a termination fee of $15 million if the following three conditions summarized in the bullet points below are satisfied:

Any of the following occurs:

either party terminates the Kaneb Services merger agreement because Kaneb Services shareholders have failed to approve the Kaneb Services merger agreement and the Kaneb Services merger at the Kaneb Services special meeting;

either party terminates the merger agreement because the Kaneb Services merger has not been consummated by August 31, 2005 and the Kaneb Services shareholders meeting has not occurred;

Valero L.P. terminates the Kaneb Services merger agreement as the result of Kaneb Services' board of directors:

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failing to recommend that Kaneb Services shareholders approve the Kaneb Services merger agreement and the Kaneb Services merger;

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effecting (or proposing to effect) a change in board recommendation with respect to the Kaneb Services merger agreement; or

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failing to call the Kaneb Services unitholder meeting;

Valero L.P. terminates the Kaneb Services merger agreement after Kaneb Services has failed to prepare and mail to the Kaneb Services shareholders the joint proxy statement/prospectus in accordance with the Kaneb Services merger agreement;

Valero L.P. terminates the Kaneb Services merger agreement after Kaneb Services has breached its representations, warranties or covenants contained in the Kaneb Services merger agreement so that the condition described above relating to the absence of a breach of representation, warranty or covenant by Kaneb Services is not capable of being satisfied on or before August 31, 2005; or

Kaneb Services terminates the Kaneb Services merger agreement upon entering into a definitive agreement in response to an unsolicited superior proposal (provided that Kaneb Services has complied with the applicable restrictions in the Kaneb Services merger agreement described above under " Termination by Kaneb Services" relating to a termination for this reason);

and

at any time after October 31, 2004, and before the termination of the Kaneb Services merger agreement, an acquisition proposal with respect to Kaneb Services has been publicly announced or otherwise communicated to the senior management, board of directors of Kaneb Services or shareholders of Kaneb Services;

and

within 18 months of the termination of the Kaneb Services merger agreement, Kaneb Services or any of its subsidiaries enters into a definitive agreement with respect to or completes an acquisition proposal or Kaneb Services' board of directors recommends that its shareholders approve, adopt or accept an acquisition proposal, and the acquisition proposal is consummated at any time.

The termination fee is payable to Valero L.P. one business day after the date of the consummation of the acquisition described in the last bullet above.

Termination Fee to Be Paid by Valero L.P.

Valero L.P. has agreed to pay Kaneb Services a termination fee of $25 million if the following three conditions summarized in the bullet points below are satisfied:

Any of the following occurs:

either party terminates the Kaneb Services merger agreement because Valero L.P. unitholders have failed to approve the issuance of the Valero L.P. common units in the Kaneb Partners merger at the Valero L.P. special meeting;

either party terminates the Kaneb Services merger agreement because the Kaneb Services merger has not been consummated by August 31, 2005 and the Valero L.P. special meeting has not occurred;

Kaneb Services terminates the Kaneb Services merger agreement as a result of Valero L.P.'s general partner:

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failing to recommend that Valero L.P. unitholders approve the issuance of the Valero L.P. common units in the Kaneb Partners merger;

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effecting (or proposing to effect) a change in board recommendation with respect to the issuance of the Valero L.P. common units in the Kaneb Partners merger; or

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failing to call the Valero L.P. special meeting;

Kaneb Services terminates the Kaneb Services merger agreement after Valero L.P. has failed to prepare and mail to the Valero L.P. unitholders the joint proxy statement/prospectus in accordance with the Kaneb Services merger agreement; or

Kaneb Services terminates the Kaneb Services merger agreement after Valero L.P. has breached its representations, warranties or covenants contained in the Kaneb Services merger agreement so that the condition described above relating to the absence of a breach of representation, warranty or covenant by Valero L.P. is not capable of being satisfied on or before August 31, 2005;

and

at any time after October 31, 2004, and before the termination of the Kaneb Services merger agreement, an acquisition proposal for 10% or more of the consolidated assets of Valero L.P.

and its subsidiaries, taken as a whole, or 10% or more of its total voting power has been publicly announced or otherwise communicated to the senior management, Valero L.P.'s general partner, Valero GP, LLC, the general partner of Valero L.P.'s general partner, or Valero L.P. unitholders;

and

within 18 months of the termination of the Kaneb Services merger agreement, Valero L.P. or any of its subsidiaries enters into a definitive agreement with respect to or completes an acquisition proposal or Valero L.P.'s general partner recommends that its unitholders approve, adopt or accept such an acquisition proposal.

The termination fee is payable to Kaneb Services one business day after the date of the consummation of the acquisition proposal, described in the last bullet above.

Maximum Aggregate Termination Fee

The maximum aggregate termination fee payable by Valero L.P., on the one hand, and Kaneb Services and Kaneb Partners collectively, on the other hand, under the Kaneb Services merger agreement and the Kaneb Partners merger agreement, regardless of whether one or both of the agreements is terminated, is $25 million.

Amendments, Extensions and Waivers

Amendments

The Kaneb Services merger agreement may be amended by action of Valero L.P.'s general partner's board of directors and the Kaneb Services board of directors, at any time before or after Valero L.P. unitholders approve the issuance of Valero L.P. common units in the Kaneb Partners merger or Kaneb Services shareholders approve the Kaneb Services merger agreement. However, after any such approvals, no amendment may be made that requires further approval by unitholders or shareholders under applicable law or the rules of any relevant stock exchange without such further approval. All amendments to the Kaneb Services merger agreement must be in writing signed by each party.

Extensions and Waivers

At any time prior to completion of the Kaneb Services merger, any party to the Kaneb Services merger agreement may, to the extent legally allowed:

extend the time for the performance of any of the obligations or other acts of the other party to the Kaneb Services merger agreement;

waive any inaccuracies in the representations and warranties of the other party contained in the Kaneb Services merger agreement; and

waive compliance by the other party with any of the agreements or conditions contained in the Kaneb Services merger agreement.

Any agreement on the part of a party to any such extension or waiver must be in writing and signed on behalf of such party.

Interpretation

The Kaneb Services merger agreement provides that no provision of the Kaneb Services merger agreement will be construed to require Valero L.P. or Kaneb Services or any of their respective subsidiaries or affiliates to take or omit to take any actions if doing so would violate any applicable obligation, rule or regulation.

THE KANEB PARTNERS MERGER AGREEMENT

The following is a summary of the material terms and provisions of the Kaneb Partners merger agreement. The Kaneb Partners merger agreement is attached as Appendix B to this document and incorporated by reference in this document. We encourage you to carefully read the complete Kaneb Partners merger agreement for the precise legal terms of the Kaneb Partners merger agreement and other information that may be important to you in the merger of Kaneb Partners with a subsidiary of Valero L.P.

Consideration to Be Received in the Kaneb Partners Merger by Kaneb Partners Unitholders

Upon completion of the Kaneb Partners merger, each outstanding Kaneb Partners unit will be converted into the right to receive a number of Valero L.P. common units equal to

1.1307, if the average closing price of a Valero L.P. common unit is equal to or less than $54.39;

the ratio of $61.50 to the average Valero L.P. sales price, if the average Valero L.P. sales price is between $54.39 and $60.11; or

1.0231, if the average Valero L.P. closing price is equal to or greater than $60.11.

The average Valero L.P. sales price will be measured over ten consecutive NYSE trading days ending on the full trading day ending immediately prior to the satisfaction or waiver of the conditions set forth in the Kaneb Partners merger agreement. Kaneb Partners unitholders will be paid cash instead of any fractional Valero L.P. common units to which they are otherwise entitled. Valero L.P. common units outstanding before the Kaneb Partners merger is completed will remain outstanding and will not be changed as a result of the Kaneb Partners merger.