Canadian Solar Inc.
Form 20-F
June 08, 2009

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

Form 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008.

OR

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

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report
For the transition period from to

Commission file number: 001-33107

CANADIAN SOLAR INC.
(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant s name into English)

Canada

(Jurisdiction of incorporation or organization)

199 Lushan Road
Suzhou New District
Suzhou, Jiangsu 215129
People s Republic of China
(Address of principal executive offices)

Arthur Chien, Chief Financial Officer
675 Cochrane Drive
East Tower, 6th Floor
Markham, Ontario L3R 0B8
Canada

Tel: (1-905) 530-2334
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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common shares with no par value	The NASDAQ Stock Market LLC (The NASDAQ Global Market)

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

35,686,313 common shares issued and outstanding, excluding 58,250 restricted shares which were subject to restrictions on voting, dividend rights and transferability, as of December 31, 2008

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing: U.S. GAAP þ
International Financial Reporting Standards as issued by the International Accounting Standards Board o Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No o

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INTRODUCTION

Unless otherwise indicated, references in this annual report on Form 20-F to:

- CSI, we, us, our company and our are to Canadian Solar Inc., its predecessor entities and its consolidated subsidiaries;
- $, US$ and U.S. dollars are to the legal currency of the United States;
- RMB and Renminbi are to the legal currency of China;
- C$ and Canadian $ are to the legal currency of Canada;
- and Euro are to the legal currency of the European Union; and
- China and the PRC are to the People s Republic of China, excluding, for the purposes of this annual report on Form 20-F only, Taiwan and the special administrative regions of Hong Kong and Macau.

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 and as of December 31, 2007 and 2008.

All translations from Renminbi to U.S. dollars were made at the noon buying rate in The City of New York for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, the translation of Renminbi into U.S. dollars has been made at the noon buying rate in effect on December 31, 2008, which was RMB6.8225 to $1.00. We make no representation that the Renminbi or dollar amounts referred to in this annual report on Form 20-F could have been or could be converted into dollars or Renminbi, as the case may be, at any particular rate or at all. See Item 3. Key Information D. Risk Factors Risks Related to Doing Business in China Fluctuations in exchange rates could adversely affect our business, including our financial condition and results of operations. On June 1, 2009, the noon buying rate was RMB6.8270 to $1.00.

FORWARD-LOOKING INFORMATION

The information in this annual report on Form 20-F contains forward-looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, results of operations, business strategy and financial needs, all of which are largely based on our current expectations and projections. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as may, will, expect, anticipate, future, intend, plan, believe, estimate, is/are likely to or other and si Forward-looking statements involve inherent risks and uncertainties. These forward-looking statements include, among other things, statements relating to:

- our expectations regarding the worldwide demand for electricity and the market for solar power;
- our beliefs regarding the importance of environmentally friendly power generation;
- our expectations regarding governmental support for the deployment of solar power;

our beliefs regarding the future shortage or availability of the supply of high-purity silicon;

our beliefs regarding the acceleration of adoption of solar power technologies and the continued growth in the solar power industry;

our beliefs regarding the competitiveness of our solar module products;

our expectations with respect to increased revenue growth and improved profitability;

our expectations regarding the benefits to be derived from our supply chain management and vertical integration manufacturing strategy;

our beliefs and expectations regarding the use of upgraded metallurgical grade silicon materials (UMgSi) and solar power products made of this material;

our ability to continue developing our in-house solar components production capabilities and our expectations regarding the timing and production capacity of our internal manufacturing programs;

our beliefs regarding our securing adequate silicon and solar cell requirements to support our solar module production;

our beliefs regarding the effects of environmental regulation;

our beliefs regarding the changing competitive arena in the solar power industry;

our future business development, results of operations and financial condition; and

competition from other manufacturers of solar power products and conventional energy suppliers.

Known and unknown risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. See Item 3. Key Information D. Risk Factors for a discussion of some risk factors that may affect our business and results of operations. These risks are not exhaustive. Other sections of this annual report may include additional factors that could adversely impact our business and financial performance. Moreover, because we operate in an emerging and evolving industry, new risk factors may emerge from time to time. It is not possible for our management to predict all risk factors, nor can we assess the impact of these factors on our business or the extent to which any factor, or combination of factors, may cause actual result to differ materially from those expressed or implied in any forward-looking statement. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

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PART I

Item 1. *IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS*

Not applicable.

Item 2. *OFFER STATISTICS AND EXPECTED TIMETABLE*

Not applicable.

Item 3. *KEY INFORMATION*

A. Selected Financial Data

Selected Consolidated Financial and Operating Data

The following selected statement of operations data for the years ended December 31, 2006, 2007 and 2008 and the balance sheet data as of December 31, 2007 and 2008 have been derived from our audited consolidated financial statements, which have been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm. The report of Deloitte Touche Tohmatsu CPA Ltd. on those financial statements is included elsewhere in this annual report on Form 20-F. You should read the selected consolidated financial data in conjunction with those financial statements and the related notes and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report on Form 20-F.

Our selected consolidated statement of operations data for the years ended December 31, 2004 and 2005 and our consolidated balance sheet data as of December 31, 2004, 2005 and 2006 have been derived from audited consolidated financial statements that are not included in this annual report.

All audited financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate results expected for any future periods.

	Years Ended December 31,				
	2004	2005	2006	2007	2008
	(In thousands of US$, except share and per share data, and operating data and percentages)				
Statement of operations data:					
Net revenues	$ 9,685	$ 18,324	$ 68,212	$ 302,798	$ 705,006
Net income (loss)	$ 1,457	$ 3,804	$ (9,430)	$ (210)	$ (9,388)
Earnings (loss) per share, basic and diluted	$ 0.09	$ 0.25	$ (0.50)	$ (0.01)	$ (0.30)
Shares used in computation, basic and diluted	15,427,995	15,427,995	18,986,498	27,283,305	31,566,503

Other financial data:					
Gross margin	33.2%	38.8%	18.1%	7.8%	10.1%
Operating margin	19.0%	28.5%	1.6%	(0.6)%	3.4%
Net margin	15.0%	20.8%	(13.8)%	(0.1)%	(1.3)%
Selected operating data:					
Products sold (in MW)					
Standard solar modules	1.8	3.4	14.7	83.4	166.5
Specialty solar modules and products	0.4	0.7	0.2		
Total	2.2	4.1	14.9	83.4	166.5
Average selling price (in $ per watt)					
Standard solar modules	$ 3.62	$ 3.92	$ 3.97	$ 3.75	$ 4.23

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	As of December 31,				
	2004	2005	2006	2007	2008
	(In thousands of US$, except share data)				
Balance Sheet Data:					
Total assets	$ 6,145	$ 27,430	$ 129,634	$ 284,503	$ 570,731
Net assets	$ 2,961	$ 6,967	$ 112,904	$ 126,266	$ 332,161
Long-term debt	$	$	$	$ 17,866	$ 45,357
Convertible notes	$	$ 3,387	$	$ 75,000	$ 1,000
Capital stock(1)	$ 211	$ 211	$ 97,302	$ 97,454	$ 294,707
Number of shares outstanding(2)	15,427,995	15,427,995	27,270,000	27,320,389(2)	35,686,313(2)

(1) Excluding long-term debt and convertible notes.

(2) Excluding 566,190 and 58,250 restricted shares, which were subject to restrictions on voting and dividend rights and transferability, as of December 31, 2007 and 2008 respectively.

Exchange Rate Information

Our manufacturing activities are primarily conducted in China and a portion of our expenses are denominated in RMB. Periodic reports made to shareholders will be expressed in U.S. dollars using the then current exchange rates. This annual report contains translations of RMB amounts into U.S. dollars at specific rates solely for the convenience of the reader. The conversion of RMB into U.S. dollars in this annual report on Form 20-F is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report on Form 20-F were made at a rate of RMB6.8225 to $1.00, the noon buying rate in effect as of December 31, 2008. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On June 1, 2009, the noon buying rate was RMB6.8270 to $1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York.

	Noon Buying Rate			
Period	**Period End**	**Average(1)**	**Low**	**High**
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800

December	6.8225	6.8539	6.8842	6.8225
2009				
January	6.8392	6.8360	6.8403	6.8225
February	6.8395	6.8363	6.8470	6.8241
March	6.8329	6.8360	6.8438	6.8240
April	6.8180	6.8304	6.8361	6.8180
May	6.8278	6.8235	6.8326	6.8176
June (through June 1)	6.8270	6.8270	6.8270	6.8270

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Company and Our Industry

As polysilicon supply increases, the corresponding oversupply of solar cells and panels may cause substantial downward pressure on the prices of such products, resulting in lower revenues and earnings.

Due to rapid industry-wide silicon production capacity expansion since 2008, the solar power industry is experiencing an oversupply of high-purity silicon. If additional polysilicon becomes available in the market in the future, polysilicon prices will continue to decrease. Increases in polysilicon production and an oversupply of solar wafers, cells and panels have resulted in substantial downward pressure on prices throughout the value chain. According to SolarBuzz, spot prices for polysilicon have fallen dramatically from a peak of over $400 per kilogram in mid-2008 to a low of $120 per kilogram in the first quarter of 2009. Similarly, SolarBuzz reported that solar panel prices have fallen from a high of approximately 3.10 per watt in the third quarter of 2008 to as low as approximately 2.10 per watt in the first quarter of 2009.

We have been renegotiating our supply agreements to bring them in line with market pricing for raw materials, and we wrote down our inventory in the fourth quarter of 2008. But if we are unable, on an ongoing basis, to continue to procure silicon and wafers at prices that decline in line with solar panel pricing, our revenues and margins could be adversely impacted, either due to higher costs compared to our competitors or due to further write-downs of inventory, or both. In addition, our market share could decline if our competitors are able to price their products more competitively than ours.

The execution of our growth strategy is dependent upon the continued availability of third-party financing arrangements for our customers, which is affected by general economic conditions. Tight credit markets could depress demand for solar products, hamper our expansion and materially affect our results of operations.

The general economy and limited liquidity and availability of credit could materially and adversely affect our business and results of operations. Most solar projects are financed using third-party debt and the cost of capital and the gearing ratio impact both systems demand and price. High cost of capital materially impacts the internal rate of return for solar projects and therefore puts downwards pressure on both solar systems and module prices, which typically comprise approximately 50% to 60% of the system equipment cost. In particular, a rise in interest rates could render existing financings more expensive and present an obstacle for potential financings that would otherwise spur the growth of the solar power industry. Lower gearing ratios may mean fewer projects are executed due to increased equity requirements combined with the limited availability of equity. In the event that suitable financing cannot be arranged, customers may be unable to honor their purchasing obligations to us. Collecting payment from customers facing liquidity challenges due to either their customer defaults or bank default on project loans may also be difficult. Tight credit markets could thus hamper our expansion and materially and adversely affect our results of operations.

Revision, reduction or elimination of government subsidies and economic incentives for solar power could cause demand for our products and our revenues, profits and margins to decline.

The market for on-grid applications, where solar power is used to supplement a customer s electricity purchased from the utility network or sold to a utility under tariff, depends in large part on the availability and size of government mandates and economic incentives because, at present, the cost of solar power exceeds retail electric rates in many locations. Such incentives vary by geographic market. Government bodies in many countries, most notably Spain, the United States, Germany, Italy, South Korea, Canada, Japan, Portugal, Greece, France and

Australia, have provided incentives in the form of feed-in tariffs, rebates, tax credits, renewable portfolio standards, and other incentives and mandates to end-users, distributors, system integrators and manufacturers of solar power products to promote the use of solar energy in on-grid applications and to reduce dependency on other forms of energy. Some of these government mandates and economic incentives, such as the German EEG law, are scheduled to be reduced or to expire, or could be eliminated altogether. For example, in 2008, the digression rate of the feed-in tariffs was accelerated in both Germany and Spain. Depending on system size and total installations, the digression rate can be as much as 10% per year. This means that solar system costs will likely have to fall more quickly than previously anticipated. In addition, an annual project installation cap was introduced in Spain that will significantly reduce the demand for solar products in Spain in 2009 and thereafter. Because we sell into the on-grid market, the reduction, modification or elimination of government mandates and economic incentives in one or more of our customer markets could materially and adversely affect the growth of such markets or result in increased price competition, either of which could cause our revenue to decline and harm our financial results.

Advance payments to our polysilicon and silicon wafer suppliers and credit term sales offered to some of our customers expose us to the credit risks of such suppliers and customers and may increase our costs and expenses, which could in turn have a material adverse effect on our liquidity.

Under supply contracts with certain of our multi-year silicon wafer suppliers, and consistent with historical industry practice, we have made advance payments to some of our suppliers prior to the scheduled delivery dates for polysilicon and silicon wafer supplies. In many cases, the advance payments were made without collateral for such payments. In addition, we offer some of our customers short-term and/or medium-term credit sales based on our relationship with them and market conditions, also without collateral. As a result, our claim for such payments or sales credit would rank as unsecured claims, which would expose us to the credit risks of our suppliers and/or customers in the event of their insolvency or bankruptcy. We employ a number of mechanisms to mitigate credit sales risk, such as export credit insurance, factoring arrangements and letters of credit. Additionally, we have been renegotiating our supply agreements to obtain more favorable payment terms. However, these risks may have a material adverse effect on our financial condition, results of operations and liquidity.

Our ability to adjust our raw materials costs may be limited as a result of our entering into long-term supply agreements with many of our polysilicon and wafer suppliers, and our cost of revenues and profitability could be materially and adversely affected if we fail to adjust such costs in a timely manner.

In early 2008, due to the shortages of polysilicon and silicon wafer supplies, we entered into a number of multi-year supply agreements in an effort to secure raw materials for our production demand with some of our major silicon and wafer suppliers. In response to the decline in prices of polysilicon and silicon wafers, beginning in the fourth quarter of 2008, we have temporarily suspended our orders of polysilicon and silicon wafers and have been re-negotiating the unit price and volume terms with most of these suppliers. We continue to purchase from most of these suppliers at adjusted prices in line with market prices for such products after signing supplemental agreements in the first quarter of 2009. If the prices of polysilicon or silicon wafers continue to decrease in the future and we are unable to re-negotiate, we may not be able to adjust our materials costs, and our cost of revenues could be materially and adversely affected. In the event that we are unable to re-negotiate these agreements, we may be required to make further inventory write-downs, which could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, during thont style="font-family:inherit;font-size:11pt;"> or 2013. A participant loan that has been defaulted upon and not cured within a reasonable period of time may be deemed a distribution from the Plan. The participant loan balance is reduced and withdrawals to participants are increased after the participant makes final withdrawal from the Plan.

Withdrawals by Participants
Withdrawals by participants are recorded when paid.

Risks and Uncertainties

The Plan's investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

New Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board amended the provisions of Accounting Standards Codification Topic 820, "Fair Value Measurements," to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured using the net asset value per share practical expedient and limits those disclosures to investments for which the entity has elected to measure the fair value using that practical expedient. These

PREMCOR RETIREMENT SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

provisions are to be applied retrospectively and are effective for annual reporting periods beginning after December 15, 2015, and interim periods within those annual periods, with early adoption permitted. The adoption of this guidance effective January 1, 2016 will not affect the Plan's net assets available for benefits or changes in net assets available for benefits, but will result in revised disclosures.

3. INVESTMENTS

Investments that represent 5 percent or more of the Plan's net assets available for benefits are as follows:

	December 31,	
	2014	2013
Vanguard Retirement Savings Trust III (contract value of $43,538,197)	$44,874,698	$—
Vanguard Retirement Savings Trust (contract value of $49,376,091)*	—	50,752,105
Vanguard PRIMECAP Fund Admiral Shares	30,514,822	—
Vanguard PRIMECAP Fund Investor Shares*	—	27,061,731
Vanguard Windsor II Fund Investor Shares	27,877,826	27,086,513
Vanguard Wellington Fund Investor Shares	27,058,415	26,947,763
Valero Energy Corporation common stock	25,866,569	30,489,794
Vanguard 500 Index Fund Admiral Shares	17,664,113	—
Vanguard 500 Index Fund Signal Shares*	—	16,270,433
Vanguard Morgan Growth Fund Investor Shares	15,583,397	15,839,250

* As of December 31, 2014, this investment was no longer included in the Plan's net assets available for benefits but is shown in this table for comparative purposes only.

The Plan's investment in shares of Valero common stock represents 9.4 percent and 10.9 percent of total investments at fair value as of December 31, 2014 and 2013, respectively. The closing price for Valero common stock was $49.50 and $50.40 on December 31, 2014 and 2013, respectively. As of June 19, 2015, the closing price for Valero common stock was $60.33.

During the years ended December 31, 2014 and 2013, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in value as follows:

	Years Ended December 31,	
	2014	2013
Common stock	$(548,926)	$12,899,109
Mutual funds	8,140,352	34,614,285
Net appreciation in fair value of investments	$7,591,426	$47,513,394

For the years ended December 31, 2014 and 2013, dividend income included $570,555 and $549,963, respectively, of dividends paid on Valero common stock.

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PREMCOR RETIREMENT SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

Certain events could limit the ability of the Plan to transact at contract value with the issuers of the contracts held by the Vanguard Retirement Savings Master Trust. These events include, but are not limited to, layoffs, bankruptcy, plant closings, plan termination, mergers, and early retirement incentives. These events may cause liquidation of all or a portion of a contract at a market value adjustment. As of December 31, 2014, the occurrence of any of these events, which could limit the Plan's ability to transact at contract value with participants, is not considered probable.

4. FAIR VALUE MEASUREMENTS

A fair value hierarchy (Level 1, Level 2, or Level 3) is used to categorize fair value amounts based on the quality of inputs used to measure fair value. Accordingly, fair values determined by Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs are based on quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability for which there is little, if any, market activity at the measurement date. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair values of its applicable assets and liabilities. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The valuation methods used to measure the Plan's financial instruments at fair value are as follows:

- Mutual funds and common stocks are measured at fair value using a market approach based on quotations from national securities exchanges and are categorized in Level 1 of the fair value hierarchy.
- The money market security represents interest-bearing cash and is therefore categorized in Level 1 of the fair value hierarchy.
- The Vanguard Retirement Savings Trust III and the Vanguard Retirement Savings Trust are common/collective trusts, which invest solely in the Vanguard Retirement Savings Master Trust. The Vanguard Retirement Savings Master Trust, which primarily holds investments in fully benefit-responsive contracts, is stated at fair value as determined by the issuer of the fund and is categorized in Level 2 of the fair value hierarchy. The fair value of the Vanguard Retirement Savings Master Trust is calculated by the issuer using a discounted cash flow model, which considers (i) recent fee bids as determined by recognized dealers, (ii) discount rate, and (iii) the duration of the underlying portfolio securities. The fair value of the Plan's investment in the Vanguard Retirement Savings Master Trust is based on its proportionate ownership of the underlying investments. There are no imposed restrictions as to the redemption of these investments.

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PREMCOR RETIREMENT SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

The tables below present information about the Plan's assets measured at fair value on a recurring basis and indicate the fair value hierarchy of the inputs utilized to determine the fair values as of December 31, 2014 and 2013.

	Fair Value Measurements Using			Total as of
	Level 1	Level 2	Level 3	December 31, 2014
Mutual funds:				
Bond funds	$11,682,388	$—	$—	$11,682,388
Foreign funds	10,884,416	—	—	10,884,416
Large-cap funds	127,194,569	—	—	127,194,569
Mid-cap funds	12,556,901	—	—	12,556,901
Small-cap funds	16,679,396	—	—	16,679,396
Target date retirement funds	25,368,229	—	—	25,368,229
Common/collective trust	—	44,874,698	—	44,874,698
Common stock:				
Valero Energy Corporation	25,866,569	—	—	25,866,569
Money market security	82,481	—	—	82,481
Investments at fair value	$230,314,949	$44,874,698	$—	$275,189,647

	Fair Value Measurements Using			Total as of
	Level 1	Level 2	Level 3	December 31, 2013
Mutual funds:				
Bond funds	$11,813,900	$—	$—	$11,813,900
Foreign funds	12,940,574	—	—	12,940,574
Large-cap funds	121,130,622	—	—	121,130,622
Mid-cap funds	11,788,787	—	—	11,788,787
Small-cap funds	20,082,589	—	—	20,082,589
Target date retirement funds	17,667,780	—	—	17,667,780
Common/collective trust	—	50,752,105	—	50,752,105
Common stocks:				
CST Brands, Inc.	2,001,063	—	—	2,001,063
Valero Energy Corporation	30,489,794	—	—	30,489,794
Money market security	43,668	—	—	43,668
Investments at fair value	$227,958,777	$50,752,105	$—	$278,710,882

There were no transfers between Level 1 and Level 2 for assets held as of December 31, 2014 and 2013.

PREMCOR RETIREMENT SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

5. PARTY-IN-INTEREST TRANSACTIONS

The Plan invests in mutual funds, a common/collective trust, and a money market security that are managed by an affiliate of Vanguard Fiduciary Trust Company, the Plan's trustee. Fees paid by the Plan for investment management services were included as a reduction of the return earned on each fund. In addition, the Plan allows for loans to participants and investment in Valero's common stock. Valero, the sponsor of the Plan and a party-in-interest to the Plan, provides accounting and administrative services at no cost to the Plan. These transactions are covered by an exemption from the "prohibited transactions" provisions of ERISA and the Code.

6. PLAN TERMINATION

Although it has not expressed any intent to do so, Valero has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of any termination of the Plan or complete discontinuance of employer contributions, participants would become 100 percent vested in their employer accounts. If the Plan were terminated, the Administrative Committee would direct the trustee to distribute the remaining assets, after payment of all Plan expenses, to participants and beneficiaries in proportion to their respective balances.

7. TAX STATUS

The Internal Revenue Service has determined and informed the plan sponsor by a letter dated March 20, 2014, that the Plan is designed in accordance with applicable sections of the Code. Although the Plan has been amended since receiving the determination letter, the plan sponsor believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Code, and therefore believes that the Plan is qualified and the related trust is tax-exempt. The plan sponsor believes the Plan is not subject to tax examination for plan years prior to 2011.

8. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

Fully benefit-responsive investment contracts are recorded on the Form 5500 at fair value but are adjusted to contract value for financial statement presentation. Deemed distributions of participant loans are recorded on the Form 5500 upon default by participants; such amounts continue to be reported as participant loans in the financial statements until the participants' termination and actual distribution from the Plan.

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 Annual Return/Report of Employee Benefit Plan:

	December 31, 2014	2013
Net assets available for benefits per the financial statements	$279,270,007	$282,895,196
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	1,336,501	1,376,014
Deemed distributions of participant loans	(66,070)	(13,498)
Net assets available for benefits per the Form 5500	$280,540,438	$284,257,712

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PREMCOR RETIREMENT SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

The following is a reconciliation of investment income per the financial statements to the Form 5500 Annual Return/Report of Employee Benefit Plan:

	Years Ended December 31,	
	2014	2013
Investment income per the financial statements	$19,813,668	$56,409,679
Adjustment from contract value to fair value for fully benefit-responsive investment contracts as of end of year	1,336,501	1,376,014
Adjustment from contract value to fair value for fully benefit-responsive investment contracts as of beginning of year	(1,376,014)	(2,618,549)
Investment income per the Form 5500	$19,774,155	$55,167,144

The following is a reconciliation of deemed distributions of participant loans per the financial statements to the Form 5500 Annual Return/Report of Employee Benefit Plan:

	Years Ended December 31,	
	2014	2013
Deemed distributions of participant loans per the financial statements	$—	$—
Deemed distributions of participant loans as of end of year	66,070	13,498
Deemed distributions of participant loans as of beginning of year	(13,498)	(48,978)
Deemed distributions of participant loans per the Form 5500	$52,572	$(35,480)

PREMCOR RETIREMENT SAVINGS PLAN
EIN: 74-1828067
Plan No. 010

Schedule H, Line 4i–Schedule of Assets (Held at End of Year)
As of December 31, 2014

Identity of Issue/Description of Investment	Current Value
Mutual funds:	
Vanguard 500 Index Fund Admiral Shares	$17,664,113
Vanguard Balanced Index Fund Investor Shares	8,495,996
Vanguard Explorer Fund Investor Shares	7,686,004
Vanguard International Growth Fund Investor Shares	10,884,416
Vanguard Mid-Cap Index Fund Investor Shares	12,556,901
Vanguard Morgan Growth Fund Investor Shares	15,583,397
Vanguard PRIMECAP Fund Admiral Shares	30,514,822
Vanguard Small-Cap Index Fund Investor Shares	8,993,392
Vanguard Target Retirement 2010 Fund	1,892,802
Vanguard Target Retirement 2015 Fund	6,704,094
Vanguard Target Retirement 2020 Fund	6,017,400
Vanguard Target Retirement 2025 Fund	2,666,094
Vanguard Target Retirement 2030 Fund	1,417,830
Vanguard Target Retirement 2035 Fund	1,694,449
Vanguard Target Retirement 2040 Fund	875,358
Vanguard Target Retirement 2045 Fund	1,325,684
Vanguard Target Retirement 2050 Fund	1,393,267
Vanguard Target Retirement 2055 Fund	142,207
Vanguard Target Retirement 2060 Fund	588
Vanguard Target Retirement Income Fund	1,238,456
Vanguard Total Bond Market Index Fund Investor Shares	11,682,388
Vanguard Wellington Fund Investor Shares	27,058,415
Vanguard Windsor II Fund Investor Shares	27,877,826
Total mutual funds	204,365,899
Common/collective trust:	
Vanguard Retirement Savings Trust III	44,874,698
Common stock:	
Valero Energy Corporation	25,866,569
Money market security:	
Vanguard Prime Money Market Fund	82,481
Participant loans (interest rates range from 4.25% to 8.75%; maturity dates range from January 2015 to July 2029)	5,261,291
	$280,450,938

All investments are party-in-interest to the Plan.

See accompanying report of independent registered public accounting firm.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Valero Energy Corporation Benefit Plans Administrative Committee has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

PREMCOR RETIREMENT SAVINGS PLAN

By /s/ Donna M. Titzman
Donna M. Titzman
Chairman of the Valero Energy Corporation
Benefit Plans Administrative Committee
Senior Vice President and Treasurer,
Valero Energy Corporation

Date: June 29, 2015

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