

UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D. C. 20549
 Form 10-K

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

For the fiscal year ended December 31, 2000 Commission file number 1-27

Texaco Inc.

(Exact name of registrant as specified in its charter)

Delaware

74-1383447

(State or other jurisdiction of
 incorporation or organization)

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

2000 Westchester Avenue
 White Plains, New York

10650

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (914) 253-4000

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

Title of each class -----	Name of each exchange on which registered -----
Common Stock, par value \$3.125	New York Stock Exchange Chicago Stock Exchange The Stock Exchange, London Antwerp and Brussels Exchanges Swiss Stock Exchange
Rights to Purchase Series D Junior Participating Preferred Stock	New York Stock Exchange
Cumulative Adjustable Rate Monthly Income Preferred Shares, Series B*	New York Stock Exchange
6 7/8% Cumulative Guaranteed Monthly Income Preferred Shares, Series A*	New York Stock Exchange
8 1/2% Notes, due February 15, 2003**	New York Stock Exchange
8 5/8% Debentures, due June 30, 2010**	New York Stock Exchange
9 3/4% Debentures, due March 15, 2020**	New York Stock Exchange

* Issued by Texaco Capital LLC and the payments of dividends and payments on liquidation or redemption are guaranteed by Texaco Inc.
 ** Issued by Texaco Capital Inc. and unconditionally guaranteed by Texaco Inc.

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 and (2) has been subject to such filing requirements for the past 90 days.

No disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting common stock of Texaco Inc. held by non-affiliates at the close of business on February 28, 2001 based on the New York Stock Exchange composite sales price, was approximately \$35,253,000,000.

As of February 28, 2001, there were 550,137,100 outstanding shares of Texaco Inc. Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE
 (to the extent indicated herein)

Part of
 Form 10-K

Texaco Inc. Annual Report to Stockholders for the year 2000..... I, II

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PART I
TEXACO INC.

Items 1 and 2. Business and Properties

DEVELOPMENT AND DESCRIPTION OF BUSINESS

Texaco Inc. was incorporated in Delaware on August 26, 1926, as The Texas Corporation. Its name was changed in 1941 to The Texas Company and in 1959 to Texaco Inc. It is the successor to a corporation incorporated in Texas in 1902. When we use the term "Texaco Inc." in this Form 10-K and in the documents we have incorporated by reference into this Form 10-K, we mean Texaco Inc., a Delaware corporation. We use terms such as "Texaco," "company," "organization," "unit," "we," "us," "our," and "its" for convenience only. These terms may mean either Texaco Inc. and its consolidated subsidiaries or Texaco Inc.'s subsidiaries and affiliates, either individually or collectively.

Texaco Inc. and its subsidiary companies, together with affiliates owned 50% or less, represent a vertically integrated enterprise principally engaged in the worldwide exploration for and production, transportation, refining and marketing of crude oil, natural gas liquids, natural gas and petroleum products, power generation, gasification and other energy technologies.

CHEVRON -- TEXACO MERGER

On October 15, 2000, Texaco and Chevron Corporation entered into a merger agreement. In the proposed merger, Texaco shareholders will receive .77 shares of Chevron common stock for each share of Texaco common stock they own, and Chevron shareholders will retain their existing shares. Immediately after closing, Chevron Corporation will change its name to ChevronTexaco Corporation.

ChevronTexaco Corporation will have significantly enhanced positions in upstream and downstream operations, a global chemicals business, a growth platform in power generation, and industry-leading skills in technology innovation. Annual synergy savings of at least \$1.2 billion are expected within six to nine months of the merger. Though not yet fully quantified, significant costs will be incurred after the merger for integration-related expenses, including the elimination of duplicate facilities, operational realignment and severance payments for workforce reductions.

The merger is conditioned, among other things, on the approval by the shareholders of both companies, pooling of interests accounting treatment for the merger, approvals of government agencies, such as the U.S. Federal Trade Commission (FTC) and completion of the merger on a tax-free basis, such that the companies themselves, as well as holders of Chevron stock, will not recognize gain or loss as a result of the merger. Holders of Texaco common stock will not recognize any gain or loss for federal income tax purposes on the exchange of their Texaco stock for ChevronTexaco stock in the merger, except for any gain or loss recognized in connection with the receipt of cash instead of a fractional share of ChevronTexaco common stock. We anticipate that the FTC will require certain asset dispositions as a condition of not challenging the merger. While the scope and method of such dispositions are unknown at this time, we do anticipate being required to make divestitures of certain United States refining, marketing and transportation businesses in order to address market concentration concerns. We believe that we will be able to resolve these concerns by the disposition of our interests in Equilon and Motiva.

The merger agreement provides for the payment of termination fees of up to \$1 billion by either party under certain circumstances. Chevron and Texaco also were granted options to purchase shares of the other, under the same conditions as the payments of the termination fees. Texaco granted Chevron an option to purchase 107 million shares of Texaco's common stock, at \$53.71 per share. Chevron granted Texaco an option to purchase 127 million shares of Chevron's common stock, at \$85.96 per share.

On February 23, 2001, the Board of Directors of Texaco voted to postpone the Annual Meeting of Stockholders, normally held on the fourth Tuesday in April, pending further developments relating to the closing of the merger.

INDUSTRY REVIEW OF 2000

Introduction

By most measures, 2000 was an extraordinary year for the international oil and gas industry. Spot crude oil prices reached their highest average level since 1982, spot refining margins staged a startling recovery from last year's lows, and U.S. natural gas prices set new records.

A surging global economy contributed to further growth in energy demand last year. However, the very favorable price environment was, to a large extent, the result of a combination of energy market supply-side factors. Low inventories of crude oil and refined products left oil markets susceptible to disruption and uncertainty. This helped to support prices and refining margins at high levels for most of the year.

Low inventory levels also characterized the U.S. natural gas market. Domestic gas production remained relatively weak in 2000. This made it difficult both to meet summer demand requirements and to place adequate volumes of gas into storage for the winter.

Review of 2000

The global economy experienced exceptionally strong growth in 2000. The U.S. was the world's driving force, enjoying a remarkable 5% increase in Gross Domestic Product despite a tightening in monetary policy and higher energy prices. Western Europe also registered a healthy gain, propelled by rising exports and strong investment spending. However, the large Japanese economy continued to underperform.

The developing world continued to recover in 2000 from the Asian financial crisis. Benefiting from both a rise in intra-regional trade and the strength of the U.S. and European economies, growth in developing Asia accelerated. In similar fashion, Latin America emerged from its 1999 recession, led by strong growth in Brazil, Mexico, Peru and Chile. Also, many of the oil producing nations in the developing world benefited from higher oil prices. Furthermore, the former Soviet bloc enjoyed its strongest economic performance in 10 years, led by robust growth in Russia and many of the countries in Eastern Europe.

The increased pace of economic activity contributed to further growth in world oil demand. Total oil consumption averaged 76.4 million barrels per day (BPD) during 2000, 1.2% higher than 1999. Virtually all of the increase in demand occurred in the developing countries, especially those in Asia. The warmer-than-normal 1999-2000 winter constrained the demand for heating fuels in the U.S. and Western Europe. Also, sharply higher oil prices limited consumption in some countries.

In contrast to the deep cutbacks made in 1999, members of the Organization of Petroleum Exporting Countries (OPEC) raised their production of crude oil significantly in 2000. OPEC crude oil output averaged 27.9 million BPD, 1.4 million BPD above the prior year and the highest level since 1979. By year end, many OPEC members were believed to be producing at or near their full capacity.

Production in non-OPEC areas also rose substantially in 2000. This largely reflected the start-up of projects that were delayed from the prior two years, when low oil prices cut deeply into spending and production plans. However, much of the increase in world oil production occurred after the spring, and commercial crude oil inventories remained lean throughout most of the year.

Low crude oil stocks placed continued upward pressure on prices. This was reinforced by uncertainties regarding export flows from Iraq and the escalation of violence in the Middle East. For the year overall, the spot price of U.S. benchmark West Texas Intermediate (WTI) crude oil averaged \$30.37 per barrel, about \$11.00 per barrel higher than in 1999.

Early in 2000, refined product inventories were drawn down, especially in the Atlantic basin, to meet seasonal demand requirements. As the year progressed, it became difficult to replenish these stocks for a variety of reasons. These reasons included changes in mandated product specifications in some areas, scattered worldwide refinery outages and heavy scheduled refinery maintenance. Consequently, refined product prices rose sharply, and spot refining margins increased.

U.S. natural gas prices also rose steeply last year, averaging \$3.99 per thousand cubic feet. This increase of about 70% reflected tight supply/demand conditions. Domestic gas production has recovered slowly from the declines suffered in 1998-1999 when overall upstream spending was reduced drastically due to low oil prices. At the same time, however, gas demand has trended upward, especially for electricity generation during the summer months. During 2000, natural gas end users competed for available supplies with operators who store gas for the winter. With low levels of gas in storage heading into the winter, the onset of severe cold weather in November and December raised concerns about adequate supplies. This sent gas prices up sharply.

Near-Term Outlook

The global economic expansion is expected to continue through 2001, though at a slower rate than in 2000. The U.S. economy is showing signs of a sharp slowdown, responding to the previous interest rate increases by the Federal Reserve. Recently, the Federal Reserve has reduced interest rates in an effort to keep the U.S. economy from slipping into a recession. Economic expansions in Europe and the developing world are also expected to moderate, reflecting the slowdown in the U.S.

We expect world oil consumption to increase again during 2001. Even with lower economic growth, oil consumption should rise by about 1.4 million BPD. On the supply side, non-OPEC production should also rise, but more slowly, as many delayed projects have been completed.

The major uncertainty facing oil markets in 2001 concerns the level of OPEC oil output and the future course of prices. OPEC has stated publicly its desire to maintain crude oil prices in a target range which is roughly equivalent to \$24-\$30 per barrel of WTI. Prices were headed down toward the lower end of that range by the end of 2000 as OPEC's high crude oil production rates ultimately translated into a worldwide accumulation of crude oil stocks. To avoid a market oversupply situation which could jeopardize its price goal, OPEC announced output cuts in January 2001, and prices moved higher. However, renewed concerns about potential market surplus again drove prices toward the bottom of the target range, prompting further cuts by OPEC in March.

Worldwide spot refining margins should decline during 2001. High refinery running rates in many parts of the world during the latter part of last year led to a partial refilling of refined product stocks. In addition, many of the unusual factors that prevailed in 2000, such as major changes in product specifications, should be absent from the market in 2001.

U.S. natural gas markets, on the other hand, have the potential to remain quite strong in 2001. Under any reasonable expectation, the volume of natural gas in storage will be very low by the spring. Thus, the need to build supplies will be intense. Although production and imports will be higher, continued growth in demand will keep the market balance tight.

WORLDWIDE OPERATIONS

Our worldwide operations encompass three main businesses: o Upstream (exploration and production) o Downstream (refining, marketing and distribution) o Global Gas, Power and Energy Technology.

In the following pages, we discuss each of these businesses and technology.

UPSTREAM

We achieved record upstream earnings through a combination of significantly higher prices and rigorous cost control. Our worldwide production of crude oil and natural gas declined by almost 9% due to our continuing strategy of selling non-core producing properties. In 1999, we decided to divest non-strategic assets and focus investment on high-return, high-impact opportunities. The balance of the decrease was due to natural field declines, which exceeded new production from various fields, and lower production volumes in Indonesia as higher prices reduced our lifting entitlements for cost recovery under a production-sharing agreement. Our cash operating expenses increased by less than 5% in 2000 and less than 15% on a per barrel of oil equivalent (BOE) basis. Most of the increase in operating expenses was due to higher utility and production taxes directly related to the higher price environment. We made significant progress in 2000 in executing our strategy to shift our upstream portfolio to high-margin, high-impact projects. In 2000:

- o The deepwater Agbami field appraisal program in Nigeria continued to confirm a world-class discovery and resulted in the initial field development steps being taken.
- o We drilled the Bilah discovery in the deepwaters of Nigeria.
- o We continued construction of the Malampaya natural gas project in the Philippines, completing the gas export line and installing the concrete gravity structure for the production platform.
- o The Hamaca oil project in Venezuela awarded \$1.1 billion in construction contracts.
- o We continued to move forward with our Karachaganak project in Kazakhstan, where our partners and we awarded the main construction works and drilling contracts for field expansion.
- o First production from the second phase (Area B) of the Captain field in the U.K. North Sea began in December.
- o We made three discoveries in Australia, which add substantial resources within the greater Gorgon area.
- o Our worldwide reserve replacement of 172%, excluding purchases and sales, enabled us to achieve our highest year-end reserve life in 24 years.
- o Our worldwide finding and development costs were a competitive \$3.62 per BOE.
- o We generated about \$600 million in cash from the sale of 74,000 BOE per day of low-margin, high-cost properties.

Exploration

In the year 2000, we were successful in several of our key focus areas. Drilling in the deepwater of Nigeria resulted in the Bilah discovery. Within the U.S. Gulf of Mexico and Louisiana Gulf Coast, we announced four discoveries as a result of our exploitation drilling. In Australia, we drilled three successful wells, continuing the expansion of the greater Gorgon area. Plans are underway to begin the 2001 deepwater drilling campaign in offshore Brazil, as well as continued exploration in our focus areas.

West Africa

We drilled a rank wildcat well in 2000. The Bilah #1 on OPL-218 was drilled in 4,514 feet of water and encountered over 220 net feet of gas condensate pay in multiple zones. Gas commercialization studies are ongoing and if warranted, we will undertake further appraisal drilling, both on Bilah and the previous Nnwa discovery. We plan to drill rank wildcat wells in Blocks 213 and 215 in 2001. We are well positioned to continue to expand resource finds in this exciting new play.

We hold significant exploration acreage (approximately 2.7 million gross acres) in the deep waters off Nigeria. We hold interests in five Blocks - 213, 215, 216, 217 and 218 - and we continue to evaluate new blocks, as they become available.

In Angola, we continue to hold interest in approximately 2.5 million gross acres. This includes Blocks 9 and 22, where we plan to begin drilling in 2001 or 2002.

Brazil

We received ANP (Brazilian Government oil and gas regulatory agency) assignment in the first quarter of 2000 for the BC-4, Frade and BS-4 partnership blocks, which we previously negotiated with Petrobras. We operate BC-4 and Frade with a 42.5% interest. Shell operates BS-4, where we hold a 20% interest.

In 2000, we acquired a 10% interest in Block BM-C-4 from Agip. The other partner in the block is YPF. In Block BM-S-2, where we hold a 100% equity stake, we began acquisition of 5,000 square kilometers of 3D seismic data, one of the largest 3D programs in our history. The interpretation of seismic data on our current exploration acreage was a major activity in 2000 and is critical in building a prospect inventory.

We have a five-well program planned for 2001 including two pre-development wells on the Frade block.

Gulf of Mexico

The deepwater Gulf of Mexico is one of our exploration focus areas. At year-end, we held an interest in 383 deepwater leases covering 2.2 million gross acres. In addition, we hold an interest in 204 Shelf leases covering 1.1 million gross acres, comprised primarily of producing acreage. In 2001, we plan to participate in up to five deepwater rank wildcat wells.

In 2000, we drilled the Champlain prospect in Atwater Valley Block 63, located 160 miles south of New Orleans in 4,384 feet of water. We are the operator, holding a 75% interest, with Agip holding the remaining 25%. Initial results have indicated the presence of high-quality reservoir sands with a total of 140 net feet of pay. We are evaluating this prospect to determine its commercial viability.

Exploitation drilling yielded four discoveries during 2000, all of which were announced during the fourth quarter: North Tern Deep in Eugene Island Block 193; Bay St. Elaine Oscar in Terrebonne Parish, Louisiana; Cyrus in High Island Block 582; and Vermilion Bay B110 in Iberia Parish, Louisiana. These discoveries are all close to existing infrastructure and capable of delivering significant near-term production. As of January 2001, the Bay St. Elaine and Vermilion Bay discoveries are already on production. The North Tern Deep discovery is the first resulting from a three-year exploration venture agreement with McMoran and is expected to be on production during the first half of 2001.

Australia

We have continued our successful drilling program in Western Australia with three additional wells, Urania No. 1, and Maenad No. 1 in Block WA-267-P (25% interest) and Jansz No. 1 in Block WA-268-P (50% interest), adding substantial new resources in proximity to the Gorgon complex. The drilling campaign will continue into 2001, with further success already recorded in Blocks WA-25-P (28.57 % interest) at Iago No. 1 and in WA-267-P at Io No. 1.

In addition, we acquired three new blocks in the Outer Browse Basin adding 3.65 million gross acres, to bring our portfolio in this region to 10.8 million gross acres. We will continue to seek high-quality opportunities to increase and upgrade our exploration portfolio.

Development

Our upstream strategy is centered on the development of high-margin, high-impact reserves. Throughout 2000, we continued to achieve significant success on each of our major projects.

Agbami

The extension of our OPL Block 216 Agbami discovery was confirmed by an appraisal well on OPL Block 217. We are a working interest partner in Block 217, where Statoil is the operator. Consequently, we initiated unitization discussions with Statoil for a combined Block 216/217 Agbami development. We spudded the third well on the Block 216 appraisal program, the Agbami-3, in late 2000. The final appraisal well, the Agbami-4, will be drilled immediately following the Agbami-3 well.

In 2000, we finalized front-end engineering design on the development plan and have nearly completed the process to bid on construction of the floating production storage and offloading vessel and gas compression facilities. Current plans include initial production in 2005 and peak production of 200,000 barrels of oil per day (100% basis) by 2007.

Malampaya

The construction of the Malampaya Project remains on schedule with first commercial gas sales slated for early 2002. We achieved several major construction milestones during the year, including the drilling of five development wells, the completion of the gas export line and the setting of the concrete gravity structure. The platform will be placed on the concrete gravity structure during the first quarter of 2001. Our share of production is expected to reach a peak of 150 million standard cubic feet (SCF) per day during 2003.

In October 1999, we acquired a 45% interest in the Malampaya Deepwater Natural Gas Project. The Malampaya field is located northwest of the Philippine Island of Palawan. Under a 22-year agreement, this integrated natural gas-to-power project will supply gas to three new power plants on Luzon Island. Our participation in the project includes the deepwater gas field and the onshore gas plant.

Hamaca

During 2000, we and our partners awarded a total of \$1.1 billion in engineering, procurement and construction contracts for field production and crude oil upgrading facilities at the Jose Industrial Complex. Site preparation has begun for the crude oil upgrading unit at the complex, which is located on the northern coast of Venezuela. Field drilling operations are underway near El Tigre. In addition, we finalized the purchase of centralized field production processing facilities from Petroleos de Venezuela S.A. in 2000.

We have a 30% interest in the Hamaca Project. The three working interest owners formed a joint venture, Petrolera Ameriven, to develop and operate this project. The plan is to develop and produce the 8(degree) API heavy oil that is expected to reach peak production rates of 190,000 barrels of oil per day (100% basis) in 2004. The heavy oil production will be mixed with a diluent and transported via pipeline to an upgrader located in the Jose Industrial Complex in Puerto La Cruz. The upgrader will produce 26(degree) API syncrude to sell in the open market by 2004.

Karachaganak

During 2000, we awarded all major contracts to complete Phase II of the Karachaganak Development Project. In addition, we focused on maximizing production and revenues from our existing production facilities. Total field production for the year (100% basis) was 32.6 million barrels of condensate (approximately 90,000 barrels per day) and 162.7 billion cubic feet of gas (approximately 450 million cubic feet per day). These production levels represent an annual production record for the field.

Our marketing focus is geared toward long-term gas sales arrangements. The Caspian Pipeline Consortium route for Karachaganak's liquids will allow the field to reach Phase II full production capacities of 220,000 barrels per day of condensate and 1.4 billion cubic feet of gas per day (100% basis) in early 2004.

Karachaganak is a world-class gas/condensate field located in northwest Kazakhstan. The field was discovered in 1979 and contains in excess of 18 billion BOE of hydrocarbons-in-place. In 1996, the Government of the Republic of Kazakhstan approved our entry into the project. Our working interest is 20%. The field will be developed in phases to match the capacity of export pipelines as well as market demand.

North Buzachi

During 2000, we initiated the second phase of appraisal and delineation. The second phase activities include the completion of a 3D seismic survey, the drilling of nine wells and the initiation of steam stimulation trials. We constructed a pump station and 20-mile pipeline to link the field to processing facilities and the main export pipeline. Test crude sales have been made in Black Sea and West European markets.

The North Buzachi oil field is located in western Kazakhstan, 120 miles north of the Caspian port city of Aktau. Significant quantities of recoverable oil were identified in the license area prior to the Kazakh independence but remained undeveloped. We acquired a 65% working interest and became operator in 1998. A successful pilot phase of four producing wells was concluded in 1999.

Captain Expansion in the U.K. North Sea

In December 2000, production officially began on the Captain Expansion Project, following the completion of construction and installation of the facilities for the project. A new platform, installed during September, linked up to our existing production platform and connected to a new subsea drilling and production template via a suite of infield pipelines. This allowed drilling to commence on the eastern half of the Captain reservoir, which was left undeveloped during the initial phase of the field development. The first subsea well was started up via the new facilities during December, only 25 months after the award of the first contract for design and construction of the facilities. The project is expected to increase the peak daily production capacity from the Captain field from 60,000 barrels of oil per day to 85,000 barrels of oil per day (100% basis). We hold an 85% interest in the Captain field.

Gulf of Mexico

In April 2000, we successfully installed a replacement topsides module on the Petronius project and commissioned for first production in July 2000. The development phase of the project is currently progressing, with the drilling and completion of the development wells.

As our first deepwater project, the Petronius field, owned 50% by us, consists of a compliant tower platform, modular production and water injection facilities, a gas export pipeline, and the drilling and completion of 14 developmental wells.

Other

In China, the development of the Qinhuangdao 32-6 field in Bohai Bay is in progress. We hold a 24.5% interest. The construction of all field facilities is underway, including the floating production storage and offloading vessel, mooring system, wellhead platforms and topsides equipment. A total of 50 wells have been drilled and completed on the first two wellhead platforms; another 113 wells will be drilled on the remaining four platforms during the next 18 months. First oil production is targeted for first quarter 2002. Also in Bohai Bay, the Bozhong Block CA 11/19 prospect was confirmed through a successful drilling program. The project team is proceeding with the preparation for an overall development plan.

In China, we have initiated pilots on three coalbed methane projects to evaluate their commercial potential. The Huaibei project in Anhui Province, in which we are the operator and 100% interest owner, has a five-well pilot underway. The Lin-Xing in Shanxi Province, in which we hold a 47.5% interest, also has a five-well producing pilot. The San Jiao in Shanxi, in which we have a 30% interest, now has ten wells operating. Marketing activities have also progressed with the signing of six non-binding Memorandums of Understanding with ultimate gas consumers. In November 2000, we signed the Production Sharing Contracts for the fourth project, known as Zhungeer, in which we have a 100% interest, and preparations are underway for drilling the first set of evaluation wells.

In Indonesia, we are developing the South Natuna Sea Block B project (our share is 25%) for the sale of natural gas to both Singapore and Malaysia. The Singapore project involves the development of six offshore gas fields, including the associated wells, platforms, floating facilities, pipelines and a 300-mile gas transmission line to Singapore. During 2000, we completed the initial phase of the submarine pipeline and made substantial progress on the construction of a mobile production jack-up barge. First production from Block B will be in the second quarter of 2001 at a rate of 90 million SCF per day (100% basis), with a plateau rate of 150 million SCF per day by mid-2002.

As a result of the signing of a non-binding Heads of Agreement between the governments of Indonesia and Malaysia, in October 2000, negotiations commenced on a natural gas sales agreement with the government of Malaysia for the sale of 1.5 trillion cubic feet of natural gas from Block B. Block B will be the exclusive supplier of gas for this deal. The project is scheduled to deliver first gas in early 2003, ramping up to a gross rate of 250 million SCF per day (100% basis).

In Brazil, the Frade development project completed 3D seismic acquisition and conceptual engineering studies in 2000. A pre-development drilling program planned for 2001 consists of two wells on Frade and one exploration well in the adjacent BC-4 Block and will assist us in confirming reserve size and optimizing a field development scenario.

The Frade field lies in approximately 3,700 feet of water, 230 miles northeast of Rio de Janeiro, in Block BC-4 of the northern Campos Basin. We were assigned operator of Frade in March of 2000 and we hold an equity stake of 42.5%.

Production

Our worldwide production of crude oil and natural gas declined by approximately 9% in 2000 to 1,111 thousand BOE per day. Our U.S. production accounted for 52% of total worldwide volumes, similar to 1999. Asset sales and natural field declines contributed equally to a 10% production decline in the U.S. Internationally, our production declined by 7% as a result of asset sales, maintenance and repairs to our U.K. North Sea operations and lower lifting entitlements for cost recovery in Indonesia as a result of higher crude oil prices. With worldwide crude oil prices and U.S. gas prices increasing almost 70%, we held our operating expenses to less than a 15% increase on a unit-of-production basis. The majority of this increase is the result of price-related increases in fuel expense, utility costs and production taxes.

California

In 2000, California production declined 5% to average 160,000 BOE per day. Aggressive steam management in December reduced high-priced gas consumption, helping to support California during its power situation. Five thousand barrels of oil per day were shut in during December as part of the California utility situation fuel management effort.

Gulf of Mexico

Production from the Petronius field is currently 42,000 barrels of oil per day and 33.5 million cubic feet of gas per day. Peak production is expected to range from 45,000 to 50,000 barrels of oil per day and 80 to 100 million cubic feet of gas per day (100% basis). Our share of the field is 50%.

Central U.S.

Gas production in the Rocky Mountain region continued to increase as we developed additional coalbed methane production in Utah and New Mexico. The acquisition of EnerVest San Juan properties at year-end 2000 added a further 21 million cubic feet per day of production and will provide low-risk potential for further growth.

North Sea

The highlight of the year 2000 in the North Sea was the commissioning of the Captain Expansion Facility in December. The North Sea provided an average of 156,000 BOE per day in 2000. Production in Denmark was 55,000 BOE per day while the U.K. sector produced just over 101,000 BOE per day. The Halfdan facility, in the Danish sector, came on line earlier than anticipated but the Erskine field in the U.K. was shut in for most of the year for pipeline replacement.

Indonesia

During 2000, production from Indonesia was 122,000 barrels of oil per day, down almost 20% compared to 1999. Most of our Indonesia production comes from P.T. Caltex Indonesia (CPI), an exploration and production company owned 50% each by Texaco and Chevron. CPI operates under production-sharing contracts in Central Sumatra. We had lower production volumes as higher prices reduced our lifting entitlements for cost recovery under these production-sharing contracts.

Partitioned Neutral Zone

During 2000, production from the Partitioned Neutral Zone (PNZ) increased 12%, to 139,000 barrels of oil per day -- the ninth consecutive year of increases of more than 10% in the PNZ. The record level of production was the result of a combination of infill drilling and horizontal workovers, mainly at the Wafra and South Umm Gudair fields.

Reserves

We replaced 172% of our worldwide combined oil and gas production in 2000, excluding purchases and sales. When purchases and sales are included, production replacement drops to 116%, due to the sales of non-strategic assets totaling 285 million BOE. Sales were partially offset by the acquisition of Enervest San Juan coalbed methane gas reserves of 244 billion cubic feet. Even with these sales, our overall reserve base grew by 1.4% to 4.9 billion BOE, our highest level since 1984. This increased the average life of our reserves to 11.4 years, the longest reserve life in over 24 years.

The significant initial booking for the Hamaca field in Venezuela helped the international reserves grow by 10.8% and production replacement (excluding purchases and sales) soared to 267%. Approximately 53% (2.6 billion BOE) of worldwide reserves are now located in international areas. Our U.S. reserves dropped by 7.4% to 2.3 billion BOE, due to the sales of non-core producing properties.

Capital and Exploratory Expenditures

During 2000, our upstream capital and exploratory expenditures were \$3.1 billion. We spent approximately \$1.1 billion in the U.S. and \$2.0 billion internationally. Our 2000 worldwide finding and development costs were a very competitive \$3.62 per BOE. Our 1998-2000 three-year average finding and development costs were \$3.74 per BOE and our 1996-2000 five-year average was \$3.92 per BOE.

We project our spending for 2001 on upstream projects to be \$2.9 billion, of which approximately 75% will be spent internationally. Our spending profile continues to reflect high-margin, high-impact projects, with our focus on value and effectiveness. Spending on major development projects will remain at \$1.3 billion. Exploration spending will remain at approximately \$600 million for 2001.

SUPPLEMENTARY EXPLORATION AND PRODUCTION INFORMATION

The following tables provide supplementary information concerning the oil and gas exploration, development and production activities of Texaco Inc. and consolidated subsidiaries, as well as our equity in Hamaca Holding LLC, an affiliate operating in Other Western Hemisphere and CPI, an affiliate operating in Other Eastern Hemisphere. Supplemental oil and gas information required by Statement of Financial Accounting Standards No. 69, "Disclosures About Oil and Gas Producing Activities," is incorporated herein by reference from pages 71 through 78 of our 2000 Annual Report to Stockholders.

Reserves Reported to Other Agencies

We provide information concerning recoverable, proved oil and gas reserve quantities to the U.S. Department of Energy and to other governmental bodies annually. Such information is consistent with the reserve quantities presented in Table I, Net Proved Reserves, beginning on page 71 of our 2000 Annual Report to Stockholders.

Average Sales Prices and Lifting Costs--Per Unit

Information concerning average sales prices and lifting costs on a per unit basis is incorporated herein by reference from page 77 of our 2000 Annual Report to Stockholders.

Delivery Commitments

During 2001, we expect that our net production of natural gas will approximate 2.0 billion cubic feet per day. This estimate is based upon our past performance and on our assumption that such gas quantities can be produced under operating and economic conditions existing at December 31, 2000. We did not factor in possible future changes in prices or world economic conditions into this estimate. These expected production volumes, together with the normal related supply arrangements, are sufficient to meet our anticipated delivery requirements under contractual arrangements. Over the last three years, approximately 30% of our proved developed natural gas reserves in the U.S. were covered by long-term sales contracts. These agreements are primarily priced at market.

Oil and Gas Acreage

	As of December 31, 2000	
Thousands of acres	Gross	Net
-----	-----	-----
Producing		
Texaco Inc. and Subsidiaries		
United States.....	2,913	1,563
Other Western Hemisphere	45	22
Europe	400	121
Other Eastern Hemisphere	714	177
Total	4,072	1,883
Equity in Affiliate - Other Eastern Hemisphere.....	225	112
Total worldwide	4,297	1,995
Undeveloped		
Texaco Inc. and Subsidiaries		
United States.....	7,649	5,191
Other Western Hemisphere	18,981	10,632
Europe	5,524	2,071
Other Eastern Hemisphere.....	38,926	16,770
Total	71,080	34,664
Equity in Affiliates..- Other Western Hemisphere*.....	163	49
- Other Eastern Hemisphere.....	1,731	865
Total Equity in Affiliates.....	1,894	914
Total worldwide.....	72,974	35,578
Total oil and gas acreage	77,271	37,573
	=====	=====

Number of Wells Capable of Producing**

	As of December 31, 2000	
Oil Wells	Gross	Net
-----	-----	-----
Oil Wells		
Texaco Inc. and Subsidiaries		
United States.....	27,900	15,696
Other Western Hemisphere	--	--
Europe	175	44
Other Eastern Hemisphere	1,916	763
Total	29,991	16,503
Equity in Affiliate - Other Eastern Hemisphere.....	8,708	4,354
Total worldwide***.....	38,699	20,857
	=====	=====
Gas wells		
Texaco Inc. and Subsidiaries		
United States.....	7,925	3,392
Other Western Hemisphere	33	17
Europe	66	11
Other Eastern Hemisphere	62	13
Total	8,086	3,433
Equity in Affiliate - Other Eastern Hemisphere.....	58	29
Total worldwide***	8,144	3,462
	=====	=====

* Existing acreage was transferred from a consolidated subsidiary to an affiliate at year-end 2000.

** Producing well counts include active wells and wells temporarily shut-in. Consistent with general industry practice, injection or service wells and wells shut-in that have been identified for plugging and abandonment have been excluded from the number of wells capable of producing.

*** Includes 98 gross and 23 net multiple completion oil wells and 43 gross and 22 net multiple completion gas wells.

Oil, Gas and Dry Wells Completed

	For the years ended December 31,								
	2000			1999			1998		
	Oil	Gas	Dry	Oil	Gas	Dry	Oil	Gas	Dry
Net exploratory wells*									
Texaco Inc. and Subsidiaries									
United States.....	3	6	8	3	15	10	14	14	26
Other Western Hemisphere.....	1	--	1	--	1	2	--	2	2
Europe.....	--	--	1	--	--	1	--	--	1
Other Eastern Hemisphere.....	4	2	1	2	2	4	4	4	2
Total	8	8	11	5	18	17	18	20	31
Equity in Affiliate - Other Eastern Hemisphere..	2	--	--	2	--	1	2	--	2
Total worldwide	10	8	11	7	18	18	20	20	33
	===	===	===	===	===	===	=====	===	==
Net development wells									
Texaco Inc. and Subsidiaries									
United States.....	408	163	7	345	100	7	585	106	14
Other Western Hemisphere.....	--	1	--	9	--	--	109	3	--
Europe.....	2	--	--	2	4	--	21	2	--
Other Eastern Hemisphere.....	44	1	1	61	6	1	38	27	--
Total	454	165	8	417	110	8	753	138	14
Equity in Affiliate - Other Eastern Hemisphere..	218	--	--	219	--	--	271	--	--
Total worldwide	672	165	8	636	110	8	1,024	138	14
	===	===	===	===	===	===	=====	===	==

* Exploratory wells which identify oil and gas reserves, but have not resulted in recording of proved reserves pending further evaluation, are not considered completed wells. Reserves which are identified by such wells are included in Texaco's proved reserves when sufficient information is available to make that determination. This is particularly applicable to deep water exploratory areas which may require extended time periods to assess, such as the U.K. sector of the North Sea and in the deepwater U.S. Gulf of Mexico.

Additional Well Data

	As of December 31, 2000		
	Wells in the process of drilling		Pressure Maintenance
	Gross	Net	Installations in operation
Texaco Inc. and Subsidiaries			
United States.....	171	90	281
Other Western Hemisphere.....	--	--	--
Europe.....	6	1	8
Other Eastern Hemisphere.....	91	33	269
Total	268	124	558
Equity in Affiliate - Other Eastern Hemisphere.....	5	3	8
Total worldwide	273	127	566
	===	===	===

Texaco International Marketing and Manufacturing

Our Texaco International Marketing and Manufacturing (TIMM) unit sells high-quality fuel, lubricant and convenience products in over 60 countries throughout Latin America, the Caribbean, Europe and West Africa. TIMM also has four refineries located in the United Kingdom, the Netherlands, Panama and Guatemala.

In the Caribbean and Latin America, we are a market leader in fuels and lubricants. Our fuel market share is strong in all Caribbean and Central American countries, and one-fourth of our worldwide lubricant sales are in Latin America. The largest business is in Brazil, where we have some 3,000 service stations and sales of over 44 million barrels per year. In Brazil, we are also a market leader in lubricants. Although growth in petroleum consumption in Brazil was negative in 1999, it rebounded in 2000 and is expected to increase 2.5% in 2001.

In 2000, the economy in Brazil and the Andean Region improved after the economic recession and currency devaluations in 1999. However, our ability to take advantage of the economic recovery in the Brazilian market was limited due to practices, such as tax evasion and adulterated fuels sales, by new competitors. In the Andean Region, which is composed of Colombia, Ecuador, Peru and Venezuela, we have over 550 service stations. Excluding Venezuela, our retail and lubricant market share in the region is over 15%. In Venezuela, we have 75 stations and are positioned to expand in the retail sector when the investment climate improves.

In the Caribbean and Central America, our business operates in 34 countries through a network of 1,400 service stations. In 2000, our refined product sales volumes in the Caribbean and Central America, including trading operations, increased by 4%. In this region, our strategy is to build on an excellent market share by investing in areas with the greatest potential and continuing to seek infrastructure improvements.

The Latin America refining segment consists of a refinery located in Escuintla, Guatemala, with a crude capacity of 16,000 barrels per day, and another in Bahia Las Minas, Panama, with a crude capacity of 60,000 barrels per day. The Panama refinery manufactures finished products for local sales, canal sales and export markets, while the Guatemala refinery supplies only internal country requirements. We wrote down the entire carrying value of the Panama refinery in the fourth quarter of 2000, when we made a final determination that the unfavorable operating environment and severe downward pressure on profit margins would not improve in the foreseeable future.

We continue to maximize returns from our substantial retail properties by increasing non-fuel retail income. One of the most successful non-fuel retail initiatives has been the development of the Star Mart(R) convenience store brand. We have close to 250 convenience stores throughout Latin America and the Caribbean and over 450 in Europe. The growth of the Star Mart concept has paralleled the strong growth of the regional economies and the increase in disposable income, making the convenience store concept more appealing to consumers. Non-fuel income represents a strategic growth opportunity for the international areas.

In Europe, our focus is on regional markets, with assets concentrated in the U.K., Ireland and the Benelux countries. We also have a 50% interest in Hydro Texaco, a Scandinavian marketing joint venture with Norsk Hydro. In addition, we market lubricants in all other major European countries. We rank among the top 10 lubricant marketers on the continent. We are the number one supplier of lubricants and coolants to original equipment manufacturers in Europe.

Our European refineries reported outstanding results, but the marketing business faced lower margins as a result of rising product costs that could not be recovered in the marketplace. In Western Europe, massive protests against high fuel taxes created a national crisis in some countries, such as the U.K. and Belgium. As a result of this reaction, the oil industry was unable to fully recover the increase in crude prices in the marketplace.

In keeping with our focus on improving earnings in North West Europe, we have worked continually to increase market share, while reducing operating costs and growing our non-fuel business. In the U.K., we increased our branded retail market share from about 6% to 10% through acquisitions of dealerships and asset swaps. In 2000, we successfully integrated 107 Shell sites into the U.K. network in exchange for our assets in Poland and Greece. During the past three years, we have also expanded our commercial sales business by more than 50%. Our total gasoline market share in the U.K. rose to some 16% in 2000, doubling from our 1996 share, while we maintained expenses at 1999 levels.

In other Texaco European retail markets, we have double-digit market share and a strong presence. In Ireland, we have more than 370 stations and a 16% market share. In the Benelux countries, we have over 900 stations and an 11% market share. In our Scandinavian joint venture, Hydro Texaco has over 950 stations and an 18% market share.

In Europe, we have an interest in two refineries with a total capacity for Texaco of 325,000 barrels per day. We own the Pembroke refinery in Wales, U.K., which has the largest Fluid Catalytic Cracker and Alkylation units in Europe. It is one of the most modern and advanced refineries in Europe, with very high motor gasoline yields and qualities. This refinery, with a crude capacity of 210,000 barrels per day, supplies our marketing requirements in the U.K. and Ireland, and also exports its high-quality gasoline to other parts of the world. It has a highly skilled, talented and innovative workforce, which provides competitive strength in the areas of health and safety performance and overall plant reliability and efficiency.

We also own a 31% interest in the 370,000-barrel-per-day Nerefco refinery in Rotterdam, a joint venture with British Petroleum. This refinery provides the main supply to our Netherlands marketing operations and, due to its excellent location in the Rotterdam harbor, is a key supplier to the Rotterdam fuel market and to the German light products market. Both Pembroke and Nerefco were configured to comply economically with the European Union's fuel specifications for the year 2000 and are well positioned for upgrades to meet the 2005 specifications.

U.S. Downstream Alliances

Our U.S. downstream operations include primarily the operations of Equilon Enterprises LLC and Motiva Enterprises LLC. Equilon and Motiva jointly own Equiva Trading Company, which functions as the trading unit for both companies. They also jointly own Equiva Services LLC, which provides common financial, administrative, technical and other operational support to both companies.

The combination of Equilon and Motiva is the largest retail gasoline marketer in the U.S., having nearly a 14.5% share of the domestic gasoline market through about 22,300 retail outlets. The two companies have eight refineries with a combined capacity of about 1.3 million barrels per day.

Equilon Enterprises LLC

Equilon was formed and began operations in January 1998 as a joint venture between Texaco and Shell. Equilon, which is headquartered in Houston, Texas, operates in the western and midwestern United States. We own 44% and Shell owns 56% of the company.

Equilon refines and markets gasoline and other petroleum products under both the Texaco and Shell brand names in all or parts of 32 states. Equilon has the capacity to refine about 450,000 barrels of crude a day with its four refineries located in:

- o Anacortes, Washington
- o Bakersfield, California
- o Martinez, California
- o Los Angeles, California

Equilon holds interests in about 28,900 miles of pipelines and owns or has interests in 70 crude oil and product terminals. It is estimated to be the fourth largest retail gasoline marketer in the U.S., distributing products through approximately 9,100 service stations. Equilon has an estimated 6.7% share of the national gasoline market and an estimated 12.9% share of the gasoline market in its geographic area.

Equilon Lubricants markets two of the top-selling lubricants, Texaco Havoline(R) brand motor oil and Shell Rotella T(R) brand diesel engine oil, leading a diverse product line covering an extensive variety of uses. It is a leading marketer of both commercial lubricants (with a 17% market share) and of industrial lubricants (with an 11% market share), and fourth in the U.S. in auto lubricants.

In June 2000, Equilon sold its Wood River Refinery located in Roxana, Illinois, to Tosco Corporation. The sale continues Equilon's plan to focus on West Coast refining and its marketing, terminal, pipeline, lubricants and trading businesses. In conjunction with this plan, Equilon has entered into long-term crude supply and product off-take agreements with Tosco and, in late 1999, purchased 15 refined product terminals from Clark USA Inc. This will enable Equilon to meet customer needs in the Midwest markets.

Motiva Enterprises LLC

Motiva was formed and began operations in July 1998 as a joint venture among Shell, Texaco and Saudi Refining, Inc., a corporate affiliate of Saudi Aramco. Motiva operates in the eastern and Gulf Coast United States. In accordance with contractual provisions, our ownership interest in Motiva is subject to change. From the start of operations through December 31, 1999, Texaco and Saudi Refining, Inc. each owned 32.5% and Shell owned 35% of Motiva. For the year 2000, Texaco and Saudi Refining, Inc. each owned just under 31% and Shell owned just under 39% of Motiva. Texaco's and Saudi Aramco's interests in these businesses were previously conducted by Star Enterprise, a joint-venture partnership owned 50% by Texaco and 50% by Saudi Refining, Inc.

Motiva refines and markets gasoline and other petroleum products under the Shell and Texaco brand names in all or part of 26 states and the District of Columbia, providing product to almost 13,200 Shell- and Texaco-branded retail outlets. Motiva has an estimated 7.7% share of the national gasoline market and an estimated 16.0% market share in its geographic area.

Motiva is the sixth largest refiner in the U.S., capable of refining about 850,000 barrels a day. Motiva's refineries are located in:

- o Convent, Louisiana
- o Delaware City, Delaware
- o Norco, Louisiana
- o Port Arthur, Texas.

Motiva also owns or has interests in 53 product terminals.

Equiva Trading Company

Equiva Trading provides supply and logistical services for Equilon, Motiva and other affiliates of Texaco and Shell. In addition, Equiva Trading conducts a large and growing trading activity on behalf of Equilon. Equiva Trading buys and sells in excess of 7 million barrels of hydrocarbons per day in the physical markets, making it one of the largest petroleum supply and trading organizations in the world. Specific lines of business include acquisition, sales and trades of domestic and international crude oil and products; lease crude oil acquisition and marketing; aviation marketing and sales; marine chartering; and risk management services.

Equiva Services LLC

Equiva Services provides common services to both Equilon and Motiva in areas such as brand management, retail operations, accounting, tax, treasury, information technology, safety, health and environment. These common services have been combined for efficiency, rather than each company having separate service organizations.

Caltex Corporation

Caltex Corporation (Caltex), is jointly owned 50% each by Texaco and Chevron. Caltex operates in more than 60 countries in Asia, Africa, the Middle East, New Zealand and Australia. Caltex refines crude oil and markets petroleum and convenience products through its subsidiaries and affiliates, and is also involved in distribution, shipping, storage, supply and trading operations. Caltex sold 1.4 million barrels per day of crude oil and refined products in 2000.

Caltex maintains a strong marketing presence through 7,800 retail outlets, of which over 4,600 are Caltex-branded. Caltex also operates over 650 Star Mart convenience stores.

Caltex has interests in 10 fuel refineries with equity refinery capacity of nearly 850,000 barrels per day. Additionally, it has interests in two lubricant refineries, six asphalt plants, 17 lube oil blending plants and more than 500 ocean terminals and depots. Caltex continues to be a major supplier of refined products through its large refineries in South Korea, Singapore and Thailand. Caltex is also active in converting lower-value refinery output into products such as polypropylene, benzene and paraxylene, enabling the company to market a wider range of higher value products.

Caltex conducts international crude oil and petroleum product logistics and trading operations from a South East Asia region oil hub in Singapore, providing 24-hour service to the Caltex system and to third parties that require crude oil, feedstocks, base oils and refined products.

Following its 1999 reorganization along functional business units, the restructuring of its executive leadership team and the relocation of its corporate center to Singapore, Caltex closed its Dallas office in 2000. It continues to streamline its operations and expand use of its Shared Services Center in the Philippines. Additionally, Caltex is working to maximize the use of its assets by completing a number of cooperative and joint venture arrangements.

This reorganization took on added importance in 2000, as Caltex' business was affected by a number of factors, including the high cost of crude, increased competition, weaker Asian currencies and a consolidation in the recovery of Asian economies.

Caltex' business strategy for 2000 and beyond was built around its new vision of being "outstanding at creating value from our brand and our intellect" for customers, business partners and employees. The key elements of the vision include:

- o operational excellence and cost reduction
- o capital stewardship and profitable growth

- o building the brands
- o organizational capability and motivation
- o creative use of technology and innovations to provide more customer-focused solutions.

Caltex' 2000 accomplishments include:

- o Introducing new products - Vortex gasoline, which was launched simultaneously in nine countries in March, and Delo 400 diesel engine oil, which built on the international name and reputation of Chevron's Delo Brand lubricant.
- o Concluding agreements to blend lubricants for competitors.
- o Reaching agreements to share depot and terminal facilities with competitors.
- o Controlling operating costs through synergies, efficiencies and initiatives such as reduced fuel additive costs, supply chain management and strategic procurement programs.

In 2000, Caltex focused on enhancing revenue through improved productivity of its existing infrastructure, continued investment in growing markets and acceleration of its convenience store program.

Caltex continuously seeks new business opportunities in countries such as China, Vietnam, Cambodia and India, where its strategy is to build a strong market presence through the sale of LPG, lubricants and asphalt, and eventually expand into the retail motor fuel sector when permitted.

One significant venture during 2000 involved the expansion of LG-Caltex (LGC), Caltex' 50% owned joint venture in Korea, which is active in the gas and power area. Building on its acquisition of Kukdong City Gas in 1999, LGC has acquired two power plants and three additional city gas companies, all of which use Liquefied Natural Gas (LNG). These acquisitions propel Caltex into the fast growing natural gas market and set the stage for the company to enter the LNG import, transportation, wholesale and retail businesses.

Fuel and Marine Marketing LLC (FAMM)

FAMM is a joint venture between Texaco and Chevron. As a joint venture company, FAMM has global residual fuels and marine lubricants businesses. We own 69% and Chevron owns 31% of the venture.

FAMM is a global supplier of marine fuels, lubricants, coolants and industrial fuels, serving customers in over 400 ports and over 100 countries worldwide. FAMM sells and distributes residual fuel oil for consumption by waterborne vessels worldwide, as well as for land-based application and to marine terminals worldwide. FAMM also sells and distributes marine lubricants and coolants to waterborne vessels and for use in land-based engines using marine lubricant technology.

For its marine customers, FAMM initiated an Internet company, "OceanConnect.com," which provides a level market online e-commerce site for the sale of marine fuels. Major investors include FAMM, BP Marine and Shell Marine Products. Other shareholders include major shipping companies and other marine providers.

Our Global Gas, Power and Energy Technology operations include the marketing of natural gas and natural gas liquids, gas processing plants, pipelines, power generation plants, gasification licensing and equity plants, fuel processing, hydrocarbons-to-liquids, hydrogen storage systems and fuel cell technology units.

Global Gas Marketing

Texaco Natural Gas - North America (TNG) is a fully integrated midstream organization that offers a wide range of services including gas gathering, processing, transportation, storage, sales and purchases, and risk management for natural gas and natural gas liquids. TNG's primary objective is to grow shareholder value by extracting value across the entire energy value chain - from the wellhead to the burner tip.

The majority of TNG's assets are strategically located in the U.S. Gulf Coast area. TNG owns and/or operates one of the largest producer-owned gas pipeline systems in the U.S. consisting of more than 2,150 miles of pipe with over 50 interconnects to other intrastate and interstate pipelines. The system is comprised of three pipeline companies: Sabine Pipeline Company, Bridgeline Holdings, L.P., and Discovery Gas Transmission LLC.

Sabine Pipeline features an open-access interstate natural gas pipeline that extends from Port Arthur, Texas, to the Henry Hub near Erath, Louisiana. The Henry Hub is the official delivery mechanism for the New York Mercantile Exchange's natural gas futures contracts. This is due in large part to Sabine's reputation for service, flexibility and reliability.

Effective March 1, 2000, Texaco and Enron Corp. formed a joint venture, Bridgeline Holdings, L. P., that combines their regional marketing services, intrastate pipelines and gas storage assets in southeast Louisiana. The new venture, headquartered in Houston, Texas, has combined facilities consisting of more than 1,000 miles of transmission and distribution pipeline, 7 billion cubic feet (BCF) of salt dome storage capacity, with an additional 6 BCF in development and 33,050 horsepower of compression. During 2000, Bridgeline Holdings sales averaged nearly 1 BCF of natural gas per day. We own 60% and Enron owns 40% of this venture.

Bridgeline Holdings has physical connections with many of the major industrial companies, including some of the largest petrochemical, refining, ammonia and gas-fired electric utility firms in the world. With interconnects to pipelines from the Gulf of Mexico, customers are presented with access to abundant offshore supplies. The system also includes excellent delivery access to several interstate and intrastate pipelines that connect to the Northeast, Southeast and Mid-continent regions. In addition, the combined capabilities and interconnections of Bridgeline Holdings' gas storage facilities at Sorrento and Napoleonville will substantially increase the flexibility and range of services that will be available to customers. The storage capacity will provide the flexibility to meet many gas needs, including emergency back-up, needle and seasonal peaking, winter/summer price hedging and gas future hedging.

Discovery Gas Transmission, a major natural gas gathering and transmission pipeline in the offshore waters of the Gulf of Mexico, adds significant value from this key area in the Gulf. The 30-inch pipeline stretches 105 miles into the Gulf with numerous laterals to deepwater drilling fields and provides crucial capacity to a currently under-served area. The project also includes a gas processing plant in Larose, Louisiana, giving Gulf Coast producers a convenient means for gathering, processing and transporting gas to market. In addition, Discovery has installed a 42,000-barrel-a-day fractionator at the site of our Paradis gas processing plant. We hold a one-third ownership interest in Discovery with partners, Williams Companies and British-Borneo.

In addition to the Larose gas processing plant, TNG operates four natural gas processing plants located in South Louisiana, which have a combined capacity of 1.2 billion cubic feet a day. TNG also has an ownership interest in two other plants. These assets strategically position TNG to take advantage of the significant influx of natural gas, which we expect from deepwater developments in the Gulf of Mexico.

TNG also has substantial natural gas liquid (NGL) assets in the state of Louisiana. We recently constructed the Texaco Expanded NGL Distribution System (TENDS) to further leverage our strategic position in South Louisiana and take advantage of increasing volumes of gas coming on shore from deepwater developments. This system integrates newly constructed and purchased pipelines with our existing assets. The result is an integrated bi-directional natural gas liquid pipeline, fractionation and underground storage system with a combined pipeline length of about 500 miles, extending from Lake Charles to Alliance, Louisiana. The TENDS project has already provided a platform for expansion of our Louisiana infrastructure through numerous new connections and opportunities.

The NGL Marketing Group transports and markets NGL throughout the world, although its primary focus is North America. With sales averaging nearly 230,000 barrels a day, TNG is one of the largest marketers of NGL in the industry. Marketing of propane to wholesale customers in the U.S. has provided a significant financial contribution for many years.

In Ferndale, Washington, the NGL Marketing Group operates the largest NGL import/export terminal on the West Coast. This facility includes 750,000 barrels of storage for butane and propane. Drawing on product from Canada and local refineries, this terminal provides strategic access to markets including the Pacific Rim.

The Gas Marketing Group markets 3.6 billion cubic feet per day of equity and third party gas to major North American utilities, industrial customers and other marketing/trading companies. TNG ensures that we receive the highest netback price for its equity production as well as optimizing pipeline capacity. This unit provides customized and comprehensive risk management and other financial tools to enable customers and suppliers to structure deals consistent with their specialized needs. TNG also leases natural gas storage in strategic locations to take advantage of price arbitrage as well as handle production fluctuations. Further, TNG provides fuels management services to a number of our cogeneration partnerships.

Gasification

Our proprietary gasification technology converts a wide variety of hydrocarbon feedstocks into a clean synthesis gas (syngas) comprised of hydrogen and carbon monoxide. The syngas can be used as a feedstock for other chemical processes or as a fuel for use in the most advanced gas turbines to generate electricity. We license this technology and operate our own gasification facilities, and develop and invest in projects using this technology.

Recognized as the world leader in gasification technology, our proprietary Texaco Gasification Process (TGP) has been licensed to more than 70 plants under development, under construction or in operation in the refining, chemical and power generation industries worldwide. Syngas production at these facilities exceeds 5.5 billion standard cubic feet per day. Recent TGP projects include:

- o In Louisiana, TECO Power Services licensed our integrated gasification combined-cycle (IGCC) technology for a 665-megawatt petroleum coke-fired power plant, which is scheduled for completion in 2005.

- o In China, there are currently 10 TGP plants in operation and two under construction, each producing clean syngas primarily for ammonia/urea fertilizer production from indigenous coal and heavy oil. TGP's success in China led to the signing of a multi-plant agreement with Sinopec and the former Ministry of Chemical Industry to retrofit an additional nine plants that are currently using competitive technology.
- o In the year 2000 alone, Texaco personnel assisted our worldwide licensees in the start-up activities of 12 TGP projects, representing an investment in our technology of more than \$4.5 billion. The \$350 million Delaware Clean Power Project at Motiva's Delaware City Refinery is currently in the start-up phase and will use TGP in the world's cleanest process for generating clean power (electricity and steam) from petroleum coke.
- o In Italy, two refineries have commissioned large, world-class 500-megawatt IGCC power plants and a third, in which we have taken a 24% equity interest, is in the final commissioning and start-up phase.

These TGP units will enable the refineries to convert high-sulfur residues into clean, higher-value products such as hydrogen, electricity and steam that are used within the refineries, or sold if surplus to the refineries' needs. TGP will provide these refineries with wider flexibility with respect to crude selection, which can provide substantial financial savings, while minimizing waste streams at these plants.

Power Generation

Our electrical power business includes conventional power generation projects, as well as cogeneration facilities.

Cogeneration is a process that produces two useful forms of energy from a single fuel, such as natural gas. The energy products are thermal energy, such as steam, and electric power. Whether the thermal energy is provided to a refinery or used to steamflood a heavy oil field, cogeneration boosts profitability by improving efficiency. In the narrower context of producing oil, cogeneration is the most efficient way to generate the steam required for steamflooding.

To date, our largest U.S. cogeneration operations have burned natural gas to produce heat for steamflooding our Kern River oil field in California while simultaneously generating electricity. We are now adding to the portfolio of nine cogeneration facilities we presently operate with our partners in the U.S. These facilities produce enough electricity to power more than one million homes. Including projects under construction or development in which we have an equity share, our cogeneration and conventional power portfolio exceeds 3,000 megawatts.

A major new project is in Indonesia, where subsidiaries of Texaco and Chevron and a private partner have constructed the largest cogeneration plant of its kind in that country. The \$190 million, 300-megawatt gas-fired plant supplies power and steam for use in steamflooding the Duri field in Indonesia's Central Sumatra Province.

A key new combined cycle power project in Thailand began operations in 2000. This \$400 million, 740-megawatt gas-fired plant will feed the growing power needs of Thailand's rapidly expanding economy.

Another 2000 addition to our power portfolio was the acquisition of a 25% interest in two gas-fired combined cycle power plants in Korea. The \$690 million plants, which together total 951 megawatts, are located in newly constructed suburban areas of greater Seoul.

Through our electrical power and gasification businesses, we are currently involved in power projects, either through ownership or licensing, that will produce over 8,500 megawatts of power.

The electric utility deregulation plan adopted by the state of California in 1996 required utilities to dispose of a portion of their power generation assets. As a result, utilities that serve California purchase power on the open market, and, in turn, sell power to the retail customers at capped rates. During the fourth quarter of 2000, California's power and gas markets experienced significant price volatility. Increased demand resulted in very high market prices that California utilities paid for power with no certainty they could recover these costs from their customers. As both supplier to and purchaser from the utility companies, Texaco has financial and operational exposure in California. While the possible outcomes for the California utility situation remain uncertain, we believe that they will not have a material adverse impact on our financial condition or results of operations.

Texaco Energy Systems Inc.

Texaco Energy Systems Inc. (TESI) was created in 1999 to explore opportunities to broaden our energy portfolio. Leveraging the strength of a global corporation, TESI is developing businesses related to hydrocarbons-to-liquids (HTL), fuel cells, fuel processing, hydrogen storage and alternate fuels. As a technology-based company, we are applying energy expertise and proprietary technologies to make these emerging energy businesses a reality.

HTL technology makes possible the conversion of low-value feedstocks, such as stranded gas and heavy oil/petroleum coke from producing operations and refineries into high-quality diesel fuel as well as specialty products. The technology consists of syngas generation followed by conversion into liquids by utilizing the Fischer-Tropsch process. Our world-renowned gasification technology is a leading synthesis gas generating technology especially for liquid and solid feedstocks.

During 2000, TESI's activities focused on initial development of potential commercial opportunities related to value creation from natural gas and petroleum coke. We completed three site-specific pre-feasibility studies for international opportunities involving natural gas and petroleum coke. Based on the results, we undertook detailed feasibility studies. Also during the year, TESI completed the first phase of a three-phase Department of Energy (DOE) project entitled "Early Entrance Coproduction Plant" (EECP). This phase, largely funded by the DOE, confirmed that the integration of the HTL technology with combined cycle power generation into a refinery environment is feasible and has synergetic benefits.

In June 2000, we purchased 20% of the equity of Energy Conversion Devices, Inc. (ECD), a publicly traded research and development company located in Troy, Michigan. Subsequently, TESI formed two joint ventures with ECD to assist them in commercializing two promising new technologies, metal hydride fuel cells and hydrogen storage. These two new ventures are:

- o Texaco Ovonic Fuel Cells LLC, which is developing a new type of fuel cell that does not require the use of expensive noble metal catalysts such as platinum, utilized by most other fuel cell technologies.
- o Texaco Ovonic Hydrogen Systems LLC, which is developing a metallic alloy, which can store hydrogen at ambient temperatures and atmospheric pressure. This storage system has the potential to facilitate the use of fuel cells in automobiles and other portable power applications.

TESI is also continuing the in-house development of our proprietary fuel processing expertise to develop an economical means of converting common hydrocarbons such as natural gas into hydrogen to power fuel cell devices. Results to date have been very promising.

Additionally, in 2000, we acquired a 5% interest in Acumentrics Corporation, a developer of solid oxide fuel cells. The \$10 million purchase will complement Texaco's alternative energy activities, including the commercialization of fuel cell technologies.

Texaco Technology Ventures

Texaco Technology Ventures (TTV) was established as a division of Texaco in August 2000 to focus on three business activities: the representation of our shareholder interest in ECD, the strategic management of our interest in all activities between Texaco and ECD and the execution of additional equity investments in advanced energy technologies. In addition, Texaco, through TTV, provides marketing assistance to ECD in photovoltaics and other business segments.

On October 10, 2000, TTV announced its intention to purchase General Motors' interest in its joint venture with ECD, GM Ovonic LLC, which was formed in 1994 to commercialize ECD's nickel-metal hydride battery technologies. The purchase is expected to be finalized during the second quarter of 2001, and it is anticipated that the company will be renamed Texaco Ovonic LLC. The company will be the third joint venture between Texaco and ECD-related companies. The new venture will supply the emerging hybrid-electric and 42-volt automotive battery markets and will also broaden marketing efforts to include segments outside the automotive industry.

In the future, TTV will continue to invest in energy technologies where, as an equity partner, we provide more to the business than capital and/or receive more from the business venture than capital appreciation. The potentials of energy technology companies are judged by the financial markets on two criteria: the size of the market that their technology targets and their access to that market. In the area of market access, we provide many benefits as a partner to promising technology companies, including a highly regarded brand image, government and industry contacts, technological expertise, global distribution and strong marketing skills. Furthermore, we have proprietary technologies under internal development that could benefit from investments in related companies.

TECHNOLOGY

Technology drives growth in our industry - and we are generating new technology and capturing greater value through fast, effective applications of technology. Below are a few key examples of how we are applying our technologies to create increased value.

Heavy Oil Upgrading

We have a comprehensive oil-upgrading technology program aimed at developing and applying methods to enhance the value of our oil assets. The program targets oils that are heavy and contain significant amounts of sulfur, metals and acid, or that have lower value with respect to benchmark light crudes. We enhanced this program by acquiring an equity ownership of Unipure Corporation in late 2000. Unipure Corporation has developed technology that is being fully tested and commercialized through a joint venture with Texaco.

Our strategy is to develop and apply upgrading technologies at the producing site to capture extra value from heavy crude production. For example, we have developed Heavy Oil Upgrading technology for effective sulfur removal and to increase the API gravity of heavy crude oil. This technology has proven to be particularly effective in pilot testing with Middle Eastern crudes such as Arab Heavy, Ratawi and Eocene. In the case of the Eocene crude, the technology was effective in reducing sulfur content from 4.5% to 0.3%, while upgrading the crude oil from 20(degree) API to 35(degree) API.

We are also focusing on the development of radical new technologies for sulfur and metals removal and for API upgrading. This includes Low-Pressure and Temperature Oxidation technology and Bio-desulfurization. When commercialized, these new technologies will result in significant additional hydrocarbon value.

Thermal Heavy Oil Recovery

We have continued to focus on thermal technologies that have the best opportunity to maximize the value of our heavy oil assets by reducing capital and operating costs and improving steam heat management. One area in which we have made progress is in new down-hole heating technologies. We are testing two technologies, one that proves a brand new concept and the other that uses off-the-shelf technology. These are Down-hole Steam Generation and Down-hole Induction Heating, respectively. During the year, we conducted field tests for both technologies in our California operations. The successful completion of these tests moves these technologies one step closer toward commercial viability.

The commercial development of Down-hole Steam Generation could expand steamflooding to offshore assets, deeper zones and ecologically sensitive areas. At the same time, these new technologies will substantially reduce capital and operating costs over those of conventional steam generation.

Prototype of Glycol-free Coolant Technology

We have developed a new proprietary glycol-free coolant technology, which provides the necessary freezing protection and synergistic corrosion protection for automobile, truck and marine engines. It improves heat transfer and fluidity characteristics. The technology also has the clear advantage of being non-toxic and 100% biodegradable. A prototype coolant, ETX2010 was presented to Renault, Ford Europe, Ford USA and GM. Today, our extended-life coolants are in new cars built by General Motors in the U.S. and by Opel, Vauxhaul, Landrover, Ford, Jaguar, Volkswagen and Renault in Europe and in Caterpillar heavy-duty engines worldwide. In addition, Havoline extended-life coolant will be used as fuel cell coolant in GM's concept car.

Fuel Additive Technology

New and improved technology has allowed Texaco Additives International to enter new markets and to improve profitability. We have introduced a new additive that improves gasoline engine fuel economy into the Asian market, and there is significant interest in the product within North America. The additive works by reducing friction inside automotive engines. In Europe, fuel additives have been introduced with considerable success into the service station and workshop markets. In North America, we have been able to win new customers. In both cases, having sound technical data to support claims differentiates us from the competition. Also in Europe, technical qualifications of new additive sources has led to major reductions in gasoline additive cost, thereby improving profits and giving us a competitive edge.

Leading Lubricant Technology

During 2000, our lubricant technology resources and expertise have been expanded and utilized in support of several new ventures. Our technology has demonstrated its value on new joint ventures and enabled us to establish new partnerships. In particular, our product and technology support programs have strengthened our business ventures with TNK-Texaco in Russia, with Prista in Bulgaria and with Somepi SA in Morocco. In addition, our recent advances in lubricant technology and our ability to work co-operatively proved to be critical elements in the AB Volvo Group's selection of Texaco as its global preferred supplier.

Hydrocarbons/Gas-to-Liquids Technology

Texaco established a "technology portfolio" approach to developing conversion technologies for both natural gas and low-value hydrocarbon products. The primary objective of this program is to develop Hydrocarbons/ Gas-to-Liquids technologies to convert remote natural gas resources to valuable middle distillates and increase the commercial value of these assets. The technology portfolio approach includes in-house research and outside partnerships with various corporations and universities. During the year 2000, we participated in a U.S. Department of Energy project to pilot test a catalyst-based gas-to-liquids technology at Laporte, Texas, working in partnership with Rentech Inc. The coupling of our proprietary Gasification Process technology with the new gas-to-liquids technology should provide an integral process that will improve the economics of the project and make more effective use of the total energy resources.

Technology Leadership

During the last two years, we have implemented a new model for technology development, commercialization and value growth. This model continues our focus on extracting value from technology through its application to Texaco's resources. It also provides for added value from further development and application of these technologies beyond the scope of our current business focus.

We have now formed two new companies that will help to promote the broader development of two of Texaco's outstanding technologies.

The first of these companies is Alto Technology, a wholly-owned subsidiary that will further develop and commercialize the Texaco Energy and Environmental Multispectral Imaging Spectrometer (TEEMS) remote sensing technology. The market opportunities for this unique technology extend beyond the business focus of Texaco operations and include agriculture, land management and ecological activities. Alto Technology will continue to provide us with remote sensing capability to help us identify potential oil deposits in environmentally sensitive areas, as we have previously done in the United States, Colombia, the Partitioned Neutral Zone and Indonesia.

Similarly, we formed Magic Earth, LLC to further develop and expand the applications of our 3-D Visualization technology. We will continue to use this technology to help discover large reserves and improve recovery from existing fields. We hold a substantial interest in Magic Earth and will participate in defining the future direction of this revolutionary technology. Through the formation of Magic Earth, our 3-D visualization efforts will be expanded into other industries, and will lead to new technology products and applications from which our company can benefit.

ADDITIONAL INFORMATION CONCERNING OUR BUSINESS

Research Expenditures

Worldwide expenditures of Texaco Inc. and subsidiary companies for research, development and technical support amounted to approximately \$108 million in 2000, \$96 million in 1999 and \$138 million in 1998.

Environmental Expenditures

Information regarding capital environmental expenditures of Texaco Inc. and subsidiary companies, including equity in affiliates, during 2000, and projections for 2001 and 2002, for air, water and solid waste pollution abatement, and related environmental projects and facilities, is incorporated herein by reference from page 42 of Texaco Inc.'s 2000 Annual Report to Stockholders.

Employees

The number of employees of Texaco Inc. and subsidiary companies as of December 31, 2000 totaled 19,011 and as of December 31, 1999 totaled 18,443.

Sales to Significant Affiliates

Sales by Texaco Inc. and subsidiary companies to significant affiliates totaled \$7,811 million in 2000, \$4,839 million in 1999 and \$4,169 million in 1998.

Geographical Financial Data

Information regarding geographical financial data of Texaco Inc. and subsidiary companies appears in Note 1, Segment Information, on pages 52 through 54 of Texaco Inc.'s 2000 Annual Report to Stockholders.

Incorporation by Reference

We have incorporated some data and information appearing in our 2000 Annual Report to Stockholders into Items 1, 2, 3, 5, 6, 7, 8 and 14 of this Form 10-K. No other data and information in our Annual Report to Stockholders is incorporated by reference into, or filed as part of, this Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS AND
FACTORS THAT MAY AFFECT OUR BUSINESS

This Form 10-K may contain or incorporate by reference to other documents "forward- looking statements" that are based on our current expectations, estimates, projections, beliefs and assumptions about our company and the industries in which we operate. We use words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," "potential," and similar expressions to identify such forward-looking statements. Section 27A of the Securities Act of 1933 protects us from liability in private actions under the Securities Act based on "forward-looking statements" which later prove to be inaccurate. We have based our forward-looking statements on a number of assumptions, any or all of which could ultimately prove to be inaccurate. We cannot predict with any certainty the overall effect of changes in these assumptions on our business. Following are some of the important factors that could change these assumptions and that could adversely affect our business and cause actual results to differ materially from those projected in the forward-looking statements:

Business Risks

- o incorrect estimation of reserves
- o inaccurate seismic data
- o mechanical failures
- o decreased demand for motor fuels, natural gas and other products
- o above-average temperatures
- o pipeline failures
- o oil spills
- o worldwide and industry economic conditions
- o inaccurate forecasts of crude oil, natural gas and petroleum product prices
- o increasing price and product competition
- o higher costs, expenses and interest rates
- o the outcome of pending and future litigation and governmental proceedings
- o continued availability of financing
- o strikes and other industrial disputes.

Laws, Regulations and Legislation. In the U.S. and other countries in which we operate, various laws and regulations that affect the petroleum industry are either now in force, in standby status or under consideration, dealing with such matters as:

- o production restrictions
- o import and export controls
- o price controls
- o crude oil and refined product allocations
- o refined product specifications
- o environmental, health and safety regulations
- o retroactive and prospective tax increases
- o cancellation of contract rights and concessions by host governments
- o expropriation of property
- o divestiture of operations
- o foreign exchange rate changes and restrictions as to convertibility of currencies
- o tariffs and other international trade restrictions.

Proposed Chevron-Texaco Merger. Factors that could impact the proposed Chevron-Texaco merger include:

- o the possibility that the merger will not be consummated
- o the process of, or conditions imposed in connection with, obtaining regulatory approvals for the merger
- o the possibility that the anticipated benefits from the merger cannot be fully realized
- o the possibility that costs or difficulties related to the integration of our business with Chevron will be greater than we expected.

Euro Conversion. Factors that could alter the financial impact of our euro conversion include:

- o changes in current governmental regulations and interpretations of such regulations
- o unanticipated implementation costs
- o the effect of the euro conversion on product prices and margins.

The forward-looking statements included in this report are only made as of the date of this report, and we do not intend to update such forward-looking statements to reflect subsequent events or circumstances, unless required by law or such statements are hereafter referenced or incorporated into a subsequent written statement.

Item 3. Legal Proceedings

Litigation--We have provided information about legal proceedings pending against Texaco Inc. and subsidiary companies in Note 15, "Other Financial Information, Commitments and Contingencies - Litigation" on page 69 of our 2000 Annual Report to Stockholders. Note 15 is incorporated here by reference.

As of December 31, 2000, three purported stockholder derivative suits were pending in state court in Delaware against Texaco Inc. and its directors. The suits allege, among other things, that the directors breached their fiduciary duties to the corporation and its stockholders by failing to ensure that stockholders receive appropriate consideration in the proposed merger with Chevron. The cases, titled Zucker v. Texaco Inc., et al., Ursula Desimone Trust v. Texaco Inc., et al. and Priven v. Texaco Inc., et al., seek money damages on behalf of Texaco Inc. and its stockholders, attorneys fees and injunctive relief.

The Securities and Exchange Commission (SEC) requires us to report proceedings that were instituted or contemplated by governmental authorities against us under laws or regulations relating to the protection of the environment. None of these proceedings is material to our business or financial condition. Following is a brief description of those proceedings that were either pending as of December 31, 2000, or settled during the fourth quarter of 2000.

- o On June 9, 1992, the U.S. Environmental Protection Agency (EPA), Region VI, served an administrative complaint on Texaco Chemical Company (TCC). The complaint alleges that TCC violated the State Implementation Plan at its Port Neches, Texas chemical plant. We sold TCC to Huntsman Corporation on April 21, 1994, and, by agreement, we retained obligations applicable to events occurring at the plant prior to the closing date. The EPA is seeking civil penalties of \$149,000. We are contesting liability.
- o On December 28, 1992, the EPA, Region VI served an administrative complaint on TCC. The complaint alleged hazardous waste, PCB, release notification and reporting violations at TCC's Port Neches chemical plant. The EPA is seeking civil penalties of \$3.8 million and corrective action. We are contesting liability and agreed with the EPA to consolidate this complaint with the June 9, 1992 complaint, described above. The consolidated matter is pending before an EPA administrative law judge.
- o In March 1998 the U.S. Department of Justice (DOJ) filed a complaint against us regarding spills of oil and produced water at the Aneth Producing Field in Utah in violation of the Clean Water Act. The DOJ is seeking a penalty of approximately \$2.3 million. We are contesting liability.
- o Commencing in December 1999, the San Joaquin Valley Unified Air Pollution Control District issued a series of 59 Notices of Violation to Texaco California Inc. (TCI) and Texaco Exploration and Production Inc. (TEPI) alleging various permit violations in the Midway-Sunset fields and Kern River fields in Kern County, California, primarily in connection with a project to refurbish, replace and expand the number of steam generators used in the Midway-Sunset fields. Effective September 1, 2000, TCI and TEPI settled these Notices of Violation by paying a civil penalty of \$100,000.

- o In December 1999, the DOJ notified us that it would file a complaint alleging that the Aneth gas plant, located near Montezuma Creek, Utah, violated Clean Air Act regulations when renovation work was done on the plant in 1991 and when asbestos-containing debris was cleaned up after an explosion in December 1997. The notice also alleged the Aneth Producing Field in Utah violated section 304 of the Emergency Planning and Community Right-to-Know Act for failing to provide proper notice to emergency response authorities about releases of sulfur dioxide in December 1997. The DOJ is expected to seek more than \$100,000 in penalties. We are contesting liability.
- o Texaco Refining and Marketing Inc. (TRMI) has tentatively negotiated a settlement with the DOJ to resolve violations of the Clean Water Act at two former facilities in California: the Los Angeles refinery and a service station in San Luis Obispo. Under the terms of the tentative settlement, TRMI would pay more than the reporting threshold in penalties and plead guilty to two violations of the Clean Water Act. Further details of the settlement will be reported when it is finalized.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

The following information, contained in Texaco Inc.'s 2000 Annual Report to Stockholders, is incorporated herein by reference. Page references are to the paper document version of Texaco Inc.'s 2000 Annual Report to Stockholders, as provided to stockholders:

Form 10-K Item	Texaco Inc. 2000 Annual Report to Stockholders Page Reference
Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters 84 (a)	
Item 6. Selected Financial Data Five-Year Comparison of Selected Financial Data	81
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	27-43
Item 7A. Quantitative and Qualitative Disclosures about Market Risk Supplemental Market Risk Disclosures	79
Item 8. Financial Statements and Supplementary Data Description of Significant Accounting Policies	44-45
Consolidated Statement of Income	46
Consolidated Balance Sheet	47
Consolidated Statement of Stockholders' Equity	48-49
Consolidated Statement of Comprehensive Income	50
Consolidated Statement of Cash Flows	51
Notes to Consolidated Financial Statements	52-69
Report of Independent Public Accountants	70
Supplemental Oil and Gas Information	71-78
Selected Quarterly Financial Data	80
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	Not applicable.

(a) Only the data and information provided under the caption "Common Stock-Market and Dividend Information" is deemed to be filed as part of this Annual Report on Form 10-K.

PART III

Item 10. Directors and Executive Officers of the Registrant

DIRECTORS OF TEXACO INC.

Following is certain biographical information concerning the directors of Texaco Inc.

Glenn F. Tilton, 52, has been Chairman of the Board and Chief Executive Officer of Texaco Inc. since February 4, 2001. He joined Texaco in 1970 and after serving in various domestic marketing, corporate planning, and European downstream assignments of increasing responsibility, in 1989, while serving as President of U.S. Refining and Marketing, he was elected a Vice President of Texaco Inc. He was elected Chairman of Texaco Ltd. in 1991 and was named President of Texaco Europe in 1992. He became President of Texaco USA in January 1995 and was elected a Senior Vice President of Texaco Inc. in April 1995. In January 1997, he was appointed President of Texaco's Global Business Unit. He also serves on the President's Advisory Board at the University of South Carolina, on the Board of Directors of the American Petroleum Institute, and on the Board and Executive Committee of the British American Chamber of Commerce.

A. Charles Baillie, 61, Chairman and Chief Executive Officer of the Toronto-Dominion Bank, became a Director in December 1998. He was elected Vice Chairman of Toronto-Dominion Bank in 1992, President in February 1995, Chief Executive Officer in February 1997 and Chairman of the Board in February 1998. He joined the Bank in 1964 and progressed through a variety of assignments both in the United States and Toronto. Baillie serves as a director of Dana Corporation and is Chairman and a director of TD Waterhouse.

Mary K. Bush, 52, President of Bush International, Inc. (formerly Bush & Company), an international financial consulting firm, joined the Board in July 1997. Prior to founding Bush & Company in 1991, she served from 1989 to 1991 as Managing Director of the U.S. Federal Housing Board. Prior to that position, she was Vice President - International Finance at the Federal National Mortgage Associate (Fannie Mae). From 1984 to 1988, she served as U.S. Alternate Executive Director of the International Monetary Fund (IMF). She serves on a number of boards and advisory boards, including Mortgage Guaranty Insurance Corporation, Brady Corporation, R.J. Reynolds Tobacco Holdings, Inc., a number of Pioneer mutual funds, Washington Mutual Investors Fund, March of Dimes, Hoover Institution and the University of Maryland Foundation.

Edmund M. Carpenter, 59, President and Chief Executive Officer of Barnes Group Inc. since December 1998, became a Director in September 1991. He was Sr. Managing Director of Clayton, Dubilier & Rice, Inc. from May 1996 through November 1998, and Chairman and Chief Executive Officer of General Signal Corporation from 1988 to 1995. Prior to serving with General Signal, he was President, Chief Operating Officer and a director of ITT Corporation. He is a director of Campbell Soup Company and Dana Corporation.

Robert J. Eaton, 61, Chairman of the Board of Management of DaimlerChrysler AG from November 1998 through March 31, 2000, and Chairman and Chief Executive Officer of Chrysler from 1993 to November 1998, became a Director of Texaco in October 2000. He is a fellow of the Society of Automotive Engineers and the Engineering Society of Detroit and a member of the National Academy of Engineering. He is a director of International Paper Company and a member of the Business Council.

Michael C. Hawley, 63, retired Chairman and Chief Executive Officer of The Gillette Company, has been a Director since July 1995. After joining Gillette in 1961, he held management positions of increasing responsibility in a variety of countries and in 1985 was appointed Vice President, Operations Services, and elected a corporate Vice President. In 1989, he was elected President of Oral-B Laboratories, a Gillette subsidiary, and in 1993 was elected Executive Vice President, International Group. In April 1995, he was named President and Chief Operating Officer of The Gillette Company and a member of its Board of Directors. Mr. Hawley was named Chief Executive Officer in April 1999 and served as Chairman and Chief Executive Officer of The Gillette Company through his retirement in October 2000. He is also a director of the John Hancock Financial Services Co.

Franklyn G. Jenifer, 61, President of The University of Texas at Dallas since July 1994, has been a Director since November 1993. Following an academic career as a professor of biology, he was President of Howard University from 1990 to 1994. Prior to that he was Chancellor of the Massachusetts Board of Regents of Higher Education, and from 1979 to 1986, Vice Chancellor of the New Jersey Department of Higher Education. He serves on the Board of Trustees of the Texas Health Research Institute, the Board of Directors of the United Way of Metropolitan Dallas, the Executive Committee of the Alliance for Higher Education, the Monitoring Committee for the Louisiana Desegregation Settlement Agreement, and the Texas Science and Technology Council.

Sam Nunn, 62, former U.S. Senator from Georgia, joined the Board in September 1997. He was a member of the U.S. Senate from 1972 to January 1997, where he served as chairman of the Senate Armed Services Committee. He is a senior partner in the Atlanta law firm of King & Spalding with which he has been associated since January 1997 and where his practice focuses on international and corporate matters. Mr. Nunn is co-chairman and chief executive officer of the Nuclear Threat Initiative, a Washington-based organization working to reduce the global threat of weapons of mass destruction. He is also a distinguished professor in the Sam Nunn School of International Affairs at Georgia Tech. Among the non-profit boards on which he serves are the Center for Strategic and International Studies, the Aspen Strategy Group and the Carnegie Corporation of New York. He also serves on the boards of The Coca-Cola Company, Community Health Systems, Inc., Dell Computer Corporation, General Electric Company, Internet Securities Systems, Inc., National Service Industries, Inc., Total System Services, Inc. and Scientific- Atlanta, Inc.

Charles H. Price II, 69, was Chairman of Mercantile Bank of Kansas City from May 1992 to April 1996 and has continued his long-standing service on the boards of various corporations and charitable foundations begun before that time. He is a former United States Ambassador to the United Kingdom (1983-1989) and Belgium (1981-1983) and became a Director in March 1989. He is a director of The New York Times Company and U.S. Industries, Inc. Prior to service as a United States Ambassador, he had been Chairman of the Board of the Price Candy Company, American Bancorporation and American Bank and Trust Company.

Charles R. Shoemate, 61, retired Chairman, President and Chief Executive Officer of Bestfoods, joined the Board in October 1998. He joined Bestfoods, formerly CPC International, in 1962 and progressed through a variety of positions in manufacturing, finance and business management within the consumer foods and corn refining businesses. He was elected President and a member of its Board of Directors in 1988, Chief Executive Officer in August 1990 and Chairman in September 1990, serving until October 2000. In February 2001, he was named an Advisory Director of Unilever. He is a director of CIGNA Corporation, International Paper and a Trustee of the Conference Board.

Robin B. Smith, 61, Chairman and Chief Executive Officer of Publishers Clearing House since August 1996 and President and Chief Executive Officer since January 1988, became a Director in January 1992. Prior to joining Publishers Clearing House in 1981 as President and Chief Operating Officer, she concluded her sixteen year career with Doubleday & Co., Inc. as President and General Manager of its Dell Publishing subsidiary. She is a director of Springs Industries, Inc., BellSouth Corporation, Kmart Corporation and a number of Prudential mutual funds.

William C. Steere, Jr., 64, Chairman of Pfizer, became a Director in September 1992. Mr. Steere began his career with Pfizer, a diversified pharmaceutical company with global operations, and attained the positions of President of Pfizer Pharmaceuticals Group and President and Chief Executive Officer before elevation to Chairman of the Board in 1992. He served as President until March 1992 and Chief Executive Officer through December 2000. He is a director of Metropolitan Life Insurance Company, Dow Jones & Company, Inc., the New York Botanical Garden, Minerals Technologies Inc. and the New York University Medical Center.

Thomas A. Vanderslice, 69, a private investor, has been a Director since April 1980. He has been President of TAV Associates since May 1993, and formerly was Chairman of the Board, President and Chief Executive Officer of M/A-COM, Inc., Chairman and Chief Executive Officer of Apollo Computer, Inc., President and Chief Operating Officer of GTE Corporation and an officer of General Electric Company. He is a member of the Board of Trustees of Boston College and the National Academy of Engineering, the American Chemical Society and the American Institute of Physics.

EXECUTIVE OFFICERS OF TEXACO INC.

The executive and other elected officers of Texaco Inc. as of March 12, 2001 are:

Name and Age	Position	Major Area of Responsibility
Glenn F. Tilton	52 Chairman and Chief Executive Officer since February 2001	Chief Executive Officer
Patrick J. Lynch	63 Senior Vice President and Chief Financial Officer since January 1997	Chief Financial Officer
John J. O'Connor	55 Senior Vice President since January 1998	Worldwide Exploration & Production
William M. Wicker	51 Senior Vice President since August 1997	Global Businesses
Bruce S. Appelbaum	53 Vice President since March 2000	Worldwide Exploration & New Ventures
John E. Bethancourt	49 Vice President since May 2000	Worldwide Production Operations
Eugene G. Celentano	62 Vice President since July 1995	International Marketing & Manufacturing
James F. Link	56 Vice President since October 1999	Finance & Risk Management
James R. Metzger	53 Vice President since June 1997	Chief Technology Officer
Rosemary Moore	50 Vice President since June 2000	Corporate Communications and Government Affairs
Robert C. Oelkers	56 Vice President since December 1996	Worldwide Supply & Trading Operations
Elizabeth P. Smith	51 Vice President since February 1992	Investor Relations & Shareholder Services
Robert A. Solberg	55 Vice President since September 1992	Worldwide Upstream Commercial Development
Janet L. Stoner	52 Vice President since October 1997	Human Resources
Michael N. Ambler	64 General Tax Counsel since December 1990	Tax
George J. Batavick	53 Comptroller since April 1999	Chief Accounting Officer
Ira D. Hall	56 Treasurer since October 1999	Finance
Michael H. Rudy	57 Secretary since January 2000	Corporate Secretary

There are no family relationships among any of the officers of Texaco Inc. Except as noted below, each of the company's executive and other elected officers have held the positions listed on the previous page for more than five years.

Name	Position and Date Position Assumed
G.F. Tilton	- President of Global Businesses - January 1997 - President of Texaco USA - January 1995
P.J. Lynch	- President of Texaco Europe - January 1995
J.J. O'Connor	- Chief Executive Officer of BHP Petroleum - August 1994
W.M. Wicker	- President of Global Businesses - February 2000 - Senior Vice President of Corporate Development - August 1997 - Managing Director and Co-Head of the Global Energy Group for Credit Suisse First Boston - March 1995
B.S. Appelbaum	- Vice President of Worldwide Exploration - June 1999 - President of Exploration - January 1997 - President of International Exploration - May 1996 - Division Manager of Exploration - January 1991
J.E. Bethancourt	- Vice President of Business Development - January 1997 - Managing Director of Business Development - April 1993
J.F. Link	- Treasurer - March 1995
J.R. Metzger	- Vice President of Corporate Planning & Economics - December 1996 - General Manager of Information Technology - December 1988
R. Moore	- Independent Communications Consultant - June 1996 - Corporate Vice President, Corporate Communications of the Seagram Company Ltd. - August 1990
R.C. Oelkers	- Vice President and Comptroller - December 1996 - Comptroller - March 1994
J.L. Stoner	- Vice President of Producing - January 1997 - Vice President of Exploration and Producing - Latin America/West Africa - May 1995
G.J. Batavick	- Deputy Comptroller - October 1998 - Assistant Comptroller - December 1994
I.D. Hall	- General Manager of Alliance Management - June 1998 - Director of Business Development of IBM Global Services - March 1996
M.H. Rudy	- Senior Counsel - August 1999 - Senior Attorney - July 1986

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The rules of the Securities and Exchange Commission require that we disclose late filings of reports of stock ownership and changes in stock ownership by our directors and executive officers. To the best of our knowledge, based on a review of the relevant forms and written representations from the directors and officers, there were no late filings during 2000.

Item 11. Executive Compensation

COMPENSATION OF EXECUTIVE OFFICERS

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards(1)		All Other Compensation(\$)(4)
		Salary(\$)	Bonus(\$)	Other Annual Compensation(\$)(2)	Restricted Stock Awards(\$)(3)	Securities Underlying Options/SARs(#)	
G.F. Tilton Chairman of the Board/CEO(5)	2000	421,225	434,494	3,931	744,928	65,850	25,274
	1999	406,000	284,021	3,805	497,855	214,485	24,360
	1998	400,250	189,918	12,709	419,248	186,053	24,015
P.I. Bijur Retired Chairman of the Board/CEO(5)	2000	987,500	--	6,521	4,086,641	361,250	59,250
	1999	950,000	1,015,059	4,420	2,169,092	677,553	57,000
	1998	925,000	597,749	5,407	1,853,438	546,797	55,500
P.J. Lynch Senior Vice President/CF0	2000	454,575	489,616	5,330	744,928	65,850	27,275
	1999	435,000	338,634	5,124	497,855	214,427	26,100
	1998	428,750	182,245	5,573	501,911	174,560	25,725
J.J. O'Connor Senior Vice President	2000	473,625	489,616	--	744,928	84,089	28,418
	1999	450,000	373,855	--	497,855	80,877	27,000
	1998	450,000	182,245	49,515	710,324	85,498	63,989
W.M. Wicker Senior Vice President	2000	427,450	489,616	41,269	744,928	81,033	25,647
	1999	412,000	284,021	3,810	497,855	67,171	24,720
	1998	409,000	182,245	4,533	419,248	52,026	8,240

(1) Upon closing of the merger with Chevron, restricted stock awards and securities underlying options will be converted, to the extent practicable, into ChevronTexaco common stock equivalents pursuant to the terms of the merger agreement dated October 15, 2000.

(2) This column includes our aggregate incremental cost of providing various perquisites and personal benefits in excess of reporting thresholds including, for Mr. Wicker in 2000, \$41,269 for reimbursement of taxes applicable to club initiation fees and dues, and for Mr. O'Connor in 1998, \$49,515 for reimbursement of taxes applicable to moving expenses.

(3) Messrs. Tilton, Bijur, Lynch, O'Connor and Wicker had restricted stockholdings of 150,483; 388,793; 119,174; 33,314; and 34,132 shares, respectively, as of December 31, 2000. The shares had a market value of \$9,349,509; \$24,155,709; \$7,404,281; \$2,069,799; and \$2,120,621 respectively, at December 31, 2000, based on a value of \$62.13 per share. These share numbers and values include the awards since the last proxy statement dated March 14, 2000, which are reported in the "Restricted Stock Awards" column above. Dividends are paid on the restricted stock at the same time and rate as dividends paid to holders of unrestricted stock.

(4) Matching contributions to the qualified and nonqualified Employees Thrift Plan and relocation expenses.

(5) On February 4, 2001, Mr. Tilton became Chairman of the Board and Chief Executive Officer of Texaco Inc., following the retirement of Mr. Bijur.

Individual Grants of Options in 2000

Name	Date	Number of Securities Underlying Options Granted(#)	% of Total Options Granted	Exercise or Base Price(\$/Sh.)	Expiration Date	Grant Date Present Value \$*
G.F. Tilton	06/23/00	65,850	2.055%	56.56250	06/23/2010	754,641
P.I. Bijur	06/23/00	361,250	11.275%	56.56250	06/23/2010	4,139,925
P.J. Lynch	06/23/00	65,850	2.055%	56.56250	06/23/2010	754,641
J.J. O'Connor	05/16/00**	18,239	0.569%	57.21875	01/02/2008	214,491
	06/23/00	65,850	2.055%	56.56250	06/23/2010	754,641
W.M. Wicker	06/23/00	65,850	2.055%	56.56250	06/23/2010	754,641
	11/29/00**	15,183	0.474%	61.47000	08/04/2007	185,536

* Valuation. All options are granted at an exercise price equal to the market value of the Company's Common Stock on the date of grant. Therefore, if there is no appreciation in that market value, no value will be realizable. In accordance with Securities and Exchange Commission rules, we chose the Black-Scholes option pricing model to estimate the grant date present value of the options set forth in this table. Our use of this model should not be construed as an endorsement of its accuracy at valuing options. All stock option valuation models, including the Black-Scholes model, require a prediction about the future movement of the stock price. We made the following assumptions for purposes of calculating the Grant Date Present Value: the option term is assumed to be two years, volatility at 33.80%, dividend yield of 3.0% per share and interest rate of 6.4%. The real value of the options in this table depends solely upon the actual performance of the Company's Common Stock during the applicable period.

** Restored Options. All options include a restoration feature, by which participants receive options to replace shares that they are using to either (1) pay the Company for shares they are acquiring when they exercise a stock option or (2) satisfy their tax withholding obligations. Since restored options are granted at an exercise price which is equal to the market price of the Company's Common Stock on the day of grant, they are issued at an exercise price which is at a higher price than the exercise price of the original grant. Options vest 50% after one year and become fully exercisable after two years. Restored options are fully exercisable after six months and expire at the date of the original grant. Restoration of options originally granted and reported for Mr. O'Connor on January 2, 1998 and for Mr. Wicker on August 4, 1997.

Aggregated Option Exercises in 2000 and Year-End Option Values

Name	Shares Acquired on Exercise(#)	Value Realized(\$)	Number of Underlying Options at Exercisable	Securities Unexercised Year-End(#)*	Value of Unexercised In-the-Money Options at Year-End(\$)**	Exercisable	Unexercisable
G.F. Tilton	--	--	192,194	93,605	8,283	366,620	
P.I. Bijur	--	--	637,103	482,175	36,619	2,011,259	
P.J. Lynch	--	--	196,242	93,605	9,916	366,620	
J.J. O'Connor	1,193	68,262	110,852	93,605	123,519	366,620	
W.M. Wicker	1,022	62,822	89,369	108,788	16,962	376,641	

* Includes options reported in the chart entitled "Individual Grants of Options in 2000".

** Based on the 2000 year-end price of \$62.13.

RETIREMENT PLAN

Retirement Plan

Approximately 7,000 employees, including the 18 elected officers, are eligible to participate in the Retirement Plan. The plan is a qualified plan under the Internal Revenue Code and provides benefits funded by Company contributions. In addition, participants have the option of making contributions to the plan and receiving greater retirement benefits. Contributions are paid to a Master Trustee and to insurance companies for investment.

For purposes of calculating pension benefits for the executive officers named on page 33, the plan recognizes salary only and does not take into account other forms of compensation. For the executive officers, salary and bonus for the last three years are shown in the salary and bonus columns of the Summary Compensation Table. The Internal Revenue Code provides that qualified plans may not consider remuneration exceeding \$170,000 per year (as indexed for inflation) for purposes of calculating benefits under the Retirement Plan. The amount of an employee's retirement benefit is the greater of a benefit based upon a final pay formula (applicable in most cases), a career average formula or a minimum retirement benefit. In addition to the qualified Retirement Plan, we sponsor supplemental plans which take into account bonuses paid to a participant and salary in excess of the Internal Revenue Code limitations.

Retirement Plan Table

COVERED REMUNERATION*	YEARS OF BENEFIT SERVICE					
	15	20	25	30	35	40
\$ 100,000	\$ 22,500	\$ 30,000	\$ 37,500	\$ 44,700	\$ 51,700	\$ 58,700
200,000	45,000	60,000	75,000	89,400	103,400	117,400
400,000	90,000	120,000	150,000	178,800	206,800	234,800
600,000	135,000	180,000	225,000	268,200	310,200	352,200
800,000	180,000	240,000	300,000	357,600	413,600	469,600
1,000,000	225,000	300,000	375,000	447,000	517,000	587,000
1,200,000	270,000	360,000	450,000	536,400	620,400	704,400
1,400,000	315,000	420,000	525,000	625,800	723,800	821,800
1,600,000	360,000	480,000	600,000	715,200	827,200	939,200
1,800,000	405,000	540,000	675,000	804,600	930,600	1,056,600
2,000,000	450,000	600,000	750,000	894,000	1,034,000	1,174,000

* "Covered Remuneration" means the highest three-year average salary and highest three-year average bonus, if any, during the last ten years of employment. The company recognizes the following years of benefit service for the following individuals as of December 31, 2000: Mr. Tilton, 31; Mr. Bijur, 34; Mr. Lynch, 40; Mr. O'Connor, 3; and Mr. Wicker, 11. With respect to the plans, annual pension benefits are based on the non-contributory final pay formula (up to 1.5% of final average covered remuneration times benefit service) and assume the participant retires at age 65 and has been a non-contributory member of the plan throughout the period of service. These amounts, however, do not reflect a reduction for Social Security benefits pursuant to the provisions of the Retirement Plan. They do include those additional sums, if any, payable under a Supplemental Retirement Plan to compensate those employees who have earned annual retirement benefits payable under the Retirement Plan but which are limited by the Internal Revenue Code.

COMPENSATION OF BOARD OF DIRECTORS

Employee directors receive no compensation for service on the Board or its committees. Non-employee directors receive an annual retainer of \$40,000, and \$1,500 for each Board and committee meeting they attend, as well as an annual fee of 900 restricted stock-equivalent units which have significant vesting and transferability restrictions. Committee Chairs receive annual retainers of \$7,000. We pay one-half of each annual retainer in Common Stock or restricted stock-equivalent units. Directors may elect to receive all or any part of the remaining retainers and fees in Common Stock and to defer payment of fees, in cash, in Common Stock or in restricted stock-equivalent units.

Directors may participate in a group personal liability and property damage insurance program, which we administer and partially fund.

As part of our corporate-wide effort to encourage charitable giving, we have established a directors' gift program. Only institutions that are qualified recipients of grants from the Texaco Foundation may receive gifts under the directors' program. Upon the death of a director, we will donate up to a total of one million dollars to one or more qualifying charitable organizations designated by the director. The directors' program is funded entirely by insurance policies on the life of each director. We own the policies, pay the premiums for such insurance (\$40,306 paid for all directors in 2000) and are entitled to all tax deductions resulting from any contributions made to the qualifying charitable organizations. Individual directors derive no financial benefit from this program.

Item 12. Security Ownership of Certain Beneficial Owners and Management

SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT

The table below sets forth, as of February 1, 2001, information on Texaco stock and units owned by our directors and executive officers. Except as noted below, each person has sole voting and investment power over the shares listed. Directors and executive officers as a group own less than 1% of our outstanding Common Stock.

Beneficial Owners	Number of Shares or Units			
	Total Stock Interest	Common Stock	Shares Underlying Options Exercisable Within 60 Days of 2/1/01	Stock-Equivalent Restricted Units
A. Charles Baillie	6,171	3,000	--	3,171
Peter I. Bijur*	1,047,744	410,641	637,103	--
Mary K. Bush	5,012	341	--	4,671
Edmund M. Carpenter	12,256	827	--	11,429
Robert J. Eaton	2,727	2,000	--	727
Michael C. Hawley	12,188	400**	--	11,788
Franklyn G. Jenifer	8,499	200	--	8,299
Patrick J. Lynch	354,388	158,146	196,242	--
Sam Nunn	7,216	423	--	6,793
John J. O'Connor	147,647	36,795	110,852	--
Charles H. Price, II	16,149	2,497	--	13,652
Charles R. Shoemate	7,225	2,500	--	4,725
Robin B. Smith	9,861	600	--	9,261
William C. Steere, Jr.	19,205	1,400	--	17,805
Glenn F. Tilton*	360,554	168,360	192,194	--
Thomas A. Vanderslice	47,925	23,283	--	24,642
William M. Wicker	125,257	35,888	89,369	--
All Directors and Executive Officers as a group (32 persons)	3,766,048	1,546,478	2,102,607	116,963

* On February 4, 2001, Mr. Tilton became Chairman of the Board and Chief Executive Officer of Texaco Inc., following the retirement of Mr. Bijur.

** Mr. Hawley shares voting power over 400 shares of Texaco Common Stock with his spouse.

CHANGE IN CONTROL

Upon the successful consummation of the merger of Texaco and Chevron, Texaco will become a wholly-owned subsidiary of ChevronTexaco Corporation.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts 02110, filed a Schedule 13G with the Securities and Exchange Commission disclosing that, as of December 31, 2000, it had sole voting power over 39,241,349 shares, shared voting power over 254,046 shares, sole dispositive power over 9,786,299 shares and shared dispositive power over 30,627,545 shares as Trustee of our Employee Stock Ownership Plan (ESOP) and a similar plan maintained for our affiliates (as well as various collective investment funds and personal trust accounts). Shares for which it had sole or shared dispositive power represent approximately 7.4% of the Company's outstanding Common Stock. Under the terms of the ESOPs, State Street is required to vote shares it holds for the plan participants in accordance with confidential instructions received from the participants and to vote all shares for which it shall not have received instructions in the same ratio as the shares with respect to which it received instructions.

Capital Research and Management Company, 333 South Hope Street, Los Angeles, CA 90071, also filed a Schedule 13G, disclosing that as of December 31, 2000, it had sole dispositive power over 39,684,600 shares, or approximately 7.2% of our outstanding Common Stock.

We have established a grantor trust and contributed to such trust 9,200,000 shares of Common Stock. These shares are held by the Trustee to ensure that we satisfy our obligations under our non-qualified deferred compensation plans and arrangements. The Trustee votes the shares in the trust as the beneficiaries of the trust instruct it. The Trustee votes shares for which no instructions are received in the same ratio as the shares for which instructions have been received.

Item 13. Certain Relationships and Related Transactions

TRANSACTIONS WITH DIRECTORS AND OFFICERS

Sen. Nunn is a member of the law firm of King & Spalding, which has provided legal services to us for many years.

Messrs. O'Connor and Wicker each has an employment agreement that is terminable at will. The agreements provide for salaries and benefits in accordance with their respective positions and grades, awards of stock options and performance restricted shares and additional service credits for welfare benefit plan purposes. In addition, Mr. Wicker has an additional eight years of service for supplemental pension credit.

On May 31, 2000, the company extended an interest free loan of \$146,500 to Mr. Bethancourt to fund a portion of his employment relocation expenses. The loan was fully repaid to the company by Mr. Bethancourt on August 30, 2000.

SEVERANCE AGREEMENTS

Executive Officer Severance Agreements

As of March 12, 2001, twenty Texaco executives have severance agreements with Texaco, which expire as of the first day of the month immediately following the executive's 65th birthday. An executive will be entitled to the severance benefits set forth in the severance agreements if, after the date of first contact by a party, or a party's representative, with Texaco which results in a "change of control" (as defined in the severance agreements) involving that party or its affiliate and up to 36 months after a change of control, either the executive's employment is terminated without "just cause" (as defined in the severance agreements) or the executive resigns for "good reason." Under the severance agreements, an executive will be deemed to resign for good reason if he or she resigns within 60 days after:

- o a reduction in the executive's base pay;
- o a reduction in the executive's cash bonus in excess of 20% of the prior year's award (unless the reduction is due to Texaco's performance under the objective measurements of Texaco's Incentive Bonus Plan effective immediately before the change of control or under the objective measurements of an incentive compensation program with target bonuses and performance goals comparable to and not materially less favorable to the executive than the targets and goals described in the Incentive Bonus Plan in existence prior to the change of control);
- o the assignment of any duties inconsistent with the position in Texaco that the executive held immediately prior to the change of control or a significant adverse alteration in the nature or status of the executive's responsibilities or condition of employment from those in effect immediately prior to such change of control;

- o the failure of Texaco to continue in effect any material compensation or benefit plan in which the executive participated immediately prior to the change of control, unless an equitable arrangement (embodied in an ongoing substitute or alternate plan) has been made with respect to such plan, or the failure by Texaco to continue the executive's participation in such material compensation or benefit plan (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the executive's participation relative to other participants, as that which existed at the time of the change of control, unless any such change is independently justified based on peer group practices; or
- o the requirement to relocate to a work location which is 50 or more miles from the executive's former work location, without the executive's consent.

If there is a change of control and the executive is terminated without just cause or resigns for good reason within three years thereafter, a typical executive will be entitled to receive a cash payment, except as otherwise provided below, equal to the following (although benefits may vary slightly on a case by case basis):

- o "base pay severance" equal to thirty-six months' base pay, which means the monthly base salary in effect immediately before the change of control or, if greater, the base salary during the year immediately before the executive's termination without just cause or resignation for good reason; plus
- o "bonus severance" equal to three times the highest cash bonus earned by the executive in any of the five years preceding the executive's termination date (if the executive has not yet earned a company bonus prior to the change of control, then the executive's target bonus will be used in this regard); plus
- o three times the annual value of benefits earned or accrued by the executive as a result of the executive's participation in the following plans immediately preceding the change of control or immediately preceding the executive's resignation, whichever is greater:
 - o in lieu of additional service credit under the retirement and supplemental plans, a cash payment equal to 10% of the amount of the total of base pay severance and bonus severance; plus
 - o in lieu of additional contributions to the thrift and supplemental plans, a cash payment equal to 6% of the amount of base pay severance; plus
 - o if the executive is not eligible for retiree medical coverage under the bullet immediately below, a cash payment equal to three times the annual company contribution to the Texaco comprehensive medical plan (or alternate sponsored medical plan or HMO) for the executive's elected coverage option.
- o executives who are age 45 or older with at least ten years of service will receive retiree medical coverage pursuant to the terms and conditions that existed immediately prior to the change of control with the full company portion of the premium paid by the company. In order to qualify, the executive must have been covered under a company-sponsored medical plan immediately prior to the change of control or immediately prior to termination of employment;
- o executives who are age 45 or older with at least ten years of service will receive full retiree life insurance coverage pursuant to the terms and conditions that existed immediately prior to the change of control with the full amount of insurance paid by the company. In order to qualify for retiree life insurance, the executive must have participated in contributory life insurance coverage immediately prior to the date of the change of control or immediately prior to termination of employment;
- o outplacement services with a nationally recognized outplacement firm, with a cost not to exceed \$15,000; plus

- o continued participation under the terms and practices of the company's tax assistance plan for the year of termination or resignation and three calendar years immediately following.

Notwithstanding the above, if the executive is within 36 months of attaining age 65 at the time of termination of employment or resignation, the benefits described in the first three bullets above will be reduced by multiplying such benefit amounts by a fraction the numerator of which is the number of full and partial months from the date the executive terminates employment to the last day of the month he or she turns age 65, and the denominator of which is 36 months.

Under the severance agreements, Texaco is required, if necessary, to make an additional gross-up payment to any executive to offset fully the effect of any excise tax imposed by Section 4999 of the Internal Revenue Code on any excess parachute payment, whether made to that executive under the severance agreements or otherwise. In general, Section 4999 imposes an excise tax on the recipient of any excess parachute payment equal to 20% of that payment. A parachute payment is any payment contingent on a change of control that equals or exceeds three times the executive's "base amount", which is defined as average taxable compensation received by the executive from the employer during the five taxable years preceding the year in which the change of control occurs. Excess parachute payments consist of the excess of parachute payments over an individual's base amount. If the individual has been employed for fewer than five taxable years, the individual's entire period of employment will be used to calculate the excess parachute payment. Severance benefits received by the executive under the severance agreements will be made in lieu of and will replace any benefit entitlements under the U.S. Separation Pay Plan.

The merger, as described on page 1, will constitute a change of control under the severance agreements. If all the conditions to the closing are met and the closing occurs on July 1, 2001, and if all of the Texaco executives who are party to the severance agreements are terminated without just cause or resign for good reason immediately following that date, the amount of the cash severance payments payable to all of the Texaco executive officers who are party to the severance agreements would be approximately \$50 million and the gross-up payment payable would not be expected to exceed approximately \$40 million.

Employee Severance Benefits

Texaco maintains severance pay programs in most locations around the world. In general, all regular, full-time Texaco employees on the U.S. payroll are eligible to participate in the U.S. Separation Pay Plan. Under the terms of the U.S. Separation Pay Plan, benefits will be provided to all eligible employees if their employment is terminated or the conditions of their employment are changed adversely within two years following a change of control. The severance pay programs maintained outside the United States are designed to be competitive locally and do not provide special change of control benefits.

Under the U.S. Separation Pay Plan, an eligible Texaco employee will receive change of control benefits if any of the following occurs within two (2) years after a change of control of Texaco:

- o the employee's employment is terminated without "just cause" (as defined in the U.S. Separation Pay Plan);
- o the employee resigns within 60 days after:
 - o a reduction in the employee's base pay; or
 - o a reduction in approved overtime (other than an across-the-board cut for operational reasons); or

- o a reduction in the employee's cash bonus or cash stipend bonus in excess of 20% of the employee's prior year award (unless the reduction is due to Texaco's performance under the objective measurements of its incentive bonus plan effective immediately before the change of control or under the objective measurements of an incentive compensation program with target bonuses and performance goals comparable to and not materially less favorable to the employee than the targets and goals described in Texaco's incentive bonus plan in existence prior to the change of control); or
- o a reduction in the employee's position or position grade or any equivalent action; or
- o the benefits under one or more of the benefit plans or perquisites in which the employee may participate at the time of the change of control are reduced or terminated (except as required by law) unless any such change is independently justified based on peer group practices; or
- o being required to relocate to a work location which is 50 or more miles from the employee's former work location, without the employee's consent.

The change of control benefits consist of an amount equal to the following:

- o "base pay benefit" - one month's base pay (which means the greater of the monthly rate of pay in effect immediately prior to the change of control or during the highest paid month in the year immediately prior to the employee's termination or resignation) for each completed or partial year of service up to a maximum of 24 months' base pay (minimum of 3 months' base pay if the employee has at least one year of service); plus
- o "bonus and overtime benefit" - 1/12th of the employee's highest cash bonus, PCP award, cash stipend bonus, merit stipend or annual overtime pay received in any of the five years immediately preceding the employee's termination and qualifying resignation, multiplied by the same number of months used to calculate the employee's base pay benefit; plus
- o the benefit plans make-up payment equal to the sum of:
 - o retirement plan - 10% of the sum of the base pay benefit and the bonus and overtime benefit;
 - o thrift plan - 6% of the base pay benefit; and
 - o medical plan - company's monthly contribution to the Texaco comprehensive medical plan (or alternate company-sponsored medical plan or HMO), for the employee's elected coverage option either immediately preceding a change of control or immediately preceding the employee's termination or qualifying resignation, whichever is greater, multiplied by the number of years of service determined in calculating the base pay benefit;
- o "retiree medical coverage" - employees who are age 45 with at least 10 years of service will receive retiree medical coverage. Employees with 20 or more years of service will receive 100% of Texaco's contribution. Texaco's contribution will be pro-rated downward 5% per year for years of service less than 20. In order to qualify for retiree coverage, the employee must have been covered under a Texaco-sponsored medical plan immediately prior to the change of control or immediately prior to termination or qualifying resignation. Employees who are not eligible for retiree medical can participate in the Texaco-sponsored medical plan at their own expense for three years following termination (inclusive of COBRA coverage); and
- o "retiree life insurance coverage" - employees age 45 or older with at least 10 years of service will be eligible for Texaco-provided retiree life insurance coverage. Employees with 20 or more years of service will receive 100% retiree life insurance coverage. Coverage is reduced 5% per year for each year of service below 20 years. The amount of coverage will be determined based on the employee's level of participation in Texaco's term life insurance plan immediately prior to the date of the change of control or immediately prior to termination or qualifying resignation; and

- o "retirement plan"- more favorable early commencement discount factors will apply when an employee starts his or her pension at age 50 or older, even if the employee leaves Texaco before age 50. Social security offset in the final average pay formula will not apply until age 62, if the employee starts pension before age 62.

Also, employees in Grade 20 or higher qualifying for benefits under the U.S. Separation Pay Plan will be entitled to the following supplemental benefits. In determining years of company service under the first bullets above setting forth certain benefits to be provided to eligible participants in the separation pay plan upon a change of control, such employee will be credited with a minimum of twelve years of deemed service plus (a) for employees in Grade 20, one additional year for each actual completed or partial year of company service; (b) for employees in Grade 21, one and one-half additional years for each actual completed or partial year of company service; or (c) for employees in Grades 22 and above, two additional years for each actual completed or partial year of company service. In no event will the aggregate years of service, actual and deemed, used in determining benefits under the U.S. Separation Pay Plan exceed 24 years of service.

Under the U.S. Separation Pay Plan, Texaco is required, if necessary, to make an additional gross-up payment to any employee to offset fully the effect of any excise tax imposed by Section 4999 of the Internal Revenue Code on any excess parachute payment.

The merger, as described on page 1, will constitute a change of control under the U.S. Separation Pay Plan. If all the conditions to the closing are met and the closing occurs on July 1, 2001, and if all of the eligible Texaco employees are terminated without just cause or resign for the specified reasons immediately following that date, the amount of the cash severance payment payable to all of the U.S. Texaco employees would be approximately \$1.2 billion and the gross-up payment payable would not be expected to exceed approximately \$25 million.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

The following information, contained in Texaco Inc.'s 2000 Annual Report to Stockholders, is incorporated herein by reference. Page references are to the paper document version of Texaco Inc.'s 2000 Annual Report to Stockholders, as provided to stockholders:

(a) The following documents are filed as part of this report:

	Texaco Inc. 2000 Annual Report to Stockholders Page Reference -----
1. Financial Statements (incorporated by reference from the indicated pages of Texaco Inc.'s 2000 Annual Report to Stockholders):	
Description of Significant Accounting Policies.....	44-45
Consolidated Statement of Income for the three years ended December 31, 2000	46
Consolidated Balance Sheet at December 31, 2000 and 1999.....	47
Consolidated Statement of Stockholders' Equity for the three years ended December 31, 2000	48-49
Consolidated Statement of Comprehensive Income for the three years ended December 31, 2000	50
Consolidated Statement of Cash Flows for the three years ended December 31, 2000	51
Notes to Consolidated Financial Statements.....	52-69
Report of Independent Public Accountants.....	70

2. Financial Statement Schedules

We have included on page 50 of this Annual Report on Form 10-K Financial Statement Schedule II, Valuation and Qualifying Accounts.

We have filed as part of this Annual Report on Form 10-K the following sets of financial statements, for which we use the equity method of accounting:

- o Caltex Group of Companies Combined Financial Statements
- o Equilon Enterprises LLC Consolidated Financial Statements
- o Motiva Enterprises LLC Financial Statements.

Financial statements and schedules of certain affiliated companies have been omitted in accordance with the provisions of Rule 3.09 of Regulation S-X.

Financial Statement Schedules I, III, IV and V are omitted as permitted under Rule 4.03 and Rule 5.04 of Regulation S-X.

3. Exhibits

- (2.1) Agreement and Plan of Merger dated as of October 15, 2000 among Chevron Corporation, Texaco Inc. and Keepep Inc. (Schedules and Exhibits omitted), filed as Exhibit 2.1 to Texaco Inc.'s Current Report on Form 8-K, dated October 16, 2000, incorporated herein by reference, SEC File No. 1-27.
- (2.2) Stock Option Agreement dated as of October 15, 2000 between Chevron Corporation and Texaco Inc., filed as Exhibit 2.2 to Texaco Inc.'s Current Report on Form 8-K, dated October 16, 2000, incorporated herein by reference, SEC File No. 1-27.
- (2.3) Stock Option Agreement dated as of October 15, 2000 between Chevron Corporation and Texaco Inc., filed as Exhibit 2.3 to Texaco Inc.'s Current Report on Form 8-K, dated October 16, 2000, incorporated herein by reference, SEC File No. 1-27.

- (3.1) Copy of Restated Certificate of Incorporation of Texaco Inc., as amended to and including August 4, 1999, including Certificate of Designations, Preferences and Rights of Series D Junior Participating Preferred Stock and Series G, H, I and J Market Auction Preferred Shares, filed as Exhibit 3.1 to Texaco Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999, dated August 12, 1999, incorporated herein by reference, SEC File No. 1-27.
- (3.2) Copy of By-Laws of Texaco Inc., as amended to and including October 15, 2000, filed as Exhibit 3.2 to Texaco Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000, dated November 9, 2000, incorporated herein by reference, SEC File No. 1-27.
- (4.1(a)) Form of Amended Rights Agreement, dated as of March 16, 1989, as amended as of April 28, 1998, between Texaco Inc. and ChaseMellon Shareholder Services, L.L.C., as Rights Agent, filed as Exhibit I, pages 40 through 78, of Texaco Inc.'s proxy statement dated March 17, 1998, incorporated herein by reference, SEC File No. 1-27.
- (4.1(b)) Form of Amendment No. 1, dated as of October 15, 2000 to the Amended Rights Agreement, dated as of March 16, 1989, as amended as of April 28, 1998, between Texaco Inc. and ChaseMellon Shareholder Services, L.L.C., as Rights Agent, filed as Exhibit 2 of Texaco Inc.'s Amendment No. 1 to Form 8-A, dated October 25, 2000, incorporated herein by reference, SEC File No. 1-27.
- (4.2) Instruments defining the rights of holders of long-term debt of Texaco Inc. and its subsidiary companies are not being filed, since the total amount of securities authorized under each of such instruments does not exceed 10 percent of the total assets of Texaco Inc. and its subsidiary companies on a consolidated basis. Texaco Inc. agrees to furnish a copy of any instrument to the Securities and Exchange Commission upon request.
- (10(iii)(a)) Form of severance agreement between Texaco Inc. and elected officers of Texaco Inc., filed as Exhibit 10(iii)(a) to Texaco Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998, dated March 25, 1999, incorporated herein by reference, SEC File No. 1-27.
- (10(iii)(b)) Employment agreement dated December 30, 1997, between Texaco Inc. and Mr. John J. O'Connor, Senior Vice President of Texaco Inc., filed as Exhibit 10(iii)(b) to Texaco Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998, dated March 25, 1999, incorporated herein by reference, SEC File No. 1-27.
- (10(iii)(c)) Employment agreements dated July 18, 1997, between Texaco Inc. and Mr. William M. Wicker, Senior Vice President of Texaco Inc., filed as Exhibit 10(iii)(c) to Texaco Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998, dated March 25, 1999, incorporated herein by reference, SEC File No. 1-27.
- (10(iii)(d)) Texaco Inc.'s 1997 Stock Incentive Plan, incorporated herein by reference to Appendix A, pages 39 through 44 of Texaco Inc.'s proxy statement dated March 27, 1997, SEC File No. 1-27.
- (10(iii)(e)) Texaco Inc.'s 1997 Incentive Bonus Plan, incorporated herein by reference to Appendix A, pages 45 and 46 of Texaco Inc.'s proxy statement dated March 27, 1997, SEC File No. 1-27.
- (10(iii)(f)) Texaco Inc.'s Stock Incentive Plan, incorporated herein by reference to pages A-1 through A-8 of Texaco Inc.'s proxy statement dated April 5, 1993, SEC File No. 1-27.

- (10(iii)(g)) Texaco Inc.'s Stock Incentive Plan, incorporated herein by reference to pages IV-1 through IV-5 of Texaco Inc.'s proxy statement dated April 10, 1989 and to Exhibit A of Texaco Inc.'s proxy statement dated March 29, 1991, SEC File No. 1-27.
- (10(iii)(h)) Description of Texaco Inc.'s Supplemental Pension Benefits Plan, incorporated herein by reference to pages 8 and 9 of Texaco Inc.'s proxy statement dated March 17, 1981, SEC File No. 1-27.
- (10(iii)(i)) Description of Texaco Inc.'s Revised Supplemental Pension Benefits Plan, incorporated herein by reference to pages 24 through 27 of Texaco Inc.'s proxy statement dated March 9, 1978, SEC File No. 1-27.
- (10(iii)(j)) Description of Texaco Inc.'s Revised Incentive Compensation Plan, incorporated herein by reference to pages 10 and 11 of Texaco Inc.'s proxy statement dated March 13, 1969, SEC File No. 1-27.
- (12.1) Computation of Ratio of Earnings to Fixed Charges of Texaco on a Total Enterprise Basis.
- (12.2) Definitions of Selected Financial Ratios.
- (13) Copy of those portions of Texaco Inc.'s 2000 Annual Report to Stockholders that are incorporated herein by reference into this Annual Report on Form 10-K.
- (21) Listing of significant Texaco Inc. subsidiary companies and the name of the state or other jurisdiction in which each subsidiary was organized.
- (23.1) Consent of Arthur Andersen LLP.
- (23.2) Consent of KPMG (regarding its report on the combined financial statements of the Caltex Group of Companies).
- (23.3) Consent of Arthur Andersen LLP and PricewaterhouseCoopers LLP (regarding their report on the consolidated financial statements of Equilon Enterprises LLC).
- (23.4) Consent of Arthur Andersen LLP, PricewaterhouseCoopers LLP and Deloitte & Touche LLP (regarding their report on the financial statements of Motiva Enterprises LLC).
- (24.1) Power of Attorney. Powers of Attorney for certain directors and officers of Texaco Inc. authorizing, among other things, the signing of Texaco Inc.'s Annual Report on Form 10-K on their behalf, filed as Exhibit 24 to Texaco Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999, dated March 24, 2000, incorporated herein by reference, SEC File No. 1-17.
- (24.2) Power of Attorney. Power of Attorney for Glenn F. Tilton, Chairman of the Board and Chief Executive Officer of Texaco Inc., authorizing, among other things, the signing of Texaco Inc.'s Annual Report on Form 10-K on his behalf.
- (24.3) Power of Attorney. Power of Attorney for Robert J. Eaton, a director of Texaco Inc., authorizing, among other things, the signing of Texaco Inc.'s Annual Report on Form 10-K on his behalf.

(b) Reports on Form 8-K

During the fourth quarter of 2000, Texaco Inc. filed Current Reports on Form 8-K relating to the following events:

1. October 16, 2000
Item 5. Other Events -- reported that Texaco and Chevron Corporation announced a merger that will create a new company, ChevronTexaco Corporation.
2. October 24, 2000
Item 5. Other Events -- reported that Texaco issued an Earnings Press Release for the third quarter and first nine months of 2000.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders, Texaco Inc.:

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements included in Texaco Inc. and subsidiary companies' annual report to stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 22, 2001. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in Item 14 is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

New York, N.Y.
February 22, 2001

Texaco Inc. and Subsidiary Companies
Schedule II - Valuation and Qualifying Accounts
For the Years Ended December 31, 2000, 1999 and 1998
(In Millions of Dollars)

Description -----	Balance at Beginning of Year -----	Additions-Charged to Costs and Expenses -----	Deductions -----	Balance at End of Year -----
Year ended December 31, 2000				
Allowance for doubtful accounts	\$ 27 =====	\$ 26 =====	\$ 26 =====	\$ 27 =====
Maintenance and Repairs - Major Facilities	\$ 26 =====	\$ 42 =====	\$ 45 =====	\$ 23 =====
2000 Employee Termination Benefits	\$ -- =====	\$ 17 =====	\$ 16* =====	\$ 1 =====
1998 Employee Termination Benefits	\$ 27 =====	\$ -- =====	\$ 27 =====	\$ -- =====
1996 Employee Termination Benefits	\$ 8 =====	\$ -- =====	\$ 8 =====	\$ -- =====
Year ended December 31, 1999				
Allowance for doubtful accounts	\$ 28 =====	\$ 16 =====	\$ 17 =====	\$ 27 =====
Inventory valuation allowance	\$ 99 =====	\$ -- =====	\$ 99 =====	\$ -- =====
Maintenance and Repairs - Major Facilities	\$ 40 =====	\$ 45 =====	\$ 59 =====	\$ 26 =====
1998 Employee Termination Benefits	\$100 =====	\$ 48 =====	\$121** =====	\$ 27 =====
1996 Employee Termination Benefits	\$ 12 =====	\$ -- =====	\$ 4 =====	\$ 8 =====
Year ended December 31, 1998				
Allowance for doubtful accounts	\$ 22 =====	\$ 26 =====	\$ 20 =====	\$ 28 =====
Inventory valuation allowance	\$ -- =====	\$ 99 =====	\$ -- =====	\$ 99 =====
Maintenance and Repairs - Major Facilities	\$120 =====	\$ 36 =====	\$116 =====	\$ 40 =====
1998 Employee Termination Benefits	\$ -- =====	\$115 =====	\$ 15 =====	\$100 =====
1996 Employee Termination Benefits	\$ 20 =====	\$ -- =====	\$ 8 =====	\$ 12 =====

* Includes cash payments of \$8 million and transfers to long-term obligations of \$8 million.

** Includes cash payments of \$109 million and transfers to long-term obligations of \$12 million.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Harrison, State of New York, on the 26th day of March, 2001.

Texaco Inc.
(Registrant)
Michael H. Rudy
By
(Michael H. Rudy)
Secretary

Attest:
Calli P. Checki
By
(Calli P. Checki)
Assistant Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Glenn F. TiltonChairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Patrick J. LynchSenior Vice President and Chief Financial Officer
(Principal Financial Officer)
George J. BatavickComptroller
(Principal Accounting Officer)

Directors:

A. Charles Baillie	Charles H. Price II
Mary K. Bush	Charles R. Shoemate
Edmund M. Carpenter	Robin B. Smith
Robert J. Eaton	William C. Steere, Jr.
Michael C. Hawley	Glenn F. Tilton
Franklyn G. Jenifer	Thomas A. Vanderslice
Sam Nunn	

Michael H. Rudy
By
(Michael H. Rudy)
Attorney-in-fact for the above-named
officers and directors

March 26, 2001

CALTEX GROUP OF COMPANIES
COMBINED FINANCIAL STATEMENTS

December 31, 2000

CALTEX GROUP OF COMPANIES
COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2000

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Note: Financial statement schedules are omitted as permitted by Rule 4.03 and Rule 5.04 of Regulation S-X.

CALTEX GROUP OF COMPANIES
GENERAL INFORMATION

The Caltex Group of Companies (Group) is jointly owned 50% each by Chevron Corporation and Texaco Inc. (collectively, the Stockholders) and was created in 1936 by its two owners to explore for, produce, transport, refine and market crude oil and petroleum products. The Group is comprised of the following companies:

Caltex Corporation, a company incorporated in Delaware with its corporate headquarters in Singapore, that, through its many subsidiaries and affiliates, conducts refining, transporting, trading, and marketing activities in the Eastern Hemisphere;

P. T. Caltex Pacific Indonesia, an exploration and production company incorporated and operating in Indonesia; and,

American Overseas Petroleum Limited, a company incorporated in the Bahamas.

A brief description of each company's operations and other items follows. All reported amounts are in U.S. dollars.

Caltex Corporation (Caltex)

Through its subsidiaries and affiliates, Caltex operates in approximately 57 countries, principally in Africa, Asia, the Middle East, New Zealand and Australia. These geographic areas comprise a broad diversity of mature, developing, and emerging markets. At the end of 2000, it had total assets of \$7.7 billion, sales of 1.4 million barrels of crude oil and petroleum products per day, and total revenues of \$18.4 billion for the year. Caltex is involved in all aspects of the downstream business: marketing, refining, distribution, transportation, storage, supply and trading operations; the corporation is also active in the petrochemical business through its affiliate in Korea. At year-end 2000, Caltex had more than 7,200 employees.

The majority of refining and certain marketing operations are conducted through joint ventures. Caltex has equity interests in 10 refineries with equity refining capacity of approximately 846,000 barrels per day. Additionally, it has interests in two lubricant refineries, 17 lubricant blending plants, and a network of ocean terminals and depots. Caltex also has an interest in a fleet of vessels, and owns or has equity interests in numerous pipelines. Caltex conducts international crude oil and petroleum product logistics and trading operations from a subsidiary in Singapore.

P. T. Caltex Pacific Indonesia (CPI)

CPI holds a Production Sharing Contract (PSC) in Central Sumatra through the year 2021. CPI also acts as operator in Sumatra for eight other petroleum contract areas, with 33 fields, which are jointly held by Chevron and Texaco. At the end of 2000, CPI had total assets of \$2.5 billion, which generated total revenues of \$2.0 billion for the year. Exploration is pursued over an area comprising 18.3 million acres with production established in the giant Minas and Duri fields, along with smaller fields. Gross production from fields operated by CPI for 2000 was over 707,000 barrels of crude oil per day. CPI entitlements are sold to its Stockholders, who use them in their systems or sell them to third parties. At year-end 2000, CPI had approximately 5,800 employees, all located in Indonesia.

American Overseas Petroleum Limited (AOPL)

AOPL and its subsidiary, Amoseas Indonesia, Inc, provide services for CPI and manage certain geothermal steam operations and geothermal power generation projects in Indonesia in which Chevron and Texaco have interests. At year-end 2000, AOPL had approximately 186 employees, of which 9% were located in the United States.

CALTEX GROUP OF COMPANIES
GENERAL INFORMATION

Supplemental Market Risk Disclosures

The Group uses various derivative financial instruments for hedging and trading purposes. These instruments principally include interest rate and/or currency swap contracts, forward and option contracts to buy and sell foreign currencies, and commodity futures, options, swaps and other derivative instruments. Hedged market risk exposures include certain portions of assets, liabilities, future commitments and anticipated sales. Positions are adjusted for changes in the exposures being hedged. Since the Group hedges only a portion of its market risk exposures, exposure remains on the unhedged portion. The Notes to the Combined Financial Statements provide additional data relating to derivatives and applicable accounting policies.

Debt and debt-related derivatives - The Group is exposed to interest rate risk on its short-term and long-term debt with variable interest rates (approximately \$1.9 billion and \$2.2 billion, before the effects of related net interest rate swaps of \$0.3 billion and \$0.4 billion, at December 31, 2000 and 1999, respectively). The Group seeks to balance the benefit of lower cost variable rate debt, having inherent increased risk, with more expensive, but lower risk fixed rate debt. This is accomplished through adjusting the mix of fixed and variable rate debt, as well as the use of derivative financial instruments, principally interest rate swaps.

Based on the overall interest rate exposure on variable rate debt and interest rate swaps at December 31, 2000 and 1999, a hypothetical change in the interest rates of 2% would change net income by approximately \$23 million and \$25 million in 2000 and 1999, respectively.

Crude oil and petroleum product derivatives - The Group uses established petroleum futures exchanges, as well as "over-the-counter" instruments, including futures, options, swaps, and other derivative products to hedge a portion of the market risks associated with its crude oil and petroleum product purchases and sales. The Group also enters into derivative contracts as part of its crude oil and petroleum product trading activities.

The Group had net open petroleum derivative purchase contracts of approximately \$146 million and \$127 million at December 31, 2000 and 1999, respectively. As a sensitivity for these contracts, a hypothetical 10% change in crude oil and petroleum product prices would change net income by approximately \$10 million and \$9 million in 2000 and 1999, respectively.

Currency-related derivatives - The Group is exposed to foreign currency exchange risk in the countries in which it operates. To hedge against adverse changes in foreign currency exchange rates against the U.S. dollar, the Group sometimes enters into forward exchange and options contracts. Depending on the exposure being hedged, the Group either purchases or sells selected foreign currencies. The Group had net foreign currency purchase contracts of approximately \$191 million and \$279 million at December 31, 2000 and 1999, respectively, to hedge certain specific transactions or net exposures including foreign currency denominated debt. A hypothetical 10% change in exchange rates against the U.S. dollar would not result in a net material change in the Group's operating results or cash flows from the derivatives and their related underlying hedged positions in 2000 or 1999.

New Accounting Standard

Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137 and No. 138, will be adopted by the Group beginning January 1, 2001. SFAS No. 133/138 require companies to record derivatives on the balance sheet as assets or liabilities and measure those derivatives at fair value. Changes in the fair values of derivatives are to be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of exposure being hedged.

Based on its current level of activity with derivative instruments, the Group does not expect the adoption of SFAS No. 133/138 to have significant impact on results of operations, other comprehensive income or financial position.

Independent Auditors' Report

To the Stockholders
The Caltex Group of Companies:

We have audited the accompanying combined balance sheets of the Caltex Group of Companies as of December 31, 2000 and 1999, and the related combined statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2000, all expressed in United States of America dollars. These combined financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Caltex Group of Companies as of December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the combined financial statements, the Group changed its method of accounting for start-up costs in 1998 to comply with the provisions of the AICPA's Statement of Position 98-5 - "Reporting on the Costs of Start-up Activities".

KPMG

Singapore
February 8, 2001

CALTEX GROUP OF COMPANIES
COMBINED STATEMENT OF INCOME

	Year ended December 31,		
	(Millions of U.S. dollars)		
	2000	1999	1998
	----	----	----
Revenues:			
Sales and other operating revenues(1)	\$ 20,239	\$ 14,942	\$ 11,522
Gain on sale of investment in affiliate	-	18	-
Income in equity affiliates	71	252	108
Dividends, interest and other income	62	62	97
	-----	-----	-----
Total revenues	20,372	15,274	11,727
Costs and deductions:			
Cost of sales and operating expenses(2)	17,991	13,134	9,763
Selling, general and administrative expenses	515	582	676
Depreciation, depletion and amortization	494	459	431
Maintenance and repairs	129	154	147
Foreign exchange - net	(37)	11	16
Interest expense	192	152	172
Minority interest	-	2	3
	-----	-----	-----
Total costs and deductions	19,284	14,494	11,208
	-----	-----	-----
Income before income taxes	1,088	780	519
Provision for income taxes	569	390	326
	-----	-----	-----
Income before cumulative effect of accounting change	519	390	193
Cumulative effect of accounting change (no tax benefit)	-	-	(50)
	-----	-----	-----
Net income	\$ 519	\$ 390	\$ 143
	=====	=====	=====
(1) Includes sales to:			
Stockholders	\$2,924	\$2,275	\$1,555
Affiliates	5,454	3,970	2,121
(2) Includes purchases from:			
Stockholders	\$2,970	\$1,491	\$1,455
Affiliates	1,888	1,121	1,353

CALTEX GROUP OF COMPANIES
COMBINED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,		
	(Millions of U.S. dollars)		
	2000	1999	1998
	----	----	----
Net income	\$ 519	\$ 390	\$ 143
Other comprehensive income:			
Currency translation adjustments:			
Change during the year	(14)	(5)	(10)
Reclassification to net income for sale of investment in affiliate	-	(63)	-
Unrealized gains/(losses) on investments:			
Change during the year	3	32	8
Reclassification of gains included in net income	(1)	(64)	-
Related income tax benefit (expense)	-	11	(1)
	-----	-----	-----
Total other comprehensive loss	(12)	(89)	(3)
	-----	-----	-----
Comprehensive income	\$ 507	\$ 301	\$ 140
	=====	=====	=====

See accompanying notes to combined financial statements.

CALTEX GROUP OF COMPANIES
COMBINED BALANCE SHEET

	As of December 31,	
	(Millions of U.S. dollars)	
ASSETS	2000	1999
	-----	-----
Current assets:		
Cash and cash equivalents, including time deposits of \$13 in 2000 and \$12 in 1999	\$ 219	\$ 225
Marketable securities	11	117
Accounts and notes receivable, less allowance for doubtful accounts of \$58 in 2000 and \$43 in 1999:		
Trade	1,047	1,048
Affiliates	432	541
Other	224	132
	-----	-----
	1,703	1,721
Inventories	557	623
Deferred income taxes	54	19
	-----	-----
Total current assets	2,544	2,705
Equity in affiliates	2,192	2,127
Miscellaneous investments and long-term receivables, less allowance of \$23 in 2000 and \$24 in 1999	106	96
Property, plant, and equipment, at cost:		
Producing	5,085	4,732
Refining	1,352	1,350
Marketing	3,241	3,194
Other	15	14
	-----	-----
	9,693	9,290
Accumulated depreciation, depletion and amortization	(4,552)	(4,120)
	-----	-----
Net property, plant and equipment	5,141	5,170
Deferred income taxes	13	28
Prepaid and deferred charges	226	211
	-----	-----
Total assets	\$ 10,222	\$10,337
	=====	=====
LIABILITIES		
Current liabilities:		
Short-term debt	\$ 1,639	\$ 1,588
Accounts payable:		
Trade and other	1,297	1,440
Stockholders	134	44
Affiliates	55	61
	-----	-----
	1,486	1,545
Accrued liabilities	193	163
Estimated income taxes	67	99
	-----	-----
Total current liabilities	3,385	3,395
Long-term debt	853	1,054
Employee benefit plans	87	85
Deferred credits and other non-current liabilities	1,344	1,271
Deferred income taxes	232	234
Minority interest in subsidiary companies	27	23
	-----	-----
Total	5,928	6,062
STOCKHOLDERS' EQUITY		
Common stock	355	355
Capital in excess of par value	2	2
Retained Earnings	4,148	4,117
Accumulated other comprehensive loss	(211)	(199)
	-----	-----
Total stockholders' equity	4,294	4,275
	-----	-----
Total liabilities and stockholders' equity	\$ 10,222	\$10,337
	=====	=====

See accompanying notes to combined financial statements.

CALTEX GROUP OF COMPANIES
COMBINED STATEMENT OF STOCKHOLDERS' EQUITY

	Year ended December 31,		
	(Millions of U.S. dollars)		
	2000	1999	1998
	----	----	----
Common stock	\$ 355	\$ 355	\$ 355
	=====	=====	=====
Capital in excess of par value	\$ 2	\$ 2	\$ 2
	=====	=====	=====
Retained earnings:			
Balance at beginning of year	\$ 4,117	\$ 4,151	\$ 4,342
Net income	519	390	143
Cash dividends	(488)	(424)	(334)
	-----	-----	-----
Balance at end of year	\$ 4,148	\$ 4,117	\$ 4,151
	=====	=====	=====
Accumulated other comprehensive loss:			
Cumulative translation adjustments:			
Balance at beginning of year	\$ (198)	\$ (130)	\$ (120)
Change during the year	(14)	(5)	(10)
Reclassification to net income for sale of investment in affiliate	-	(63)	-
	-----	-----	-----
Balance at end of year	\$ (212)	\$ (198)	\$ (130)
	=====	=====	=====
Unrealized holding gain/(loss) on investments, net of tax:			
Balance at beginning of year	\$ (1)	\$ 20	\$ 13
Change during the year	3	19	7
Reclassification of gains included in net income	(1)	(40)	-
	-----	-----	-----
Balance at end of year	\$ 1	\$ (1)	\$ 20
	=====	=====	=====
Accumulated other comprehensive loss - end of year	\$ (211)	\$ (199)	\$ (110)
	=====	=====	=====
Total stockholders' equity - end of year	\$ 4,294	\$ 4,275	\$ 4,398
	=====	=====	=====

See accompanying notes to combined financial statements.

CALTEX GROUP OF COMPANIES
COMBINED STATEMENT OF CASH FLOWS

	Year ended December 31,		
	(Millions of U.S. dollars)		
	2000	1999	1998
	-----	-----	-----
Operating activities:			
Net income	\$ 519	\$ 390	\$ 143
Reconciliation to net cash provided by operating activities:			
Depreciation, depletion and amortization	494	459	431
Dividends more (less) than income in equity affiliates	12	(181)	(8)
Net losses on asset disposals/write-downs	6	34	50
Deferred income taxes	(13)	(58)	92
Prepaid charges and deferred credits	58	154	59
Changes in operating working capital:			
Accounts and notes receivable	(51)	(653)	404
Inventories	66	(12)	(28)
Accounts payable	(10)	484	(105)
Accrued liabilities	40	(23)	41
Estimated income taxes	(27)	14	4
Gain on sale of investment in affiliate	-	(18)	-
Other	(6)	(25)	35
	-----	-----	-----
Net cash provided by operating activities	1,088	565	1,118
Investing activities:			
Capital expenditures	(509)	(580)	(761)
Investments in and advances to affiliates	(87)	(1)	(211)
Purchase of investment instruments	(108)	(11)	(114)
Sale of investment instruments	214	-	90
Proceeds from sale of investments in affiliates	-	249	-
Proceeds from asset sales	21	16	9
	-----	-----	-----
Net cash used for investing activities	(469)	(327)	(987)
Financing activities:			
Debt with terms in excess of three months:			
Borrowings	996	959	849
Repayments	(727)	(824)	(701)
Net (decrease) increase in other debt	(351)	118	(22)
Funding provided by minority interest	-	-	17
Dividends paid	(488)	(424)	(334)
	-----	-----	-----
Net cash used for financing activities	(570)	(171)	(191)
Effect of exchange rate changes on cash and cash equivalents	(55)	(20)	(44)
	-----	-----	-----
Cash and cash equivalents:			
Net change during the year	(6)	47	(104)
Beginning of year balance	225	178	282
	-----	-----	-----
End of year balance	\$ 219	\$ 225	\$ 178
	=====	=====	=====
Net cash provided by operating activities includes the following cash payments for interest and income taxes:			
Interest paid (net of capitalized interest)	\$ 189	\$ 142	\$ 182
Income taxes paid	601	404	237

See accompanying notes to combined financial statements.

CALTEX GROUP OF COMPANIES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of combination The combined financial statements of the Caltex Group of Companies (Group) include the accounts of Caltex Corporation and subsidiaries, American Overseas Petroleum Limited and subsidiary, and P.T.Caltex Pacific Indonesia. Intercompany transactions and balances have been eliminated. Subsidiaries include companies owned directly or indirectly more than 50% except cases in which control does not rest with the Group. The Group's accounting policies are in accordance with U.S. generally accepted accounting principles, and the Group's reporting currency is the U.S. dollar.

Translation of foreign currencies The U.S. dollar is the functional currency for all principal subsidiary and affiliate operations.

Estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Short-term investments All highly liquid investments are classified as available for sale. Those with a maturity of three months or less when purchased are considered as "Cash equivalents" and those with longer maturities are classified as "Marketable securities".

Inventories Inventories are valued at the lower of cost or current market, except as noted below. Crude oil and petroleum product inventory costs are primarily determined using the last-in, first-out (LIFO) method, and include applicable acquisition and refining costs, duties, import taxes, freight, etc. Materials and supplies are stated at average cost. Certain trading-related inventory, which is highly transitory in nature, is marked-to-market.

Investments and advances Investments in affiliates in which the Group has an ownership interest of 20% to 50% or majority-owned investments where control does not rest with the Group, are accounted for by the equity method. The Group's share of earnings or losses of these companies is included in current results, and the recorded investments reflect the underlying equity in each company. Investments in other affiliates are carried at cost and dividends are reported as income.

Property, plant and equipment Exploration and production activities are accounted for under the successful efforts method. All costs for development wells, related plant and equipment, and proved mineral interests in oil and gas properties are capitalized. Costs of exploratory wells are capitalized pending determination of whether the wells found proved reserves. Costs of wells that are assigned proved reserves remain capitalized. Costs are also capitalized for wells that find commercially producible reserves that cannot be classified as proved, pending one or more of the following: (1) decisions on additional major capital expenditures, (2) the results of additional exploratory wells that are under way or firmly planned, and (3) securing final regulatory approvals for development. Otherwise, well costs are expensed if a determination cannot be made within one year following completion of drilling as to whether proved reserves were found. All other exploratory wells and costs are expensed.

Long-lived assets, including proved developed oil and gas properties, are assessed for possible impairment by comparing their carrying values to the undiscounted-future-net-before-tax cash flows. Impaired assets are written down to their fair values, generally their discounted cash flows. Impaired assets held for sale are recorded at their fair value less cost to sell. For proved oil and gas properties, the reviews are performed on a concession basis. Impairment amounts are recorded as incremental depreciation expense in the period in which the event occurs.

Depreciation, depletion and amortization expenses for capitalized costs relating to producing properties, including intangible development costs, are determined using the unit-of-production method by individual fields as the proved developed reserves are produced. Depletion expenses for capitalized costs of proved mineral interests are recognized using the unit-of-production method by individual fields as the related proved reserves are produced. Periodic valuation provisions for impairment of capitalized costs of unproved mineral interests are expensed. All other assets are depreciated by class on a straight-line basis using rates based upon the estimated useful life of each class.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Maintenance and repairs necessary to maintain facilities in operating condition are charged to income as incurred. Additions and improvements that materially extend the life of assets are capitalized. Upon disposal of assets, any net gain or loss is included in income.

Deferred credits Deferred credits primarily represent the Indonesian government's interest in specific property, plant and equipment balances. Under the Production Sharing Contract (PSC), the Indonesian government retains a majority equity share of current production profits. Intangible development costs (IDC) are capitalized for U.S. generally accepted accounting principles under the successful efforts method, but are treated as period expenses for PSC reporting. Other capitalized amounts are depreciated at an accelerated rate for PSC reporting. The deferred credit balances recognize the government's share of IDC and other reported capital costs that over the life of the PSC will be included in income as depreciation, depletion and amortization and will be applied against future production related profits.

Derivative financial instruments and energy trading contracts The Group uses various derivative financial instruments for hedging purposes. These instruments include interest rate and/or currency swap contracts, forward and options contracts to buy and sell foreign currencies, and commodity futures, options, swaps and other derivative instruments. Hedged market risk exposures include certain portions of assets, liabilities, future commitments and anticipated sales. Prior realized gains and losses on hedges of existing non-monetary assets are included in the carrying value of those assets. Gains and losses related to qualifying hedges of firm commitments or anticipated transactions are deferred and recognized in income when the underlying hedged transaction is recognized in income. If the derivative instrument ceases to be a hedge, the related gains and losses are recognized currently in income. Gains and losses on derivative instruments that do not qualify as hedges are recognized currently in income.

The Group also enters into energy contracts as a part of its crude oil and petroleum product trading activities. Trading contracts are recorded at market value and related gains and losses are recorded on a net basis in cost of sales and operating expenses as the market values change. The net gains and losses from trading contracts were not material to the Group's results of operations for 2000, 1999 and 1998.

Accounting for contingencies Certain conditions may exist as of the date financial statements are issued which may result in a loss to the Group, but which will only be resolved when one or more future events occur or fail to occur. Assessing contingencies necessarily involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Group or unasserted claims that may result in such proceedings, the Group evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material liability had been incurred and the amount of the loss can be estimated, then the estimated liability is accrued in the Group's financial statements. If the assessment indicates that a potentially material liability is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable, is disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature and amount of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of management and its legal counsel, may be of interest to Stockholders or others.

Environmental matters The Group's environmental policies encompass the existing laws in each country in which the Group operates, and the Group's own internal standards. Expenditures that create future benefits or contribute to future revenue generation are capitalized. Future remediation costs are accrued based on estimates of known environmental exposure even if uncertainties exist about the ultimate cost of the remediation. Such accruals are based on the best available undiscounted estimates using data primarily developed by third party experts. Costs of environmental compliance for past and ongoing operations, including maintenance and monitoring, are expensed as incurred. Recoveries from third parties are recorded as assets when realizable.

CALTEX GROUP OF COMPANIES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Revenue recognition In general, revenue is recognized for crude oil, natural gas and refined product sales when title passes as specified in the sales contract.

Reclassifications Certain reclassifications have been made to the prior year amounts to conform to the 2000 presentation.

NOTE 2 - ACCOUNTING CHANGE

An affiliate of the Group capitalized certain start-up costs, primarily organizational and training, over the period 1992-1996 related to a grassroots refinery construction project in Thailand. These costs were considered part of the effort required to prepare the refinery for operations. With the issuance of the AICPA's Statement of Position 98-5, "Reporting on the Costs of Start-up Activities," these costs would be accounted for as period expenses. The Group elected early adoption of this pronouncement effective January 1, 1998 and accordingly, recorded a cumulative effect charge to income as of January 1, 1998 of \$50 million representing the Group's share of the applicable start-up costs. Excluding the cumulative effect, the change in accounting for start-up costs did not materially affect net income for 1998.

NOTE 3 - RESTRUCTURING/REORGANIZATION

Caltex recorded a charge to selling, general and administrative expenses of \$37 million and \$86 million in 1999 and 1998, respectively, for various restructuring and reorganization activities undertaken to realign its downstream operations along functional lines and reduce redundant operating activities. The charges included severance and other termination benefits of \$23 million and \$60 million for approximately 200 employees and 500 employees in 1999 and 1998, respectively. All affected employees had left Caltex by December 2000. The following table summarizes the restructuring/reorganization costs for 2000, 1999 and 1998 (millions of U.S. dollars):

	2000			1999			1998		
	Balance at Dec. 31	Payments/Write-offs	Expense	Balance at Dec. 31	Payments/Write-offs	Expense	Balance at Dec. 31	Payments/Write-offs	Expense
Severance and other termination benefits	\$ -	\$ (8)	\$ (2)	\$ 10	\$ (57)	\$ 23	\$ 44	\$ (16)	\$ 60
Other reorganization costs	9	(5)	2	12	(11)	14	9	(17)	26
	<u>\$ 9</u>	<u>\$ (13)</u>	<u>\$ -</u>	<u>\$ 22</u>	<u>\$ (68)</u>	<u>\$ 37</u>	<u>\$ 53</u>	<u>\$ (33)</u>	<u>\$ 86</u>

The \$9 million liability as of December 31, 2000 primarily relates to future lease commitments on vacated office space over the remaining lease term ending in 2002. Adjustments made in 2000 and 1999 to recorded liabilities were insignificant.

In addition to the above, 1999 net income included a \$27 million after tax charge for restructuring activities of affiliates.

NOTE 4 - ASSETS HELD FOR DISPOSAL

The Group continually reviews its asset portfolio and periodically sells or otherwise disposes of various assets that no longer fit into the Group's strategic direction. The Group recorded a charge to earnings of approximately \$4 million in 2000 and \$30 million in both 1999 and 1998 related to various marketing assets (primarily service station land and buildings) which have been removed from operation and are awaiting disposal or sale as buyers are located. Carrying value of these assets, which is based on appraisals or estimated selling prices, as of December 31, 2000 is approximately \$25 million. The effect of suspending depreciation on assets held for sale in 2000, 1999 and 1998 was not material.

CALTEX GROUP OF COMPANIES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 5 - OPERATING LEASES

The Group has operating leases involving various marketing assets for which net rental expense was \$92 million, \$112 million, and \$103 million in 2000, 1999, and 1998, respectively.

Future net minimum rental commitments under operating leases having non-cancelable terms in excess of one year are as follows (in millions of U.S. dollars): 2001 - \$42; 2002 - \$16; 2003 - \$7; 2004 - \$6; 2005 - \$6; and 2006 and thereafter - \$23.

NOTE 6 - TAXES

Taxes charged to income consist of the following:

	Year ended December 31,		
	(Millions of U.S. dollars)		
	2000	1999	1998
Taxes other than income taxes:			
Duties, import and excise taxes	\$ 1,389	\$ 1,077	\$ 1,218
Other	16	16	17
Total taxes other than income taxes	<u>\$ 1,405</u>	<u>\$ 1,093</u>	<u>\$ 1,235</u>
Income taxes:			
U.S. taxes :			
Current	\$ 3	\$ 72	\$ 6
Deferred	-	-	23
Total U.S.	<u>3</u>	<u>72</u>	<u>29</u>
International taxes:			
Current	579	376	228
Deferred	(13)	(58)	69
Total International	<u>566</u>	<u>318</u>	<u>297</u>
Total provision for income taxes	<u>\$ 569</u>	<u>\$ 390</u>	<u>\$ 326</u>

Income taxes have been computed on an individual company basis at rates in effect in the various countries of operation. The effective tax rate differs from the "expected" tax rate (U.S. Federal corporate tax rate) as follows:

	Year ended December 31,		
	(Millions of U.S. dollars)		
	2000	1999	1998
Computed "expected" tax rate	35.0%	35.0%	35.0%
Effect of recording equity in net income of affiliates on an after tax basis	(2.4)	(11.3)	(7.3)
Effect of dividends received from subsidiaries and affiliates	0.6	0.4	(0.3)
Income subject to foreign taxes at other than U.S. statutory tax rate	16.1	18.4	26.0
Effect of sale of investment in an affiliate	-	6.6	-
Deferred income tax valuation allowance	4.2	2.4	8.7
Other	(1.2)	(1.5)	0.7
Effective tax rate	<u>52.3%</u>	<u>50.0%</u>	<u>62.8%</u>

For 2000, the increase in effective tax rate is primarily due to the larger proportion of earnings from higher tax rate foreign jurisdictions. For 1999, the increase in the effective tax rate resulting from the sale of investment in an affiliate is net of the effect of previously unrecorded foreign tax credit carry-forwards of \$29 million.

CALTEX GROUP OF COMPANIES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 6 - TAXES - (continued)

Deferred income taxes are provided in each tax jurisdiction for temporary differences between the financial reporting and the tax basis of assets and liabilities. Temporary differences and tax loss carry-forwards which give rise to deferred tax liabilities (assets) are as follows:

	Year ended December 31,	
	(Millions of U.S. dollars)	
	2000	1999
	----	----
Depreciation	\$ 317	\$ 322
Miscellaneous	10	17
	-----	-----
Deferred tax liabilities	327	339
	-----	-----
Inventory	(41)	(24)
Investment allowances	(61)	(62)
Tax loss carry-forwards	(122)	(100)
Foreign exchange	(18)	(13)
Retirement benefits	(27)	(33)
Miscellaneous	(30)	(11)
	-----	-----
Deferred tax assets	(299)	(243)
Valuation allowance	137	91
	-----	-----
Net deferred taxes	\$ 165	\$ 187
	=====	=====

A valuation allowance has been established to reduce deferred income tax assets to amounts which, in the Group's judgement are more likely than not (more than 50%) to be utilized against current and future taxable income when those temporary differences become deductible.

Undistributed earnings of subsidiaries and affiliates, for which no U.S. deferred income tax provision has been made, approximated \$3.3 billion and \$3.4 billion as of December 31, 2000 and December 31, 1999, respectively. Such earnings have been or are intended to be indefinitely reinvested, and become taxable in the U.S. only upon remittance as dividends. It is not practical to estimate the amount of tax that may be payable on the eventual remittance of such earnings. Upon remittance, certain foreign countries impose withholding taxes which, subject to certain limitations, are available for use as tax credits against the U.S. tax liability. Excess U.S. foreign income tax credits are not recorded until realized.

NOTE 7 - INVENTORIES

	As of December 31,	
	(Millions of U.S. dollars)	
	2000	1999
	----	----
Inventories		
Crude oil	\$ 169	\$ 170
Petroleum products	364	427
Materials and supplies	24	26
	-----	-----
	\$ 557	\$ 623
	=====	=====

The reported value of inventory at December 31, 2000 and 1999 was less than its current cost by approximately \$152 million and \$104 million, respectively. In 2000 and 1998, certain inventories were recorded at market, which was lower than the LIFO carrying value. Adjustments to market reduced net income \$4 million in 2000 and \$18 million in 1998. In 1999, the market valuation adjustment reserves established in prior years were eliminated as market prices improved and the physical units of inventory were sold. Elimination of these reserves increased net income in 1999 by \$71 million. At December 31, 2000, inventories were primarily reported at LIFO carrying cost except for approximately \$39 million of trading inventory recorded at market.

Inventory quantities valued on the LIFO basis were reduced at certain locations during the periods presented. Such inventory reductions increased net income in 2000 and 1999 by \$41 million each year and decreased net income by \$4 million (net of a related market valuation adjustment of \$1 million) in 1998.

CALTEX GROUP OF COMPANIES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 8 - EQUITY IN AFFILIATES

Investments in affiliates at equity include the following:

	Equity %	As of December 31,	
		(Millions of U.S. dollars)	
		2000	1999
Caltex Australia Limited	50%	\$ 253	\$ 260
LG-Caltex Oil Corporation	50%	1,468	1,441
Star Petroleum Refining Company, Ltd.	64%	337	269
All other	Various	134	157
		-----	-----
		\$ 2,192	\$ 2,127
		=====	=====

The carrying value of the Group's investment in its affiliates in excess of its proportionate share of affiliate net equity is being amortized over approximately 20 years.

In 1999, Caltex Corporation sold its 50% interest in Koa Oil Company, Limited (Koa) with a net book value of approximately \$219 million, to Nippon Mitsubishi Oil Corp, for approximately \$237 million in cash. As a result of the sale, Caltex incurred additional U.S. tax liabilities of approximately \$81 million.

The remaining interest in Star Petroleum Refining Company, Ltd. (SPRC) is owned by a governmental entity of the Kingdom of Thailand. Provisions in the SPRC shareholders agreement limit the Group's control and provide for active participation of the minority shareholder in routine business operating decisions. The agreement also mandates reduction in Group ownership to a minority position before the year 2001; however, this requirement has been delayed in view of the current economic difficulties in the region.

Shown below is summarized combined financial information for affiliates at equity (in millions of U.S. dollars):

	100%		Equity Share	
	2000	1999	2000	1999
Current assets	\$ 3,182	\$ 3,005	\$ 1,614	\$ 1,535
Other assets	6,573	6,333	3,424	3,287
Current liabilities	3,227	3,351	1,669	1,816
Other liabilities	2,334	1,883	1,235	937
	-----	-----	-----	-----
Net worth	\$ 4,194	\$ 4,104	\$ 2,134	\$ 2,069
	=====	=====	=====	=====

	100%			Equity Share		
	2000	1999	1998	2000	1999	1998
Operating revenues	\$ 15,713	\$ 12,796	\$ 11,811	\$ 8,041	\$ 6,511	\$ 5,968
Operating income	421	726	1,101	222	358	539
Net income	150	539	193	71	252	58

Cash dividends received from these affiliates were \$83 million, \$71 million, and \$50 million in 2000, 1999, and 1998, respectively.

The summarized combined financial information shown above includes the cumulative effect of the accounting change in 1998 as described in Note 2.

Retained earnings as of December 31, 2000 and 1999 includes \$1.4 billion which represents the Group's share of undistributed earnings of affiliates at equity.

CALTEX GROUP OF COMPANIES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 9 - SHORT-TERM DEBT

Short-term debt consists primarily of demand and promissory notes, acceptance credits, overdrafts and the current portion of long-term debt. The weighted average interest rates on short-term financing as of December 31, 2000 and 1999 were 6.9% and 6.5%, respectively. Unutilized lines of credit available for short-term financing totaled \$1.0 billion as of December 31, 2000.

NOTE 10 - LONG-TERM DEBT

Long-term debt, with related interest rates for 2000 and 1999 consists of the following:

	As of December 31,	
	(Millions of U.S. dollars)	
	2000	1999
U.S. dollar debt:		
Variable interest rate loans with average rates of 6.9% and 6.4%, due 2002-2009	\$ 482	\$ 481
Fixed interest rate term loans with average rates of 6.4% and 6.2%, due 2002-2005	174	171
Australian dollar debt:		
Fixed interest rate loan with 12.4% rate due 2001	-	205
Hong Kong dollar debt:		
Variable interest rate loans with average rates of 6.32% and 6.07%, due 2002	75	75
New Zealand dollar debt:		
Variable interest rate loans with average rates of 7.0% and 5.6%, due 2002-2005	70	70
Malaysian ringgit debt:		
Variable interest rate loans with average rate of 3.8% due 2005	7	-
Fixed interest rate loans with average rates of 6.95% and 7.81%, due 2005	13	24
South African rand debt:		
Fixed interest rate loan with 17.8% rate due 2007	6	8
Other - variable interest rate loans with average rates of 12.1% and 15.3%, due 2003-2007	26	20
	\$ 853	\$1,054
	=====	=====

Aggregate maturities of long-term debt by year are as follows (in millions of U.S. dollars): 2001 - \$469 (included in short-term debt); 2002 - \$590; 2003 - \$118; 2004 - \$56; 2005 - \$70; and thereafter - \$19.

CALTEX GROUP OF COMPANIES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 11 - FINANCIAL INSTRUMENTS

Certain Group companies are parties to financial instruments with off-balance sheet credit and market risk, principally interest rate risk. The Group's outstanding commitments for interest rate swaps and foreign currency contractual amounts are:

	As of December 31,	
	(Millions of U.S. dollars)	
	2000	1999
	----	----
Interest rate swaps - Pay Fixed, Receive Floating	\$ 507	\$ 632
Interest rate swaps - Pay Floating, Receive Fixed	188	245
Commitments to purchase foreign currencies	275	360
Commitments to sell foreign currencies	84	81

The Group enters into interest rate swaps in managing its interest risk, and their effects are recognized in the statement of income at the same time as the interest expense on the debt to which they relate. The swap contracts have remaining maturities of up to six years. Net unrealized (losses) and gains on contracts outstanding at December 31, 2000 and 1999 were (\$1 million) and \$4 million, respectively.

The Group enters into forward exchange contracts to hedge against some of its foreign currency exposure stemming from existing liabilities and firm commitments. Contracts to purchase foreign currencies (principally Australian and Singapore dollars) to hedge existing liabilities have maturities of up to two years. Net unrealized losses applicable to outstanding forward exchange contracts at December 31, 2000 and 1999 were \$37 million and \$5 million, respectively.

The Group hedges a portion of the market risks associated with its crude oil and petroleum product purchases and sales. Established petroleum futures exchanges are used, as well as "over-the-counter" hedge instruments, including futures, options, swaps, and other derivative products. Gains and losses on hedges are deferred and recognized concurrently with the underlying commodity transactions. Deferred (losses) and gains on hedging contracts outstanding at year-end were (\$4 million) in 2000 and \$4 million in 1999.

The Group's recorded value of fixed interest rate debt exceeded the fair value by \$27 million and \$22 million as of December 31, 2000 and 1999, respectively. The fair value estimates were based on the present value of expected cash flows discounted at current market rates for similar obligations. The reported amounts of financial instruments such as cash and cash equivalents, marketable securities, notes and accounts receivable, and all other current liabilities approximate fair value because of their short maturities.

The Group had investments in debt securities available-for-sale at amortized costs of \$11 million and \$120 million at December 31, 2000 and 1999, respectively. The fair value of these securities at December 31, 2000 and 1999 approximated amortized costs. As of December 31, 2000 and 1999, investments in debt securities available-for-sale had maturities of less than ten years. The Group's carrying amount for investments in affiliates accounted for at equity included \$1 million and \$2 million, as of December 31, 2000 and 1999, respectively, for after-tax unrealized net gains on investments held by these companies.

The Group is exposed to credit risks in the event of non-performance by counter-parties to financial instruments. For financial instruments with institutions, the Group does not expect any counter-party to fail to meet its obligations given their high credit ratings. Other financial instruments exposed to credit risk consist primarily of trade receivables. These receivables are dispersed among the countries in which the Group operates, thus limiting concentration of such risk. The Group performs ongoing credit evaluations of its customers and generally does not require collateral. Letters of credit are the principal security obtained to support lines of credit when the financial strength of a customer is not considered sufficient. Credit losses have historically been within management's expectations.

CALTEX GROUP OF COMPANIES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 12 - EMPLOYEE BENEFIT PLANS

The Group has various retirement plans, including defined benefit pension plans, covering substantially all of its employees. The benefit levels, vesting terms and funding practices vary among plans. The following provides a reconciliation of benefit obligations, plan assets, and funded status of the various plans, primarily foreign.

	As of December 31,			
	(Millions of U.S. dollars)			
	Pension Benefits		Other Post-retirement Benefits	
	2000	1999	2000	1999
Change in benefit obligations:				
Benefit obligation at January 1,	\$ 186	\$ 231	\$ 78	\$ 79
Service cost	13	10	1	1
Interest cost	21	18	8	8
Actuarial loss (gain)	57	7	3	(5)
Benefits paid	(22)	(25)	(6)	(4)
Settlements and curtailments	(7)	(57)	-	-
Foreign exchange rate changes	(24)	2	(7)	(1)
Benefit obligation at December 31,	\$ 224	\$ 186	\$ 77	\$ 78
Change in plan assets:				
Fair value at January 1,	\$ 210	\$ 220	\$ -	\$ -
Actual return on plan assets	10	32	-	-
Group contribution	26	32	6	4
Benefits paid	(22)	(25)	(6)	(4)
Settlements	(7)	(57)	-	-
Foreign exchange rate changes	(36)	8	-	-
Fair value at December 31,	\$ 181	\$ 210	\$ -	\$ -
Accrued benefit costs:				
Funded status	\$ (43)	\$ 24	\$ (77)	\$ 78)
Unrecognized net actuarial loss (gain)	16	(26)	17	17
Unrecognized prior service cost	26	6	-	-
(Accrued) prepaid benefit cost recognized	\$ (1)	\$ 4	\$ (60)	\$(61)
Amounts recognized in the Combined Balance Sheet:				
Prepaid benefit cost	\$ 27	\$ 32	\$ -	\$ -
Accrued benefit liability	(28)	(28)	(60)	(61)
(Accrued) prepaid benefit cost recognized	\$ (1)	\$ 4	\$ (60)	\$(61)
Weighted average rate assumptions:				
Discount rate	9.7%	9.3%	9.9%	10.9%
Rate of increase in compensation	7.4%	7.0%	6.8%	4.0%
Expected return on plan assets	10.3%	11.5%	n/a	n/a

As of December 31,

(Millions of U.S. dollars)
2000 1999

Pension plans with accumulated benefit obligations in excess of assets:		
Projected benefit obligation	\$ 24	\$ 25
Accumulated benefit obligation	13	13
Fair value of assets	-	-

CALTEX GROUP OF COMPANIES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 12 - EMPLOYEE BENEFIT PLANS - (continued)

	Year ended December 31,		
	(Millions of U.S. dollars)		
	2000	1999	1998
	----	----	----
Components of Pension Expense			
Service cost	\$ 13	\$ 10	\$ 10
Interest cost	21	18	20
Expected return on plan assets	(20)	(22)	(21)
Amortization of prior service cost	3	3	1
Recognized net actuarial loss (gain)	1	(2)	3
Curtailement/settlement loss	1	17	13
	-----	-----	-----
Total	\$ 19	\$ 24	\$ 26
	=====	=====	=====
Components of Other Post-retirement Benefits			
Service cost	\$ 1	\$ 1	\$ 2
Interest cost	8	8	6
Special termination benefit recognition	-	-	3
Curtailement recognition	-	-	3
	-----	-----	-----
Total	\$ 9	\$ 9	\$ 14
	=====	=====	=====

Other post-retirement benefits are comprised of contributory healthcare and life insurance plans. A one percentage point change in the assumed health care cost trend rate of 10% would change the post-retirement benefit obligation by \$9 million and would not have a material effect on aggregate service and interest components.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Caltex is involved in tax audits in the United States and in certain other jurisdictions. The Internal Revenue Service's audit for the years 1987-1993 has been administratively settled and Caltex will receive a refund of tax and interest for these years. In jurisdictions outside the United States, the tax authorities' audits are in various stages of completion. In the opinion of management, adequate provision has been made for income taxes for all years under examination or subject to future examination.

Caltex and certain of its subsidiaries are named as defendants, along with privately held Philippine ferry and shipping companies and the shipping company's insurer, in various lawsuits filed in the U.S. and the Philippines on behalf of at least 3,350 parties, who were either survivors of, or relatives of persons who allegedly died in a collision in Philippine waters on December 20, 1987. One vessel involved in the collision was carrying products for Caltex (Philippines) Inc. (a subsidiary of Caltex) in connection with a contract of affreightment. Although Caltex had no direct or indirect ownership in or operational responsibility for either vessel, various theories of liability have been alleged against Caltex. The major suit filed in the U.S. (Louisiana State Court) was dismissed in December 2000 on forum non conveniens grounds and is currently under appeal by the plaintiffs. Caltex will vigorously contest this appeal. Caltex is actively pursuing dismissal of all Philippine litigation on the strength of a Philippine Supreme Court decision absolving it of any responsibility for the collision. No reasonable estimate of damages involved or being sought can be made at this time.

The Group may be subject to loss contingencies pursuant to environmental laws and regulations in each of the countries in which it operates that, in the future, may require the Group to take action to correct or remediate the effects on the environment of prior disposal or release of petroleum substances by the Group. The amount of such future cost is indeterminable due to such factors as the nature of the new regulations, the unknown magnitude of any possible contamination, the unknown timing and extent of the corrective actions that may be required, and the extent to which such costs are recoverable from third parties.

CALTEX GROUP OF COMPANIES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS AND CONTINGENCIES - (continued)

In the Group's opinion, while it is impossible to ascertain the ultimate legal and financial liability, if any, with respect to the above mentioned and other contingent liabilities, the aggregate amount that may arise from such liabilities is not anticipated to be material in relation to the Group's combined financial position or liquidity, or results of operations over a reasonable period of time.

A Caltex subsidiary has a contractual commitment until 2007 to purchase petroleum products in conjunction with the financing of a refinery owned by an affiliate. Total future estimated commitments under this contract, based on current pricing and projected growth rates, are approximately \$0.8 billion per year. Purchases (in billions of U.S. dollars) under this and other similar contracts were \$1.0, \$0.7 and \$0.8 in 2000, 1999, and 1998 respectively.

Caltex is contingently liable for sponsor support funding for a maximum of \$193 million in connection with an affiliate's project finance obligations. The project has been operational since 1996 and has successfully completed all mechanical, technical and reliability tests associated with the plant physical completion covenant. However, the affiliate has been unable to satisfy a covenant relating to a working capital requirement. As a result, a technical event of default exists which has not been waived by the lenders. The lenders have not enforced their rights and remedies under the finance agreements and they have not indicated an intention to do so. The affiliate is current on these financial obligations and anticipates resolving the issue with its secured creditors during further restructuring discussions. During 2000, Caltex and the other sponsor provided temporary short-term extended trade credit related to crude oil supply with an outstanding balance owing to Caltex at December 31, 2000 of \$124 million.

NOTE 14 - OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCING ACTIVITIES

The financial statements of Chevron Corporation and Texaco Inc. contain required supplementary information on oil and gas producing activities, including disclosures on affiliates at equity. Accordingly, such disclosures are not presented herein.

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REPORT OF MANAGEMENT
EQUILON ENTERPRISES LLC

The management of Equilon Enterprises LLC ("Equilon") is responsible for preparing the consolidated financial statements of Equilon in accordance with generally accepted accounting principles. In doing so, management must make estimates and judgments when the outcome of events and transactions is not certain.

In preparing these financial statements from the accounting records, management relies on an effective internal control system in meeting its responsibility. The objective of this system of internal controls is to provide reasonable assurance that assets are safeguarded and that the financial records are accurately and objectively maintained. Equilon's internal auditors conduct regular and extensive internal audits throughout the company. During these audits they review and report on the effectiveness of the internal controls and make recommendations for improvement.

The independent accounting firms of PricewaterhouseCoopers LLP and Arthur Andersen LLP are engaged to provide an objective, independent audit of Equilon's financial statements. Their accompanying report is based on an audit conducted in accordance with generally accepted auditing standards, which includes a review and evaluation of the effectiveness of the company's internal controls. This review establishes a basis for their reliance thereon in determining the nature, timing and scope of their audit.

The Audit Committee of the Board of Directors is comprised of two directors who review and evaluate Equilon's accounting policies and reporting, internal controls, internal audit program and other matters as deemed appropriate. The Audit Committee also reviews the performance of PricewaterhouseCoopers LLP and Arthur Andersen LLP and evaluates their independence and professional competence, as well as the results and scope of their audit.

Rob J. Routs President and Chief Executive Officer	Ronald B. Blakely Chief Financial Officer	David C. Cable Controller
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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of Equilon Enterprises LLC:

We have audited the accompanying consolidated balance sheets of Equilon Enterprises LLC ("Equilon") and its subsidiaries as of December 31, 2000 and 1999, and the related statements of consolidated income, owners' equity, and cash flows for each of the years in the three-year period ended December 31, 2000. These combined financial statements are the responsibility of Equilon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Equilon Enterprises LLC and its subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

PricewaterhouseCoopers LLP
Houston, Texas
March 1, 2000

Arthur Andersen LLP
Houston, Texas
March 1, 2000

EQUILON ENTERPRISES LLC
STATEMENT OF CONSOLIDATED INCOME

	For the years ended December 31,		
	2000	1999	1998
	(Millions of dollars)		
REVENUES			
Sales and services	\$ 49,973	\$ 29,174	\$ 22,006
Equity in income of affiliates	166	154	109
Gain (loss) on asset sales	(166)	12	118
Other revenue	37	58	13
Total revenues	50,010	29,398	22,246
COSTS AND EXPENSES			
Purchases and other costs	45,579	24,714	17,540
Operating expenses	2,050	2,033	2,274
Selling, general and administrative expenses	1,563	1,308	1,251
Depreciation, amortization and impairment expenses	472	878	543
Interest expense	118	115	134
Minority interest	-	3	2
Total costs and expenses	49,782	29,051	21,744
NET INCOME	\$ 228	\$ 347	\$ 502

The accompanying Notes to the Consolidated Financial Statements are an integral part of this statement.

EQUILON ENTERPRISES LLC
CONSOLIDATED BALANCE SHEET

	As of December 31,	
	2000	1999
	(Millions of dollars)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 68	\$ 161
Accounts and notes receivable (less allowance for doubtful accounts of \$9 million in 2000 and \$7 million in 1999)	2,262	2,456
Accounts receivable from affiliates	185	161
Inventories	610	620
Other current assets	9	28
	-----	-----
Total Current Assets	3,134	3,426
Investments and Advances	547	529
Property, Plant and Equipment, Net	5,892	6,312
Deferred Charges and Other Noncurrent Assets	391	367
	-----	-----
Total Assets	\$ 9,964	\$ 10,634
	=====	=====
LIABILITIES AND OWNERS' EQUITY		
Current Liabilities		
Commercial paper and current portion of long-term debt	\$ 2,149	\$ 2,157
Accounts payable - trade	1,430	1,698
Accounts payable to affiliates	543	589
Accrued liabilities and other payables	465	409
	-----	-----
Total Current Liabilities	4,587	4,853
Long-term Debt	8	5
Long-term Payables to Affiliates	365	466
Long-term Liabilities, Deferred Credits and Minority Interest	524	264
	-----	-----
Total Liabilities	5,484	5,588
Owners' Equity	4,480	5,046
	-----	-----
Total Liabilities and Owners' Equity	\$ 9,964	\$ 10,634
	=====	=====

The accompanying Notes to the Consolidated Financial Statements are an integral part of this statement.

EQUILON ENTERPRISES LLC
STATEMENT OF CONSOLIDATED CASH FLOWS

	For the years ended December 31,		
	2000	1999	1998
	(Millions of dollars)		
Operating activities:			
Net Income	\$ 228	\$ 347	\$ 502
Reconciliation to net cash provided by operating activities			
Depreciation, amortization and impairment expenses	472	878	543
Dividends from affiliates less than equity in income	(1)	(10)	(41)
(Gain) loss on asset sales	166	(12)	(118)
Changes in working capital			
Accounts and notes receivable	194	(1,051)	247
Accounts receivable from affiliates	(24)	(4)	(157)
Inventories	(10)	23	26
Accounts payable - trade	(268)	1,269	(800)
Accounts payable to affiliates	(46)	(6)	307
Accrued liabilities and other payables	32	(235)	246
Other, net	149	88	(29)
Net cash provided by operating activities	892	1,287	726
Investing activities:			
Capital expenditures	(579)	(582)	(651)
Proceeds from asset sales	464	371	409
Net cash used in investing activities	(115)	(211)	(242)
Financing activities:			
Net increase (decrease) in borrowings having original terms in excess of three months	3	(155)	(9)
Repayment of formation costs	-	-	(1,613)
Net increase (decrease) in other short-term borrowings	(8)	2	1,846
Distributions paid to owners	(865)	(773)	(698)
Net cash used in financing activities	(870)	(926)	(474)
Cash and Cash Equivalents:			
Increase (decrease) in cash during year	(93)	150	10
Balance at beginning of year	161	11	1
Balance at end of year	\$ 68	\$ 161	\$ 11

The accompanying Notes to the Consolidated Financial Statements are an integral part of this statement.

EQUILON ENTERPRISES LLC
STATEMENT OF OWNERS' EQUITY

	2000	1999	1998
	-----	-----	-----
	(Millions of dollars)		
Owners' Equity balance at January 1	\$ 5,046	\$ 5,966	\$ 6,122
Net income	228	347	502
Distributions paid	(865)	(773)	(698)
Contribution adjustments:			
Employee benefit obligations from owners (Note 8)	59	(543)	-
Other	12	49	40
	-----	-----	-----
Owners' Equity balance at December 31	\$ 4,480	\$ 5,046	\$ 5,966
	=====	=====	=====

The accompanying Notes to the Consolidated Financial Statements are an integral part of this statement.

EQUILON ENTERPRISES LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Equilon Enterprises LLC ("Equilon") is a limited liability company formed by Shell Oil Company ("Shell") and Texaco Inc. ("Texaco") effective January 1, 1998 under the Delaware Limited Liability Act, with equity interests of 56 percent and 44 percent, respectively. The joint venture combined the major elements of Shell and Texaco's Western and Midwestern U.S. refining and marketing businesses and their nationwide trading, transportation and lubricants businesses. Despite the ownership interests, Shell and Texaco jointly control Equilon, as many significant governance decisions require unanimous approval.

A second joint venture company, Motiva Enterprises LLC ("Motiva"), was formed on July 1, 1998, combining the major elements of the Eastern and Gulf Coast U.S. refining and marketing businesses of Shell, Texaco and Saudi Refining, Inc. ("SRI"). Equiva Trading Company and Equiva Services LLC were also formed on July 1, 1998 and are owned equally by Equilon and Motiva. Equiva Trading Company, a general partnership, functions as the trading unit for both Equilon and Motiva. Equiva Services LLC provides common financial, administrative, technical, and other operational support to Equilon and Motiva. Equiva Trading Company and Equiva Services LLC bill their services at cost.

Equilon refines, distributes and markets petroleum products under both the Shell and Texaco brands through wholesalers and its network of company owned and contractor operated service stations. Products are manufactured at four refineries located in Puget Sound, Washington; and in Bakersfield, Los Angeles, and Martinez, California. As part of its strategic initiative to strengthen its portfolio of assets, Equilon sold its refinery in El Dorado, Kansas in November of 1999, and sold its Wood River, Illinois refinery in June of 2000.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements

The accompanying financial statements are presented using Shell and Texaco's historical basis of the assets and liabilities contributed to Equilon on January 1, 1998. The consolidated financial statements generally include the accounts of Equilon and subsidiaries in which Equilon directly or indirectly owns more than a 50 percent voting interest. Intercompany accounts and transactions are eliminated. Investments in entities in which Equilon has a significant ownership interest, generally 20 to 50 percent, and entities where Equilon has greater than 50 percent ownership but, as a result of contractual agreement or otherwise, does not exercise control, are accounted for using the equity method. Other investments are carried at cost. Equilon's investments in Equiva Services LLC and Equiva Trading Company are accounted for using the equity method. Transactions by Equiva Trading Company that are made on behalf of Equilon are recorded directly to Equilon's records.

EQUILON ENTERPRISES LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

These financial statements were prepared in conformity with generally accepted accounting principles, which require management to make estimates and assumptions. These assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant estimates include the recoverability of assets, environmental remediation, employee benefit liabilities, litigation, claims and assessments. Amounts are recognized when it is probable that an asset has been impaired or a liability has been incurred, and the cost can be reasonably estimated. Actual results could differ from those estimates.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes new accounting rules and disclosure requirements for most derivative instruments and hedge transactions. In June 1999, the FASB issued SFAS 137 that deferred the effective date of adoption of SFAS 133 for one year. This was followed in June 2000 by the issuance of SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", which amended SFAS 133.

SFAS 133, as amended by SFAS 137 and SFAS 138, requires Equilon to record all derivative financial instruments in the Consolidated Balance Sheets at fair value. For derivatives accounted for as hedges, fair value adjustments are recorded to earnings or other comprehensive income, a component of owners' equity, depending upon the type of hedge and the degree of hedge effectiveness. For hedges classified as fair value hedges, adjustments are also recorded to the carrying amount of the hedged item through earnings. For derivatives not accounted for as hedges, fair value adjustments are recorded to earnings.

Equilon adopted these standards effective January 1, 2001. As such, Equilon's results of operations and financial position will reflect the impact of the new standard commencing January 1, 2001. The cumulative effect of adoption at that date on net income and other comprehensive income, a component of owners' equity, was not material.

Revenues

Revenues for refined products and crude oil sales are recognized at the point of passage of title specified in the contract. Revenues on forward sales where cash has been received are recorded to deferred income until title passes.

Cash Equivalents

Highly liquid investments with maturity when purchased of three months or less are considered to be cash equivalents.

Inventories

Inventories are valued at the lower of cost or market. Hydrocarbon inventory cost is determined on the last-in, first-out (LIFO) method. The cost of other merchandise inventories is determined on the first-in, first-out (FIFO) method. Weighted average cost is utilized for inventories of materials and supplies.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Advances

The equity method of accounting is generally used for investments in certain affiliates owned 50 percent or less, including corporate joint ventures, limited liability companies and partnerships. Under this method, equity in pre-tax income or losses of limited liability companies and partnerships, and the net income or losses of corporate joint venture companies are reflected in revenues as they are generated, rather than when realized through dividends or distributions.

The cost method is generally used to account for affiliates in which Equilon's ownership interest is less than 20 percent. Income from these investments is recognized as dividends or distributions are declared.

Property, Plant and Equipment

Depreciation of property, plant and equipment is generally provided on composite groups, using the straight-line method, with depreciation rates based upon the estimated useful lives of the groups.

Under the composite depreciation method, the cost of partial retirements of a group is charged to accumulated depreciation. However, when there is a disposition of a complete group, or when the retirement is due to an extraordinary loss, the cost and related depreciation are retired, and any gain or loss is reflected in income.

Capitalized leases are amortized over the estimated useful life of the asset or the lease term, as appropriate, using the straight-line method.

All maintenance and repairs, including major refinery maintenance, are charged to expense as incurred. Renewals, betterments and major repairs that materially extend the life of the properties are capitalized. Interest incurred during the construction period of major additions is capitalized.

The evaluation of impairment for property, plant and equipment is based on comparisons of carrying values against undiscounted future net pre-tax cash flows. If impairment is identified, the asset's carrying amount is adjusted to fair value. Assets to be disposed of are generally valued at the lower of net book value or fair value less cost to sell.

Derivatives

Equilon utilizes futures, purchased options and swaps to manage the price risk of crude oil and refined products. These transactions meet the requirements for hedge accounting, including designation and correlation. Gains and losses on closed positions are deferred until corresponding physical transactions occur. At that time, any gain or loss is accounted for as part of the transactions being hedged. Deferred gains and losses are included in current assets and liabilities on the balance sheet. Equilon also uses written options to manage price risk. Unrealized gains and losses on these transactions are recognized in current earnings.

Equilon conducts petroleum-related trading activities. As of January 1, 1999, Equilon adopted mark-to-market accounting in compliance with Emerging Issues Task Force Issue 98-10, "Accounting for Energy Trading and Risk Management Activities." Under mark-to-market accounting, gains and losses resulting from changes in market prices on contracts entered into for trading purposes are reflected in current earnings.

EQUILON ENTERPRISES LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Market Value of Financial Instruments

The estimated fair value of long-term debt is disclosed in Note 7 to the financial statements. The carrying amount of long-term debt with variable rates of interest approximates fair value at December 31, 2000 and 1999, as borrowing terms equivalent to the stated rates were available in the marketplace. Fair value for long-term debt with a fixed rate of interest is determined based on discounted cash flows using estimated prevailing interest rates.

Other financial instruments are included in current assets and liabilities on the balance sheet and approximate fair value because of the short maturity of such instruments. These include cash, short-term investments, notes and accounts receivable, accounts payable and short-term debt.

Contingencies

Certain conditions may exist as of the date financial statements are issued, which may result in a loss to the company, but which will be resolved only when one or more future events occur or fail to occur. Equilon's management and legal counsel assess such contingent liabilities. The assessment of loss contingencies necessarily involves an exercise of judgment and is a matter of opinion. In assessing loss contingencies related to legal proceedings that are pending against the company or unasserted claims that may result in such proceedings, Equilon's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material liability has been incurred and the amount of the loss can be estimated, then the estimated liability is accrued in the company's financial statements. If the assessment indicates that a potentially material liability is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss is disclosed if determinable and material. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

Environmental Expenditures

Equilon accrues for environmental remediation liabilities when it is probable that such liabilities exist, based on past events or known conditions, and the amount of such liability can be reasonably estimated. If Equilon can only estimate a range of probable liabilities, the minimum future undiscounted expenditure necessary to satisfy Equilon's future obligation is accrued.

Equilon determines the appropriate amount of each obligation by considering all of the available data, including technical evaluations of the currently available facts, interpretation of existing laws and regulations, prior experience with similar sites and the estimated reliability of financial projections.

Equilon adjusts the environmental liabilities, as required, based on the latest experience with similar sites, changes in environmental laws and regulations or their interpretation, development of new technology, or new information related to the extent of Equilon's obligation. Other environmental expenditures, principally maintenance or preventive in nature, are expensed or capitalized as appropriate.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain 1999 and 1998 amounts have been reclassified to conform to current year presentation, including netting of certain trade payables and receivables where a legal right of offset exists.

NOTE 3 - INVENTORIES

	As of December 31,	
	2000	1999
	(Millions of dollars)	
Crude oil	\$ 175	\$ 211
Petroleum products	359	316
Other merchandise	24	21
Materials and supplies	52	72
Total	\$ 610	\$ 620

The excess of estimated market value over the book value of inventories carried at cost on the LIFO basis of accounting was approximately \$861 million at December 31, 2000 and \$771 million at December 31, 1999.

Partial liquidation of inventories valued on a LIFO basis increased net income by \$11 million in 2000 and \$13 million in 1999.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, including capitalized lease assets, were as follows:

	As of December 31,			
	2000		1999	
	Gross	Net	Gross	Net
	(Millions of dollars)			
Refining	\$ 5,310	\$ 2,654	\$ 6,510	\$ 3,148
Marketing	2,480	1,858	2,478	1,856
Transportation	2,489	1,322	2,280	1,203
Other	130	58	186	105
Total	\$ 10,409	\$ 5,892	\$ 11,454	\$ 6,312
Capital lease amounts included above	\$ 2	\$ -	\$ 2	\$ -

Accumulated depreciation and amortization totaled \$4,517 million at December 31, 2000 and \$5,142 million at December 31, 1999. Interest capitalized as part of property, plant and equipment was \$2 million in each year, 2000 and 1999.

EQUILON ENTERPRISES LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT (continued)

Long-Lived Assets

Under the provisions of SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," Equilon recorded a charge of \$397 million, during the second quarter 1999, for the impairment of the El Dorado refinery and the Wood River refinery and lubricants plant. These impairments, which were recognized in anticipation of the sale of these refineries and for the write-off of abandoned lubricants base oil assets at Wood River, were reflected as increased depreciation, amortization and impairment expenses on the Statement of Consolidated Income.

On June 1, 2000, Equilon recognized a loss of \$161 million to complete the sale of the Wood River refinery. Included in this loss was a charge of \$100 million for tank upgrades and environmental compliance and remediation issues. The carrying value of the Wood River refinery was \$410 million at the date of sale. The Wood River refinery had operating income of \$18 million in 2000, and \$10 million in 1998, and an operating loss of \$20 million in 1999.

On November 17, 1999, Equilon recorded an additional charge of \$11 million to complete the sale of the El Dorado refinery. This included the recognition of a liability for wastewater treatment. The carrying amount of the El Dorado refinery at the time of sale was \$170 million. Operating income for the El Dorado refinery was \$20 million in 1999 and \$24 million in 1998.

During 1998, Equilon recognized the impairment of surplus assets resulting from the consolidation and optimization of assets contributed by Shell and Texaco. Impairments from this activity totaled over \$77 million, including the write-off of abandoned assets at the Odessa refinery, shut down in October 1998, and the write-down to estimated realizable value of three lubricant blending plants either closed in 1998 or sold in 1999. The impairments were primarily reflected in increased depreciation, amortization and impairment expenses on the Statement of Consolidated Income.

NOTE 5 - INVESTMENTS AND ADVANCES

Investments in affiliates, including corporate joint ventures and partnerships, owned 50% or less are generally accounted for on the equity method. Equilon's total investments and advances are summarized as follows:

	As of December 31,	
	----- 2000	1999 -----
	(Millions of dollars)	
Investments in affiliates accounted for on the equity method		
Pipeline affiliates	\$ 395	\$ 415
Other affiliates	98	82
	-----	-----
Total equity method affiliates	493	497
Other investments and advances	54	32
	-----	-----
Total investments and advances	\$ 547	\$ 529
	=====	=====

EQUILON ENTERPRISES LLC
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS AND ADVANCES (continued)

Undistributed earnings of equity companies included in Equilon's accumulated earnings as of December 31, 2000 and 1999 were \$52 million and \$51 million, respectively. Summarized financial information for these investments and Equilon's equity share thereof is as follows in millions of dollars:

	100%		Equity Share	
	2000	1999	2000	1999
Current assets	\$ 719	\$ 1,684	\$ 252	\$ 750
Noncurrent assets	3,502	3,601	1,053	1,097
Current liabilities	(947)	(1,585)	(264)	(629)
Noncurrent liabilities and deferred credits	(2,401)	(2,543)	(558)	(692)
Net assets	\$ 873	\$ 1,157	\$ 483	\$ 526

	100%			Equity Share		
	2000	1999	1998	2000	1999	1998
Revenues	\$ 2,380	\$ 2,002	\$ 1,500	\$ 817	\$ 615	\$ 430
Income before income taxes	638	664	519	186	176	123
Net income	505	494	362	166	154	109
Dividends received				165	144	68

NOTE 6 - LEASE COMMITMENTS AND RENTAL EXPENSE

Equilon has leasing arrangements involving service stations and other facilities. Renewal and purchase options are available on certain of these leases in which Equilon is lessee.

Equilon has a one year lease agreement for a cogeneration plant at the El Dorado refinery. This lease may be renewed each year until 2016 at Equilon's option. The lease has been renewed with a minimum lease rental of \$4 million for 2001. Equilon has guaranteed a minimum recoverable residual value to the lessor of \$72 million, if the lease is not renewed for the year 2002. In connection with the sale of the El Dorado refinery in 1999, Equilon entered into a long-term sublease arrangement with a subsidiary of Frontier Oil Corporation (Frontier) for Frontier's use of the cogeneration facility at the refinery. While the sublease payments from the sublessee fully cover Equilon's lease obligation, Equilon remains primarily liable with regard to payment of its original obligation. The original term of the sublease is 17 years, although it is subject to early termination upon the occurrence of certain events specified in the sublease. Upon expiration of the initial term of the sublease, Frontier has the option of purchasing the cogeneration facility, from Equilon, at a price not less than the fair market value of the facility at the time the option is exercised.

EQUILON ENTERPRISES LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - LEASE COMMITMENTS AND RENTAL EXPENSE (continued)

Rental expense relative to operating leases, including contingent rentals, is provided in the table below:

	For the years ended December 31,		
	2000	1999	1998
	-----	-----	-----
	(Millions of dollars)		
Rental Expense:			
Minimum lease rentals	\$ 96	\$ 121	\$ 178
Contingent rentals	15	3	7
	-----	-----	-----
Total	111	124	185
Less rental income on properties subleased to others	52	59	54
	-----	-----	-----
Net rental expense	\$ 59	\$ 65	\$ 131
	=====	=====	=====

As of December 31, 2000 Equilon had estimated minimum commitments for payment of rentals under leases that, at inception, had a non-cancelable term of more than one year, as follows:

	Operating leases (Millions of dollars)
2001	\$ 104
2002	91
2003	89
2004	83
2005	75
After 2005	929

Total	1,371
Less sublease rental income	119
Total lease commitments	\$ 1,252
	=====

EQUILON ENTERPRISES LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - DEBT

Equilon has revolving credit facilities with commitments of \$1,874 million, as support for the company's commercial paper program, as well as for working capital and other general purposes. Equilon pays a nominal quarterly facility fee for the \$1,874 million availability. No amounts were outstanding during 2000 and 1999.

Commercial Paper and Current Portion of Long-term Debt

	As of December 31,	
	2000	1999
	(Millions of dollars)	
Commercial Paper	\$ 1,854	\$ 1,850
Anacortes Pollution Control Bonds due 2019	34	34
Butler County Industrial Revenue Bonds due 2024	30	30
California Pollution Control Bonds due 2011 through 2024	172	185
Southwestern Illinois Industrial Revenue Bonds due 2021 through 2025	58	58
Current portion of long-term debt	1	-
	-----	-----
Total	\$ 2,149	\$ 2,157
	=====	=====
 Average interest rate of short term debt	 6.27%	 5.12%

Long-term Debt

	As of December 31,	
	2000	1999
	(Millions of dollars)	
Variable notes, currently 9.125% , due 2006 through 2009	\$ 6	\$ 5
7.000% note due 2013	2	-
6.000% note due 2020	1	-
	-----	-----
Total	9	5
Less current portion of long-term debt	1	-
	-----	-----
Total	\$ 8	\$ 5
	-----	-----
 Fair market value of long-term debt	 \$ 8	 \$ 5
	=====	=====

The Pollution Control Bonds outstanding at December 31, 2000 and 1999 shown above consisted of four issues assumed from Shell and one from Texaco. The Industrial Revenue Bonds outstanding at December 31, 2000 and 1999 consisted of three issues from Shell and one from Texaco. Interest rates are currently reset daily for these issues and the bonds may be converted from time to time to other modes. Bondholders have the right to tender their bonds under certain conditions, including on interest rate resets. Pursuant to the terms of the underlying indentures, Shell and Texaco retain liability for debt service on the issues assumed by Equilon in the event that Equilon fails to perform on its obligations. All other Equilon borrowings are unsecured general obligations of Equilon and not guaranteed by any other entity.

Interest paid during 2000, 1999 and 1998 was \$133 million, \$128 million and \$95 million, respectively.

NOTE 8 - LONG-TERM PAYABLES TO AFFILIATES, OWNERS' EQUITY CONTRIBUTION
ADJUSTMENTS AND FORMATION PAYABLES

Long-term Payables

On April 1, 1999, Shell and Texaco employees designated as performing duties supporting Equilon, were transferred to Equiva Services LLC. At that time certain benefit liabilities were transferred to Equiva Services LLC from Shell and Texaco through their interests in Equilon and Motiva. Such obligations transferred from Shell and Texaco, applicable to Equilon, were recorded as reductions to Equilon's investment in Equiva Services LLC. A related party obligation of \$520 million at December 31, 1999 represents Equilon's obligation to Equiva Services LLC for all employee benefit liabilities. Of this amount, \$466 million was classified as long-term at December 31, 1999. On January 1, 2000, Equiva Services employees supporting Equilon and Equiva Trading Company became employees of the respective companies they support. Employee related benefit liabilities were transferred to Equilon and through Equilon to Equiva Trading Company, at the same time. As a result of the transfer, Equilon's related party obligation to Equiva Services LLC was reduced by \$480 million. As of December 31, 2000, Equilon has affiliate payables to Equiva Services LLC and Equiva Trading Company totaling \$56 million representing its obligation for employee benefit liabilities of these entities. Of this amount \$48 million was classified as long term.

Additional information is disclosed in Note 11 - Employee Benefits.

Owners' Equity Contribution Adjustments

The foregoing contribution of liabilities that were transferred from Shell and Texaco through Equilon to Equiva Services LLC for employee benefit liabilities at April 1, 1999 reduced Equilon's owners' equity by \$543 million and included \$357 million for pension related affiliate obligations, \$147 million of post-employment medical benefits and \$39 million for vacation benefits. Other contribution adjustments in 1999 related primarily to certain environmental remediation obligations transferred to Equilon at formation, which were reassumed by Shell in 1999, increased owners' equity by \$49 million. The sale of Wood River refinery in 2000 reduced pension related affiliate obligations to Shell by \$59 million and resulted in an increase in Shell's owners' equity in Equilon by the same amount.

Formation Payables

In accordance with the joint venture agreements, Equilon owed Shell \$1,001 million and Texaco \$612 million at formation. These amounts were separate from normal trade payables and reflect amounts to reimburse Shell and Texaco for certain capital expenditures incurred prior to the formation of the venture and certain other items specified in the formation documents. Equilon paid these amounts to Shell and Texaco prior to December 31, 1998. Interest was accrued on these amounts until paid.

In addition to the foregoing payable amounts, Texaco retained \$240 million of receivables related to the contributed business as part of these arrangements.

EQUILON ENTERPRISES LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - TRANSACTIONS WITH RELATED PARTIES

Equilon has entered into transactions with Shell, Texaco, Motiva, Equiva Trading Company, and Equiva Services LLC, including the affiliates of these companies. Such transactions are in the ordinary course of business and include the purchase, sale and transportation of crude oil and petroleum products, and numerous service agreements.

The aggregate amounts of such transactions were as follows:

	For the years ended December 31,		
	2000	1999	1998
	-----	-----	-----
	(Millions of dollars)		
Sales and other operating revenue	\$ 5,950	\$ 3,409	\$ 1,368
Purchases and transportation costs	11,846	6,961	4,900
Service and technology expense	319	1,057	794

NOTE 10 - TAXES

Equilon, as a limited liability company, is not liable for income taxes. Income taxes are the responsibility of the owners. Equilon's pre-tax earnings are included in the owners' earnings for the determination of income tax liability. Under the joint venture agreements with its owners, Equilon is required to make cash distributions to its owners reflecting their share of estimated income taxes for the year based on Equilon's estimated taxable income.

Direct taxes other than income taxes, which are included in operating expenses, were as follows:

	For the years ended December 31,		
	2000	1999	1998
	-----	-----	-----
	(Millions of dollars)		
Direct taxes			
Property	\$ 82	\$ 78	\$ 41
Licenses and permits	10	7	5
Other	15	12	26
	-----	-----	-----
Total direct taxes	\$ 107	\$ 97	\$ 72
	=====	=====	=====

Other taxes collected from consumers for governmental agencies that are not included in revenues or expenses were \$3,499 million for 2000, \$3,405 million for 1999 and \$3,646 million for 1998.

EQUILON ENTERPRISES LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE BENEFITS

In accordance with certain joint venture agreements related to human resources matters, employees performing duties supporting Equilon remained employees of the owner companies and their affiliates until April 1, 1999. Beginning April 1, 1999 Equilon's affiliate, Equiva Services LLC, employed personnel necessary for ongoing operations. Obligations and accrued liabilities for certain employee benefits, including pension and other post-employment benefits, were transferred to Equiva Services LLC at that time. On January 1, 2000, employees directly supporting Equilon became employees of Equilon. Employees providing common crude and product logistical and trading support for both Equilon and Motiva became employees of Equiva Trading Company. Employees providing common financial, administrative, technical and other operational support to both Equilon and Motiva remain employees of Equiva Services LLC. Employee related obligations, including liabilities for pension and other post-employment benefits for employees transferred to Equilon, were recorded as Equilon liabilities on January 1, 2000 with a corresponding reduction in the affiliate payable to Equiva Services LLC. Employee related liabilities for employees transferred from Equiva Services LLC to Equiva Trading Company were transferred to Equiva Trading Company through Equilon and Motiva. Equilon's share of these liabilities was recorded as a long-term affiliate payable to Equiva Trading Company.

Pension Related Affiliate Obligations

Concurrently with their transfer from the owner companies, employees retained certain pension benefits for future pay increases under the owner company pension plans. Under agreements with Shell and Texaco, the owner companies will be reimbursed for past service pension benefits attributable to these future pay benefits at April 1, 1999, as well as ongoing increases in the related projected benefit obligation under the owner companies' qualified pension plans. These reimbursements will be made at the time these employees receive benefits from owner company plans. The following summarizes the reimbursement owed to the owner companies and components of accrual expense:

	2000 -----	1999 (a) -----
	(Millions of dollars)	
Projected benefit obligation at January 1, 2000 and April 1, 1999	\$ 276	\$ 327
Interest cost	22	16
Actuarial gain	(13)	(55)
Acquisition/divestiture	(23)	(12)
	-----	-----
Projected benefit obligation at December 31	262	276
Unrecognized net gain	67	67
	-----	-----
Accrued past services pension liability at December 31	\$ 329	\$ 343
	=====	=====
Weighted-average assumptions at December 31		
Discount rate	7.5%	8.0%
Rate of compensation increase	4.0%	4.5%
Components of net accrual expense		
Interest cost	\$ 22	\$ 16
Recognized net actuarial gain	(3)	-
	-----	-----
Net accrual expense	\$ 19	\$ 16
	=====	=====

(a) Represents amounts applicable to Equiva Services employees working on behalf of Equilon for the 9 month period from April 1, 1999 to December 31, 1999.

EQUILON ENTERPRISES LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE BENEFITS (continued)

Other Post-Employment Benefits

Equilon and Equiva Services LLC currently provide health care benefits for retired employees and their dependents through a common plan. Eligibility for such benefits requires that a retired employee be at least 50 years of age, with at least 10 years of service and the sum of age and service of at least 70 years. Past service with the owner companies is credited for determining benefit eligibility.

The company's obligation is a percentage of the total premiums required. This percentage varies from 60% to 80% of total cost depending on the sum of the employee's total years of age plus service at the time of retirement. The assumed annual health care cost trend rate used in measuring the accumulated post-employment benefit obligation (APBO) was 7.0% in 1999, and 9.0% in 2000, decreasing to 5.0% by 2008 and remaining at that level thereafter. Assuming a 1% increase in the annual rate of increase of required medical premiums, the APBO and annual expense would increase by approximately \$35 million and \$2 million, respectively.

In addition to medical benefits, Equilon and Equiva Services LLC are providing retiree life insurance benefits to certain former owner employees from Texaco and Star Enterprise (Star). These employees were to have reached age 50 by April 1, 1999, with 5 years of service at the time of transfer, and must retire at a minimum age of 55 with at least 10 years of service in order to be eligible.

Net post-employment benefit costs for 2000 and for the period of April 1, 1999 to December 31, 1999 were as follows:

	2000	1999 (b)
	----	-----
	(Millions of dollars)	
Service cost	\$ 6	\$ 5
Interest cost	9	7
Amortization of prior service cost	(1)	(1)
Recognized net actuarial gain	(1)	-
Curtailement gain	(6)	-
	-----	-----
Accrued expense	\$ 7	\$ 11
	=====	=====

(b) Represents amounts applicable to Equiva Services employees working on behalf of Equilon for the 9 month period from April 1, 1999 to December 31, 1999.

EQUILON ENTERPRISES LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE BENEFITS (continued)

Other Post-Employment Benefits (continued)

The status of other post-employment plans as of December 31, 2000 and 1999, was as follows:

	2000	1999 (c)
	-----	-----
	(Millions of dollars)	
Benefit obligation at January 1, 2000 and April 1, 1999	\$ 118	\$ 131
Service cost	6	5
Interest cost	9	7
Actuarial (gain)/loss	53	(19)
Acquisition/divestiture	6	(6)
Benefit paid	(1)	-
Curtailments	(6)	-
	-----	-----
Benefit obligation at December 31	185	118
Unrecognized prior service cost	8	8
Unrecognized gain/(loss)	(28)	24
	-----	-----
Accrued post-employment benefit obligation at December 31	\$ 165	\$ 150
	=====	=====

(c) Represents amounts applicable to Equiva Services employees working on behalf of Equilon for the 9 month period from April 1, 1999 to December 31, 1999.

Pension Plans

Effective April 1, 1999, Equiva Services LLC established a cash balance defined benefit pension plan covering substantially all of its employees. Company contributions under the plan are between 3% and 7% of compensation based on years of service, age, and covered compensation. Individual employee accounts are credited each month with employer contributions and interest on the account balance at an interest rate adjusted quarterly. Currently the interest rate is 5.8% per annum. Assets of the plan are comprised of equity securities and fixed income securities. Equilon and Equiva Services LLC's funding policy is to contribute all pension costs accrued to the extent required by federal tax regulations. The following table sets forth information related to changes in the benefit obligations, change in plan assets, a reconciliation of the funded status of the plans and components of the expense recognized related to Equilon's pension plan.

EQUILON ENTERPRISES LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE BENEFITS (continued)

Pension Plans (continued)

	2000 ----- (Millions of dollars)	1999 (d) ----- (Millions of dollars)
Change in benefit obligation		
Projected benefit obligation at January 1, 2000 and April 1, 1999	\$ 20	\$ -
Service cost	29	23
Interest cost	3	-
Actuarial gain	(1)	(2)
Acquisition/divestiture/plan merger	9	(1)
Benefit paid	(5)	-
Curtailments	(1)	-
	-----	-----
Projected benefit obligation at December 31	\$ 54 =====	\$ 20 =====
Change in plan assets		
Fair value of plan assets at January 1, 2000 and April 1, 1999	\$ -	\$ -
Actual return on plan assets, net of expenses	(1)	(1)
Employer contributions	25	1
Benefit paid	(5)	-
Plan merger	15	-
	-----	-----
Fair value of plan assets at December 31	\$ 34 =====	\$ - =====
Funded status at December 31		
Obligation greater than assets	\$ 20	\$ 20
Unrecognized net gain	2	2
	-----	-----
Accrued pension liability at December 31	\$ 22 =====	\$ 22 =====
Weighted-average assumptions at December 31		
Discount rate	7.5%	8.0%
Expected return on plan assets	9.0%	9.0%
Rate of compensation increase	4.0%	4.5%
Components of net periodic benefit costs		
Service cost	\$ 29	\$ 23
Interest cost	3	-
Expected return on plan assets	(2)	-
Curtailment gain	(1)	-
	-----	-----
Net periodic benefit costs	\$ 29 =====	\$ 23 =====

(d) Represents amounts applicable to Equiva Services employees working on behalf of Equilon for the 9 month period from April 1, 1999 to December 31, 1999.

NOTE 11 - EMPLOYEE BENEFITS (continued)

Employee Termination Benefits

The joint venture agreements provide for Equilon and Motiva to determine the appropriate staffing levels for their businesses. To the extent those staffing needs resulted in the elimination of positions from the ranks of Shell, Texaco and Star, affected employees were entitled to termination benefits provided for under the benefit plans of the applicable companies. Shell, Texaco and Star, as the employer companies, are responsible for administering the payment of benefits under their respective benefit plans. Equilon and Motiva have reimbursed the employer companies for substantially all costs resulting from the elimination of positions in accordance with a formula included in the joint venture agreements.

The formation of Equilon and Motiva resulted in the termination of 1,658 employees. The separations were substantially complete as of December 31, 1999. In 1998, Equilon recorded a charge of \$61 million for its share of reimbursable severance and other benefit costs as selling, general and administrative expenses in the Statement of Consolidated Income. An additional provision of \$2 million was recorded to selling, general and administrative expenses in 1999. Equilon reimbursed the employer companies \$4 million in 2000, \$52 million in 1999, and \$7 million in 1998 for the termination benefits.

NOTE 12 - DERIVATIVES

On January 1, 2001, Equilon adopted Statement of Financial Accounting Standards No. 133 (SFAS 133) Accounting for Derivative Instruments and Hedging Activities as amended by SFAS 137 and SFAS 138. Equilon's results of operations and financial position will reflect the impact of the new standard commencing January 1, 2001. The cumulative effect of adoption at that date on net income and other comprehensive income, a component of owners' equity, is not material.

At December 31, 2000, open derivative instruments held for hedging purposes consisted mostly of futures. Notional contract amounts were \$33 million and \$31 million at year-end 2000 and 1999, respectively. These amounts principally represent future values of contract volumes over the remaining duration of the outstanding futures contracts at the respective dates. These contracts hedge a small fraction of the company's business activities, generally for periods within the next twelve months.

Equilon entered into a relatively small number of petroleum-related derivative transactions for trading purposes. The results of derivative trading activities are marked to market, with gains and losses recorded in operating revenue. All derivative instruments are straightforward futures, swaps and options, with no leverage or multiplier features. At December 31, 2000, the open derivative instruments held for trading purposes consisted primarily of futures and options. The notional contract amounts of derivative instruments were \$903 million and \$813 million at year-end 2000 and 1999, respectively.

NOTE 12 - DERIVATIVES (continued)

The earnings impact of hedging and trading activities in 2000 and 1999 was a charge to revenues of \$20 million and \$92 million, respectively, and was not material in 1998. The unrealized gains and losses on open positions at December 31, 2000 and 1999 were losses of \$36 million and \$3 million, respectively.

The adoption, including the cumulative effect, of mark-to-market accounting in compliance with Emerging Issues Task Force Issue 98-10 "Accounting for Energy Trading and Risk Management Activities" has had no material impact on the consolidated financial position or results of operation of Equilon.

NOTE 13 - CONTINGENT LIABILITIES

Equilon is subject to possible loss contingencies including actions or claims based on environmental laws, federal regulations, and other matters. While it is impossible to ascertain the ultimate legal and financial liability with respect to many such contingent liabilities and commitments, Equilon has accrued amounts (undiscounted) related to certain such liabilities where the outcome is deemed both probable and reasonably measurable.

Equilon has been named as a defendant or a potentially responsible party in several contamination matters and has certain obligations for remediation of adverse environmental conditions related to certain of its operating assets under existing laws and regulations.

On June 10, 1999, there was a rupture and resulting fire in the Olympic Pipe Line Company pipeline at Bellingham, Washington, in which there were three civilian fatalities. Equilon Pipeline Company LLC holds a 37.5 percent interest in Olympic Pipe Line Company. Regulatory and governmental investigations are ongoing and wrongful death lawsuits were filed.

On November 25, 1998, a fire occurred at the Equilon Puget Sound Refinery in Anacortes, Washington, which resulted in six fatalities - four employees of a contractor and two Texaco employees working on behalf of Equilon. Regulatory and governmental investigations and the subsequent wrongful death lawsuits were settled in May 1999 and January 2001, respectively. Settlement obligations were previously accrued or covered by third party insurance.

Equilon has assumed crude and refined product throughput commitments previously made by Shell and Texaco to ship through affiliated pipeline companies and an offshore oil port, some of which relate to financing arrangements. As of December 31, 2000 and 1999, the maximum exposure was estimated to be \$248 million and \$297 million, respectively. In addition, Equilon is contingently liable for potential contractual obligations related to the sale of electricity by a cogeneration facility in which it has a general partnership interest. Equilon's maximum exposure under this arrangement was \$159 million and \$173 million as of December 31, 2000 and December 31, 1999, respectively. No advances have resulted from these obligations.

In management's opinion, the aggregate amount of liability for contingent liabilities, in excess of financial liabilities already accrued or anticipated insurance recoveries, is not anticipated to be material in relation to the consolidated financial position or results of operations of Equilon.

MOTIVA
ENTERPRISES LLC
Shell, Texaco & Saudi Aramco Working Together

2000 FINANCIAL STATEMENTS

MOTIVA ENTERPRISES LLC
2000 FINANCIAL STATEMENTS

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REPORT OF MANAGEMENT

MOTIVA ENTERPRISES LLC

The management of Motiva Enterprises LLC (Motiva) is responsible for preparing the financial statements of Motiva in accordance with accounting principles generally accepted in the United States. In doing so, management must make estimates and judgments when the outcome of events and transactions is not certain.

In preparing these financial statements from the accounting records, management relies on an effective internal control system in meeting its responsibility. The objective of this system of internal controls is to provide reasonable assurance that assets are safeguarded and that the financial records are accurately and objectively maintained. Motiva's internal auditors conduct regular and extensive internal audits. During these audits they review and report on the effectiveness of the internal controls and make recommendations for improvement.

The independent accounting firms of PricewaterhouseCoopers LLP, Deloitte & Touche LLP and Arthur Andersen LLP are engaged to provide an objective, independent audit of Motiva's financial statements. Their accompanying report is based on an audit conducted in accordance with auditing standards generally accepted in the United States, which includes obtaining an understanding of Motiva's internal controls sufficient to plan the audit and determine the nature, timing and extent of their audit tests.

The Audit Committee of the Board of Directors is comprised of three non-employee directors who review and evaluate Motiva's accounting policies and reporting, internal controls, internal audit program and other matters as deemed appropriate. The Audit Committee also reviews the performance of PricewaterhouseCoopers LLP, Deloitte & Touche LLP and Arthur Andersen LLP and evaluates their independence and professional competence, as well as the results and scope of their audit.

R. L. Ebert President and Chief Executive Officer	W. M. Kaparich Chief Financial Officer	Randy J. Braud Controller
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REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors of Motiva Enterprises LLC:

We have audited the accompanying balance sheets of Motiva Enterprises LLC ("Motiva") as of December 31, 2000 and 1999, and the related statements of income, owners' equity and cash flows for the years ended December 31, 2000 and 1999 and the six months ended December 31, 1998. These financial statements are the responsibility of Motiva's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Motiva Enterprises LLC as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years ended December 31, 2000 and 1999 and the six months ended December 31, 1998 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Deloitte & Touche LLP

PricewaterhouseCoopers LLP

Houston, Texas
March 1, 2001

MOTIVA ENTERPRISES LLC
STATEMENTS OF INCOME

	For the Years Ended December 31,		For the Six Months Ended December 31,
	2000	1999	1998
	(Millions of dollars)		
REVENUES			
Sales and other revenue	\$ 19,446	\$ 12,196	\$ 5,371
COSTS AND EXPENSES			
Purchases and other costs	15,965	9,809	4,079
Operating expenses	1,483	1,108	512
Selling, general and administrative expenses	969	805	464
Depreciation and amortization	372	378	174
Interest expense	115	94	43
Taxes other than income taxes	81	71	21
	-----	-----	-----
Total costs and expenses	18,985	12,265	5,293
	-----	-----	-----
NET INCOME (LOSS)	\$ 461	\$ (69)	\$ 78
	=====	=====	=====

The accompanying Notes to Financial Statements are an integral part of these statements.

MOTIVA ENTERPRISES LLC
BALANCE SHEETS

	As of December 31,	
	2000	1999
	(Millions of dollars)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 9	\$ 23
Accounts receivable, less allowance for doubtful accounts of \$3 million at December 31, 2000 and 1999	729	574
Accounts receivable from affiliates	48	-
Inventories	560	651
Other current assets	35	23
	-----	-----
Total current assets	1,381	1,271
	-----	-----
Investments and Advances	68	180
Property, Plant and Equipment		
At cost	7,517	7,335
Less accumulated depreciation	2,613	2,361
	-----	-----
Net property, plant and equipment	4,904	4,974
	-----	-----
Deferred Charges and Other Noncurrent Assets	138	153
	-----	-----
Total Assets	\$ 6,491	\$ 6,578
	=====	=====
LIABILITIES AND OWNERS' EQUITY		
Current Liabilities		
Commercial paper and current portion of long-term debt	\$ 352	\$ 363
Accounts payable and accrued liabilities	518	377
Accounts payable to affiliates	101	301
Accrued taxes	179	237
	-----	-----
Total current liabilities	1,150	1,278
Long-Term Debt and Capital Lease Obligation	1,429	1,451
Long-Term Payables to Affiliates	230	408
Accrued Environmental Remediation Liability	233	221
Deferred Credits and Other Noncurrent Liabilities	125	15
	-----	-----
Total Liabilities	3,167	3,373
	-----	-----
Owners' Equity	3,324	3,205
	-----	-----
Total Liabilities and Owners' Equity	\$ 6,491	\$ 6,578
	=====	=====

The accompanying Notes to Financial Statements are an integral part
of these statements.

MOTIVA ENTERPRISES LLC
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		For the Six Months Ended December 31,
	2000	1999	1998
(Millions of dollars)			
OPERATING ACTIVITIES			
Net income (loss)	\$ 461	\$ (69)	\$ 78
Reconciliation to net cash provided by operating activities:			
Depreciation and amortization	372	378	174
(Gain) loss on sale of assets	(26)	(13)	1
Changes in operating working capital			
Accounts receivable	(203)	92	(42)
Inventories	91	41	(39)
Other current assets	(12)	60	(35)
Accounts payable and accrued liabilities	(177)	72	(71)
Other - net	103	(16)	4
Net cash provided by operating activities	609	545	70
INVESTING ACTIVITIES			
Capital expenditures	(376)	(310)	(182)
Proceeds from sale of assets	114	41	13
Net cash used in investing activities	(262)	(269)	(169)
FINANCING ACTIVITIES			
Proceeds from borrowings	762	417	1,278
Repayment of debt	(795)	(495)	(911)
Distributions to owners	(328)	(200)	(243)
Net cash provided by (used in) financing activities	(361)	(278)	124
CASH AND CASH EQUIVALENTS			
Increase (decrease) during the period	(14)	(2)	25
Beginning of period	23	25	-
End of period	\$ 9	\$ 23	\$ 25
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid during the period	\$ 131	\$ 84	\$ 43

The accompanying Notes to Financial Statements are an integral part of these statements.

MOTIVA ENTERPRISES LLC
 STATEMENTS OF OWNERS' EQUITY

(Millions of dollars)

INITIAL OWNERS' CAPITAL CONTRIBUTION, JULY 1, 1998	\$ 3,993
Net income	78
Distributions	(243)

BALANCE AT DECEMBER 31, 1998	3,828
Contributed liabilities:	
Employee benefit obligation from owners (Note 10)	(337)
Other	(17)
Net loss	(69)
Distributions	(200)

BALANCE AT DECEMBER 31, 1999	3,205
Net income	461
Distributions:	
Cash	(328)
Property	(14)

BALANCE AT DECEMBER 31, 2000	\$ 3,324 =====

 The accompanying Notes to Financial Statements are an integral part
 of these statements.

MOTIVA ENTERPRISES LLC
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Motiva Enterprises LLC (Motiva) is a joint venture combining the major elements of Shell Oil Company (Shell), Texaco Inc. (Texaco) and Saudi Aramco's Gulf and East Coast U.S. refining and marketing businesses. Motiva is a limited liability company established by Shell Norco Refining Company (Shell Norco), Shell, Texaco Refining and Marketing (East) Inc. (TRMI East) and Saudi Refining Inc. (SRI) effective July 1, 1998 under the Delaware Limited Liability Company Act. On December 7, 1998, the ownership in Motiva attributable to Shell Norco and Shell was transferred to SOPC Holdings East LLC, a wholly owned subsidiary of Shell. In accordance with the Limited Liability Company Agreement (the "Agreement"), initial provisional ownership percentages were 35% for Shell Norco and Shell together and 32.5% for each of TRMI East and SRI, effective through the first full fiscal year. Also in accordance with the Agreement, subsequent provisional ownership percentages will be determined for Motiva's second through seventh full fiscal years and final ownership percentages will be determined for Motiva's eighth full fiscal year. The calculation of provisional ownership percentages for Motiva's second full fiscal year resulted in ownership percentages of 38.812 % for SOPC Holdings East LLC and 30.594% for each of TRMI East and SRI.

A second joint venture company, Equilon Enterprises LLC (Equilon), was formed on January 1, 1998, combining the major elements of Shell and Texaco's Western and Midwestern U.S. refining and marketing businesses and their nationwide trading, transportation and lubricants businesses. Equiva Trading Company (Equiva Trading) and Equiva Services LLC (Equiva Services) were formed on July 1, 1998 and are owned equally by Motiva and Equilon. Equiva Trading functions as the trading unit for both Motiva and Equilon. Equiva Services provides common financial, administrative, technical and other operational support to both Motiva and Equilon. Equiva Trading and Equiva Services bill their services at cost.

Motiva refines, distributes and markets petroleum products under both the Shell and Texaco brands through its network of wholesalers, retailers and company owned and contractor operated service stations in all or part of 26 states and the District of Columbia. Products are manufactured at four refineries located in Delaware City, Delaware; Convent, Louisiana; Norco, Louisiana; and Port Arthur, Texas.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis Of Presentation

Effective July 1, 1998, Shell Norco, Shell, TRMI East and SRI contributed assets and liabilities to Motiva pursuant to the terms of the Asset Transfer and Liability Assumption Agreement, one of the joint venture agreements establishing Motiva. TRMI East and SRI contributed the assets and liabilities of Star Enterprise (Star). The accompanying financial statements are presented using the historical basis of the assets and liabilities contributed to Motiva on July 1, 1998.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use Of Estimates

These financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions. These assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the recoverability of assets, environmental remediation, litigation and claims and assessments. Amounts are recognized when it is probable that an asset has been impaired or a liability has been incurred and the cost can be reasonably estimated. Actual results could differ from those estimates.

Revenues

Revenues for refined products and crude oil sales are recognized at the point of passage of title specified in the contract.

Cash Equivalents

Cash equivalents consist of highly liquid investments with a maturity of three months or less when purchased.

Inventories

All inventories are valued at the lower of cost or market, after initial recording at cost. The cost of inventories of crude oil and petroleum products is determined on the last-in, first-out (LIFO) method, while the cost of other merchandise inventories is determined on the first-in, first-out (FIFO) method, and materials and supplies are stated at average cost.

Property, Plant And Equipment

Depreciation of property, plant and equipment is provided generally on composite groups, using the straight-line method, with depreciation rates based upon the estimated useful lives of the groups.

Under the composite depreciation method, the cost of partial retirements of a group is charged to accumulated depreciation. However, when there is a disposition of a complete group, the cost and related depreciation are retired, and any gain or loss is reflected in earnings.

Capitalized leases are amortized over the estimated useful life of the asset or the lease term, as appropriate, using the straight-line method.

Maintenance and repairs, including major refinery maintenance, are charged to expense as incurred. Renewals, betterments and major repairs that materially extend the life of the properties are capitalized.

Interest incurred during the construction period of major additions is capitalized.

The evaluation of impairment for property, plant and equipment is based on a comparison of carrying value against undiscounted future net pre-tax cash flows. If an impairment is identified, the asset's carrying amount is adjusted to fair value. Assets to be disposed of are generally valued at the lower of net book value or fair value less cost to sell.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Entities where Motiva has greater than 50 percent ownership but as a result of contractual agreement or otherwise does not exercise control, are accounted for using the equity method. The equity method of accounting is generally used for investments in certain affiliates owned 50 percent or less, including corporate joint ventures, limited liability companies and partnerships. Under this method, equity in pre-tax income or losses of limited liability companies and partnerships, and the net income or losses of corporate joint venture companies is reflected in income, rather than when realized through dividends or distributions. Other investments are carried at cost.

Environmental Expenditures

Motiva accrues for environmental remediation liabilities when it is probable that such liability exists, based on past events or known conditions, and the amount of such loss can be reasonably estimated. If Motiva can only estimate a range of probable liabilities, the minimum undiscounted expenditure necessary to satisfy Motiva's future obligation is accrued.

Motiva determines the appropriate amount of each obligation considering all of the available data, including technical evaluations of the currently available facts, interpretation of existing laws and regulations, prior experience with similar sites and the estimated reliability of financial projections.

Motiva adjusts financial liabilities, as required, based on the latest experience with similar sites, changes in environmental laws and regulations or their interpretation, development of new technology or new information related to the extent of Motiva's obligation.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 establishes new accounting rules and disclosure requirements for most derivative instruments and hedging activities. In June 1999, the FASB issued SFAS 137 that deferred the effective date of adoption of SFAS 133 for one year. This was followed in June 2000 by the issuance of SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which amended SFAS 133.

SFAS 133, as amended by SFAS 137 and SFAS 138, requires Motiva to record all derivative financial instruments in the Balance Sheets at fair value. For derivatives accounted for as hedges, fair value adjustments are recorded to earnings or to other comprehensive income, depending upon the type of hedge and the degree of hedge effectiveness. For hedges classified as fair value hedges, adjustments are also recorded to the carrying amount of the hedged item through earnings. For derivatives not accounted for as hedges, fair value adjustments are recorded to earnings.

Motiva adopted these standards effective January 1, 2001. As such, Motiva's results of operations and financial position will reflect the impact of the new standards commencing January 1, 2001. The cumulative effect of adoption at that date on net income and other comprehensive income, a component of owners' equity, was not material.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards (continued)

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB 125" (SFAS 140). For Motiva, SFAS 140 is effective for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. Certain disclosure requirements under SFAS 140 are effective for financial statements for fiscal years ended after December 15, 2000 and have been included in Note 4. Motiva does not believe the effects of the adoption of SFAS 140 will be material to its financial position or the results of operations.

Derivatives

Motiva uses interest rate swap derivative financial transactions to manage its exposure to changes in interest rates. Amounts receivable or payable based on the interest rate differentials of interest rate swaps are accrued monthly and are reflected in interest expense.

Motiva uses futures, purchased options and swaps to hedge the effects of fluctuations in the prices of crude oil and refined products. Unrealized gains and losses on such transactions are deferred and recognized in income when the transactions and cash are settled. Motiva also uses written options. The unrealized gains and losses on these transactions are recognized in current earnings.

Fair Value Of Financial Instruments

The estimated fair value of long-term debt is disclosed in Note 7 to the financial statements. The carrying amount of long-term debt with variable rates of interest approximates fair value at December 31, 2000 and 1999 as borrowing terms equivalent to the stated rates were available in the marketplace. Fair value for long-term debt with a fixed rate of interest and interest rate swaps is determined based on discounted cash flows using estimated prevailing interest rates.

Other financial instruments are included in current assets and liabilities on the balance sheet and approximate fair value because of the short maturity of such instruments. These include cash, short-term investments, notes and accounts receivable, accounts payable and short-term debt.

Contingencies

Certain conditions may exist as of the date financial statements are issued, which may result in a loss to Motiva, but which will be resolved only when one or more future events occur or fail to occur. Motiva's management and legal counsel assess such contingent liabilities. The assessment of loss contingencies necessarily involves an exercise of judgment and is a matter of opinion. In assessing loss contingencies related to legal proceedings that are pending against Motiva or unasserted claims that may result in such proceedings, Motiva's legal counsel evaluates the perceived merits of any legal proceeding or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

MOTIVA ENTERPRISES LLC
 NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies (continued)

If the assessment of a contingency indicates that it is probable that a material liability has been incurred and the amount of the loss can be estimated, then the estimated liability would be accrued in Motiva's financial statements. If the assessment indicates that a potentially material liability is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, Motiva may disclose contingent liabilities of an unusual nature which, in the judgment of management and its legal counsel, may be of interest to the owners or others.

NOTE 3 - TRANSACTIONS WITH RELATED PARTIES

Motiva has entered into transactions with Shell, Texaco, SRI, Equilon, Equiva Services, and Equiva Trading, including the affiliates of these companies. Such transactions are in the ordinary course of business and include the purchase, sale and transportation of crude oil and petroleum products and numerous service agreements.

The aggregate amounts of such transactions were as follows:

	For the Years Ended December 31,		For the Six Months Ended December 31,
	2000	1999	1998
	(Millions of dollars)		
Sales and other revenue	\$ 3,195	\$ 1,701	\$ 857
Purchases and transportation	9,548	5,602	2,642
Service and technology expense	402	659	297

NOTE 4 - SALE OF RECEIVABLES

Motiva has a third-party accounts receivable agreement under which it has the right to sell up to \$200 million of trade accounts receivable on a continuing basis subject to limited recourse. Receivables sold under this facility totaled \$1,066 million in 2000 and \$403 million in 1999. The discount recorded on sales of trade receivables amounted to \$3 million in 2000, \$1 million in 1999 and \$1 million for the six months ended December 31, 1998.

MOTIVA ENTERPRISES LLC
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INVENTORIES

	As of December 31,	
	2000	1999
	(Millions of dollars)	
Crude oil and petroleum products	\$ 473	\$ 558
Other merchandise	15	13
Materials and supplies	72	80
	-----	-----
Total	\$ 560	\$ 651
	=====	=====

At December 31, 2000 and 1999, the excess of market value over the LIFO carrying value of crude oil and petroleum products inventories was approximately \$638 million and \$147 million, respectively.

Partial liquidation of inventories valued on a LIFO basis improved net income by \$8 million in 2000 and \$23 million in 1999.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

	As of December 31,			
	2000		1999	
	Gross	Net	Gross	Net
	(Millions of dollars)			
Refining	\$ 4,760	\$ 2,936	\$ 4,583	\$ 2,967
Marketing	2,757	1,968	2,752	2,007
	-----	-----	-----	-----
Total	\$ 7,517	\$ 4,904	\$ 7,335	\$ 4,974
	=====	=====	=====	=====
Capital lease amounts included above	\$ 24	\$ 10	\$ 24	\$ 11
	=====	=====	=====	=====

Interest expense capitalized as part of property, plant and equipment amounted to \$8 million in 2000, \$6 million in 1999 and \$4 million for the six months ended December 31, 1998.

MOTIVA ENTERPRISES LLC
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - DEBT

Short-Term
Debt due within one year consisted of the following:

	As of December 31,	
	----- 2000	1999 -----
	(Millions of dollars)	
Commercial paper and extendible commercial notes	\$ 1,076	\$ 1,133
Pollution control revenue bonds	329	304
	-----	-----
	1,405	1,437
Current maturities of long-term debt and capital lease obligation	47	1
	-----	-----
	1,452	1,438
Less: Short-term obligations intended to be refinanced:		
Commercial paper	900	900
Pollution control revenue bonds	200	175
	-----	-----
Total	\$ 352	\$ 363
	=====	=====

The weighted average interest rates for the commercial paper and extendible commercial notes outstanding at December 31, 2000 and 1999 were 6.63% and 5.99%, respectively.

The pollution control revenue bonds outstanding at December 31, 2000 and 1999 include five individual issues assumed from Shell totaling \$129 million. Interest rates are currently reset on a daily basis for four of those issues and on a weekly basis for the remaining issue; the bonds may be converted from time to time to other modes. The weighted average interest rates for those issues at December 31, 2000 and 1999 were 5.07% and 5.29%, respectively. The bonds mature between 2005 and 2023, although bondholders have the right to tender their bonds under certain conditions, including on interest rate resets. Pursuant to the terms of the underlying indentures, Shell retains liability for debt service on the issues Motiva assumed from Shell in the event that Motiva fails to perform its obligations.

Of the remaining \$200 million in pollution control revenue bonds at December 31, 2000, \$158 million have interest rates currently reset on a weekly basis and the other \$42 million are marketed in a commercial paper mode. Any or all of these bonds may also be converted from time to time to other modes. Weighted average interest rates for the bonds reset weekly at December 31, 2000 and 1999 were 5.22% and 5.46%, respectively. For the issue marketed in a commercial paper mode, the weighted average interest rates at December 31, 2000 and 1999 were 6.72% and 6.03%, respectively. The bonds mature between 2014 and 2029, although bondholders have the right to tender their bonds under certain conditions, including on interest rate resets or commercial paper maturity. These bonds, as well as \$900 million of Motiva's commercial paper and extendible commercial note obligations scheduled to mature in 2001, are reclassified to long-term debt at December 31, 2000, recognizing Motiva's intent and ability to refinance those issues on a long-term basis, if necessary, through the use of its \$1.5 billion revolving credit facility.

Motiva has entered into borrowing agreements with a number of financial institutions to obtain funds on an "as available" basis at negotiated rates. The maximum amounts outstanding under these agreements during 2000 and 1999 were \$100 million and \$84 million, respectively. These facilities were unused as of December 31, 2000 and 1999.

MOTIVA ENTERPRISES LLC
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - DEBT (continued)

Long-Term
Long-term debt consisted of the following:

	As of December 31,	
	2000	1999
	(Millions of dollars)	
Private placements	\$ 360	\$ 360
Capital lease obligation	16	17
	-----	-----
	376	377
Less: Amounts due within one year	47	1
	-----	-----
	329	376
Add: Short-term obligations intended to be refinanced:		
Commercial paper	900	900
Pollution control revenue bonds	200	175
	-----	-----
Total	\$ 1,429	\$ 1,451
	=====	=====

At December 31, 2000 and 1999, Motiva was party to a \$1.5 billion extendible 364-day revolving credit facility with a syndicate of major U.S. and international banks. This facility, originally established in 1998 and renewed most recently in October 2000, is available as support for the issuance of Motiva's commercial paper and certain of its pollution control revenue bonds, as well as for working capital and for other general corporate purposes. Motiva had no amounts outstanding under this facility during 2000 or 1999. Motiva pays a facility fee based on its total amount. Under this agreement, interest on any amounts borrowed would be based on short-term rates at the time of borrowing.

Private placements of \$360 million at December 31, 2000 and 1999 were assumed from Star, and consist of \$110 million and \$250 million issued to various insurance companies in 1991 and 1992, respectively. All of the notes carry fixed interest rates; the weighted average interest rates were 8.6% for the 1991 issue and 7.6% for the 1992 issue. These notes have varying maturities lasting until the year 2009.

All of Motiva's borrowings are unsecured and with the exception of the pollution control revenue bonds assumed from Shell, are non-recourse to the owners. Long-term debt borrowing agreements include financial covenants regarding net worth, leverage and liens.

The amounts of long-term debt maturities during each of the next five years are \$45 million, \$63 million, \$65 million, \$35 million and \$0 million, respectively. The preceding maturities are before consideration of short-term obligations intended to be refinanced and also exclude the capital lease obligation.

MOTIVA ENTERPRISES LLC
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - DEBT (continued)

Fair Value Of Financial Instruments

The estimated fair values of Motiva's long-term debt and related derivative financial instruments were as follows:

	As of December 31,			
	2000		1999	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Millions of dollars)			
Long-term debt	\$ 1,429	\$ 1,448	\$ 1,451	\$ 1,460
Interest rate swaps	-	-	-	(1)

NOTE 8 - DERIVATIVES

Debt-Related Derivatives

Many of Motiva's interest-bearing liabilities reflected on its balance sheets are floating rate instruments. To reduce the impact of changes in interest rates on this floating rate debt, Motiva assumed certain interest rate swap agreements in the notional amount of \$100 million previously entered into by Star. All such interest rate swaps required the counterparty of the swap to pay to Motiva a floating rate of interest on notional amounts of principal, and for Motiva to pay to the counterparty a fixed rate of interest on the same amounts of notional principal. In all cases, Motiva remains obligated to pay the variable rate owing to the holder of the underlying obligations. One swap with a notional amount of \$20 million remained outstanding at December 31, 2000, and matured on February 5, 2001.

Each party to any interest rate swap agreement is exposed to credit risk for nonperformance of the other party. Motiva had such exposure prior to the maturity of the final swap agreement, but did not experience nonperformance by counterparties.

Commodity Derivatives

Motiva utilizes futures, purchased options and swaps to hedge the effects of fluctuations in the prices of crude oil and refined products. These transactions meet the requirements for hedge accounting. The resulting gains or losses, measured by quoted market prices, are accounted for as part of the transactions being hedged. On the balance sheet, deferred gains and losses are included in current assets and liabilities. Motiva also uses written options to manage its price risk. Written options do not meet the requirement for hedge accounting. Accordingly, these transactions are marked to market and recognized in income monthly.

At December 31, 2000 and 1999, Motiva had open derivative commodity contracts required to be settled in cash, consisting mostly of futures. Notional contract amounts were \$200 million and \$192 million at December 31, 2000 and 1999, respectively. These amounts principally represent future values of contract volumes over the remaining duration of outstanding futures contracts at the respective dates. These contracts hedge a small fraction of Motiva's business activities, generally for periods within the next twelve months.

NOTE 8 - DERIVATIVES (continued)

Commodity Derivatives (continued)

A significant factor impacting earnings during both 2000 and 1999 was the rapid increase in crude oil prices and market volatility. As a result, Motiva realized positive impacts to earnings through increased refining margins associated with the holding period for inventory.

Unrealized gains on open hedging positions at December 31, 2000 and 1999 were not significant. The earnings impact of closed hedging positions along with open and closed written options was a loss of \$132 million and \$89 million for the years ended December 31, 2000 and 1999, respectively, and was not significant for the six months ended December 31, 1998. The favorable impact of refining margins in 2000 and 1999 associated with the holding period for inventory was offset by the impact of hedging.

On January 1, 2001, Motiva adopted SFAS 133 as amended by SFAS 137 and SFAS 138. Motiva's results of operations and financial position will reflect the impact of the new standard commencing January 1, 2001. The cumulative effect of adoption at that date on net income and other comprehensive income, a component of owners' equity, was not material.

NOTE 9 - LEASE COMMITMENTS AND RENTAL EXPENSE

Motiva has leasing arrangements involving service stations and other facilities. Renewal and purchase options are available on certain of these leases in which Motiva is lessee.

Motiva has a one-year lease agreement, which began in April 2000 for a cogeneration plant constructed in proximity to Motiva's Delaware City refinery. The lease may be renewed at Motiva's option for seventeen consecutive one-year terms. Motiva has renewed the lease for the second one-year term beginning in April 2001. The minimum lease commitment for any twelve-month period is approximately \$20 million (not included in the table below). Total project expenditures are approximately \$352 million. At the end of any one-year lease term, if not renewed, Motiva has guaranteed a minimum recoverable residual value to the lessor of approximately 89 percent of the total project construction cost.

MOTIVA ENTERPRISES LLC
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - LEASE COMMITMENTS AND RENTAL EXPENSE (continued)

As of December 31, 2000, Motiva had estimated minimum commitments for payment of rentals under leases, which, at inception, had a noncancelable term of more than one year, as follows:

	Operating Leases	Capital Leases
	(Millions of dollars)	
2001	\$ 50	\$ 4
2002	48	4
2003	45	4
2004	43	4
2005	38	4
After 2005	408	6
Total lease commitments	\$ 632	26
Less amounts representing interest		10
Present value of total capital lease obligation		16
Less current portion of capital lease obligation		2
Present value of long-term portion of capital lease obligation		\$ 14

Rental expense relative to operating leases, including contingent rentals, is provided in the table below:

	For the Years Ended December 31,		For the Six Months Ended December 31,
	2000	1999	1998
	(Millions of dollars)		
Rental expense:			
Minimum lease rentals	\$ 95	\$ 74	\$ 52
Contingent rentals	1	2	5
Total	96	76	57
Less rental income on properties subleased to others	47	48	25
Net rental expense	\$ 49	\$ 28	\$ 32

NOTE 10 - AFFILIATE OBLIGATIONS AND CONTRIBUTED LIABILITIES

On April 1, 1999, Shell, Texaco and Star employees designated as performing duties supporting Motiva were transferred to Equiva Services. At that time certain benefit liabilities were transferred to Equiva Services from Shell, Texaco and Star through their interests in Motiva and Equilon. Equiva Services' obligations transferred from Shell, Texaco and Star applicable to Motiva were recorded as reductions to Motiva's investment in Equiva Services. A related party obligation of \$440 million at December 31, 1999 represented Motiva's obligation to Equiva Services for these employee benefit liabilities. Of this amount, \$408 million was classified as long-term at December 31, 1999. On January 1, 2000, Equiva Services employees supporting Motiva and Equiva Trading became employees of the respective companies they support. Employee related benefit liabilities were transferred to Motiva, and through Motiva to Equiva Trading, at the same time. As a result of the transfer, Motiva's related party obligation to Equiva Services was reduced by \$401 million. As a result of this transfer, the post-employment benefits and vacation obligations became direct liabilities of Motiva, and at December 31, 2000 were in the amounts of \$98 million and \$25 million respectively. Further, the pension liability became payable to the owners on January 1, 2000 and at December 31, 2000 was \$230 million. As of December 31, 2000, Motiva had affiliate payables to Equiva Services and Equiva Trading totaling \$56 million, representing its obligation for employee benefit liabilities of these entities. Of this amount, \$48 million was classified as long-term.

The foregoing contribution of liabilities that were transferred from Shell, Texaco, and Star through Motiva to Equiva Services for employee benefit liabilities at April 1, 1999 was \$337 million and included \$202 million for pension related affiliate obligations, \$110 million of post employment medical benefits and \$25 million for vacation benefits. Additional information is disclosed in Note 11.

NOTE 11 - EMPLOYEE BENEFIT PLANS

In accordance with certain joint venture agreements related to human resources matters, employees performing duties supporting Motiva remained employees of the owner companies and their affiliates until April 1, 1999. Beginning April 1, 1999, Motiva's affiliate, Equiva Services, employed personnel necessary for ongoing operations. Obligations and accrued liabilities for certain employee benefits, including pension and other post-employment benefits, were transferred to Equiva Services at that time.

On January 1, 2000, employees directly supporting Motiva became employees of Motiva. Employees providing common crude and product logistical and trading support for both Motiva and Equilon became employees of Equiva Trading. Employees providing common financial, administrative, technical and other operational support to both Motiva and Equilon remain employees of Equiva Services. Employee related obligations, including liabilities for pension and other post-employment benefits for employees transferred to Motiva, were recorded as Motiva liabilities on January 1, 2000 with a corresponding reduction in the affiliate payable to Equiva Services. Employee related liabilities for employees transferred from Equiva Services to Equiva Trading were transferred to Equiva Trading through Motiva and Equilon. Motiva's share of these liabilities was recorded as a long-term affiliate payable to Equiva Trading.

MOTIVA ENTERPRISES LLC
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE BENEFIT PLANS (continued)

Pension Related Affiliate Obligations

Concurrently with their transfer from the owner companies, employees retained certain pension benefits for future pay increases under the owner company pension plans. Under agreements with Shell, Texaco and SRI, the owner companies will be reimbursed for past service pension benefits attributable to these future pay benefits at April 1, 1999, as well as future increases in the related projected benefit obligation under the owner companies' qualified pension plans. These reimbursements will be made at the time employees receive benefits from owner company plans. The following summarizes the reimbursement owed to the owner companies and components of accrual expense:

	2000	1999 (a)
	----- (Millions of dollars)	
Projected benefit obligation at January 1, 2000 and April 1, 1999	\$ 143	\$ 148
Interest cost	12	8
Actuarial gain	(6)	(13)
	-----	-----
Projected benefit obligation at December 31	149	143
Unrecognized net gain	18	13
	-----	-----
Accrued past service pension liability at December 31	\$ 167	\$ 156
	=====	=====
Weighted average assumptions at December 31		
Discount rate	7.5%	8.0%
Rate of compensation increase	4.0%	4.5%
Components of net accrual expense		
Interest cost	\$ 11	\$ 8
	=====	=====

(a) Represents amounts applicable to Equiva Services employees working on behalf of Motiva for the nine-month period from April 1, 1999 to December 31, 1999.

Post-Employment Benefits

Motiva and Equiva Services currently provide health care benefits for retired employees and their dependents through a common plan. Eligibility for such benefits requires that a retired employee be at least 50 years of age, with at least 10 years of service and the sum of age and service of at least 70 years. Past service with the owner companies is credited for determining benefit eligibility.

Motiva's obligation is a percentage of the total premiums required. This percentage varies from 60% to 80% of total cost depending on the sum of the employee's total years of age plus service at the time of retirement. The assumed annual health care cost trend rate used in measuring the accumulated post-employment benefit obligation (APBO) was 9.0% in 2000, decreasing to 5.0% by 2008 and remaining at that level thereafter. Assuming a 1% increase in the annual rate of increase of required medical premiums, the APBO and annual expense would increase by approximately \$19 million and \$1 million, respectively.

MOTIVA ENTERPRISES LLC
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE BENEFIT PLANS (continued)

Post-Employment Benefits (continued)

In addition to medical benefits, Motiva and Equiva Services provide retiree life insurance benefits to certain employees who transferred from Texaco and Star. These employees must be of age 50 at April 1, 1999 with 5 years of service at the time of transfer and retire at a minimum age of 55 with at least 10 years of service in order to be eligible. Net post-employment benefit costs for 2000 and for the period of April 1, 1999 to December 31, 1999 were as follows:

	2000	1999 (b)
	----- (Millions of dollars)	
Service cost	\$ 2	\$ 2
Interest cost	6	5
Amortization of prior service cost	(2)	(2)
	-----	-----
Accrued expense	\$ 6	\$ 5
	=====	=====

(b) Represents amounts applicable to Equiva Services employees working on behalf of Motiva for the nine-month period from April 1, 1999 to December 31, 1999.

The status of other post-employment plans as of December 31, 2000 and 1999 was as follows:

	2000	1999 (c)
	----- (Millions of dollars)	
Benefit obligation at January 1, 2000 and April 1, 1999	\$ 71	\$ 75
Service cost	2	2
Interest cost	6	4
Actuarial (gain)/loss	22	(10)
	-----	-----
Benefit obligation at December 31	101	71
Unrecognized prior service cost	20	22
Unrecognized gain/(loss)	(23)	-
	-----	-----
Accrued post-employment benefit obligation at December 31	\$ 98	\$ 93
	=====	=====

(c) Represents amounts applicable to Equiva Services employees working on behalf of Motiva for the nine-month period from April 1, 1999 to December 31, 1999.

Pension Plans

Effective April 1, 1999, Equiva Services established a cash balance defined benefit pension plan covering substantially all of its employees. Company contributions under the plan are between 3% and 7% of compensation based on years of service, age, and covered compensation. Individual employee accounts are credited each month with employer contributions and interest on the account balance at an interest rate adjusted quarterly. Currently the interest rate is 5.80% per annum. Assets of the plan are comprised of equity securities and fixed income securities. Motiva and Equiva Services' funding policy is to contribute all pension costs accrued to the extent required by federal tax regulations.

MOTIVA ENTERPRISES LLC
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE BENEFIT PLANS (continued)

Pension Plans (continued)

The following table sets forth information related to changes in the benefit obligations, change in plans assets, a reconciliation of the funded status of the plans and components of the expense recognized related to Motiva's pension plan.

	As of December 31,	
	2000	1999 (d)
	(Millions of dollars)	
Change in benefit obligation		
Projected benefit obligation at January 1, 2000 and April 1, 1999	\$ 10	\$ -
Service cost	14	11
Interest cost	1	-
Actuarial gain	-	(1)
Benefits paid	(1)	-
	-----	-----
Projected benefit obligation at December 31	\$ 24	\$ 10
	=====	=====
Change in plan assets		
Fair value of plan assets at January 1, 2000 and April 1, 1999	\$ -	\$ -
Actual return on plan assets, net of expenses	(1)	(1)
Employer contributions	12	1
Benefits paid	(1)	-
	-----	-----
Fair value of plan assets at December 31	\$ 10	\$ -
	=====	=====
Funded status at December 31		
Obligation greater than assets	\$ 14	\$ 10
Unrecognized net gain/(loss)	(1)	-
	-----	-----
Accrued pension liability at December 31	\$ 13	\$ 10
	=====	=====
Weighted average assumptions at December 31		
Discount rate	7.5%	8.0%
Expected return on plan assets	9.0%	9.0%
Rate of compensation increase	4.0%	4.5%
Components of net periodic benefit costs		
Service cost	\$ 14	\$ 11
Interest cost	1	-
	-----	-----
Net periodic benefit costs	\$ 15	\$ 11
	=====	=====

(d) Represents amounts applicable to Equiva Services employees working on behalf of Motiva for the nine-month period from April 1, 1999 to December 31, 1999.

NOTE 11 - EMPLOYEE BENEFIT PLANS (continued)

Employee Termination Benefits

The joint venture agreements provide for Motiva and Equilon to determine the appropriate staffing levels for their businesses. To the extent those staffing needs resulted in the elimination of positions from the ranks of Shell, Texaco and Star, affected employees were entitled to termination benefits provided for under the benefit plans of the applicable companies. Shell, Texaco and Star, as the employer companies, are responsible for administering the payment of benefits under their respective benefit plans. Motiva and Equilon have reimbursed the employer companies for all costs resulting from the elimination of positions in accordance with a formula included in the joint venture agreements.

The formation of Motiva and Equilon resulted in the termination of 1,658 employees. The separations were substantially complete as of December 31, 1999. In 1998, Motiva recorded a charge of \$28 million for its share of reimbursable severance and other benefit costs as selling, general and administrative expenses in the Statement of Income. An additional provision of \$3 million was recorded to selling, general and administrative expenses in 1999. Motiva reimbursed the employer companies \$2 million in 2000, \$26 million in 1999 and \$3 million in 1998 for the termination benefits.

NOTE 12 - CONTINGENT LIABILITIES

Except for environmental obligations, Motiva generally did not assume any contingent liabilities with respect to events occurring before July 1, 1998.

While it is impossible to ascertain the ultimate legal and financial liability with respect to many contingent liabilities and commitments (including lawsuits, claims, guarantees, federal regulations, environmental issues, etc.), Motiva has accrued amounts related to certain such liabilities. Motiva does not expect that the aggregate amount of commitments and contingent liabilities in excess of amounts accrued at December 31, 2000 and 1999, if any, will have a material effect on the financial position or results of operations of Motiva.

NOTE 13 - TAXES

Motiva, as a limited liability company, is not liable for income taxes. Income taxes are the responsibility of the owners, with earnings of Motiva included in the owners' earnings for the determination of income tax liability.

Excise taxes collected from consumers for governmental agencies that are not included in revenues or expenses were \$4,200 million in 2000, \$3,527 million in 1999 and \$2,062 million for the six months ended December 31, 1998.

DESCRIPTION OF GRAPHIC/IMAGE/ILLUSTRATION MATERIAL INCLUDED IN
EXHIBIT 13 - TEXACO INC.'S 2000 ANNUAL REPORT TO STOCKHOLDERS

The following information is depicted in graphic/image/illustration form in Texaco Inc.'s 2000 Annual Report to Stockholders filed as Exhibit 13 to Texaco Inc.'s 2000 Annual Report on Form 10-K and all page references included in the following descriptions are to the actual and complete paper format version of Texaco Inc.'s 2000 Annual Report to Stockholders as provided to Texaco Inc.'s stockholders:

This Appendix describes the graphic material contained in the portion of Texaco Inc.'s 2000 Annual Report to Stockholders which is incorporated by reference into Texaco Inc.'s 2000 Annual Report on Form 10-K, in response to Form 10-K, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

1. The first graph is located on Page 28. The bar graph is entitled "Average Price Per Barrel of West Texas Intermediate (WTI) Crude Oil" and is reflected in dollars. The average price per barrel of West Texas Intermediate crude oil, in dollars, for each year are depicted as follows:

1998	\$14.39
1999	\$19.31
2000	\$30.37

Below the graph a footnote appears which states, "Prices in 2000 reached their highest average level since 1982."

2. The second graph is located on Page 28. The bar graph is entitled "Average Price Per MCF of U. S. Natural Gas at Henry Hub" and is reflected in dollars. The average price per MCF of U. S. natural gas at Henry Hub, in dollars, for each year are depicted as follows:

1998	\$2.17
1999	\$2.35
2000	\$3.99

Below the graph a footnote appears which states, "Prices in 2000 reached record highs."

3. The third graph is located on Page 28. The bar graph is entitled "Average OPEC Crude Oil Production" and is reflected in millions of barrels a day. The average OPEC crude oil production, in millions of barrels a day, for each year are depicted as follows:

1998	27.8
1999	26.5
2000	27.9

Below the graph a footnote appears which states, "OPEC increased production in 2000 to stabilize prices."

4. The fourth graph is located on Page 29. The bar graph is entitled "Worldwide Revenues from Sales and Services" and is reflected in billions of dollars. The worldwide revenues from sales and services, in billions of dollars, for each year are depicted as follows:

1998	\$30.9
1999	\$35.0
2000	\$50.1

Below the graph a footnote appears which states, "Our revenues in 2000 reflect the run-up in crude oil, refined product and natural gas prices."

5. The fifth graph is located on Page 31. The bar graph is entitled "Worldwide Finding and Development Costs Per Barrel of Oil Equivalent" and is reflected in dollars. The worldwide finding and development costs per barrel of oil equivalent, in dollars, for each year are depicted as follows:

1998	\$3.45
1999	\$4.37
2000	\$3.62

Below the graph a footnote appears which states, "Our finding and development costs remain at competitive levels."

6. The sixth graph is located on Page 32. The bar graph is entitled "U. S. Lifting Costs Per BOE" and is reflected in dollars. The U.S. lifting costs per BOE, in dollars, for each year are depicted as follows:

1998	\$4.07
1999	\$4.01
2000	\$5.05

Below the graph a footnote appears which states, "The increase in our lifting costs in 2000 reflects the effect of sharply higher oil and gas prices on utility expenses and production taxes."

7. The seventh graph is located on Page 34. The bar graph is entitled "International Net Proved Reserves" and is reflected in millions of barrels of oil equivalent. The

International net proved reserves, in millions of barrels of oil equivalent, for each year are depicted as follows:

	Crude Oil -----	Natural Gas -----	Total -----
1998	1,749	402	2,151
1999	1,698	650	2,348
2000	1,958	644	2,602

Below the graph a footnote appears which states, "Net proved reserves increased in 2000 due to the Hamaca project in Venezuela."

8. The eighth graph is located on Page 34. The bar graph is entitled "International Upstream Capital and Exploratory Expenditures" and is reflected in billions of dollars. The International upstream capital and exploratory expenditures, in billions of dollars, for each year are depicted as follows:

1998	\$1.219
1999	\$1.823
2000	\$1.967

Below the graph a footnote appears which states, "The growth in international upstream investments shows our focus on high-impact projects."

9. The ninth graph is located on Page 37. The bar graph is entitled "International Refined Product Sales" and is reflected in thousands of barrels a day. The International refined product sales, in thousands of barrels a day, for each year and geographical location are depicted as follows:

	Caltex -----	Europe -----	Other -----	LA/WA -----	Total -----
1998	593	571	59	462	1,685
1999	614	606	76	493	1,789
2000	540	636	92	484	1,752

Below the graph a footnote appears which states, "International sales volumes held steady in 2000."

10. The tenth graph is located on Page 41. The bar graph is entitled "Capital and Exploratory Expenditures - Geographical" and is reflected in billions of dollars. Capital and exploratory expenditures, in billions of dollars, for each year and geographical location are depicted as follows:

	United States -----	International -----	Total -----
1998	\$2.020	\$1.999	\$4.019
1999	\$1.400	\$2.493	\$3.893
2000	\$1.718	\$2.516	\$4.234

Below the graph a footnote appears which states, "Our U. S. expenditures increased by almost 23% in 2000."

11. The eleventh graph is located on Page 41. The bar graph is entitled "Capital and Exploratory Expenditures - Functional" and is reflected in billions of dollars. Capital and exploratory expenditures, in billions of dollars, for each year and function are depicted as follows:

	Exploration and production -----	Global gas, power and energy technology -----	Refining, marketing, distribution and other -----	Total -----
1998	\$2.655	\$0.185	\$1.179	\$4.019
1999	\$2.723	\$0.279	\$0.891	\$3.893
2000	\$3.055	\$0.333	\$0.846	\$4.234

Below the graph a footnote appears which states, "We continued our emphasis on exploration and production projects, which was 72% of our spending."

INDEX TO EXHIBITS

The exhibits designated by an asterisk are incorporated herein by reference to documents previously filed by Texaco Inc. with the Securities and Exchange Commission, SEC File No. 1-27.

Exhibits

- (2.1) Agreement and Plan of Merger dated as of October 15, 2000 among Chevron Corporation, Texaco Inc. and Keepep Inc. (Schedules and Exhibits omitted), filed as Exhibit 2.1 to Texaco Inc.'s Current Report on Form 8-K, dated October 16, 2000, incorporated herein by reference, SEC File No. 1-27. *
- (2.2) Stock Option Agreement dated as of October 15, 2000 between Chevron Corporation and Texaco Inc., filed as Exhibit 2.2 to Texaco Inc.'s Current Report on Form 8-K, dated October 16, 2000, incorporated herein by reference, SEC File No. 1-27. *
- (2.3) Stock Option Agreement dated as of October 15, 2000 between Chevron Corporation and Texaco Inc., filed as Exhibit 2.3 to Texaco Inc.'s Current Report on Form 8-K, dated October 16, 2000, incorporated herein by reference, SEC File No. 1-27. *
- (3.1) Copy of Restated Certificate of Incorporation of Texaco Inc., as amended to and including August 4, 1999, including Certificate of Designations, Preferences and Rights of Series D Junior Participating Preferred Stock and Series G, H, I and J Market Auction Preferred Shares, filed as Exhibit 3.1 to Texaco Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999, dated August 12, 1999, incorporated herein by reference, SEC File No. 1-27. *
- (3.2) Copy of By-Laws of Texaco Inc., as amended to and including October 15, 2000, filed as Exhibit 3.2 to Texaco Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000, dated November 9, 2000, incorporated herein by reference, SEC File No. 1-27. *
- (4.1(a)) Form of Amended Rights Agreement, dated as of March 16, 1989, as amended as of April 28, 1998, between Texaco Inc. and ChaseMellon Shareholder Services, L.L.C., as Rights Agent, filed as Exhibit I, pages 40 through 78, of Texaco Inc.'s proxy statement dated March 17, 1998, incorporated herein by reference, SEC File No. 1-27. *
- (4.1(b)) Form of Amendment No. 1, dated as of October 15, 2000 to the Amended Rights Agreement, dated as of March 16, 1989, as amended as of April 28, 1998, between Texaco Inc. and ChaseMellon Shareholder Services, L.L.C., as Rights Agent, filed as Exhibit 2 of Texaco Inc.'s Amendment No. 1 to Form 8-A, dated October 25, 2000, incorporated herein by reference, SEC File No. 1-27. *
- (10(iii)(a)) Form of severance agreement between Texaco Inc. and elected officers of Texaco Inc., filed as Exhibit 10(iii)(a) to Texaco Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998, dated March 25, 1999, incorporated herein by reference, SEC File No. 1-27. *
- (10(iii)(b)) Employment agreement dated December 30, 1997, between Texaco Inc. and Mr. John J. O'Connor, Senior Vice President of Texaco Inc., filed as Exhibit 10(iii)(b) to Texaco Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998, dated March 25, 1999, incorporated herein by reference, SEC File No. 1-27. *

- (10(iii)(c)) Employment agreements dated July 18, 1997, between Texaco Inc. and Mr. William M. Wicker, Senior Vice President of Texaco Inc., filed as Exhibit 10(iii)(c) to Texaco Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998, dated March 25, 1999, incorporated herein by reference, SEC File No. 1-27. *
- (10(iii)(d)) Texaco Inc.'s 1997 Stock Incentive Plan, incorporated herein by reference to Appendix A, pages 39 through 44 of Texaco Inc.'s proxy statement dated March 27, 1997. *
- (10(iii)(e)) Texaco Inc.'s 1997 Incentive Bonus Plan, incorporated herein by reference to Appendix A, pages 45 and 46 of Texaco Inc.'s proxy statement dated March 27, 1997. *
- (10(iii)(f)) Texaco Inc.'s Stock Incentive Plan, incorporated herein by reference to pages A-1 through A-8 of Texaco Inc.'s proxy statement dated April 5, 1993. *
- (10(iii)(g)) Texaco Inc.'s Stock Incentive Plan, incorporated herein by reference to pages IV-1 through IV-5 of Texaco Inc.'s proxy statement dated April 10, 1989 and to Exhibit A of Texaco Inc.'s proxy statement dated March 29, 1991. *
- (10(iii)(h)) Description of Texaco Inc.'s Supplemental Pension Benefits Plan, incorporated herein by reference to pages 8 and 9 of Texaco Inc.'s proxy statement dated March 17, 1981. *
- (10(iii)(i)) Description of Texaco Inc.'s Revised Supplemental Pension Benefits Plan, incorporated herein by reference to pages 24 through 27 of Texaco Inc.'s proxy statement dated March 9, 1978. *
- (10(iii)(j)) Description of Texaco Inc.'s Revised Incentive Compensation Plan, incorporated herein by reference to pages 10 and 11 of Texaco Inc.'s proxy statement dated March 13, 1969. *
- (12.1) Computation of Ratio of Earnings to Fixed Charges of Texaco on a Total Enterprise Basis.
- (12.2) Definitions of Selected Financial Ratios.
- (13) Copy of those portions of Texaco Inc.'s 2000 Annual Report to Stockholders that are incorporated herein by reference into this Annual Report on Form 10-K.
- (21) Listing of significant Texaco Inc. subsidiary companies and the name of the state or other jurisdiction in which each subsidiary was organized.
- (23.1) Consent of Arthur Andersen LLP.
- (23.2) Consent of KPMG (regarding its report on the combined financial statements of the Caltex Group of Companies).
- (23.3) Consent of Arthur Andersen LLP and PricewaterhouseCoopers LLP (regarding their report on the consolidated financial statements of Equilon Enterprises LLC).
- (23.4) Consent of Arthur Andersen LLP, PricewaterhouseCoopers LLP and Deloitte & Touche LLP (regarding their report on the financial statements of Motiva Enterprises LLC).

- (24.1) Power of Attorney. Powers of Attorney for certain directors and officers of Texaco Inc. authorizing, among other things, the signing of Texaco Inc.'s Annual Report on Form 10-K on their behalf, filed as Exhibit 24 to Texaco Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999, dated March 24, 2000, incorporated herein by reference, SEC File No. 1-17.
- (24.2) Power of Attorney. Power of Attorney for Glenn F. Tilton, Chairman of the Board and Chief Executive Officer of Texaco Inc., authorizing, among other things, the signing of Texaco Inc.'s Annual Report on Form 10-K on his behalf.
- (24.3) Power of Attorney. Power of Attorney for Robert J. Eaton, a director of Texaco Inc., authorizing, among other things, the signing of Texaco Inc.'s Annual Report on Form 10-K on his behalf.

*

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 OF TEXACO ON A TOTAL ENTERPRISE BASIS (UNAUDITED)
 FOR EACH OF THE FIVE YEARS ENDED DECEMBER 31, 2000
 (In Millions of Dollars)

	Years Ended December 31,				
	2000	1999	1998	1997	1996
Income from continuing operations, before provision or benefit for income taxes and cumulative effect of accounting changes effective 1-1-98.....	\$4,457	\$1,955	\$ 892	\$3,514	\$3,450
Dividends from less than 50% owned companies more or (less) than equity in net income.....	145	189	--	(11)	(4)
Minority interest in net income.....	125	83	56	68	72
Previously capitalized interest charged to income during the period.....	22	14	22	25	27
Total earnings.....	4,749	2,241	970	3,596	3,545
Fixed charges:					
Items charged to income:					
Interest charges.....	561	587	664	528	551
Interest factor attributable to operating lease rentals.....	82	90	120	112	129
Total items charged to income.....	643	677	784	640	680
Preferred stock dividends of subsidiaries guaranteed by Texaco Inc.....	50	55	33	33	35
Interest capitalized.....	76	28	26	27	16
Interest on ESOP debt guaranteed by Texaco Inc.....	--	--	3	7	10
Total fixed charges.....	769	760	846	707	741
Earnings available for payment of fixed charges..... (Total earnings + Total items charged to income)	\$5,392	\$2,918	\$1,754	\$4,236	\$4,225
Ratio of earnings to fixed charges of Texaco on a total enterprise basis.....	7.01	3.84	2.07	5.99	5.70

DEFINITIONS OF SELECTED FINANCIAL RATIOS

CURRENT RATIO

Current assets divided by current liabilities.

RETURN ON AVERAGE STOCKHOLDERS' EQUITY

Net income divided by average stockholders' equity. Average stockholders' equity is computed using the average of the monthly stockholders' equity balances.

RETURN ON AVERAGE CAPITAL EMPLOYED

Net income plus minority interest plus after-tax interest expense divided by average capital employed. Capital employed consists of stockholders' equity, total debt and minority interest. Average capital employed is computed on a four-quarter average basis.

TOTAL DEBT TO TOTAL BORROWED AND INVESTED CAPITAL

Total debt, including capital lease obligations, divided by total debt plus minority interest liability and stockholders' equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

We use the Management's Discussion and Analysis (MD&A) to explain Texaco's operating results and general financial condition. A table of financial highlights that provides a financial picture of the company is followed by four main sections: Industry Review, Results of Operations, Analysis of Income by Operating Segments and Other Items. Earnings information is presented on an after-tax basis, unless otherwise noted.

Industry Review -- We discuss the economic factors that affected our industry in 2000. We also provide our near-term outlook for the industry.

Results of Operations -- We explain changes in revenues, costs, expenses and income taxes. Summary schedules, showing results before and after special items, complete this section. Special items are significant benefits or charges outside the scope of normal operations.

Analysis of Income by Operating Segments -- We discuss the performance of our operating segments: Exploration and Production (upstream), Refining, Marketing and Distribution (downstream) and Global Gas, Power and Energy Technology. We also discuss Other Business Units and our Corporate/Non-operating results.

Other Items -- We discuss the following items in this section:

- > Liquidity and Capital Resources: How we manage cash, working capital and debt and other actions to provide financial flexibility
- > Reorganizations, Restructurings and Employee Separation Programs: A discussion of our reorganizations and other cost-cutting initiatives
- > Capital and Exploratory Expenditures: Our program to invest in the business, especially in projects aimed at future growth
- > Environmental Matters: A discussion about our expenditures relating to protection of the environment
- > New Accounting Standards: A description of new accounting standards to be adopted
- > Euro Conversion: The status of our program to adapt to the euro currency
- > California Power Situation: A discussion of the current power problems facing California
- > Chevron-Texaco Merger: The status of our proposed merger with Chevron

Our discussions in the MD&A and other sections of this Annual Report contain forward-looking statements that are based upon our best estimate of the trends we know about or anticipate. Actual results may be different from our estimates. We have described in our 2000 Annual Report on Form 10-K the factors that could change these forward-looking statements.

Financial Highlights

(Millions of dollars, except per share and ratio data)	2000	1999	1998
Revenues	\$ 51,130	\$ 35,691	\$ 31,707
Income before special items and cumulative effect of accounting change	\$ 2,898	\$ 1,214	\$ 894
Special items	(356)	(37)	(291)
Cumulative effect of accounting change	--	--	(25)
Net income	\$ 2,542	\$ 1,177	\$ 578
Diluted income per common share (dollars)			
Income before special items and cumulative effect of accounting change	\$ 5.31	\$ 2.21	\$ 1.59
Special items	(.66)	(.07)	(.55)
Cumulative effect of accounting change	--	--	(.05)
Net income	\$ 4.65	\$ 2.14	\$.99
Cash dividends per common share (dollars)	\$ 1.80	\$ 1.80	\$ 1.80
Total assets	\$ 30,867	\$ 28,972	\$ 28,570
Total debt	\$ 7,191	\$ 7,647	\$ 7,291
Stockholders' equity	\$ 13,444	\$ 12,042	\$ 11,833
Current ratio	1.18	1.05	1.07
Return on average stockholders' equity*	20.1%	10.0%	4.9%
Return on average capital employed before special items*	16.2%	8.3%	6.5%
Return on average capital employed*	14.5%	8.1%	5.0%
Total debt to total borrowed and invested capital	33.7%	37.5%	36.8%

* Returns for 1998 exclude the cumulative effect of accounting change (see Note 2 to the financial statements).

INDUSTRY REVIEW

Introduction

By most measures, 2000 was an extraordinary year for the international oil and gas industry. Spot crude oil prices reached their highest average level since 1982, spot refining margins staged a startling recovery from last year's lows and U.S. natural gas prices set new records.

ITEM 1. AVERAGE PRICE PER BARREL OF WEST TEXAS INTERMEDIATE (WTI) CRUDE OIL

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE. SEE APPENDIX, ITEM #1]

ITEM 2. AVERAGE PRICE PER MCF OF U.S. NATURAL GAS AT HENRY HUB

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE. SEE APPENDIX, ITEM #2]

A surging global economy contributed to further growth in energy demand last year. However, the very favorable price environment was, to a large extent, the result of a combination of energy market supply-side factors. Low inventories of crude oil and refined products left oil markets susceptible to disruption and uncertainty. This helped to support prices and refining margins at high levels for most of the year.

Low inventory levels also characterized the U.S. natural gas market. Domestic gas production remained relatively weak in 2000. This made it difficult both to meet summer demand requirements and to place adequate volumes of gas into storage for the winter.

Review of 2000

The global economy experienced exceptionally strong growth in 2000. The U.S. was the world's driving force, enjoying a remarkable 5% increase in Gross Domestic Product despite a tightening in monetary policy and higher energy prices. Western Europe also registered a healthy gain, propelled by rising exports and strong investment spending. However, the large Japanese economy continued to underperform.

The developing world continued to recover in 2000 from the Asian financial crisis. Benefiting from both a rise in intra-regional trade and the strength of the U.S. and European economies, growth in developing Asia accelerated. In similar fashion, Latin America emerged from its 1999 recession, led by strong growth in Brazil, Mexico, Peru and Chile. Also, many of the oil producing nations in the developing world benefited from higher oil prices. Furthermore, the former Soviet bloc enjoyed its strongest economic performance in 10 years, led by robust growth in Russia and many of the countries in Eastern Europe.

The increased pace of economic activity contributed to further growth in world oil demand. Total oil consumption averaged 76.4 million barrels per day (BPD) during 2000, 1.2% higher than 1999. Virtually all of the increase in demand occurred in the developing countries, especially those in Asia. The warmer-than-normal 1999-2000 winter constrained the demand for heating fuels in the U.S. and Western Europe. Also, sharply higher oil prices limited consumption in some countries.

In contrast to the deep cutbacks made in 1999, members of the Organization of Petroleum Exporting Countries (OPEC) raised their production of crude oil significantly in 2000. OPEC crude oil output averaged 27.9 million BPD, 1.4 million BPD above the prior year and the highest level since 1979. By year end, many OPEC members were believed to be producing at or near their full capacity.

ITEM 3. AVERAGE OPEC CRUDE OIL PRODUCTION

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE. SEE APPENDIX, ITEM #3]

Production in non-OPEC areas also rose substantially in 2000. This largely reflected the start-up of projects that were delayed from the prior two years, when low oil prices cut deeply into spending and production plans. However, much of the increase in world oil production occurred after the spring, and commercial crude oil inventories remained lean throughout most of the year.

Low crude oil stocks placed continued upward pressure on prices. This was reinforced by uncertainties regarding export flows from Iraq and the escalation of violence in the Middle East. For the year overall, the spot price of U.S. benchmark West Texas Intermediate (WTI) crude oil averaged \$30.37 per barrel, about \$11.00 per barrel higher than in 1999. For 2000, WTI crude oil prices averaged \$30.37 per barrel, or 57% above the 1999 average.

Early in 2000, refined product inventories were drawn down, especially in the Atlantic basin, to meet seasonal demand requirements. As the year progressed, it became difficult to replenish these stocks for a variety of reasons. These reasons included changes

in mandated product specifications in some areas, scattered worldwide refinery outages and heavy scheduled refinery maintenance. Consequently, refined product prices rose sharply, and spot refining margins increased.

U.S. natural gas prices also rose steeply last year, averaging \$3.99 per thousand cubic feet. This increase of about 70% reflected tight supply/demand conditions. Domestic gas production has recovered slowly from the declines suffered in 1998-1999 when overall upstream spending was reduced drastically due to low oil prices. At the same time, however, gas demand has trended upward, especially for electricity generation during the summer months. During 2000, natural gas end users competed for available supplies with operators who store gas for the winter. With low levels of gas in storage heading into the winter, the onset of severe cold weather in November and December raised concerns about adequate supplies. This sent prices up sharply.

Near-Term Outlook

The global economic expansion is expected to continue through 2001, though at a slower rate than in 2000. The U.S. economy is showing signs of a sharp slowdown, responding to the previous interest rate increases by the Federal Reserve. Economic expansions in Europe and the developing world are also expected to moderate, reflecting the slowdown in the U.S.

World oil consumption will increase again during 2001. Even with lower economic growth, oil consumption should rise by about 1.4 million BPD. On the supply side, non-OPEC production will also rise, but more slowly, as many delayed projects have been completed.

The major uncertainty facing oil markets in 2001 concerns the level of OPEC oil output and the future course of prices. OPEC has stated publicly its desire to maintain crude oil prices in a target range which is roughly equivalent to \$24-\$30 per barrel of WTI. Prices were headed down toward the lower end of that range by the end of 2000 as OPEC's high crude oil production rates ultimately translated into a worldwide accumulation of crude oil stocks. To avoid a market oversupply situation which could jeopardize its price goal, OPEC implemented output restraints early in 2001.

Worldwide spot refining margins should decline during 2001. High refinery running rates in many parts of the world during the latter part of last year led to a partial refilling of refined product stocks. In addition, many of the unusual factors that prevailed in 2000, such as major changes in product specifications, should be absent from the market in 2001.

U.S. natural gas markets, on the other hand, have the potential to remain quite strong in 2001. Under any reasonable expectation, the volume of natural gas in storage will be very low by the spring. Thus, the need to build supplies will be intense. Although production and imports will be higher, continued growth in demand will keep the market balance tight.

RESULTS OF OPERATIONS

Revenues

Our consolidated worldwide revenues were \$51.1 billion in 2000, \$35.7 billion in 1999 and \$31.7 billion in 1998.

ITEM 4. WORLDWIDE REVENUES FROM SALES AND SERVICES

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE. SEE APPENDIX, ITEM #4]

Sales Revenues -- Price/Volume Effects

Our sales revenues were higher in 2000 due to an increase of over 60% in our realized crude oil prices. However, our crude oil and natural gas liquids production was 10% lower due to sales of non-core producing properties in the U.S. and U.K. and natural field declines.

Sales revenues from petroleum products increased in 2000 led by higher prices in all markets. Volumes increased slightly as higher sales in the U.S. and Europe were offset by decreases in Latin America and West Africa and lower natural gas liquids (NGL) trading activity in our international areas.

U.S. natural gas revenues also improved in 2000 due to a significant increase in our realized natural gas price, as well as higher sales of purchased gas. Results for our international operations were consistent with 1999.

Our sales revenues were higher in 1999 due to our increased realized crude oil prices which began to rise during the second half of the year. However, crude oil and NGL production declined due to natural field declines and asset sales in the U.S., as well as temporary operating problems in the U.K.

Sales revenues from petroleum products increased in 1999 due to higher prices and increased international and marine fuels volumes. Our 1999 natural gas volumes decreased in the U.S. due to lower production and reduced sales of purchased gas. Internationally, our results were impacted by our withdrawal from the U.K. retail gas market.

Other Revenues

Other revenues include our equity in the income of affiliates, gains from asset sales and interest income. Results for 2000 were higher due to increased equity in income of affiliates. These results benefited from improved refining margins for Motiva in the U.S. East and Gulf Coast areas and higher crude oil prices in our Indonesian producing affiliate. Adversely impacting results were lower marketing and lubricant margins realized by Equilon and lower Caltex

marketing results.

Results for 1999 were lower due to reduced interest income on notes and marketable securities and lower asset sales. Equity in income of affiliates in 1999 was consistent with 1998. Lower downstream margins in the Caltex Asia-Pacific region and in Motiva's East and

Gulf Coast areas depressed results. However, we realized higher refining margins in Equilon's West Coast operating areas. We also benefited from stronger crude oil prices in our Indonesian producing affiliate during the second half of 1999.

Our share of special charges by our affiliates included in other revenues amounted to \$104 million in 2000, \$153 million in 1999 and \$159 million in 1998. In 2000, these major special charges included a loss on the sale of a U.S. refinery and asset write-downs, as well as patent litigation and environmental issues. Also included was a special gain for an employee benefits revision. The 1999 special charges included refinery asset write-downs in the U.S. and a loss on the sale of an interest in a Japanese affiliate. These charges were reduced by inventory valuation benefits in the U.S. and abroad, as well as tax revaluation benefits in Korea.

In 1998, special charges included inventory valuation adjustments, net U.S. alliance formation costs and Caltex restructuring charges.

Costs and Expenses

Costs and expenses from operations were \$46.3 billion in 2000, \$33.3 billion in 1999 and \$30.5 billion in 1998. Significantly higher worldwide crude oil, petroleum products and U.S. natural gas prices increased our purchases and other costs in 2000. Operating expenses also increased due to the impact of higher fuel and gas prices on utility expenses and production taxes. In 1999, our purchases and other costs increased due to higher prices and product volumes.

Special items recorded by our subsidiaries increased costs and operating expenses by \$819 million in 2000, \$121 million in 1999 and \$382 million in 1998. Major special items in 2000 included asset write-downs, losses on asset sales and environmental and litigation issues. The asset write-downs and losses on asset sales in 2000, which increased depreciation, depletion and amortization expense by \$569 million, resulted mainly from impairments of certain producing properties and refinery assets in Panama, as well as sales of producing assets. In 1999 and 1998, write-downs and losses on asset sales were recorded that increased depreciation, depletion and amortization expense by \$87 million and \$150 million. Asset impairments we have recognized are based on the provisions of SFAS 121, as well as other applicable accounting pronouncements. These impairments are driven by specific events, including the sale of properties or downward revisions in underground reserve quantities. In performing our reviews of assets not held for sale, we use our best judgment in estimating future cash flows. This includes our outlook for commodity prices based on our review of supply and demand forecasts and other economic indicators.

Special items in 1999 also included inventory valuation benefits in subsidiaries, which reversed charges recorded in 1998 when commodity prices were very depressed. The year 1998 also included employee separation costs.

Interest expense for 2000 was lower due to lower debt levels and higher capitalized interest on major upstream projects. The amount recorded for 1999 reflects the impact of higher average debt levels.

Income Taxes

Income tax expense was \$1,676 million in 2000, \$602 million in 1999 and \$98 million in 1998. The increases in 2000 and 1999 are the result of higher income from producing operations due to higher prices.

Income Summary Schedules

The following schedules show after-tax results before and after special items and before the cumulative effect of accounting change. A full discussion of special items is included in our Analysis of Income by Operating Segments.

Income (Loss)

(Millions of dollars)	2000	1999	1998
Income before special items and cumulative effect of accounting change	\$ 2,898	\$ 1,214	\$ 894
Special items:			
Write-downs of assets	(272)	(157)	(93)
Environmental, litigation and royalty issues	(138)	(42)	--
Gains (losses) on major asset sales	(94)	(62)	20
Reorganization, restructuring, employee related and other costs	(8)	(74)	(144)
Tax issues	96	106	25
Tax benefits on asset sales	70	40	43
Inventory valuation adjustments	--	152	(142)
Merger costs	(10)	--	--
Total special items	(356)	(37)	(291)
Income before cumulative effect of accounting change	\$ 2,542	\$ 1,177	\$ 603

The following schedule further details our results:

Income (Loss)

(Millions of dollars)	Before Special Items			After Special Items		
	2000	1999	1998	2000	1999	1998
Exploration and production (upstream)						
United States	\$ 1,788	\$ 666	\$ 381	\$1,518	\$ 652	\$ 301
International	1,058	386	181	1,077	360	129
Total	2,846	1,052	562	2,595	1,012	430
Refining, marketing and distribution (downstream)						
United States	243	287	276	158	208	221
International	272	338	503	143	370	332
Total	515	625	779	301	578	553
Global gas, power and energy technology						
Total	50	21	(33)	50	(14)	(16)
Other business units						
Corporate/Non-operating	(11)	(3)	(2)	(11)	(3)	(2)
	(502)	(481)	(412)	(393)	(396)	(362)
Income before cumulative effect of accounting change	\$ 2,898	\$ 1,214	\$ 894	\$2,542	\$ 1,177	\$ 603

ANALYSIS OF INCOME BY OPERATING SEGMENTS

Upstream

In our upstream business, we explore for, find, develop, produce and sell crude oil, NGL and natural gas.

Our upstream operations benefited from sharply higher crude oil and natural gas prices during 2000. The following discussion focuses on how the price environment and other business factors affected our earnings. The U.S. results for 1998 include some minor Canadian operations which were sold at the end of 1998.

ITEM 5. WORLDWIDE FINDING AND DEVELOPMENT COSTS PER BARREL OF OIL EQUIVALENT

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE. SEE APPENDIX, ITEM #5]

United States Upstream

(Millions of dollars, except as indicated)	2000	1999	1998
Operating income before special items	\$ 1,788	\$ 666	\$ 381
Special items:			
Write-downs of assets	(126)	--	(51)
Environmental, litigation and royalty issues	(15)	(30)	--
Gains (losses) on major asset sales	(129)	18	--
Reorganization, restructuring, employee related and other costs	--	(11)	(29)
Tax issues	--	9	--
Total special items	(270)	(14)	(80)
Operating income	\$ 1,518	\$ 652	\$ 301
Selected operating data:			
Net production			
Crude oil and NGL (thousands of barrels a day)	356	395	433
Natural gas available for sale (millions of cubic feet a day)	1,310	1,462	1,679
Average realized crude price (dollars per barrel)	\$ 26.00	\$ 14.70	\$ 10.60
Average realized natural gas price (dollars per MCF)	\$ 3.69	\$ 2.18	\$ 2.00
Exploratory expenses (millions of dollars)	\$ 120	\$ 234	\$ 257
Lifting costs (dollars per barrel of oil equivalent)	\$ 5.05	\$ 4.01	\$ 4.07
Return on average capital employed before special items	29.0%	10.5%	6.0%
Return on average capital employed	24.6%	10.3%	4.7%

WHAT HAPPENED IN THE UNITED STATES?

Business Factors

PRICES We benefited from higher prices in 2000, which improved earnings by \$1,368 million. Our average realized crude oil price increased by 77% to \$26.00 per barrel. This follows a 39% increase in 1999. Despite production increases in 2000 by OPEC members, concerns over low global inventories of crude oil and refined products helped push prices up to their highest levels since the Gulf War in 1991. Concerns over low U.S. natural gas storage levels and strong demand helped push U.S. natural gas prices to record levels. Our average realized natural gas price in 2000 increased 69% to \$3.69 per thousand cubic feet (MCF). This follows a 9% increase in 1999.

PRODUCTION Our production decreased by 10% in 2000. Half of this expected reduction was due to our continuing strategy of selling non-core producing properties. In 1999, we decided to divest non-strategic assets and focus investment on high-return, high-impact opportunities. The balance of the decrease was due to natural field declines, which exceeded new production from various fields. In 1999, our production also decreased by 10% due to natural field declines, asset sales and reduced investment in mature properties.

EXPLORATORY EXPENSES We expensed \$120 million on exploratory activity in 2000. Our exploratory expenses in 1999 were \$234 million, 9% lower than in 1998. The year 1999 included a \$100 million write-off of investments in prospects in the Gulf of Mexico. These prospects, initially drilled between 1995 and 1998, were determined to be non-commercial in the fourth quarter of 1999 after further appraisal drilling.

Other Factors

Our operating expenses increased by 7% in 2000. This was the result of higher crude oil and natural gas prices causing a significant increase in utilities expense and production taxes. Our lifting costs per barrel of oil equivalent (BOE) increased in 2000 due to these factors. In 1999, our lifting costs per BOE benefited from cost savings offset partly by lower production.

ITEM 6. U.S. LIFTING COSTS PER BOE

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE. SEE APPENDIX, ITEM #6]

Special Items

In 2000, our results included a \$129 million charge for net losses on the sales of non-core producing properties and related disposal costs. These sales were a significant part of our continuing strategy to upgrade our portfolio in the upstream by divesting non-strategic assets and focusing investment on high-return, high-impact opportunities. Our results also included a special charge of \$15 million for crude oil and gas royalty settlements and \$126 million for the write-downs of assets, mostly in the Gulf of Mexico and Gulf Coast. These impairments were caused by downward revisions in the fourth quarter of 2000 of the estimated volume of the fields' proved reserves and changes in our outlook of future production. We determined that the carrying values of these properties exceeded future undiscounted cash flows. Fair value was determined by discounting expected future cash flows.

Our results for 1999 included a \$30 million charge for the settlement of crude oil royalty valuation issues on federal lands and an \$11 million charge for employee separation costs. The employee separation costs result from the expansion of our 1998 program. Results for 1998 included a charge for employee separation costs of \$29 million. See the section entitled Reorganizations, Restructurings and Employee Separation Programs on page 40 for additional information. During 1999, we also recorded an \$18 million gain on asset sales in California and a \$9 million production tax refund.

Results for 1998 also included asset write-downs of \$51 million for impaired properties in Louisiana and Canada. The impaired Louisiana property represents an unsuccessful enhanced recovery project, which we determined to be impaired in the fourth quarter of 1998. The Canadian properties were impaired following our decision in October 1998 to exit the upstream business in Canada. These properties were written down to their sales price with the sale closing in December 1998.

International Upstream

(Millions of dollars, except as indicated)	2000	1999	1998
Operating income before special items	\$ 1,058	\$ 386	\$ 181
Special items:			
Write-downs of assets	(20)	--	(42)
Gains on major asset sales	90	--	--
Reorganization, restructuring, employee related and other costs	(14)	(2)	(10)
Tax issues	(37)	(24)	--
Total special items	19	(26)	(52)
Operating income	\$ 1,077	\$ 360	\$ 129

Selected operating data:

Net production			
Crude oil and NGL (thousands of barrels a day)	444	490	497
Natural gas available for sale (millions of cubic feet a day)	557	537	548
Average realized crude price (dollars per barrel)	\$ 24.83	\$15.23	\$11.20
Average realized natural gas price (dollars per MCF)	\$ 1.58	\$ 1.34	\$ 1.63
Exploratory expenses (millions of dollars)	\$ 238	\$ 267	\$ 204
Lifting costs (dollars per barrel of oil equivalent)	\$ 4.09	\$ 4.37	\$ 3.74
Return on average capital employed before special items	23.2%	10.3%	5.8%
Return on average capital employed	23.6%	9.6%	4.1%

WHAT HAPPENED IN THE INTERNATIONAL AREAS?

Business Factors

PRICES Our earnings increased by \$720 million in 2000 due to sharply higher crude oil and natural gas prices. Our average crude oil price increased by 63% to \$24.83 per barrel. Market conditions kept crude oil prices strong throughout 2000 despite OPEC actions to boost production. Crude oil prices began to improve in 1999, increasing by 36% to \$15.23 per barrel. This was due to worldwide production cutbacks and improved demand. Our average realized natural gas price increased by 18% in 2000 to \$1.58 per MCF. This follows a decrease of 18% in 1999.

PRODUCTION Our production in 2000 declined by 7%. We experienced some declines due to scheduled maintenance and repairs in our U.K. North Sea operations. In Indonesia, we had lower production volumes as higher prices reduced our lifting entitlements for cost

recovery under a production sharing agreement. In addition, the planned sale of non-core producing properties caused 40% of the production decline. These declines were partially offset by increased production in the Partitioned Neutral Zone and the Karachaganak field in the Republic of Kazakhstan. Our production decreased slightly in 1999 due to operating problems in the U.K. North Sea and reduced lifting entitlements in Indonesia. We also experienced lower natural gas production in Latin America. These declines were partially offset by increased production in the Partitioned Neutral Zone as a result of increased drilling activity and development of the Karachaganak field in Kazakhstan.

EXPLORATORY EXPENSES Our exploratory expenses for 2000 were \$238 million. We expensed \$267 million on exploratory activity in 1999, an increase of 31%. This included about \$50 million for an unsuccessful exploratory well offshore Trinidad and \$30 million for prior year drilling expenditures in Thailand, which we wrote off in 1999 after we determined the prospect to be non-commercial.

ITEM 7. INTERNATIONAL NET PROVED RESERVES

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE. SEE APPENDIX, ITEM #7]

Other Factors

Our operating expenses decreased 7% in 2000 in line with production declines. Our lifting costs in 2000 were \$4.09 per BOE, a decrease of 6%. This decrease was due in part to lower U.K. lifting costs. Lifting costs per BOE increased in 1999 by 17%, primarily resulting from lower Indonesian lifting entitlements.

ITEM 8. INTERNATIONAL UPSTREAM CAPITAL AND EXPLORATORY EXPENDITURES

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE. SEE APPENDIX, ITEM #8]

Special Items

Our results for 2000 included a special benefit of \$90 million for net gains on the sales of non-core producing properties. These sales are part of our continuing strategy to divest non-strategic assets and focus investment on high-return, high-impact opportunities. Results for 2000 also included a special charge of \$14 million for net losses resulting from the Erskine pipeline interruption in the U.K. North Sea, charges of \$37 million for prior years' tax adjustments and a fourth quarter charge of \$20 million for an asset write-down associated with a project in the U.K. North Sea, which we do not plan to develop.

Our results for 1999 included a \$24 million charge for prior years' tax issues in the U.K. and a \$2 million charge for employee separation costs. The employee separation costs result from the expansion of our 1998 program. Results for 1998 included a charge for employee separation costs of \$10 million. See the section entitled Reorganizations, Restructurings and Employee Separation Programs on page 40 for additional information.

Results for 1998 also included a write-down of \$42 million for the impairment of our investment in the Strathspey field in the U.K. North Sea. The Strathspey impairment was caused by a downward revision in the fourth quarter of 1998 of the estimated volume of the field's proved reserves.

LOOKING FORWARD IN THE WORLDWIDE UPSTREAM

We intend to continue to cost-effectively explore for, develop and produce crude oil and natural gas reserves by focusing on high-margin, high-impact projects. We will continue to review our assets for profitability and strategic fit and make selective dispositions, as appropriate. We expect worldwide production to grow an average of two to three percent annually over the next five years. Our growth areas of focus include:

- > Philippines -- where we hold a 45% interest in the Malampaya Deep Water Natural Gas Project, with first production expected by early 2002
- > West Africa -- where we will develop the major Agbami oil field offshore Nigeria
- > U.S. Gulf of Mexico -- where we hold both exploration and production acreage and saw the July 2000 start-up of our Petronius Project
- > U.K. North Sea -- where first production from the second phase (Area B) of the Captain field began in December 2000
- > Venezuela -- where we have a 30% interest in the Hamaca Oil Project, which is under development
- > Kazakhstan -- where we hold interests in the Karachaganak and North Buzachi projects
- > Brazil -- where we have interests in both exploration and development areas

Downstream

In our downstream business, we refine, transport and sell crude oil and products, such as gasoline, fuel oil and lubricants.

Our U.S. downstream includes our share of operations in Equilon and Motiva. Equilon is our joint venture with Shell Oil Company in which we have a 44% interest. The Equilon area includes western and midwestern refining and marketing operations and nationwide trading, transportation and lubricants activities. The Motiva area includes East and Gulf Coast refining and marketing operations. Our results for 2000, 1999 and the last half of 1998 are our share of the earnings of Motiva, our joint venture with Shell and Saudi Refining, Inc., which began operations on July 1, 1998. In accordance with contractual provisions, our ownership interest in Motiva is subject to change. From the start of operations through December 31, 1999 our ownership interest was 32.5%. For the year 2000, our interest was just under 31%. Results for the first half of 1998 are for our 50% share of Star, our joint venture with Saudi Refining, Inc.

Internationally, our wholly-owned downstream operations are reported separately as Latin America and West Africa and Europe. We also have a 50% interest in Caltex, a joint venture with Chevron, which operates in Africa, Asia, Australia, the Middle East and New Zealand.

In the U.S. and international operations, we also have other businesses, which include aviation and marine product sales, lubricants marketing and other refined product trading activity.

United States Downstream

(Millions of dollars, except as indicated)

	2000	1999	1998
Operating income before special items	\$ 243	\$ 287	\$ 276
Special items:			
Write-downs of assets	(10)	(76)	--
Environmental, litigation and royalty issues	(45)	--	--
Losses on major asset sales	(48)	--	--
Reorganization, restructuring, employee related and other costs	18	(11)	(21)
Inventory valuation adjustments	--	8	(34)
Total special items	(85)	(79)	(55)
Operating income	\$ 158	\$ 208	\$ 221
Selected operating data:			
Refinery input (thousands of barrels a day)	524	671	698
Refined product sales (thousands of barrels a day)	1,373	1,347	1,203
Return on average capital employed before special items	9.9%	11.3%	9.6%
Return on average capital employed	6.4%	8.2%	7.7%

WHAT HAPPENED IN THE UNITED STATES?

Equilon Area

These operations contributed \$151 million to our 2000 operating earnings before special items. Our earnings were lower in 2000 as a result of depressed marketing margins as pump prices lagged increases in supply costs in a highly competitive market. Additionally, weak lubricant margins resulting from higher base oil costs negatively impacted earnings. Maintenance activity at the Puget Sound, Martinez and Wood River refineries also contributed to these lower results. These negative factors were partly offset by higher refining margins.

We achieved higher earnings in 1999 from improved West Coast refining margins as a result of industry refinery outages earlier in the year. We also benefited from improved utilization of the Martinez refinery, transportation results and higher trading activity volumes. These improved results were partly offset by operating problems at the Puget Sound refinery early in the year and weak marketing margins.

Motiva Area

These operations contributed \$102 million of our 2000 operating income before special items. Our earnings were higher in 2000 due to improved East and Gulf Coast refining margins stemming from lower industry inventory levels. The year began with low inventory stocks and tight supplies continued throughout the year due to increased demand, industry refinery downtime and unusually cold weather. These improved results were negatively impacted by maintenance activity early in 2000 at the Delaware City and Port Arthur refineries.

Results for 1999 were lower due to weak refining and marketing margins on the East and Gulf Coasts. This weakness resulted from the inability to pass along rising supply costs and from high industry-wide refined product inventory levels. These negative factors were partly offset by improved refinery reliability.

Special Items

Results for 2000, 1999 and 1998 included net special charges of \$85 million, \$79 million and \$55 million, representing our share of special items recorded by our U.S. alliances.

The 2000 charge included \$48 million for the loss on the sale of the Wood River refinery. This sale was completed in June to Tosco Corporation. Our 2000 results also included charges of \$10 million for asset write-downs and \$45 million for environmental, litigation and royalty issues, as well as a benefit of \$18 million for an employee benefits revision.

The 1999 charge included \$76 million for the write-downs of assets to their estimated sales values by Equilon for the intended sales of its El Dorado and Wood River refineries. Equilon completed the sale of the El Dorado refinery to Frontier Oil Corporation in November 1999.

Our 1999 results also included an inventory valuation benefit of \$8 million due to higher 1999 inventory values. This follows a 1998 charge of \$34 million to reflect lower market prices on December 31, 1998 for inventories of crude oil and refined products. We value inventories at the lower of cost or market after initially recording at cost. Inventory valuation adjustments are reversed when prices recover and the associated physical units of inventory are sold.

Our 1999 and 1998 results included net charges of \$11 million and \$21 million for reorganizations, restructurings and employee separation costs. The 1999 charge represents dismantling expenses at a closed refinery, an adjustment to the Anacortes refinery sale and employee separation costs from the expansion of Equilon's and Motiva's 1998 separation programs. The 1998 net charge was for U.S. alliance formation issues. This net charge included \$52 million for employee separation costs and \$45 million for write-downs of closed facilities and surplus equipment to their net realizable value. These facilities included a refinery in Texas, lubricant plants in various states, a sales terminal in Louisiana, and research facilities and equipment in Texas and New York. Also included in net charges were gains of \$76 million from the Federal Trade Commission mandated sale of the Anacortes refinery and Plantation pipeline.

International Downstream

(Millions of dollars, except as indicated)	2000	1999	1998
Operating income before special items	\$ 272	\$ 338	\$ 503
Special items:			
Write-downs of assets	(112)	(23)	--
Environmental, litigation and royalty issues	(5)	--	--
Losses on major asset sales	--	(80)	--
Reorganization, restructuring, employee related and other costs	(12)	(41)	(63)
Tax issues	--	32	--
Inventory valuation adjustments	--	144	(108)
Total special items	(129)	32	(171)
Operating income	\$ 143	\$ 370	\$ 332

Selected operating data:

Refinery input (thousands of barrels a day)	794	820	832
Refined product sales (thousands of barrels a day)	1,752	1,789	1,685
Return on average capital employed before special items	4.4%	5.6%	8.2%
Return on average capital employed	2.3%	6.1%	5.4%

WHAT HAPPENED IN THE INTERNATIONAL AREAS?

Latin America and West Africa

Our operations in Latin America and West Africa contributed \$141 million to our 2000 operating income before special items. Results for 2000 decreased due to lower refining margins as escalating crude costs continued to outpace product price increases in Panama and Guatemala. Rising utility costs and downtime also negatively impacted refining results. Contributing to the decrease were lower marketing margins and volumes in South America and lower margins in Central America and West Africa.

Our 1999 earnings declined due to lower refining margins arising from higher crude costs. Lower marketing margins and lower volumes in Brazil also depressed earnings, but were partially offset by higher refined product sales in our Caribbean and Central American operations.

Europe

Our European operations contributed \$161 million to our 2000 operating income before special items. We achieved higher earnings in 2000 from improved refining margins in the U.K. and the Netherlands. These improvements were partially offset by higher utility costs. Also, results were negatively impacted by lower marketing margins in Europe, as well as higher expenses in the U.K.

Our 1999 results were lower due to poor refining margins as product price increases failed to keep pace with escalating crude costs. Increased refined product sales helped to offset the squeeze on margins.

Caltex

We recognized a loss of \$24 million before special items in 2000 from our Caltex operations. Earnings declined in 2000 due to depressed marketing margins. This reflected the inability to recover rapidly increasing crude oil costs in highly competitive markets. Lower refined product volumes also contributed to the decrease. Although marketing results declined, refining margins improved for the year.

In 1999, our results were adversely impacted by lower refining and marketing margins. These declines were partially offset by an inventory drawdown benefit, lower currency losses and gains on the sales of marketable securities.

ITEM 9. INTERNATIONAL REFINED PRODUCT SALES

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE. SEE APPENDIX, ITEM #9]

Special Items

Results for 2000 included net special charges of \$112 million, primarily related to the write-down of the Panama refinery. We determined that the carrying value of the refinery exceeded undiscounted future cash flows. The impairment of the entire carrying value of the refinery was caused by a final determination in the fourth quarter of 2000 that the unfavorable operating environment and severe downward pressure on profit margins would not improve in the foreseeable future. Our 2000 results also included special charges of \$12 million related to employee separation costs and \$5 million for environmental issues. See the section entitled Reorganizations, Restructurings and Employee Separation Programs on page 40 for additional information. Results for 1999 included net special benefits of \$32 million, while 1998 included net special charges of \$171 million. Special items relating to Caltex represent our 50% share.

Results for 1999 included inventory valuation benefits of \$144 million due to higher 1999 inventory values. This follows a 1998 charge of \$108 million to reflect lower market prices on December 31, 1998 for inventories of crude oil and refined products, as well as additional charges recorded in prior years. We value inventories at the lower of cost or market, after initially recording at cost. Inventory valuation adjustments are reversed when prices recover and the associated physical units of inventory are sold.

Results for 1999 included a charge of \$23 million for the write-downs of assets. These write-downs on properties to be disposed of include \$10 million for marketing assets in our subsidiary in Poland and \$13 million for assets in our Caltex operations.

Our 1999 results included a \$9 million charge for employee separation costs for our subsidiaries operating in Europe and Latin America. These costs resulted from the expansion of our 1998 program. Results for 1998 included a charge for employee separation costs of \$20 million. See the section entitled Reorganizations, Restructurings and Employee Separation Programs on page 40 for additional information.

Results for 1999 also included charges of \$80 million related to our share of the Caltex loss on the sale of its equity interest in Koa Oil Company, Limited, including deferred currency translation net losses. Additionally, our results for 1999 included a Caltex Korean tax benefit of \$54 million due to asset revaluation and \$22 million for prior year tax charges in the U.K.

Results for 1999 and 1998 included other charges of \$32 million and \$43 million, representing our share of a Caltex reorganization program. The 1999 charge represented continued expenses related to the 1998 program. The 1998 charge resulted from its decision to structure the organization along functional lines and to reduce costs by establishing a shared service center in the Philippines. In implementing this change, Caltex also relocated its headquarters from Dallas to Singapore. About \$35 million of the 1998 charge relates to severance and other retirement benefits for about 200 employees not relocating, write-downs of surplus furniture and equipment, and other costs. The balance of the charge is for severance costs in other affected areas and amounts spent in relocating employees to the new shared service center.

LOOKING FORWARD IN THE WORLDWIDE DOWNSTREAM

We intend to do the following in our worldwide downstream:

- > Pursue marketing growth opportunities in selected areas
- > Continue to focus on lowering costs
- > Focus on business opportunities in areas of trading, transportation and lubricants

Global Gas, Power and Energy Technology

(Millions of dollars, except as indicated)	2000	1999	1998
Operating income (loss) before special items	\$ 50	\$ 21	\$(33)
Special items:			
Write-downs of assets	--	(32)	--
Gain on major asset sale	--	--	20
Reorganization, restructuring, employee related and other costs	--	(3)	(3)
Total special items	--	(35)	17
Operating income (loss)	\$ 50	\$ (14)	\$(16)
Natural gas sales (millions of cubic feet per day)	3,476	3,134	3,764
Net power sales (gigawatt hours)	5,644	4,353	4,395

Global gas, power and energy technology includes marketing of natural gas and natural gas liquids, gas processing plants, pipelines, power generation plants, gasification licensing and equity plants, fuel processing, hydrocarbons-to-liquids, hydrogen storage systems and fuel cell technology units. Gasification is a proprietary technology that converts low-value hydrocarbons into useful synthesis gas for the chemical, refining and power industries. In 2000, we purchased a 20% interest in Energy Conversion Devices, Inc. (ECD). ECD develops and commercializes enabling technologies for use in the fields of energy storage and information technology. We formed two joint ventures with ECD, to further develop and commercialize fuel cells and hydrogen storage products. We also formed a joint venture with a subsidiary of Enron Corp. that combined the companies' intrastate pipeline and storage businesses in south Louisiana.

Our gas marketing and trading results in 2000 benefited from improved natural gas liquids and natural gas margins.

Our gas marketing operating results in 1999 benefited from improved natural gas liquids margins. Also included in our 1999 results are gains on normal asset sales and lower operating expenses. The asset sales included our interest in a U.K. retail gas marketing operation and the sale of a U.S. gas gathering pipeline.

Our operating results for the power and gasification business in 2000 were slightly higher than 1999.

Our 1999 results benefited from higher gasification licensing revenues, cogeneration income and the start-up of new plants in Thailand and Indonesia. This was partially offset by the non-recurring recoupment of development costs in 1998.

Special Items

Results for both 1999 and 1998 included charges of \$3 million for employee separation costs. The 1999 charge resulted from the expansion of our 1998 program. See the section entitled Reorganizations, Restructurings and Employee Separation Programs on page 40 for additional information.

Our 1999 results also included charges of \$32 million for asset write-downs from the impairment of certain gas plants in Louisiana. We determined in the fourth quarter of 1999 that as a result of declining gas volumes available for processing, the carrying value of these plants exceeded future undiscounted cash flows. Fair value was determined by discounting expected future cash flows. Our 1998 results also included a gain of \$20 million on the sale of an interest in our Discovery pipeline affiliate.

LOOKING FORWARD IN GLOBAL GAS, POWER AND ENERGY TECHNOLOGY

We believe there is great promise with emerging energy technologies. Accordingly, we are pursuing opportunities utilizing gasification, hydrocarbons-to-liquids and fuel cell technologies. We continue to develop power projects in conjunction with our exploration, production and refining needs. Our future plans include:

- > Developing power projects where significant reserves of natural gas require commercialization
- > Expanding our gasification technology to commercialize this environmentally friendly technology
- > Using our technology to develop opportunities in the fuel cell, fuel processing, hydrogen storage and hydrocarbons-to-liquids businesses

Other Business Units

(Millions of dollars)	2000	1999	1998
Operating loss	\$ (11)	\$(3)	\$(2)

Our other business units mainly include our insurance operations. There were no significant items in our three-year results.

Corporate/Non-operating

(Millions of dollars)	2000	1999	1998
Results before special items	\$ (502)	\$ (481)	\$ (412)
Special items:			
Write-downs of assets	(4)	(26)	--
Environmental, litigation and royalty issues	(73)	(12)	--
Loss on major asset sales	(7)	--	--
Reorganization, restructuring, employee related and other costs	--	(6)	(18)
Tax issues	133	89	25
Tax benefits on asset sales	70	40	43
Merger costs	(10)	--	--
Total special items	109	85	50
Total Corporate/Non-operating	\$ (393)	\$ (396)	\$ (362)

Corporate/Non-operating includes our corporate center and financing activities. Our 2000 results included lower interest and higher corporate expenses. The increase in corporate expenses included spending for our Olympic sponsorship program and increased incentive compensation for employees associated with the higher level of earnings. Results for 1999 included higher interest expense resulting from increases in debt levels.

Special Items

Results for 2000 included a tax benefit of \$133 million for favorable income tax settlements and adjustments to prior years' tax liabilities and tax benefits of \$70 million on the sale of an interest in a subsidiary. Also included are charges of \$73 million for environmental and litigation issues, \$10 million for merger costs, \$7 million for early extinguishment of debt associated with the sale of a U.K. North Sea offshore producing field and \$4 million for write-downs of assets.

Results for 1999 included tax benefits of \$89 million. These are associated with favorable determinations in the fourth quarter on prior years' tax issues. Results for 1999 and 1998 included tax benefits of \$40 million and \$43 million from the sales of interests in a subsidiary. Additionally, results for 1998 included a benefit of \$25 million to adjust for prior years' federal tax liabilities.

Our 1999 results also included a \$6 million charge for employee separation costs. These costs resulted from the expansion of our 1998 program. Results for 1998 included a charge for employee separations of \$18 million. See the section entitled Reorganizations, Restructurings and Employee Separation Programs on page 40 for additional information.

We also recorded in 1999 charges of \$12 million for environmental issues and \$26 million for the impairment of assets and related disposal costs. The assets write-downs resulted from our joint plan with state and local agencies to convert for third-party industrial use idle facilities formerly used in research activities. The facilities and equipment were written down to their appraised values.

OTHER ITEMS

Liquidity and Capital Resources

INTRODUCTION The Consolidated Statement of Cash Flows on page 51 reports the changes in cash balances for the last three years, and summarizes the inflows and outflows of cash between operating, investing and financing activities. Our cash requirements are met by cash from operations and the proceeds from the sale of non-strategic assets, supplemented by outside borrowings and sales of investment instruments, if needed.

INFLOWS Cash from operating activities represents net income adjusted for non-cash charges or credits, such as depreciation, depletion and amortization, and changes in working capital and other balances. Operating cash flows for 2000 of \$3,864 million benefited mainly from higher crude oil and natural gas prices partially offset by lower crude oil and natural gas production. For more detailed insight into our financial and operational results, see Analysis of Income by Operating Segments on the preceding pages.

Other cash inflows in 2000 represent the proceeds from asset sales of \$684 million, mainly of non-strategic assets. As discussed earlier, these assets are producing properties that no longer fit our business strategy of focusing on high-margin, high-impact projects.

OUTFLOWS Capital expenditures were \$2,974 million in 2000. The section on page 41 describes in more detail our capital and exploratory spending.

Net borrowings in 2000 decreased by \$444 million compared to a net increase of \$290 million in 1999. This year's decrease reflects debt repayments of \$2,167 million and increased borrowings of \$1,723 million which includes the issuance of \$530 million of medium-term notes. During the year, we increased commercial paper by \$340 million to \$1,439 million. See Note 9 to the financial statements for total outstanding debt, including 2000 borrowings. We maintain strong credit ratings and access to global financial markets providing us flexibility to borrow funds at low capital costs.

Our senior debt is rated A+ by Standard & Poor's Corporation and A1 by Moody's Investors Services. Our U.S. commercial paper is rated A-1 by Standard & Poor's and Prime-1 by Moody's. These ratings denote high-quality investment grade securities. Our debt has an average maturity of 10 years and a weighted average interest rate of 6.9%. We increased our revolving credit facilities to \$2.575 billion at December 31, 2000 from \$2.05 billion at years ended 1999 and 1998. These facilities remain unused and provide liquidity and support our commercial paper program.

Payments of dividends were \$1,116 million in 2000: \$976 million to common, \$15 million to preferred and \$125 million to shareholders who hold a minority interest in Texaco subsidiary companies.

Purchases of common stock were \$169 million in 2000. In March of 2000, we resumed purchasing common stock under the \$1 billion common stock repurchase program we initiated in early 1998. Including the purchases of \$169 million in 2000, this brings our total purchases under this program, including \$474 million purchased in 1998, to \$643 million. No shares were repurchased in 1999. We suspended the repurchase program following the October 2000 announcement of the proposed merger with Chevron Corporation.

Other cash outflows in 2000 reflect the net purchases of investment instruments of \$61 million. The following year-end table reflects our key financial indicators:

(Millions of dollars, except as indicated)	2000	1999	1998
Current ratio	1.18	1.05	1.07
Total debt	\$ 7,191	\$ 7,647	\$ 7,291
Average years debt maturity	10	10	10
Average interest rates	6.9%	7.0%	7.0%
Minority interest in subsidiary companies	\$ 713	\$ 710	\$ 679
Stockholders' equity	\$13,444	\$12,042	\$11,833
Total debt to total borrowed and invested capital	33.7%	37.5%	36.8%

OUTLOOK We consider our financial position to be sufficiently strong to meet our anticipated future requirements. Our financial policies and procedures afford us flexibility to meet the changing landscape of our financial environment. Cash required to service debt maturities in 2001 is projected to be \$585 million. However, we intend to refinance these maturities.

In 2001, we feel our cash from operating activities, coupled with our borrowing capacity, will allow us to meet our Capex program and the payment of dividends.

MANAGING MARKET RISK We are exposed to the following types of market risks:

- > The price of crude oil, natural gas and petroleum products
- > The value of foreign currencies in relation to the U.S. dollar
- > Interest rates

We use contracts, such as futures, options and swaps, in managing our exposure to these risks. We have written policies that govern our use of these instruments and limit our exposure to market and counterparty risks. These arrangements do not expose us to material adverse effects. See Notes 9, 14 and 15 to the financial statements and Supplemental Market Risk Disclosures on page 79 for additional information.

Reorganizations, Restructurings and Employee Separation Programs

In the fourth quarter of 1998, we announced that we were reorganizing several of our operations and implementing other cost-cutting initiatives. The principal units affected were our worldwide upstream; our international downstream, principally our marketing operations in the United Kingdom and Brazil and our refining operations in Panama; global gas marketing, now included as part of our global gas, power and energy technology operating segment; and our corporate center. We accrued \$115 million (\$80 million, net of tax) for employee separations, curtailment costs and special termination benefits associated with these announced restructurings in the fourth quarter of 1998. During the second quarter of 1999, we expanded the employee separation programs and recorded an additional provision of \$48 million (\$31 million, net of tax). For the most part, separation accruals are shown as operating expenses in the Consolidated Statement of Income.

The following table identifies each of our four restructuring initiatives. It provides the provision recorded in the fourth quarter of 1998 and the additional provision recorded in the second quarter of 1999. By the end of the third quarter of 2000, we had satisfied all remaining obligations in accordance with the plan provisions. Cash payments totaled \$151 million, and transfers to long-term obligations totaled \$12 million.

(Millions of dollars)	Provision Recorded in	
	1998	1999
Worldwide upstream	\$ 56	\$ 20
International downstream	25	13
Global gas, power and energy technology	5	4
Corporate center	29	11
Total	\$ 115	\$ 48

At the time we initially announced these programs, we estimated that over 1,400 employee reductions would result. Employee reductions of 800 in worldwide upstream, 300 in international downstream, 100 in global gas, power and energy technology and 200 in our corporate center were expected. During the second quarter of 1999, we expanded the program by about 1,200 employees, made up of 600 employees in worldwide upstream, 250 employees in international downstream, 130 employees in global gas, power and energy technology and 200 employees in our corporate center. By the end of the third quarter of 2000, the estimated

employee reductions were met.

During the first quarter of 2000, we announced an additional employee separation program for our international downstream, primarily our marketing operations in Brazil and Ireland. We accrued \$17 million (\$12 million, net of tax) for employee separations, curtailment costs and special termination benefits for about 200 employees. These separation accruals are included in selling, general and administrative expenses in the Consolidated Statement of Income. Through December 31, 2000, employee reductions totaled 159. The remaining reductions will occur by the end of the first quarter of 2001. During the year 2000, we made cash payments of \$8 million and transfers to long-term obligations of \$8 million. We will pay the remaining obligations of \$1 million in future periods in accordance with plan provisions.

Capital and Exploratory Expenditures

2000 ACTIVITY Worldwide capital and exploratory expenditures, including our share of affiliates, were \$4.2 billion for the year 2000, \$3.9 billion for 1999 and \$4.0 billion for 1998. Expenditures in 2000 included increased development work in upstream projects. Expenditures were geographically and functionally split as follows:

ITEM 10. CAPITAL AND EXPLORATORY EXPENDITURES -- GEOGRAPHICAL

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE. SEE APPENDIX, ITEM #10]

ITEM 11. CAPITAL AND EXPLORATORY EXPENDITURES -- FUNCTIONAL

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE. SEE APPENDIX, ITEM #11]

EXPLORATION AND PRODUCTION Significant areas of investment included:

- > Exploration and development work in West Africa where we announced the major Agbami oil discovery offshore Nigeria in 1999
- > Development of the Malampaya Deep Water Natural Gas Project in the Philippines
- > Development work in Kazakhstan on the Karachaganak and North Buzachi fields
- > Development work on the Captain B project in the U.K. North Sea
- > Acquisition of EnerVest San Juan Acquisition Partnership in December 2000

OTHER Significant areas of investment included:

- > Acquisition of a 20% interest in Energy Conversion Devices, Inc. in June 2000
- > Development of the Thailand power project in which we have a 37.5% interest

The following table details our capital and exploratory expenditures:

(Millions of dollars)	2000			1999			1998		
	U.S.	Inter-national	Total	U.S.	Inter-national	Total	U.S.	Inter-national	Total
Exploration and production									
Exploratory expenses	\$ 120	\$ 238	\$ 358	\$ 234	\$ 267	\$ 501	\$ 257	\$ 204	\$ 461
Capital expenditures	968	1,729	2,697	666	1,556	2,222	1,179	1,015	2,194
Total exploration and production	1,088	1,967	3,055	900	1,823	2,723	1,436	1,219	2,655
Refining, marketing and distribution	405	380	785	379	487	866	431	717	1,148
Global gas, power and energy technology	164	169	333	103	176	279	124	61	185
Other	61	--	61	18	7	25	29	2	31
Total	\$ 1,718	\$ 2,516	\$ 4,234	\$ 1,400	\$ 2,493	\$ 3,893	\$ 2,020	\$ 1,999	\$ 4,019
Total, excluding affiliates	\$ 1,279	\$ 2,210	\$ 3,489	\$ 1,012	\$ 2,051	\$ 3,063	\$ 1,528	\$ 1,496	\$ 3,024

2001

Spending for the year 2001 is expected to be \$4.5 billion. In the upstream, spending continues to be allocated to our large-impact projects in West Africa, Venezuela, Kazakhstan, the Philippines and the North Sea. Major exploration programs are under way in our key focus areas of Nigeria, Brazil and the deepwater Gulf of Mexico. International marketing will increase spending in the U.K., Latin America and West Africa. Increases in spending are also anticipated for our international refinery system, particularly the Pembroke refinery in Wales. Our global gas, power and energy technology business continues to grow and has identified additional power generation and gasification projects and natural gas business opportunities. In addition, increased spending for our fuel cell and hydrogen storage joint ventures is anticipated.

Environmental Matters

The cost of compliance with federal, state and local environmental laws in the U.S. and international countries continues to be substantial. Using definitions and guidelines established by the American Petroleum Institute, our 2000 environmental spending was \$686 million. This includes our equity share in the environmental expenditures of our major affiliates, Equilon, Motiva and the Caltex Group of Companies. The following table provides our environmental expenditures for the past three years:

(Millions of dollars)	2000	1999	1998
Capital expenditures	\$ 110	\$ 118	\$ 175
Non-capital:			
Ongoing operations	436	391	495
Remediation	109	98	93
Restoration and abandonment	31	26	44
Total environmental expenditures	\$ 686	\$ 633	\$ 807

CAPITAL EXPENDITURES

Our spending for capital projects in 2000 was \$110 million. These expenditures were made to comply with clean air and water regulations as well as waste management requirements. Worldwide capital expenditures projected for 2001 and 2002 are \$178 million and \$154 million.

ONGOING OPERATIONS

In 2000, environmental expenses charged to current operations were \$436 million. These expenses related largely to the production of cleaner-burning gasoline and the execution of our environmental programs.

REMEDIATION

Remediation Costs and Liabilities

Our worldwide remediation expenditures in 2000 were \$109 million. This included \$12 million spent on the remediation of Superfund waste sites. At the end of 2000, we had liabilities of \$428 million for the estimated cost of our known environmental liabilities. This includes \$41 million for the cleanup of Superfund waste sites. We have accrued for these remediation liabilities based on currently available facts, existing technology and presently enacted laws and regulations. It is not possible to project overall costs beyond amounts disclosed due to the uncertainty surrounding future developments in regulations or until new information becomes available.

Superfund Sites

Under the Comprehensive Environmental Response, Compensation and Liability Act, the U.S. Environmental Protection Agency (EPA) and other regulatory agencies have identified us as a potentially responsible party (PRP) for cleanup of Superfund waste sites. We have determined that we may have potential exposure, though limited in most cases, at 183 Superfund waste sites. Of these sites, 106 are on the EPA's National Priority List. Under Superfund, liability is joint and several. That is, each PRP at a site can be held liable individually for the entire cleanup cost of the site. We are, however, actively pursuing the sharing of Superfund costs with other identified PRPs. The sharing of these costs is on the basis of weight, volume and toxicity of the materials contributed by the PRP.

RESTORATION AND ABANDONMENT COSTS AND LIABILITIES

Expenditures in 2000 for restoration and abandonment of our oil and gas producing properties amounted to \$31 million. At year-end 2000, accruals to cover the cost of restoration and abandonment were \$749 million.

 We make every reasonable effort to fully comply with applicable governmental regulations. Changes in these regulations, as well as our continuous re-evaluation of our environmental programs, may result in additional future costs. We believe that any mandated future costs would be recoverable in the marketplace since all companies within our industry would be facing similar requirements. However, we do not believe that such future costs would be material to our financial position or to our operating results over any

reasonable period of time.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes new accounting rules and disclosure requirements for most derivative instruments and hedge transactions. In June 1999, the FASB issued SFAS 137, which deferred the effective date of SFAS 133. This was followed in June 2000 by the issuance of SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which amended SFAS 133.

These standards require that all applicable derivative financial instruments be recorded in the Consolidated Balance Sheet at fair value. For derivatives accounted for as hedges, fair value adjustments are recorded to earnings or directly to equity, depending upon the type of hedge and the degree of hedge effectiveness. For hedges classified as fair value hedges, adjustments are also recorded to the carrying amount of the hedged item through earnings. For derivatives not accounted for as hedges, fair value adjustments are recorded to earnings.

We are adopting these standards effective January 1, 2001. The cumulative effects of adoption at that date on net income and other comprehensive income are not material to net income and stockholders' equity.

Euro Conversion

On January 1, 1999, 11 of the 15 member countries of the European Union established fixed conversion rates between their existing currencies and one common currency -- the euro. The euro began trading on world currency exchanges at that time and may be used in business transactions. On January 1, 2002, new euro-denominated bills and coins will be issued, and legacy currencies will be completely withdrawn from circulation by June 30 of that year.

Prior to introduction of the euro, our operating subsidiaries affected by the euro conversion completed computer systems upgrades and fiscal and legal due diligence to ensure our euro readiness. Computer systems have been adapted to ensure that all our operating subsidiaries have the capability to comply with necessary business requirements and customer/supplier preferences. Legal due diligence was conducted to ensure post-euro continuity of contracts, and fiscal reviews were completed to ensure compatibility with our banking relationships. We, therefore, experienced no major impact on our current business operations as a result of the introduction of the euro. Our operating subsidiaries affected by the euro conversion are formulating plans to accommodate all euro-denominated transactions and triangulation conventions by January 1, 2002, and some of these operations have already implemented the utilization of the euro as a transactional currency.

We continue to review our marketing and operational policies and procedures to ensure our ability to continue to successfully conduct all aspects of our business in this new, price-transparent market. We believe that the euro conversion will not have a material adverse impact on our financial condition or results of operations.

California Power Situation

The electric utility deregulation plan adopted by the state of California in 1996 required utilities to dispose of a portion of their power generation assets. As a result, utilities that serve California purchase power on the open market and, in turn, sell power to the retail customers at capped rates. During the fourth quarter of 2000, California's power and gas markets experienced significant price volatility. Increased demand resulted in very high market prices that California utilities paid for power with no certainty they could recover these costs from their customers. As both supplier to and purchaser from the utility companies, Texaco has financial and operational exposure in California. While the possible outcomes for the California utility situation remain uncertain, we believe that they will not have a material adverse impact on our financial condition or results of operations.

Chevron-Texaco Merger

On October 15, 2000, Texaco and Chevron Corporation entered into a merger agreement. In the merger, Texaco shareholders will receive .77 shares of Chevron common stock for each share of Texaco common stock they own, and Chevron shareholders will retain their existing shares.

The new company -- ChevronTexaco Corporation -- will have significantly enhanced positions in upstream and downstream operations, a global chemicals business, a growth platform in power generation, and industry-leading skills in technology innovation. Annual synergy savings of at least \$1.2 billion are expected within six to nine months of the merger. Though not yet fully quantified, significant costs will also be incurred after the merger for integration-related expenses, including the elimination of duplicate facilities, operational realignment and severance payments for workforce reductions.

The merger is conditioned, among other things, on the approval by the shareholders of both companies, pooling of interests accounting treatment for the merger and approvals of government agencies, such as the U.S. Federal Trade Commission (FTC). Texaco and Chevron anticipate that the FTC will require certain divestitures in the U.S. downstream in order to address market concentration issues, and the companies intend to cooperate with the FTC in this process. In that regard, Texaco is in discussions with our partners in the U.S. downstream.

DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements consist of the accounts of Texaco Inc. and subsidiary companies in which we hold direct or indirect voting interest of more than 50%. Intercompany accounts and transactions are eliminated.

The U.S. dollar is the functional currency of all our operations and substantially all of the operations of affiliates accounted for on the equity method. For these operations, translation effects and all gains and losses from transactions not denominated in the functional currency are included in income currently, except for certain hedging transactions. The cumulative translation effects for the equity affiliates using functional currencies other than the U.S. dollar are included in the currency translation adjustment in stockholders' equity.

USE OF ESTIMATES

In preparing Texaco's consolidated financial statements in accordance with generally accepted accounting principles, management is required to use estimates and judgment. While we have considered all available information, actual amounts could differ from those reported as assets and liabilities and related revenues, costs and expenses and the disclosed amounts of contingencies.

REVENUES

We recognize revenues for crude oil, natural gas and refined product sales at the point of passage of title specified in the contract. We record revenues on forward sales where cash has been received to deferred income until title passes.

CASH EQUIVALENTS

We generally classify highly liquid investments with a maturity of three months or less when purchased as cash equivalents.

INVENTORIES

We value inventories at the lower of cost or market, after initially recording at cost. For virtually all inventories of crude oil, petroleum products and petrochemicals, cost is determined on the last-in, first-out (LIFO) method. For other merchandise inventories, cost is generally on the first-in, first-out (FIFO) method. For materials and supplies, cost is at average cost.

INVESTMENTS AND ADVANCES

We use the equity method of accounting for investments in certain affiliates owned 50% or less, including corporate joint ventures, limited liability companies and partnerships. Under this method, we record equity in the pre-tax income or losses of limited liability companies and partnerships, and equity in the net income or losses of corporate joint-venture companies currently in Texaco's revenues, rather than when realized through dividends or distributions.

We record the net income of affiliates accounted for at cost in net income when realized through dividends.

We account for investments in debt securities and in equity securities with readily determinable fair values at fair value if classified as available-for-sale.

PROPERTIES, PLANT AND EQUIPMENT AND DEPRECIATION, DEPLETION AND AMORTIZATION

We follow the "successful efforts" method of accounting for our oil and gas exploration and producing operations.

We capitalize as incurred the lease acquisition costs of properties held for oil, gas and mineral production. We expense as incurred exploratory costs other than wells. We initially capitalize exploratory wells, including stratigraphic test wells, pending further evaluation of whether economically recoverable proved reserves have been found. If such reserves are not found, we charge the well costs to exploratory expenses. For locations not requiring major capital expenditures, we record the charge within one year of well completion. We capitalize intangible drilling costs of productive wells and of development dry holes, and tangible equipment costs. Also capitalized are costs of injected carbon dioxide related to development of oil and gas reserves.

We base our evaluation of impairment for properties, plant and equipment intended to be held on comparison of carrying value against undiscounted future net pre-tax cash flows, generally based on proved developed reserves. If an impairment is identified, we adjust the asset's carrying amount to fair value. We generally account for assets to be disposed of at the lower of net book value or fair value less cost to sell.

We amortize unproved oil and gas properties, when individually significant, by property using a valuation assessment. We generally amortize other unproved oil and gas properties on an aggregate basis over the average holding period for the portion expected to be nonproductive. We amortize productive properties and other tangible and intangible costs of producing activities principally by field. Amortization is based on the unit-of-production basis by applying the ratio of produced oil and gas to estimated recoverable proved oil and gas reserves. We include estimated future restoration and abandonment costs in determining amortization and depreciation rates of productive properties.

We apply depreciation of facilities other than producing properties generally on the group plan, using the straight-line method, with composite rates reflecting the estimated useful life and cost of each class of property. We depreciate facilities not on the group plan individually by estimated useful life using the straight-line method. We exclude estimated salvage value from amounts subject to depreciation. We amortize capitalized non-mineral leases over the estimated useful life of the asset or the lease term, as appropriate, using the straight-line method.

We record periodic maintenance and repairs at manufacturing facilities on the accrual basis. We charge to expense normal maintenance and repairs of all other properties, plant and equipment as incurred. We capitalize renewals, betterments and major repairs that materially extend the useful life of properties and record a retirement of the assets replaced, if any.

When capital assets representing complete units of property are disposed of, we credit or charge to income the difference between the disposal proceeds and net book value.

ENVIRONMENTAL EXPENDITURES

When remediation of a property is probable and the related costs can be reasonably estimated, we accrue the expenses of environmental remediation costs and record them as liabilities. Recoveries or reimbursements are recorded as an asset when receipt is assured. We expense or capitalize other environmental expenditures, principally maintenance or preventive in nature, as appropriate.

DEFERRED INCOME TAXES

We determine deferred income taxes utilizing a liability approach. The income statement effect is derived from changes in deferred income taxes on the balance sheet. This approach gives consideration to the future tax consequences associated with differences between financial accounting and tax bases of assets and liabilities. These differences relate to items such as depreciable and depletable properties, exploratory and intangible drilling costs, non-productive leases, merchandise inventories and certain liabilities. This approach gives immediate effect to changes in income tax laws upon enactment.

We reduce deferred income tax assets by a valuation allowance when it is more likely than not (more than 50%) that a portion will not be realized. Deferred income tax assets are assessed individually by type for this purpose. This process requires the use of estimates and judgment, as many deferred income tax assets have a long potential realization period.

We do not make provision for possible income taxes payable upon distribution of accumulated earnings of foreign subsidiary companies and affiliated corporate joint-venture companies when such earnings are deemed to be permanently reinvested.

ACCOUNTING FOR CONTINGENCIES

Certain conditions may exist as of the date financial statements are issued, which may result in a loss to the company, but which will only be resolved when one or more future events occur or fail to occur. Such contingent liabilities are assessed by the company's management and legal counsel. The assessment of loss contingencies necessarily involves an exercise of judgment and is a matter of opinion. In assessing loss contingencies related to legal proceedings that are pending against the company or unasserted claims that may result in such proceedings, the company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material liability had been incurred and the amount of the loss can be estimated, then the estimated liability would be accrued in the company's financial statements. If the assessment indicates that a potentially material liability is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the company may disclose contingent liabilities of an unusual nature which, in the judgment of management and its legal counsel, may be of interest to stockholders or others.

CONSOLIDATED STATEMENT OF CASH FLOWS

We present cash flows from operating activities using the indirect method and reflect our capital expenditures as investing activities.

CONSOLIDATED STATEMENT OF INCOME

(Millions of dollars) For the years ended December 31	2000	1999	1998
Revenues			
Sales and services (includes transactions with significant affiliates of \$7,811 million in 2000, \$4,839 million in 1999 and \$4,169 million in 1998)	\$ 50,100	\$ 34,975	\$ 30,910
Equity in income of affiliates, interest, asset sales and other	1,030	716	797
Total revenues	51,130	35,691	31,707
Deductions			
Purchases and other costs (includes transactions with significant affiliates of \$3,266 million in 2000, \$1,691 million in 1999 and \$1,669 million in 1998)	39,576	27,442	24,179
Operating expenses	2,808	2,319	2,508
Selling, general and administrative expenses	1,291	1,186	1,224
Exploratory expenses	358	501	461
Depreciation, depletion and amortization	1,917	1,543	1,675
Interest expense	458	504	480
Taxes other than income taxes	379	334	423
Minority interest	125	83	56
	46,912	33,912	31,006
Income before income taxes and cumulative effect of accounting change	4,218	1,779	701
Provision for income taxes	1,676	602	98
Income before cumulative effect of accounting change	2,542	1,177	603
Cumulative effect of accounting change	--	--	(25)
Net income	\$ 2,542	\$ 1,177	\$ 578
Net Income Per Common Share (dollars)			
Basic:			
Income before cumulative effect of accounting change	\$ 4.66	\$ 2.14	\$ 1.04
Cumulative effect of accounting change	--	--	(.05)
Net income	\$ 4.66	\$ 2.14	\$.99
Diluted:			
Income before cumulative effect of accounting change	\$ 4.65	\$ 2.14	\$ 1.04
Cumulative effect of accounting change	--	--	(.05)
Net income	\$ 4.65	\$ 2.14	\$.99
Average Number of Common Shares Outstanding (for computation of earnings per share) (thousands)			
Basic	542,322	535,369	528,416
Diluted	543,952	537,860	528,965

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(Millions of dollars) As of December 31	2000	1999
Assets		
Current Assets		
Cash and cash equivalents	\$ 207	\$ 419
Short-term investments - at fair value	46	29
Accounts and notes receivable (includes receivables from significant affiliates of \$667 million in 2000 and \$585 million in 1999), less allowance for doubtful accounts of \$27 million in 2000 and 1999	5,583	4,060
Inventories	1,023	1,182
Deferred income taxes and other current assets	194	273
Total current assets	7,053	5,963
Investments and Advances	6,889	6,426
Net Properties, Plant and Equipment	15,681	15,560
Deferred Charges	1,244	1,023
Total	\$ 30,867	\$ 28,972
Liabilities and Stockholders' Equity		
Current Liabilities		
Notes payable, commercial paper and current portion of long-term debt	\$ 376	\$ 1,041
Accounts payable and accrued liabilities (includes payables to significant affiliates of \$146 million in 2000 and \$61 million in 1999)		
Trade liabilities	3,314	2,585
Accrued liabilities	1,347	1,203
Estimated income and other taxes	947	839
Total current liabilities	5,984	5,668
Long-Term Debt and Capital Lease Obligations	6,815	6,606
Deferred Income Taxes	1,547	1,468
Employee Retirement Benefits	1,118	1,184
Deferred Credits and Other Non-Current Liabilities	1,246	1,294
Minority Interest in Subsidiary Companies	713	710
Total	17,423	16,930
Stockholders' Equity		
Market auction preferred shares	300	300
Unearned employee compensation and benefit plan trust	(310)	(306)
Common stock - shares issued: 567,576,504 in 2000 and 1999	1,774	1,774
Paid-in capital in excess of par value	1,301	1,287
Retained earnings	11,297	9,748
Other comprehensive income	(130)	(119)
	14,232	12,684
Less - Common stock held in treasury, at cost	788	642
Total stockholders' equity	13,444	12,042
Total	\$ 30,867	\$ 28,972

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Shares	Amount	Shares	Amount	Shares	Amount
(Shares in thousands; amounts in millions of dollars)	2000		1999		1998	
Preferred Stock						
par value \$1; shares authorized - 30,000,000						
Market Auction Preferred Shares (Series G, H, I and J) -- liquidation preference of \$250,000 per share						
Beginning and end of year	1	\$ 300	1	\$ 300	1	\$ 300
Series B ESOP Convertible Preferred Stock						
Beginning of year	--	--	649	389	693	416
Redemptions	--	--	(587)	(352)	--	--
Retirements	--	--	(62)	(37)	(44)	(27)
End of year	--	--	--	--	649	389
Series F ESOP Convertible Preferred Stock						
Beginning of year	--	--	53	39	56	41
Redemptions	--	--	(53)	(39)	--	--
Retirements	--	--	--	--	(3)	(2)
End of year	--	--	--	--	53	39
Unearned Employee Compensation (related to ESOP and restricted stock awards)						
Beginning of year		(66)		(94)		(149)
Awards		(30)		(18)		(36)
Amortization and other		26		46		91
End of year		(70)		(66)		(94)
Benefit Plan Trust (common stock)						
Beginning and end of year	9,200	(240)	9,200	(240)	9,200	(240)
Common Stock par value \$3.125; shares authorized -- 850,000,000						
Beginning of year	567,577	1,774	567,606	1,774	567,606	1,774
Monterey acquisition adjustment	--	--	(29)	--	--	--
End of year	567,577	1,774	567,577	1,774	567,606	1,774
Common Stock Held in Treasury, at Cost						
Beginning of year	14,469	(642)	32,976	(1,435)	25,467	(956)
Redemption of Series B and Series F ESOP Convertible Preferred Stock	--	--	(16,180)	699	--	--
Purchases of common stock	3,331	(169)	--	--	9,572	(551)
Other - mainly employee benefit plans	(386)	23	(2,327)	94	(2,063)	72
End of year	17,414	\$ (788)	14,469	\$ (642)	32,976	\$ (1,435)

See accompanying notes to consolidated financial statements.

(Continued on next page.)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Millions of dollars)	2000	1999	1998
Paid-in Capital in Excess of Par Value			
Beginning of year	\$ 1,287	\$ 1,640	\$ 1,688
Redemption of Series B and Series F ESOP Convertible Preferred Stock	--	(308)	--
Monterey acquisition adjustment	--	(2)	--
Treasury stock transactions relating to investor services plan and employee compensation plans	14	(43)	(48)
End of year	1,301	1,287	1,640
Retained Earnings			
Balance at beginning of year	9,748	9,561	9,987
Add:			
Net income	2,542	1,177	578
Tax benefit associated with dividends on unallocated ESOP Convertible Preferred Stock and Common Stock	--	2	3
Deduct: Dividends declared on Common stock (\$1.80 per share in 2000, 1999 and 1998)	976	964	952
Preferred stock			
Series B ESOP Convertible Preferred Stock	--	17	38
Series F ESOP Convertible Preferred Stock	--	2	4
Market Auction Preferred Shares (Series G, H, I and J)	17	9	13
Balance at end of year	11,297	9,748	9,561
Other Comprehensive Income			
Currency translation adjustment			
Beginning of year	(99)	(107)	(105)
Change during year	(7)	8	(2)
End of year	(106)	(99)	(107)
Minimum pension liability adjustment			
Beginning of year	(23)	(24)	(16)
Change during year	(4)	1	(8)
End of year	(27)	(23)	(24)
Unrealized net gain on investments			
Beginning of year	3	30	26
Change during year	--	(27)	4
End of year	3	3	30
Total other comprehensive income	(130)	(119)	(101)
Stockholders' Equity			
End of year (including preceding page)	\$ 13,444	\$ 12,042	\$ 11,833

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Millions of dollars) For the years ended December 31	2000	1999	1998
Net Income	\$ 2,542	\$ 1,177	\$ 578
Other Comprehensive Income:			
Currency translation adjustment			
Reclassification to net income of realized loss on sale of affiliate	--	17	--
Other unrealized net change during period	(7)	(9)	(2)
Total	(7)	8	(2)
Minimum pension liability adjustment			
Before income taxes	(5)	1	(16)
Income taxes	1	--	8
Total	(4)	1	(8)
Unrealized net gain on investments			
Net gain (loss) arising during period			
Before income taxes	1	12	35
Income taxes	--	(2)	(11)
Reclassification to net income of net realized (gain) or loss			
Before income taxes	(1)	(48)	(31)
Income taxes	--	11	11
Total	--	(27)	4
Total other comprehensive income	(11)	(18)	(6)
Total comprehensive income	\$ 2,531	\$ 1,159	\$ 572

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Millions of dollars) For the years ended December 31

	2000	1999	1998
=====			
Operating Activities			
Net income	\$ 2,542	\$ 1,177	\$ 578
Reconciliation to net cash provided by (used in) operating activities			
Cumulative effect of accounting change	--	--	25
Depreciation, depletion and amortization	1,917	1,543	1,675
Deferred income taxes	134	(140)	(152)
Minority interest in net income	125	83	56
Dividends from affiliates, greater than equity in income	77	233	224
Gains on asset sales	(141)	(87)	(109)
Changes in operating working capital			
Accounts and notes receivable	(1,549)	(637)	125
Inventories	131	(28)	(51)
Accounts payable and accrued liabilities	621	382	16
Other - mainly estimated income and other taxes	50	130	(205)
Other - net	(43)	29	(89)
	-----	-----	-----
Net cash provided by operating activities	3,864	2,685	2,093
	-----	-----	-----
Investing Activities			
Capital expenditures	(2,974)	(2,473)	(2,650)
Proceeds from asset sales	684	321	282
Sales (purchases) of leasehold interests	--	(23)	25
Purchases of investment instruments	(340)	(432)	(947)
Sales/maturities of investment instruments	279	778	1,118
Collection of note/formation payments from U.S. affiliate	--	101	612
	-----	-----	-----
Net cash used in investing activities	(2,351)	(1,728)	(1,560)
	-----	-----	-----
Financing Activities			
Borrowings having original terms in excess of three months			
Proceeds	808	2,353	1,300
Repayments	(2,167)	(1,080)	(741)
Net increase (decrease) in other borrowings	915	(983)	493
Purchases of common stock	(169)	--	(579)
Dividends paid to the company's stockholders			
Common	(976)	(964)	(952)
Preferred	(15)	(28)	(53)
Dividends paid to minority stockholders	(125)	(55)	(52)
	-----	-----	-----
Net cash used in financing activities	(1,729)	(757)	(584)
	-----	-----	-----
Cash and Cash Equivalents			
Effect of exchange rate changes	4	(30)	(11)
	-----	-----	-----
Increase (decrease) during year	(212)	170	(62)
Beginning of year	419	249	311
	-----	-----	-----
End of year	\$ 207	\$ 419	\$ 249
	=====	=====	=====

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SEGMENT INFORMATION

Operating segments are based on differences in the nature of their operations, geographic location and internal management reporting. The composition of segments and measure of segment profit are consistent with that used by our Executive Council in making strategic decisions. The Executive Council is headed by the Chairman and Chief Executive Officer and includes, among others, the Senior Vice Presidents having oversight responsibility for our business units.

Operating Segments 2000

(Millions of dollars)	Sales and Services			After-Tax Profit (Loss)	Income Tax Expense (Benefit)	DD&A Expense	Other Non-Cash Items	Capital Expenditures	Assets at Year-End
	Outside	Inter-segment	Total						
Exploration and production									
United States	\$ 3,693	\$2,127	\$ 5,820	\$ 1,518	\$ 806	\$1,148	\$ 203	\$ 975	\$ 8,442
International	3,578	1,504	5,082	1,077	1,149	406	161	1,367	6,343
Refining, marketing and distribution									
United States	6,027	21	6,048	158	119	2	149	8	3,495
International	29,099	393	29,492	143	80	328	182	294	8,865
Global gas, power and energy technology	7,693	223	7,916	50	28	11	10	269	2,580
Segment totals	\$50,090	\$4,268	54,358	2,946	2,182	1,895	705	2,913	29,725
Other business units			30	(11)	(5)	--	(6)	--	341
Corporate/Non-operating			6	(393)	(501)	22	228	61	1,185
Intersegment eliminations			(4,294)	--	--	--	--	--	(384)
Consolidated			\$ 50,100	\$ 2,542	\$ 1,676	\$1,917	\$ 927	\$2,974	\$30,867

Operating Segments 1999

(Millions of dollars)	Sales and Services			After-Tax Profit (Loss)	Income Tax Expense (Benefit)	DD&A Expense	Other Non-Cash Items	Capital Expenditures	Assets at Year-End
	Outside	Inter-segment	Total						
Exploration and production									
United States	\$ 2,166	\$1,547	\$ 3,713	\$ 652	\$ 299	\$ 758	\$ 167	\$ 660	\$ 8,696
International	2,684	924	3,608	360	545	451	30	1,267	5,333
Refining, marketing and distribution									
United States	3,579	18	3,597	208	73	3	78	3	3,714
International	22,114	75	22,189	370	101	220	132	361	8,542
Global gas, power and energy technology	4,422	117	4,539	(14)	(8)	65	10	161	1,297
Segment totals	\$34,965	\$2,681	37,646	1,576	1,010	1,497	417	2,452	27,582
Other business units			32	(3)	(2)	1	--	--	365
Corporate/Non-operating			6	(396)	(406)	45	(1)	21	1,430
Intersegment eliminations			(2,709)	--	--	--	--	--	(405)
Consolidated			\$34,975	\$1,177	\$ 602	\$1,543	\$ 416	\$2,473	\$28,972

Operating Segments 1998

(Millions of dollars)	Sales and Services			After-Tax Profit (Loss)	Income Tax Expense (Benefit)	DD&A Expense	Other Non-Cash Items	Capital Expenditures	Assets at Year-End
	Outside	Inter-segment	Total						
Exploration and production									
United States	\$ 1,712	\$1,659	\$ 3,371	\$ 301	\$ 34	\$ 892	\$ 1	\$1,200	\$ 8,699
International	2,020	695	2,715	129	132	513	18	901	4,345
Refining, marketing and distribution									
United States	2,612	29	2,641	221	88	29	230	1	4,066
International	19,805	106	19,911	332	130	204	135	396	8,214
Global gas, power and energy technology	4,748	76	4,824	(16)	4	15	45	122	1,119
Segment totals	<u>\$30,897</u>	<u>\$2,565</u>	33,462	967	388	1,653	429	2,620	26,443
Other business units			50	(2)	--	1	3	--	381
Corporate/Non-operating			5	(362)	(290)	21	(67)	30	1,945
Intersegment eliminations			(2,607)	--	--	--	--	--	(199)
Consolidated, before cumulative effect of accounting change			<u>\$ 30,910</u>	<u>\$ 603</u>	<u>\$ 98</u>	<u>\$1,675</u>	<u>\$ 365</u>	<u>\$2,650</u>	<u>\$ 28,570</u>

Our exploration and production segments explore for, find, develop and produce crude oil and natural gas. The United States segment in 1998 included minor operations in Canada. Our refining, marketing and distribution segments process crude oil and other feedstocks into refined products and purchase, sell and transport crude oil and refined petroleum products. The global gas, power and energy technology segment includes the U.S. natural gas operations which purchases natural gas and natural gas products from our exploration and production operations and third parties for resale. It also operates natural gas processing plants and pipelines in the United States. Also included in this segment are our power generation, gasification, hydrocarbons-to-liquids, battery and fuel cell technology operations. This segment sold its U.K. wholesale gas business in 1998 and its U.K. retail gas marketing business in 1999. Other business units include our insurance operations and investments in undeveloped mineral properties. None of these units is individually significant in terms of revenue, income or assets.

You are encouraged to read Note 5 which includes information about our affiliates and the formation of the Equilon and Motiva alliances in 1998.

Corporate and non-operating includes the assets, income and expenses relating to cash management and financing activities, our corporate center and other items not directly attributable to the operating segments.

We apply the same accounting policies to each of the segments as we do in preparing the consolidated financial statements. Intersegment sales and services are generally representative of market prices or arms-length negotiated transactions. Intersegment receivables are representative of normal trade balances. Other non-cash items principally include deferred income taxes, the difference between cash distributions and equity in income of affiliates, and non-cash charges and credits associated with asset sales. Capital expenditures are presented on a cash basis, excluding exploratory expenses.

The countries in which we have significant sales and services and long-lived assets are listed below. Sales and services are based on the origin of the sale. Long-lived assets include properties, plant and equipment and investments in foreign operations where the host governments own the physical assets under terms of the operating agreements.

(Millions of dollars)	Sales and Services			Long-lived assets at December 31		
	2000	1999	1998	2000	1999	1998
United States	\$ 17,074	\$ 9,733	\$ 8,184	\$8,018	\$ 8,630	\$ 8,757
International - Total	\$ 33,026	\$ 25,242	\$ 22,726	\$7,879	\$ 7,109	\$ 6,250
Significant countries included above:						
Brazil	3,023	2,404	3,175	336	326	301
Netherlands	2,570	1,955	1,636	232	246	257
Philippines	--	--	--	1,132	554	--
United Kingdom	11,472	9,211	7,529	2,460	2,275	2,257

NOTE 2 ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 1998, Caltex, our affiliate, adopted Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," issued by the American Institute of Certified Public Accountants. This Statement requires that the costs of start-up activities and organization costs, as defined, be expensed as incurred. The cumulative effect of adoption on Texaco's net income for 1998 was a net loss of \$25 million. This Statement was adopted by Texaco and our other affiliates effective January 1, 1999. The effect was not significant.

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes new accounting rules and disclosure requirements for most derivative instruments and hedge transactions. In June 1999, the FASB issued SFAS 137, which deferred the effective date of SFAS 133. This was followed in June 2000 by the issuance of SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which amended SFAS 133.

We are adopting these standards effective January 1, 2001. The cumulative effects of adoption at that date on net income and other comprehensive income are not material to net income and stockholders' equity.

NOTE 3 INCOME PER COMMON SHARE

Basic net income per common share is net income less preferred stock dividend requirements divided by the average number of common shares outstanding. Diluted net income per common share assumes issuance of the net incremental shares from stock options and full conversion of all dilutive convertible securities at the later of the beginning of the year or date of issuance. Common shares held by the benefit plan trust are not considered outstanding for purposes of net income per common share.

(Millions, except per share amounts)	2000			1999			1998		
	Income	Shares	Per Share	Income	Shares	Per Share	Income	Shares	Per Share
For the years ended December 31									
Basic net income:									
Income before cumulative effect of accounting change	\$ 2,542			\$ 1,177			\$ 603		
Less: Preferred stock dividends	(15)			(29)			(54)		
Income before cumulative effect of accounting change, for basic income per share	\$ 2,527	542.3	\$4.66	\$1,148	535.4	\$ 2.14	\$549	528.4	\$ 1.04
Effect of dilutive securities:									
Stock options and restricted stock	3	1.7		3	2.5		--	.4	
Convertible debentures	--	--		--	--		1	.2	
Income before cumulative effect of accounting change, for diluted income per share	\$ 2,530	544.0	\$4.65	\$1,151	537.9	\$ 2.14	\$550	529.0	\$ 1.04

NOTE 4 INVENTORIES

(Millions of dollars)		
As of December 31	2000	1999
Crude oil	\$ 127	\$ 141
Petroleum products and other	732	857
Materials and supplies	164	184
Total	\$ 1,023	\$1,182

At December 31, 2000 and 1999, the excess of estimated market value over the carrying value of inventories was \$210 million and \$194 million.

NOTE 5 INVESTMENTS AND ADVANCES

We account for our investments in affiliates, including corporate joint ventures and partnerships owned 50% or less, on the equity method. Our total investments and advances are summarized as follows:

(Millions of dollars)		
As of December 31	2000	1999
Affiliates accounted for on the equity method		
Exploration and production		
United States	\$ 269	\$ 243
International		
CPI	465	454
Other	145	14
	879	711
Refining, marketing and distribution		
United States		
Equilon	1,724	1,953
Motiva	743	686
Other	5	8
International		
Caltex	1,682	1,685
Other	238	234
	4,392	4,566
Global gas, power and energy technology		
	630	286
Total	5,901	5,563
Miscellaneous investments, long-term receivables, etc., accounted for at:		
Fair value	122	138
Cost, less reserve	866	725
Total	\$ 6,889	\$6,426

Our equity in the net income of affiliates is adjusted to reflect income taxes for limited liability companies and partnerships whose income is directly taxable to us:

(Millions of dollars)			
For the years ended December 31	2000	1999	1998
Equity in net income (loss)			
Exploration and production			
United States	\$ 83	\$ 53	\$ 37
International			
CPI	255	139	107
Other	1	--	(12)
	339	192	132
Refining, marketing and distribution			
United States			
Equilon	98	142	199
Motiva	100	(3)	22
Other	27	--	(3)
International			

Caltex	5	11	(36)
Other	8	27	15
	-----	-----	-----
	238	177	197
Global gas, power and energy technology	36	6	(11)
	-----	-----	-----
Total	\$ 613	\$ 375	\$ 318
	-----	-----	-----
Dividends received	\$ 863	\$ 716	\$ 709
	=====	=====	=====

The undistributed earnings of these affiliates included in our retained earnings were \$2,536 million, \$2,613 million and \$2,846 million as of December 31, 2000, 1999 and 1998.

Caltex Group

We have investments in the Caltex Group of Companies, owned 50% by Texaco and 50% by Chevron Corporation. The Caltex Group consists of P.T. Caltex Pacific Indonesia (CPI), American Overseas Petroleum Limited and subsidiary and Caltex Corporation and subsidiaries (Caltex). This group of companies is engaged in the exploration for and production, transportation, refining and marketing of crude oil and products in Africa, Asia, Australia, the Middle East and New Zealand.

Results for the Caltex Group in 1998 include an after-tax charge of \$50 million (Texaco's share \$25 million) for the cumulative effect of an accounting change. See Note 2 for additional information.

Equilon Enterprises LLC

Effective January 1, 1998, Texaco and Shell Oil Company formed Equilon Enterprises LLC (Equilon), a Delaware limited liability company. Equilon is a joint venture that combined major elements of the companies' western and midwestern U.S. refining and marketing businesses and their nationwide trading, transportation and lubricants businesses. We own 44% and Shell Oil Company owns 56% of Equilon.

The carrying amounts at January 1, 1998, of the principal assets and liabilities of the businesses we contributed to Equilon were \$.2 billion of net working capital assets, \$2.8 billion of net properties, plant and equipment and \$.2 billion of debt. These amounts were reclassified to investment in affiliates accounted for by the equity method.

In April 1998, we received \$463 million from Equilon, representing reimbursement of certain capital expenditures incurred prior to the formation of the joint venture. In July 1998, we received \$149 million from Equilon for certain specifically identified assets transferred for value to Equilon. In February 1999, we received \$101 million from Equilon for the payment of notes receivable.

Motiva Enterprises LLC

Effective July 1, 1998, Texaco, Shell and Saudi Aramco formed Motiva Enterprises LLC (Motiva), a Delaware limited liability company. Motiva is a joint venture that combined Texaco's and Saudi Aramco's interests and major elements of Shell's East and Gulf Coast U.S. refining and marketing businesses. Texaco's and Saudi Aramco's interests in these businesses were previously conducted by Star Enterprise (Star), a joint-venture partnership owned 50% by Texaco and 50% by Saudi Refining, Inc., a corporate affiliate of Saudi Aramco.

From July 1, 1998, through December 31, 1999, Texaco and Saudi Refining, Inc. each owned 32.5% and Shell owned 35% of Motiva. Under the terms of the Limited Liability Agreement for Motiva, the ownership in Motiva is subject to annual adjustment through year-end 2005, based on the performance of the assets contributed to Motiva. Accordingly, the initial ownership in Motiva was adjusted effective as of January 1, 2000, so that for the year 2000, Texaco and Saudi Refining, Inc. each owned just under 31% and Shell owned just under 39% of Motiva. The Agreement provides that a final ownership percentage will be calculated at the end of 2005.

The investment in Motiva at date of formation approximated the previous investment in Star. The Motiva investment and previous Star investment are recorded as investment in affiliates accounted for on the equity method.

The following table provides summarized financial information on a 100% basis for the Caltex Group, Equilon, Motiva, Star and all other affiliates that we account for on the equity method, as well as Texaco's total share of the information. The net income of all limited liability companies and partnerships is net of estimated income taxes. The actual income tax liability is reflected in the accounts of the respective members or partners and is not shown in the following table.

(Millions of dollars)	Equilon	Motiva	Caltex Group	Other Affiliates	Total Texaco's Share
2000					
Gross revenues	\$ 50,010	\$ 19,446	\$ 20,239	\$ 4,163	\$ 39,913
Income before income taxes	\$ 228	\$ 461	\$ 1,088	\$ 408	\$ 993
Net income	\$ 148	\$ 300	\$ 519	\$ 283	\$ 613
As of December 31:					
Current assets	\$ 3,134	\$ 1,381	\$ 2,544	\$ 1,652	\$ 3,782
Non-current assets	6,830	5,110	7,678	4,318	9,656
Current liabilities	(4,587)	(1,150)	(3,385)	(1,280)	(4,650)
Non-current liabilities	(897)	(2,017)	(2,543)	(1,816)	(2,887)
Net equity	\$ 4,480	\$ 3,324	\$ 4,294	\$ 2,874	\$ 5,901

(Millions of dollars)	Equilon	Motiva	Caltex Group	Other Affiliates	Total Texaco's Share
1999					
Gross revenues	\$ 29,398	\$ 12,196	\$ 14,942	\$ 2,895	\$ 25,663
Income (loss) before income taxes	\$ 347	\$ (69)	\$ 780	\$ 348	\$ 679
Net income (loss)	\$ 226	\$ (45)	\$ 390	\$ 232	\$ 375
As of December 31:					
Current assets	\$ 3,426	\$ 1,271	\$ 2,705	\$ 801	\$ 3,452
Non-current assets	7,208	5,307	7,632	2,230	9,335
Current liabilities	(4,853)	(1,278)	(3,395)	(736)	(4,572)
Non-current liabilities	(735)	(2,095)	(2,667)	(792)	(2,652)
Net equity	\$ 5,046	\$ 3,205	\$ 4,275	\$ 1,503	\$ 5,563

(Millions of dollars)	Equilon	Motiva	Star	Caltex Group	Other Affiliates	Total Texaco's Share
1998						
Gross revenues	\$ 22,246	\$ 5,371	\$ 3,190	\$11,522	\$ 2,541	\$ 20,030
Income (loss) before income taxes and cumulative effect of accounting change	\$ 502	\$ 78	\$ (128)	\$ 519	\$ 170	\$ 662
Net income (loss)	\$ 326	\$ 51	\$ (83)	\$ 143	\$ 84	\$ 318
As of December 31:						
Current assets	\$ 2,640	\$ 1,481		\$ 1,974	\$ 687	\$ 2,769
Non-current assets	7,752	5,257		7,684	2,021	9,313
Current liabilities	(4,044)	(1,243)		(2,839)	(727)	(3,924)
Non-current liabilities	(382)	(1,667)		(2,421)	(672)	(2,142)
Net equity	\$ 5,966	\$ 3,828		\$ 4,398	\$ 1,309	\$ 6,016

NOTE 6 PROPERTIES, PLANT AND EQUIPMENT

(Millions of dollars) As of December 31	Gross		Net	
	2000	1999	2000	1999
Exploration and production				
United States	\$19,301	\$21,565	\$ 7,258	\$ 7,822
International	7,418	8,835	4,612	3,804
Total	26,719	30,400	11,870	11,626
Refining, marketing and distribution				
United States	37	33	23	22
International	4,684	4,575	3,031	3,107
Total	4,721	4,608	3,054	3,129
Global gas, power and energy technology	615	748	280	317
Other	766	771	477	488
Total	\$32,821	\$36,527	\$15,681	\$15,560
Capital lease amounts included above	\$ 212	\$ 152	\$ 57	\$ 3

Accumulated depreciation, depletion and amortization totaled \$17,140 million and \$20,967 million at December 31, 2000 and 1999. Interest capitalized as part of properties, plant and equipment was \$76 million in 2000, \$28 million in 1999 and \$21 million in 1998.

In 2000, 1999 and 1998, we recorded pre-tax charges of \$337 million, \$87 million and \$150 million for the write-downs of impaired assets. These charges were recorded to depreciation, depletion and amortization expense.

2000

In the U.S. exploration and production operating segment, pre-tax asset write-downs for impaired properties mostly in the Gulf of Mexico and Gulf Coast were \$203 million. These impairments were caused by downward revisions of the estimated volume of the fields' proved reserves and changes in our outlook of future production. We determined in the fourth quarter of 2000 that the carrying values of these properties exceeded future undiscounted cash flows. Fair value was determined by discounting expected future cash flows.

In the international exploration and production operating segment, the pre-tax asset write-down for the impairment of a project in the U.K. North Sea was \$29 million. The impairment was caused by a determination made in the fourth quarter of 2000 that we do not plan to develop this property.

In the international downstream operating segment, the pre-tax asset write-down for the impairment of the Panama refinery was \$105 million. We determined that the carrying value of the refinery exceeded undiscounted future cash flows. The impairment of the entire carrying value of the refinery was caused by a final determination in the fourth quarter of 2000 that the unfavorable operating environment and downward pressure on profit margins would not improve in the foreseeable future.

1999

In our global gas, power and energy technology operating segment, pre-tax asset write-downs from the impairment of certain gas plants in Louisiana were \$49 million. We determined in the fourth quarter that, as a result of declining gas volumes available for processing, the carrying value of these plants exceeded future undiscounted cash flows. Fair value was determined by discounting expected future cash flows.

Pre-tax asset write-downs of \$28 million included in corporate resulted from our joint plan with state and local agencies to convert for third-party industrial use idle facilities, formerly used in research activities. The facilities and equipment were written down to their appraised values. An additional \$10 million was recorded to bring certain marketing assets of our subsidiary in Poland to be disposed of to their appraised value.

1998

In the U.S. exploration and production operating segment, pre-tax asset write-downs for impaired properties in Louisiana and Canada were \$64 million. The Louisiana property represents an unsuccessful enhanced recovery project. We determined in the fourth quarter of 1998 that the carrying value of this property exceeded future undiscounted cash flows. Fair value was determined by discounting expected future cash flows. Canadian properties were impaired following our decision in October 1998 to exit the upstream business in Canada. These properties were written down to their sales price with the sale closing in December 1998.

In the international exploration and production operating segment, the pre-tax asset write-down for the impairment of our investment in the Strathspey field in the U.K. North Sea was \$58 million. The Strathspey impairment was caused by a downward revision in the fourth quarter of the estimated volume of the field's proved reserves. Fair value was determined by discounting expected future cash flows.

In the U.S. downstream operating segment, the pre-tax asset write-downs for the impairment of surplus facilities and equipment held for sale and not transferred to the Equilon joint venture was \$28 million. Fair value was determined by an independent appraisal.

NOTE 7 FOREIGN CURRENCY

Currency translation effects and currency transactions resulted in pre-tax losses of \$88 million in 2000, \$47 million in 1999 and \$80 million in 1998. After applicable taxes, 2000 included a gain of \$37 million and 1999 included a gain of \$25 million as compared to a loss of \$94 million in 1998.

The after-tax currency gain in 2000 and 1999 related principally to balance sheet translation. After-tax currency impacts for year 1998 were largely due to currency volatility in Asia. In 1998, our Caltex affiliate incurred significant currency-related losses due to the strengthening of the Korean won and Japanese yen against the U.S. dollar.

Results for 1998 through 2000 were also impacted by the effect of currency rate changes on deferred income taxes denominated in British pounds. This results in gains from strengthening of the U.S. dollar and losses from weakening of the U.S. dollar. These effects were gains of \$12 million in 2000 and \$8 million in 1999 and losses of \$5 million in 1998.

Currency translation adjustments shown in the separate stockholders' equity account result from translation items pertaining to certain affiliates of Caltex. For 2000, we recorded unrealized losses of \$7 million from these adjustments. In 1999, we recorded unrealized losses of \$9 million and in addition, we reversed an existing \$17 million deferred loss due to the sale by Caltex of its investment in Koa Oil Company, Limited. As a result, a \$17 million loss was recorded in Texaco's net income as part of the loss on this sale. For the year 1998, currency translation losses recorded to stockholders' equity amounted to \$2 million.

NOTE 8 TAXES

(Millions of dollars)

	2000	1999	1998
Federal and other income taxes			
Current			
U.S. Federal	\$ 278	\$ 100	\$ (45)
Foreign	1,265	678	283
State and local	(1)	(36)	12
Total	1,542	742	250
Deferred			
U.S.	87	(120)	(104)
Foreign	47	(20)	(48)
Total	134	(140)	(152)
Total income taxes	1,676	602	98
Taxes other than income taxes			
Oil and gas production	117	64	70
Property	90	69	108
Payroll	81	91	119
Other	91	110	126

Total	379	334	423
Import duties and other levies			
U.S.	25	34	36
Foreign	6,928	6,937	6,843
Total	6,953	6,971	6,879
Total direct taxes	9,008	7,907	7,400
Taxes collected from consumers	2,519	2,097	2,148
Total all taxes	\$ 11,527	\$ 10,004	\$9,548

The deferred income tax assets and liabilities included in the Consolidated Balance Sheet as of December 31, 2000 and 1999 amounted to \$154 million and \$198 million, as net current assets and \$1,547 million and \$1,468 million, as net non-current liabilities.

The table that follows shows deferred income tax assets and liabilities by category:

(Millions of dollars) As of December 31	(Liability) Asset	
	2000	1999
Depreciation	\$ (831)	\$ (991)
Depletion	(416)	(383)
Intangible drilling costs	(888)	(881)
Other deferred tax liabilities	(788)	(691)
Total	(2,923)	(2,946)
Employee benefit plans	565	548
Tax loss carryforwards	405	599
Tax credit carryforwards	273	495
Environmental liabilities	130	123
Other deferred tax assets	984	711
Total	2,357	2,476
Total before valuation allowance	(566)	(470)
Valuation allowance	(827)	(800)
Total	\$(1,393)	\$(1,270)

The preceding table excludes certain potential deferred income tax asset amounts for which possibility of realization is extremely remote.

The valuation allowance relates principally to upstream operations in Denmark. The related deferred income tax assets result from tax loss carryforwards and book versus tax asset basis differences for a hydrocarbon tax. Loss carryforwards from this tax are generally determined by individual field and, in that case, are not usable against other fields' taxable income.

The following schedule reconciles the differences between the U.S. Federal income tax rate and the effective income tax rate excluding the cumulative effect of accounting change in 1998:

	2000	1999	1998
U.S. Federal income tax rate assumed to be applicable	35.0%	35.0%	35.0%
Net earnings and dividends attributable to affiliated corporations accounted for on the equity method	(2.4)	(3.8)	(7.0)
Aggregate earnings and losses from international operations	12.9	14.4	10.4
U.S. tax adjustments	(3.3)	(5.0)	(8.7)
Sales of stock of subsidiaries	(1.7)	(2.2)	(6.1)
Energy credits	(1.5)	(3.8)	(11.7)
Other	.7	(.8)	2.1
Effective income tax rate	39.7%	33.8%	14.0%

For companies operating in the United States, pre-tax earnings before the cumulative effect of an accounting change aggregated \$1,899 million in 2000, \$484 million in 1999 and \$194 million in 1998. For companies with operations located outside the United States, pre-tax earnings on that basis aggregated \$2,319 million in 2000, \$1,295 million in 1999 and \$507 million in 1998.

Income taxes paid, net of refunds, amounted to \$1,374 million, \$600 million and \$430 million in 2000, 1999 and 1998.

The undistributed earnings of subsidiary companies and of affiliated corporate joint-venture companies accounted for on the equity method, for which deferred U.S. income taxes have not been provided at December 31, 2000, amounted to \$1,995 million and \$2,206 million. The corresponding amounts at December 31, 1999 were \$1,708 million and \$2,187 million. Determination of the unrecognized U.S. deferred income taxes on these amounts is not practicable.

For the years 2000, 1999 and 1998, no loss carryforward benefits were recorded for U.S. Federal income taxes. For the years 2000, 1999 and 1998, the tax benefits recorded for loss carryforwards were \$89 million, \$54 million and \$30 million in foreign income taxes.

At December 31, 2000, we had worldwide tax basis loss carryforwards of approximately \$1,299 million, including \$753 million which do not have an expiration date. The remainder expire at various dates through 2019.

Foreign tax credit carryforwards available for U.S. Federal income tax purposes amounted to approximately \$295 million at December 31, 2000, expiring

at various dates through 2005. Alternative minimum tax credit carryforwards for U.S. Federal income tax purposes were \$258 million at December 31, 2000. For the year 2000, we utilized tax credit carryforwards of \$189 million for U.S. Federal income tax purposes.

NOTE 9 SHORT-TERM DEBT, LONG-TERM DEBT, CAPITAL LEASE OBLIGATIONS AND RELATED DERIVATIVES

Notes Payable, Commercial Paper and Current Portion of Long-Term Debt

(Millions of dollars) As of December 31	2000	1999
=====	=====	=====
Notes payable to banks and others with originating terms of one year or less	\$ 362	\$1,251
Commercial paper	1,439	1,099
Current portion of long-term debt and capital lease obligations		
Indebtedness	986	734
Capital lease obligations	7	7
	-----	-----
	2,794	3,091
Less short-term obligations intended to be refinanced	2,418	2,050
	-----	-----
Total	\$ 376	\$1,041
=====	=====	=====

The weighted average interest rates of commercial paper and notes payable to banks at December 31, 2000 and 1999 were 6.6% and 5.9%.

Long-Term Debt and Capital Lease Obligations

(Millions of dollars) As of December 31	2000	1999
=====		
Long-Term Debt		
3-1/2% convertible notes due 2004	\$ 203	\$ 203
5.5% note due 2009	392	397
5.7% notes due 2008	201	201
6% notes due 2005	299	299
6-7/8% debentures due 2023	196	196
7.09% notes due 2007	150	150
7-1/2% debentures due 2043	198	198
7-3/4% debentures due 2033	199	199
8% debentures due 2032	148	148
8-1/4% debentures due 2006	150	150
8-3/8% debentures due 2022	198	198
8-1/2% notes due 2003	200	200
8-5/8% debentures due 2010	150	150
8-5/8% debentures due 2031	199	199
8-5/8% debentures due 2032	199	199
8-7/8% debentures due 2021	150	150
9-3/4% debentures due 2020	250	250
Medium-term notes, maturing from 2001 to 2043 (7.1%)	1,081	757
Pollution Control Revenue Bonds, due 2012 - variable rate (4.3%)	166	166
Other long-term debt:		
U.S. dollars (6.6%)	248	369
Other currencies (6.4%)	367	472
	-----	-----
Total	5,344	5,251
Capital Lease Obligations (see Note 10)	46	46
	-----	-----
	5,390	5,297
Less current portion of long-term debt and capital lease obligations	993	741
	-----	-----
	4,397	4,556
Short-term obligations intended to be refinanced	2,418	2,050
	-----	-----
Total long-term debt and capital lease obligations	\$6,815	\$6,606
=====		

The percentages shown for variable-rate debt are the interest rates at December 31, 2000. The percentages shown for the categories "Medium-term notes" and "Other long-term debt" are the weighted average interest rates at year-end 2000. Where applicable, principal amounts shown in the preceding schedule include unamortized premium or discount. Texaco Inc. or Texaco Capital Inc., a wholly-owned finance subsidiary of Texaco Inc., has issued all of our publicly traded long-term debt. Texaco Inc. has fully and unconditionally guaranteed all of Texaco Capital Inc.'s outstanding debt. Interest paid, net of amounts capitalized, amounted to \$440 million in 2000, \$480 million in 1999 and \$474 million in 1998.

At December 31, 2000, we had revolving credit facilities with commitments of \$2.575 billion with syndicates of major U.S. and international banks. These facilities are available as support for our issuance of commercial paper as well as for working capital and other general corporate purposes. We had no amounts outstanding under these facilities at year-end 2000. We pay commitment fees on these facilities. The banks reserve the right to terminate the credit facilities upon the occurrence of certain specific events, including a change in control. However, the banks have waived these change in control provisions with respect to the proposed Chevron-Texaco merger.

At December 31, 2000, our long-term debt included \$2.418 billion of short-term obligations scheduled to mature during 2001, which we have both the intent and the ability to refinance on a long-term basis through the use of our \$2.575 billion revolving credit facilities.

Contractual annual maturities of long-term debt, including sinking fund payments and potential repayments resulting from options that debtholders might exercise, for the five years subsequent to December 31, 2000 are as follows (in millions):

2001	2002	2003	2004	2005
\$986	\$201	\$273	\$ 25	\$435

Debt-Related Derivatives

We seek to maintain a balanced capital structure that provides financial flexibility and supports our strategic objectives while achieving a low cost of capital. This is achieved by balancing our liquidity and interest rate exposures. We manage these exposures primarily through long-term and short-term debt on the balance sheet. In managing our exposure to interest rates, we seek

to balance the benefit of lower cost floating rate debt, having refinancing risk, with fixed rate debt not having this risk. To achieve this objective, we also use off-balance sheet derivative instruments, primarily non-leveraged interest rate swaps, to manage identifiable exposures on a non-speculative basis.

Summarized below are the carrying amounts and fair values of our debt and debt-related derivatives at December 31, 2000 and 1999. Our use of derivatives during the periods presented was limited to interest rate swaps, where we either paid or received the net effect of a fixed rate versus a floating rate (commercial paper or

LIBOR) index at specified intervals, calculated by reference to an agreed notional principal amount.

(Millions of dollars) As of December 31	2000	1999
Notes Payable and Commercial Paper:		
Carrying amount	\$ 1,801	\$ 2,350
Fair value	1,801	2,348
Related Derivatives -		
Payable (Receivable):		
Carrying amount	\$ --	\$ --
Fair value	--	(13)
Notional principal amount	\$ --	\$ 300
Weighted average maturity (years)	--	7.3
Weighted average fixed pay rate	--	6.42%
Weighted average floating receive rate	--	6.42%
Long-Term Debt, including		
current maturities:		
Carrying amount	\$ 5,344	\$ 5,251
Fair value	5,465	5,225
Related Derivatives -		
Payable (Receivable):		
Carrying amount	\$ (35)	\$ (19)
Fair value	(7)	55
Notional principal amount	\$ 1,275	\$ 1,294
Weighted average maturity (years)	5.3	5.8
Weighted average fixed receive rate	6.18%	5.69%
Weighted average floating pay rate	6.36%	6.10%
Unamortized net gain on		
terminated swaps		
Carrying amount	\$ 17	\$ 4

Excluded from this table is an interest rate and equity swap with a notional principal amount of \$200 million entered into in 1997, related to the 3-1/2% notes due 2004. We pay a floating rate and receive a fixed rate and the counterparty assumes all exposure for the potential equity-based cash redemption premium on the notes. The fair value of this swap was not significant at year-end 2000 and 1999.

During 2000, floating rate pay swaps aggregating \$549 million notional and fixed rate pay swaps of \$300 million notional were terminated or matured. We initiated \$530 million notional of new floating rate pay swaps in connection with year 2000 debt issues.

Fair values of debt are based upon quoted market prices, where available and, where not, on interest rates currently available to us for borrowings with similar terms and maturities. We estimate the fair value of swaps as the amount that would be received or paid to terminate the agreements at year end, taking into account current interest rates and the current creditworthiness of the swap counterparties. The notional amounts of derivative contracts do not represent cash flow and are not subject to credit risk.

Amounts receivable or payable based on the interest rate differentials of derivatives are accrued monthly and are reflected in interest expense as a hedge of interest on outstanding debt. Gains and losses on terminated swaps are deferred and amortized over the life of the associated debt or the original term of the swap, whichever is shorter.

NOTE 10 LEASE COMMITMENTS AND RENTAL EXPENSE

We have leasing arrangements involving service stations, tanker charters, crude oil production and processing equipment and other facilities. We reflect amounts due under capital leases in our balance sheet as obligations, while we reflect our interest in the related assets as properties, plant and equipment. The remaining lease commitments are operating leases, and we record payments on such leases as rental expense.

As of December 31, 2000, we had estimated minimum commitments for payment of rentals (net of non-cancelable sublease rentals) under leases which, at inception, had a non-cancelable term of more than one year, as follows:

(Millions of dollars)	Operating Leases	Capital Leases
2001	\$ 130	\$ 10
2002	421	10
2003	56	9
2004	51	9
2005	40	8
After 2005	287	11
Total lease commitments	\$ 985	\$ 57
Less interest		11

Present value of total capital
 lease obligations \$ 46
 =====

Operating lease commitments for 2002 include a \$304 million residual value guarantee of leased production facilities if we do not renew the lease.

Rental expense relative to operating leases, including contingent rentals based on factors such as gallons sold, is provided in the table below. Such payments do not include rentals on leases covering oil and gas mineral rights.

(Millions of dollars)	2000	1999	1998
=====			
Rental expense			
Minimum lease rentals	\$229	\$218	\$208
Contingent rentals	10	6	--
Total	----- 239	----- 224	----- 208
Less rental income on properties subleased to others	48	54	50
Net rental expense	----- \$191	----- \$170	----- \$158
=====			

NOTE 11 EMPLOYEE BENEFIT PLANS

Texaco Inc. and certain of its non-U.S. subsidiaries sponsor various benefit plans for active employees and retirees. The costs of the savings, health care and life insurance plans relative to employees' active service are shared by the company and its employees, with Texaco's costs for these plans charged to expense as incurred. In addition, accruals for employee benefit plans are provided principally for the unfunded costs of various pension plans, retiree health and life insurance benefits, incentive compensation plans and for separation benefits payable to employees.

Employee Stock Ownership Plans (ESOP)

Effective March 1, 2000, the Employees Savings Plan of Texaco Inc. merged into the Employees Thrift Plan of Texaco Inc. Participants of the Employees Savings Plan became participants in the Employees Thrift Plan, and the Savings Plan assets were transferred to the Thrift Plan on May 31, 2000.

We recorded ESOP expense of \$1 million in 2000, \$3 million in 1999 and \$1 million in 1998. Our contributions to the Employees Thrift Plan and the Employees Savings Plan amounted to \$1 million in 2000, \$3 million in 1999 and \$1 million in 1998. These plans were designed to provide participants with a benefit of approximately 6% of base pay, as well as any benefits earned under the current employee Performance Compensation Program. In December 2000, we made a \$14 million advanced company ESOP allocation for the period December 2000 through May 2001 to entitled participants of the Employees Thrift Plan.

During 2000, we paid \$20 million in dividends. Dividends on the common ESOP shares used to service debt of the plans are tax deductible to the company.

The trustee applied the dividends to fund interest payments which amounted to \$1 million, \$2 million and \$5 million for 2000, 1999 and 1998, as well as to reduce principal on the Thrift Plan ESOP loan. In November 1998 and December 1997, a portion of the original loan was refinanced through a company loan. The Thrift Plan ESOP loan was satisfied in December 2000.

Benefit Plan Trust

We have established a benefit plan trust for funding company obligations under some of our benefit plans. At year-end 2000, the trust contained 9.2 million shares of treasury stock. We intend to continue to pay our obligations under our benefit plans. The trust will use the shares, proceeds from the sale of such shares and dividends on such shares to pay benefits only to the extent that we do not pay such benefits. The trustee will vote the shares held in the trust as instructed by the trust's beneficiaries. The shares held by the trust are not considered outstanding for earnings per share purposes until distributed or sold by the trust in payment of benefit obligations.

Termination Benefits

In the fourth quarter of 1998, we announced we were restructuring several of our operations. The principal units affected were our worldwide upstream; our international downstream, principally our marketing operations in the United Kingdom and Brazil and our refining operations in Panama; our global gas marketing operations, now included as part of our global gas, power and energy technology segment; and our corporate center. In 1998, we recorded an after-tax charge of \$80 million for employee separations, curtailment costs and special termination benefits associated with our restructuring. The charge was comprised of \$88 million of operating expenses, \$27 million of selling, general and administrative expenses and \$35 million in related income tax benefits. We initially estimated that over 1,400 employee reductions worldwide would occur. In the second quarter of 1999, we expanded the employee separation programs and recorded an after-tax charge of \$31 million to cover an additional 1,200 employee reductions. The charge was comprised of \$36 million of operating expenses, \$12 million of selling, general and administrative expenses and \$17 million in related income tax benefits. By the end of the third quarter of 2000, we had satisfied all remaining obligations in accordance with plan provisions. Cash payments totaled \$151 million and transfers to long-term obligations totaled \$12 million. Employee reductions approximated the original estimates.

During the first quarter of 2000, we announced an additional employee separation program for our international downstream, primarily our marketing operations in Brazil and Ireland. We recorded an after-tax charge of \$12 million for employee separations, curtailment costs and special termination benefits for about 200 employees. The charge was comprised of \$17 million of selling, general and administrative expenses and \$5 million in related income tax benefits. Through December 31, 2000, employee reductions totaled 159. The remaining reductions will occur by the end of the first quarter of 2001. During the year 2000, we made cash payments of \$8 million and transfers to long-term obligations of \$8 million. We will pay the remaining obligations of \$1 million in future periods in accordance with plan provisions.

Pension Plans

We sponsor pension plans that cover the majority of our employees. Generally, these plans provide defined pension benefits based on years of service, age and final average pay. Pension plan assets are principally invested in equity and fixed income securities and deposits with insurance companies.

Total worldwide expense for all employee pension plans of Texaco, including pension supplementations and smaller non-U.S. plans, was \$42 million in 2000, \$41 million in 1999 and \$92 million in 1998.

The following data are provided for principal U.S. and non-U.S. plans:

(Millions of dollars) As of December 31	Pension Benefits					
	2000		1999		Other U.S. Benefits	
	U.S.	Int'l	U.S.	Int'l	2000	1999
Changes in Benefit (Obligations)						
Benefit (obligations) at January 1	\$ (1,664)	\$ (980)	\$ (1,884)	\$ (979)	\$ (633)	\$ (773)
Service cost	(35)	(24)	(46)	(25)	(5)	(6)
Interest cost	(120)	(75)	(113)	(82)	(48)	(49)
Amendments	(2)	(3)	(29)	(23)	--	12
Actuarial gain (loss)	(21)	(10)	(16)	(26)	(104)	59
Employee contributions	(2)	--	(3)	(1)	(18)	(14)
Benefits paid	66	64	63	62	71	66
Curtailments/settlements	76	3	364	(2)	--	12
Special termination benefits	--	(6)	--	--	--	--
Currency adjustments	--	80	--	96	--	--
Acquisitions/joint ventures	--	--	--	--	--	60
Benefit (obligations) at December 31	\$ (1,702)	\$ (951)	\$ (1,664)	\$ (980)	\$ (737)	\$ (633)
Changes in Plan Assets						
Fair value of plan assets at January 1	\$ 1,646	\$ 1,070	\$ 1,826	\$ 1,028	\$ --	\$ --
Actual return on plan assets	(41)	19	236	151	--	--
Company contributions	18	22	15	26	53	52
Employee contributions	2	--	3	1	18	14
Expenses	(8)	--	(7)	--	--	--
Benefits paid	(66)	(64)	(63)	(62)	(71)	(66)
Currency adjustments	--	(73)	--	(74)	--	--
Curtailments/settlements	(76)	--	(364)	--	--	--
Fair value of plan assets at December 31	\$ 1,475	\$ 974	\$ 1,646	\$ 1,070	\$ --	\$ --
Funded Status of the Plans						
Obligation (greater than) less than assets	\$ (227)	\$ 23	\$ (18)	\$ 90	\$ (737)	\$ (633)
Unrecognized net transition asset	(2)	--	(7)	(1)	--	--
Unrecognized prior service cost	73	48	85	63	(7)	(7)
Unrecognized actuarial (gain) loss	68	85	(161)	(17)	(32)	(143)
Net (liability) asset recorded in Texaco's Consolidated Balance Sheet	\$ (88)	\$ 156	\$ (101)	\$ 135	\$ (776)	\$ (783)
Net (liability) asset recorded in Texaco's Consolidated Balance Sheet consists of:						
Prepaid benefit asset	\$ 27	\$ 392	\$ 84	\$ 373	\$ --	\$ --
Accrued benefit liability	(158)	(248)	(231)	(246)	(776)	(783)
Intangible asset	16	12	23	8	--	--
Other comprehensive income	27	--	23	--	--	--
Net (liability) asset recorded in Texaco's Consolidated Balance Sheet	\$ (88)	\$ 156	\$ (101)	\$ 135	\$ (776)	\$ (783)
Assumptions as of December 31						
Discount rate	7.5%	7.8%	8.0%	8.1%	7.5%	8.0%
Expected return on plan assets	10.0%	8.8%	10.0%	8.8%	--	--
Rate of compensation increase	4.0%	4.5%	4.0%	5.2%	4.0%	4.0%
Health care cost trend rate	--	--	--	--	4.0%	4.0%

(Millions of dollars) As of December 31	Pension Benefits						Other U.S. Benefits		
	2000		1999		1998		2000	1999	1998
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Components of Net Periodic Benefit Expenses									
Service cost	\$ 35	\$ 24	\$ 46	\$ 25	\$ 60	\$ 21	\$ 5	\$ 6	\$ 9
Interest cost	120	75	113	82	117	86	48	49	50
Expected return on plan assets	(136)	(96)	(140)	(81)	(136)	(79)	--	--	--
Amortization of transition asset	(5)	(1)	(6)	(12)	(4)	(10)	--	--	--
Amortization of prior service cost	14	9	11	13	11	7	(1)	--	--
Amortization of (gain) loss	1	(3)	4	(2)	6	(2)	(7)	(1)	(4)
Curtailments/settlements	(7)	8	(15)	2	6	--	--	(12)	1
Special termination charges	--	--	--	--	8	--	--	--	2
Net periodic benefit expenses	\$ 22	\$ 16	\$ 13	\$ 27	\$ 68	\$ 23	\$ 45	\$ 42	\$ 58

For pension plans with accumulated obligations in excess of plan assets, the projected benefit obligation and the accumulated benefit obligation were \$410 million and \$390 million as of December 31, 2000, and \$410 million and \$379 million as of December 31, 1999. The fair value of plan assets for both years was \$0.

Other U.S. Benefits

We sponsor postretirement plans in the U.S. that provide health care and life insurance for retirees and eligible dependents based on an age and service point schedule for eligible participants. Our U.S. health insurance obligation is our fixed dollar contribution. The plans are unfunded, and the costs are shared by us and our employees and retirees. Certain of the company's non-U.S. subsidiaries have postretirement benefit plans, the cost of which is not significant to the company.

For measurement purposes, the fixed dollar contribution is expected to increase by 4% per annum for all future years. A change in our fixed dollar contribution has a significant effect on the amounts we report. A 1% change in our contributions would have the following effects:

(Millions of dollars)	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on annual total of service and interest cost components	\$ 4	\$ (4)
Effect on postretirement benefit obligation	\$46	\$(41)

NOTE 12 STOCK INCENTIVE PLAN

Under our Stock Incentive Plan, stock options, restricted stock and other incentive award forms may be granted to executives, directors and key employees to provide motivation to enhance the company's success and increase shareholder value. The maximum number of shares that may be awarded as stock options or restricted stock under the plan is 1% of the common stock outstanding on December 31 of the previous year. The following table summarizes the number of shares at December 31, 2000, 1999 and 1998 available for awards during the subsequent year:

(Shares) As of December 31	2000	1999	1998
To all participants	19,803,026	15,646,336	12,677,325
To those participants not officers or directors	229,229	2,020,621	1,967,715
Total	20,032,255	17,666,957	14,645,040

Restricted shares granted under the plan contain a performance element which must be satisfied in order for all or a specified portion of the shares to vest. Restricted performance shares awarded in each year under the plan were as follows:

2000	1999	1998
------	------	------

Shares	530,878	278,402	334,798
Weighted average fair value	\$ 56.52	\$ 62.78	\$ 61.59
=====			

Stock options granted under the plan extend for 10 years from the date of grant and vest over a two-year period at a rate of 50% in the first year and 50% in the second year. The exercise price cannot be less than the fair market value of the underlying shares of common stock on the date of the grant. The plan provides for restored options. This feature enables a participant who exercises a stock option by exchanging previously acquired common stock or who has shares withheld by us to satisfy tax withholding obligations, to receive new options equal to the number of shares exchanged or withheld. The restored options are fully exercisable six months after the date of grant and the exercise price is the fair market value of the common stock on the day the restored option is granted.

We apply APB Opinion 25 in accounting for our stock-based compensation programs. Stock-based compensation expense recognized in connection with the plan was \$25 million in 2000, \$19 million in 1999 and \$17 million in 1998. Had we accounted for our plan using

the accounting method recommended by SFAS 123, net income and earnings per share would have been the pro forma amounts below:

	2000	1999	1998
Net income (millions of dollars)			
As reported	\$ 2,542	\$ 1,177	\$ 578
Pro forma	\$ 2,525	\$ 1,107	\$ 524
Earnings per share (dollars)			
Basic -- as reported	\$ 4.66	\$ 2.14	\$.99
-- pro forma	\$ 4.63	\$ 2.01	\$.89
Diluted -- as reported	\$ 4.65	\$ 2.14	\$.99
-- pro forma	\$ 4.62	\$ 2.01	\$.89

We used the Black-Scholes model with the following assumptions to estimate the fair market value of options at date of grant:

	2000	1999	1998
Expected life	2 yrs.	2 yrs.	2 yrs.
Interest rate	6.4%	5.4%	5.4%
Volatility	33.8%	29.1%	22.5%
Dividend yield	3.0%	3.0%	3.0%

Option award activity during 2000, 1999 and 1998 is summarized in the following table:

(Stock options)	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding January 1	12,097,138	\$ 62.98	11,616,049	\$ 59.48	10,071,307	\$ 53.31
Granted	2,611,142	56.51	2,015,741	62.78	2,388,593	61.56
Exercised	(696,136)	55.42	(8,163,386)	59.24	(7,732,978)	53.18
Restored	592,820	60.38	7,448,018	64.55	6,889,941	60.77
Canceled	(885,326)	64.29	(819,284)	64.48	(814)	78.08
Outstanding December 31	13,719,638	61.95	12,097,138	62.98	11,616,049	59.48
Exercisable December 31	9,657,813	\$ 63.35	6,358,652	\$ 62.57	5,945,445	\$ 58.93
Weighted average fair value of options granted during the year		\$ 11.56		\$ 11.21		\$ 8.48

The following table summarizes information on stock options outstanding at December 31, 2000:

Exercisable Price Range (per share)	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$ 29.88 - 31.84	8,112	2.4 yrs.	\$ 31.14	8,112	\$ 31.14
\$ 33.16 - 68.44	13,711,526	6.3 yrs.	\$ 61.97	9,649,701	\$ 63.38
\$ 29.88 - 68.44	13,719,638	6.3 yrs.	\$ 61.95	9,657,813	\$ 63.35

NOTE 13 PREFERRED STOCK AND RIGHTS

Series B ESOP Convertible Preferred Stock

On June 30, 1999, after we called the Series B for redemption, each share of Series B was converted into 25.736 shares, or 15.1 million shares in total, of common stock.

Series D Junior Participating Preferred Stock and Rights

In 1989, we declared a dividend distribution of one Right for each outstanding share of common stock. This was adjusted to one-half Right when we declared a

two-for-one stock split in 1997. In 1998, our shareholders approved the extension of the Rights until May 1, 2004. Unless we redeem the Rights, the Rights will be exercisable only after a person(s) acquires, obtains the right to acquire or commences a tender offer that would result in that person(s) acquiring 20% or more of the outstanding common stock other than pursuant to a Qualifying Offer. A Qualifying Offer is an all-cash, fully financed tender offer for all outstanding shares of common stock which remains open for 45 days, which results in the acquiror owning a majority of the company's voting stock, and in which the

acquiror agrees to purchase for cash all remaining shares of common stock. The Rights entitle holders to purchase from the company units of Series D Junior Participating Preferred Stock (Series D). In general, each Right entitles the holder to acquire shares of Series D, or in certain cases common stock, property or other securities, at a formula value equal to two times the exercise price of the Right.

We can redeem the Rights at one cent per Right at any time prior to 10 days after the Rights become exercisable. Until a Right becomes exercisable, the holder has no additional voting or dividend rights and it will not have any dilutive effect on the company's earnings. We have reserved and designated 3 million shares as Series D for issuance upon exercise of the Rights. At December 31, 2000, the Rights were not exercisable. The Rights will not become exercisable if the proposed merger between Chevron and Texaco is completed in accordance with the terms and conditions of the Merger Agreement dated October 15, 2000.

Series F ESOP Convertible Preferred Stock

On February 16, 1999, after we called the Series F for redemption, each share of Series F was converted into 20 shares, or 1.1 million shares in total, of common stock.

Market Auction Preferred Shares

There are 1,200 shares of cumulative variable rate preferred stock, called Market Auction Preferred Shares (MAPS) outstanding. The MAPS are grouped into four series (300 shares each of Series G, H, I and J) of \$75 million each, with an aggregate value of \$300 million.

The dividend rates for each series are determined by Dutch auctions conducted at seven-week or longer intervals.

During 2000, the annual dividend rate for the MAPS ranged between 4.22% and 5.15% and dividends totaled \$17 million (\$14,189, \$14,307, \$14,301 and \$12,823 per share for series G, H, I and J).

For 1999, the annual dividend rate for the MAPS ranged between 3.59% and 4.36% and dividends totaled \$9 million (\$7,713, \$7,772, \$7,989 and \$7,935 per share for Series G, H, I and J).

For 1998, the annual dividend rate for the MAPS ranged between 3.96% and 4.50% and dividends totaled \$13 million (\$11,280, \$11,296, \$11,227 and \$11,218 per share for Series G, H, I and J).

We may redeem the MAPS, in whole or in part, at any time at a liquidation preference of \$250,000 per share, plus premium, if any, and accrued and unpaid dividends thereon.

The MAPS are non-voting, except under limited circumstances.

NOTE 14 FINANCIAL INSTRUMENTS

We utilize various types of financial instruments in conducting our business. Financial instruments encompass assets and liabilities included in the balance sheet, as well as derivatives which are principally off-balance sheet.

Derivatives are contracts whose value is derived from changes in an underlying commodity price, interest rate or other item. We use derivatives to reduce our exposure to changes in foreign exchange rates, interest rates and crude oil, petroleum products and natural gas prices. Our written policies restrict our use of derivatives to primarily protecting existing positions and committed or anticipated transactions. On a limited basis, we may use commodity-based derivatives to establish a position in anticipation of future movements in prices or margins. Derivative transactions expose us to counterparty credit risk. We place contracts only with parties whose credit-worthiness has been pre-determined under credit policies and limit the dollar exposure to any counterparty. Therefore, risk of counterparty non-performance and exposure to concentrations of credit risk are limited.

Cash and Cash Equivalents

Fair value approximates cost as reflected in the Consolidated Balance Sheet at December 31, 2000 and 1999 because of the short-term maturities of these instruments. Cash equivalents are classified as held-to-maturity. The amortized cost of cash equivalents at December 31, 2000 includes \$34 million of time deposits and \$16 million of commercial paper. Comparable amounts at year-end 1999 were \$67 million and \$165 million.

Short-Term and Long-Term Investments

Fair value is primarily based on quoted market prices and valuation statements obtained from major financial institutions. At December 31, 2000, our available-for-sale securities had an estimated fair value of \$168 million, including gross unrealized gains of \$9 million and losses of \$5 million. At December 31, 1999, our available-for-sale securities had an estimated fair value of \$167 million, including gross unrealized gains of \$11 million and losses of \$6 million. The available-for-sale securities consist primarily of debt securities issued by U.S. and foreign governments and corporations. The majority of these investments mature within five years.

Proceeds from sales of available-for-sale securities were \$224 million in 2000, \$750 million in 1999 and \$1,011 million in 1998. These sales resulted in gross realized gains of \$8 million in 2000, \$45 million in 1999 and \$53 million in 1998, and gross realized losses of \$7 million, \$13 million and \$22 million.

The estimated fair value of other long-term investments qualifying as financial instruments but not included above, for which it is practicable to estimate fair value, approximated the December 31, 2000 and 1999 carrying values of \$549 million and \$465 million.

Short-Term Debt, Long-Term Debt and Related Derivatives

Refer to Note 9 for additional information about debt and related derivatives outstanding at December 31, 2000 and 1999.

Forward Exchange and Option Contracts

As an international company, we are exposed to currency exchange risk. To hedge against adverse changes in foreign currency exchange rates, we will enter into forward and option contracts to buy and sell foreign currencies. Shown below in U.S. dollars are the notional amounts of outstanding forward exchange contracts to buy and sell foreign currencies.

(Millions of dollars)	Buy	Sell
Australian dollars	\$ 230	\$ 31
British pounds	856	365
Danish kroner	215	90
Euro	293	92
New Zealand dollars	117	26
Other currencies	59	26
	-----	-----
Total at December 31, 2000	\$1,770	\$630
Total at December 31, 1999	\$2,122	\$272

Market risk exposure on these contracts is essentially limited to currency rate movements. At year-end 2000, there were \$58 million of unrealized gains and \$2 million of unrealized losses related to these contracts. At year-end 1999, there were \$10 million of unrealized gains and \$30 million of unrealized losses.

We use forward exchange contracts to buy foreign currencies primarily to hedge the net monetary liability position of our European, Australian and New Zealand operations and to hedge portions of significant foreign currency capital expenditures and lease commitments. These contracts generally have terms of 60 days or less. Contracts that hedge foreign currency monetary positions are marked-to-market monthly. Any resultant gains and losses are included in the Consolidated Statement of Income as other costs. At year-end 2000 and 1999, hedges of foreign currency commitments principally involved capital projects requiring expenditure of British pounds and Danish kroner. The percentages of planned capital expenditures hedged at year end were: British pounds -- 72% in 2000 and 90% in 1999; Danish kroner -- 87% in 2000 and 94% in 1999. Realized gains and losses on hedges of foreign currency commitments are initially recorded to deferred charges. Subsequently, the amounts are applied to the capitalized project cost on a percentage-of-completion basis, and are then amortized over the lives of the applicable projects. At year-end 2000 and 1999, net hedging losses of \$18 million and net hedging gains of \$17 million had yet to be amortized.

We sell foreign currencies under a separately managed program to hedge the value of our investment portfolio denominated in foreign currencies. Our strategy is to hedge the full value of this portion of our investment portfolio and to close out forward contracts upon the sale or maturity of the corresponding investments. We value these contracts at market based on the foreign exchange rates in effect on the balance sheet dates. We record changes in the value of these contracts as part of the carrying amount of the related investments. We record related gains and losses, net of applicable income taxes, to stockholders' equity until the underlying investments are sold or mature.

Preferred Shares of Subsidiaries

Refer to Note 15 regarding derivatives related to subsidiary preferred shares.

Petroleum and Natural Gas Hedging

We hedge a portion of the market risks associated with our crude oil, natural gas and petroleum product purchases, sales and exchange activities to reduce price exposure. All hedge transactions are subject to the company's corporate risk management policy which sets out dollar, volumetric and term limits, as well as to management approvals as set forth in our delegations of authorities.

We use established petroleum futures exchanges, as well as "over-the-counter" hedge instruments, including futures, options, swaps and other derivative products. In carrying out our hedging programs, we analyze our major commodity streams for fixed cost, fixed revenue and margin exposure to market price changes. Based on this corporate risk profile, forecasted trends and overall business objectives, we determine an appropriate strategy for risk reduction.

Hedge positions are marked-to-market for valuation purposes. Gains and losses on hedge transactions, which offset losses and gains on the underlying "cash market" transactions, are recorded to deferred income or charges until the hedged transaction is closed, or until the anticipated future purchases, sales or production occur. At that time, any gain or loss on the hedging contract is recorded to operating revenues as an increase or decrease in margins, or to inventory, as appropriate. Derivative transactions not designated as hedging a specific position or transaction are adjusted to market at each balance sheet date. Gains and losses are included in operating income.

At December 31, 2000 and 1999, there were open derivative commodity contracts required to be settled in cash, consisting mostly of basis swaps related to location differences in prices. Notional contract amounts, excluding unrealized gains and losses, were \$9,077 million and \$6,604 million at year-end 2000 and 1999. These amounts principally represent future values of contract volumes over the remaining duration of outstanding swap contracts at the respective dates. These contracts hedge a small fraction of our business

activities, generally for the next 12 months. Unrealized gains and losses on contracts outstanding at year-end 2000 were \$641 million and \$423 million. At year-end 1999, unrealized gains and losses were \$195 million and \$132 million.

NOTE 15 OTHER FINANCIAL INFORMATION, COMMITMENTS AND CONTINGENCIES

Environmental Liabilities

Texaco Inc. and subsidiary companies have financial liabilities relating to environmental remediation programs which we believe are sufficient for known requirements. At December 31, 2000, the balance sheet includes liabilities of \$260 million for future environmental remediation costs. Also, we have accrued \$665 million for the future cost of restoring and abandoning existing oil and gas properties.

We have accrued for our probable environmental remediation liabilities to the extent reasonably measurable. We based our accruals for these obligations on technical evaluations of the currently available facts, interpretation of the regulations and our experience with similar sites. Additional accrual requirements for existing and new remediation sites may be necessary in the future when more facts are known. The potential also exists for further legislation which may provide limitations on liability. It is not possible to project the overall costs or a range of costs for environmental items beyond that disclosed above. This is due to uncertainty surrounding future developments, both in relation to remediation exposure and to regulatory initiatives. We believe that such future costs will not be material to our financial position or to our operating results over any reasonable period of time.

Preferred Shares of Subsidiaries

Minority holders own \$602 million of preferred shares of our subsidiary companies, which is reflected as minority interest in subsidiary companies in the Consolidated Balance Sheet.

MVP Production Inc., a subsidiary, has variable rate cumulative preferred shares of \$75 million owned by one minority holder. The shares have voting rights and are redeemable in 2003. Dividends on these shares were \$4 million in 2000, 1999 and 1998.

Texaco Capital LLC, a wholly-owned finance subsidiary of Texaco Inc., has three classes of preferred shares, all held by minority holders. The first class is 14 million shares totaling \$350 million of Cumulative Guaranteed Monthly Income Preferred Shares, Series A (Series A). The second class is 4.5 million shares totaling \$112 million of Cumulative Adjustable Rate Monthly Income Preferred Shares, Series B (Series B). The third class, issued in Canadian dollars, is 3.6 million shares totaling \$65 million of Deferred Preferred Shares, Series C (Series C). Texaco Capital LLC's sole assets are notes receivable from Texaco Inc. The payment of dividends and payments on liquidation or redemption with respect to Series A, Series B and Series C are fully and unconditionally guaranteed by Texaco Inc.

The fixed dividend rate for Series A is 6-7/8% per annum. The annual dividend rate for Series B averaged 5.4% for 2000, 5.0% for 1999 and 5.1% for 1998. The dividend rate on Series B is reset quarterly per contractual formula. Dividends on Series A and Series B are paid monthly. Dividends on Series A for 2000, 1999 and 1998 totaled \$24 million for each year. Annual dividends on Series B totaled \$6 million for 2000, 1999 and 1998.

Series A and Series B are redeemable under certain circumstances at the option of Texaco Capital LLC (with Texaco Inc.'s consent) in whole or in part at \$25 per share plus accrued and unpaid dividends to the date fixed for redemption.

Dividends on Series C at a rate of 7.17% per annum, compounded annually, will be paid at the redemption date of February 28, 2005, unless earlier redemption occurs. Early redemption may result upon the occurrence of certain specific events.

We have entered into an interest rate and currency swap related to Series C preferred shares. The swap matures in the year 2005. Over the life of the interest rate swap component of the contract, we will make LIBOR-based floating rate interest payments based on a notional principal amount of \$65 million. Canadian dollar interest will accrue to us at a fixed rate applied to the accreted notional principal amount, which was Cdn. \$87 million at the inception of the swap.

The currency swap component of the transaction calls for us to exchange at contract maturity date \$65 million for Cdn. \$170 million, representing Cdn. \$87 million plus accrued interest. The carrying amount of this contract represents the Canadian dollar accrued interest receivable by us. At year-end 2000 and 1999, the carrying amounts of this swap, which approximated fair value, were \$27 million and \$20 million.

Series A, Series B and Series C preferred shares are non-voting, except under limited circumstances.

The above preferred stock issues currently require annual dividend payments of approximately \$34 million. We are required to redeem \$75 million of this preferred stock in 2003, \$65 million (plus accreted dividends of \$59 million) in 2005, \$112 million in 2024 and \$350 million in 2043. We have the ability to extend the required redemption dates for the \$112 million and \$350 million of preferred stock beyond 2024 and 2043.

Pending Award

In July 1999, the Governing Council of the United Nations Compensation Commission (UNCC) approved an award to Saudi Arabian Texaco Inc. (SAT), a wholly-owned subsidiary of Texaco Inc., of about \$505 million, plus unspecified

interest, for damages sustained as a result of Iraq's invasion of Kuwait in 1990. Payments to SAT are subject to income tax in Saudi Arabia at an applicable tax rate of 85%. SAT is party to a concession agreement with the Kingdom of Saudi Arabia covering the Partitioned Neutral Zone in Southern Kuwait and Northern Saudi Arabia.

UNCC funds compensation awards by retaining 30% of Iraqi oil sales revenue under an agreement with Iraq. In January 2001, SAT was paid \$5 million and expects to be paid an additional \$40 million in the near future. We do not know when we will receive the balance of this award since the timing of payments by UNCC depends on several factors, including the total amount of all compensation awards, the ability of Iraq to produce and sell oil, the price of Iraqi oil and the duration of U.N. trade sanctions on Iraq. This award will be recognized in income when collection is assured.

Financial Guarantees

We have guaranteed the payment of certain debt, lease commitments and other obligations of third parties and affiliate companies. These guarantees totaled \$792 million and \$804 million at December 31, 2000 and 1999. The year-end 2000 and 1999 amounts include \$399 million and \$424 million of operating lease commitments of Equilon, our affiliate.

Exposure to credit risk in the event of non-payment by the obligors is represented by the contractual amount of these instruments. No loss is anticipated under these guarantees.

Throughput Agreements

Texaco Inc. and certain of its subsidiary companies previously entered into certain long-term agreements wherein we committed to ship through affiliated pipeline companies and an offshore oil port sufficient volume of crude oil or petroleum products to enable these affiliated companies to meet a specified portion of their individual debt obligations, or, in lieu thereof, to advance sufficient funds to enable these affiliated companies to meet these obligations. In 1998, we assigned the shipping obligations to Equilon, our affiliate, but Texaco remains responsible for deficiency payments on virtually all of these agreements. Additionally, Texaco has entered into long-term purchase commitments with third parties for take or pay gas transportation. At December 31, 2000 and 1999, our maximum exposure to loss was estimated to be \$388 million and \$445 million.

However, based on our right of counterclaim against Equilon and unaffiliated third parties in the event of non-performance, our net exposure was estimated to be \$148 million and \$173 million at December 31, 2000 and 1999.

No significant losses are anticipated as a result of these obligations.

Litigation

Texaco and approximately 50 other oil companies are defendants in 17 purported class actions. The actions are pending in Texas, New Mexico, Oklahoma, Louisiana, Utah, Mississippi and Alabama. The plaintiffs allege that the defendants undervalued oil produced from properties leased from the plaintiffs by establishing artificially low selling prices. They allege that these low selling prices resulted in the defendants underpaying royalties or severance taxes to them. Plaintiffs seek to recover royalty underpayments and interest. In some cases plaintiffs also seek to recover severance taxes and treble and punitive damages. Texaco and 24 other defendants have executed a settlement agreement with most of the plaintiffs that will resolve many of these disputes. The federal court in Texas gave final approval to the settlement in April 1999 and the matter is now pending before the U.S. Fifth Circuit Court of Appeal.

Texaco has reached an agreement with the federal government to resolve similar claims. The claims of various state governments remain unresolved.

It is impossible for us to ascertain the ultimate legal and financial liability with respect to contingencies and commitments. However, we do not anticipate that the aggregate amount of such liability in excess of accrued liabilities will be materially important in relation to our consolidated financial position or results of operations.

NOTE 16 CHEVRON-TEXACO MERGER

On October 15, 2000, Texaco and Chevron Corporation entered into a merger agreement. In the merger, Texaco shareholders will receive .77 shares of Chevron common stock for each share of Texaco common stock they own, and Chevron shareholders will retain their existing shares.

The merger is conditioned, among other things, on the approval of the shareholders of both companies, pooling of interests accounting treatment for the merger and approvals of government agencies, such as the U.S. Federal Trade Commission (FTC). Texaco and Chevron anticipate that the FTC will require certain divestitures in the U.S. downstream in order to address market concentration issues, and the companies intend to cooperate with the FTC in this process. In that regard, Texaco is in discussions with our partners in the U.S. downstream.

The merger agreement provides for the payment of termination fees of as much as \$1 billion by either party under certain circumstances. Chevron and Texaco also were granted options to purchase shares of the other, under the same conditions as the payments of the termination fees. Texaco granted Chevron an option to purchase 107 million shares of Texaco's common stock, at \$53.71 per share. Chevron granted Texaco an option to purchase 127 million shares of Chevron's common stock, at \$85.96 per share.

REPORT OF MANAGEMENT

We are responsible for preparing Texaco's consolidated financial statements in accordance with generally accepted accounting principles. In doing so, we must use judgment and estimates when the outcome of events and transactions is not certain. Information appearing in other sections of this Annual Report is consistent with the financial statements.

Texaco's financial statements are based on its financial records. We rely on Texaco's internal control system to provide us reasonable assurance these financial records are being accurately and objectively maintained and the company's assets are being protected. The internal control system comprises:

- > Corporate Conduct Guidelines requiring all employees to obey all applicable laws, comply with company policies and maintain the highest ethical standards in conducting company business,
- > An organizational structure in which responsibilities are defined and divided, and
- > Written policies and procedures that cover initiating, reviewing, approving and recording transactions.

We require members of our management team to formally certify each year that the internal controls for their business units are operating effectively.

Texaco's internal auditors review and report on the effectiveness of internal controls during the course of their audits. Arthur Andersen LLP, selected by the Audit Committee and approved by stockholders, independently audits Texaco's financial statements. Arthur Andersen LLP assesses the adequacy and effectiveness of Texaco's internal controls when determining the nature, timing and scope of their audit. We seriously consider all suggestions for improving Texaco's internal controls that are made by the internal and independent auditors.

The Audit Committee is comprised of six directors who are not employees of Texaco. This Committee reviews and evaluates Texaco's accounting policies and reporting practices, internal auditing, internal controls, security and other matters. The Committee also evaluates the independence and professional competence of Arthur Andersen LLP and reviews the results and scope of their audit. The internal and independent auditors have free access to the Committee to discuss financial reporting and internal control issues.

/s/ Glenn F. Tilton

Glenn F. Tilton
Chairman of the Board and Chief Executive Officer

/s/ Patrick J. Lynch

Patrick J. Lynch
Senior Vice President and Chief Financial Officer

/s/ George J. Batavick

George J. Batavick
Comptroller

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders, Texaco Inc.:

We have audited the accompanying consolidated balance sheet of Texaco Inc. (a Delaware corporation) and subsidiary companies as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texaco Inc. and subsidiary companies as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Arthur Andersen LLP
February 22, 2001
New York, N.Y.

SUPPLEMENTAL OIL AND GAS INFORMATION

The following pages provide information required by Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities."

Table I -- Net Proved Reserves

The reserve quantities include only those quantities that are recoverable based upon reasonable estimates from sound geological and engineering principles. As additional information becomes available, these estimates may be revised. Also, we have a large inventory of potential hydrocarbon resources that we expect will increase our reserve base as future investments are made in exploration and development programs.

- > Proved developed reserves are reserves that we expect to be recovered through existing wells with existing equipment and operating methods.
- > Proved undeveloped reserves are reserves that we expect to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for completion of development.

Table I -- Net Proved Reserves

Net Proved Reserves of Crude Oil and Natural Gas Liquids (Millions of barrels)

	Consolidated Subsidiaries					Equity			World-wide
	United States	Other West	Europe	Other East	Total	Affiliate -- Other West	Affiliate -- Other East	Total	
Developed reserves	1,374	54	210	463	2,101	--	354	354	2,455
Undeveloped reserves	393	11	221	90	715	--	97	97	812
As of December 31, 1997	1,767	65	431	553	2,816	--	451	451	3,267
Discoveries & extensions	70	2	8	32	112	--	1	1	113
Improved recovery	136	--	16	3	155	--	156	156	311
Revisions	46	(15)	22	55	108	--	137	137	245
Net purchases (sales)	(38)	--	--	26	(12)	--	--	--	(12)
Production	(157)	(4)	(58)	(71)	(290)	--	(61)	(61)	(351)
Total changes	57	(17)	(12)	45	73	--	233	233	306
Developed reserves	1,415	39	246	490	2,190	--	456	456	2,646
Undeveloped reserves	409	9	173	108	699	--	228	228	927
As of December 31, 1998*	1,824	48	419	598	2,889	--	684	684	3,573
Discoveries & extensions	66	11	23	23	123	--	2	2	125
Improved recovery	34	--	2	29	65	--	52	52	117
Revisions	11	--	36	72	119	--	(132)	(132)	(13)
Net purchases (sales)	(9)	--	--	23	14	--	--	--	14
Production	(144)	(4)	(53)	(75)	(276)	--	(60)	(60)	(336)
Total changes	(42)	7	8	72	45	--	(138)	(138)	(93)
Developed reserves	1,361	39	261	545	2,206	--	316	316	2,522
Undeveloped reserves	421	16	166	125	728	--	230	230	958
As of December 31, 1999*	1,782	55	427	670	2,934	--	546	546	3,480
Discoveries & extensions	39	--	21	9	69	374	--	374	443
Improved recovery	25	--	--	39	64	--	14	14	78
Revisions	(21)	--	9	30	18	--	37	37	55
Net purchases (sales)	(135)	(52)	(44)	--	(231)	--	--	--	(231)
Production	(130)	(3)	(44)	(78)	(255)	--	(52)	(52)	(307)
Total changes	(222)	(55)	(58)	--	(335)	374	(1)	373	38
Developed reserves	1,202	--	219	559	1,980	--	282	282	2,262
Undeveloped reserves	358	--	150	111	619	374	263	637	1,256
As of December 31, 2000*	1,560	--	369	670	2,599	374	545	919	3,518
*Includes net proved NGL reserves									
As of December 31, 1998	250	--	68	22	340	--	6	6	346
As of December 31, 1999	250	--	74	134	458	--	1	1	459
As of December 31, 2000	219	--	67	162	448	--	1	1	449

Table I -- Net Proved Reserves (continued)

Net Proved Reserves of Natural Gas (Billions of cubic feet)

	Consolidated Subsidiaries					Equity			World-wide
	United States	Other West	Europe	Other East	Total	Affiliate -- Other West	Affiliate -- Other East	Total	
Developed reserves	3,379	792	576	110	4,857	--	145	145	5,002
Undeveloped reserves	643	126	452	2	1,223	--	17	17	1,240
As of December 31, 1997	4,022	918	1,028	112	6,080	--	162	162	6,242
Discoveries & extensions	599	6	47	98	750	--	1	1	751
Improved recovery	4	--	7	--	11	--	3	3	14
Revisions	152	(12)	(6)	34	168	--	10	10	178
Net purchases (sales)	(39)	--	--	250	211	--	--	--	211
Production	(633)	(92)	(112)	(17)	(854)	--	(25)	(25)	(879)
Total changes	83	(98)	(64)	365	286	--	(11)	(11)	275
Developed reserves	3,345	688	615	374	5,022	--	135	135	5,157
Undeveloped reserves	760	132	349	103	1,344	--	16	16	1,360
As of December 31, 1998	4,105	820	964	477	6,366	--	151	151	6,517
Discoveries & extensions	442	7	93	42	584	--	5	5	589
Improved recovery	4	--	2	235	241	--	1	1	242
Revisions	285	193	7	427	912	--	3	3	915
Net purchases (sales)	(81)	--	--	712	631	--	--	--	631
Production	(550)	(79)	(104)	(27)	(760)	--	(26)	(26)	(786)
Total changes	100	121	(2)	1,389	1,608	--	(17)	(17)	1,591
Developed reserves	3,388	865	557	787	5,597	--	131	131	5,728
Undeveloped reserves	817	76	405	1,079	2,377	--	3	3	2,380
As of December 31, 1999	4,205	941	962	1,866	7,974	--	134	134	8,108
Discoveries & extensions	585	--	--	--	585	33	4	37	622
Improved recovery	5	--	--	--	5	--	--	--	5
Revisions	121	12	43	164	340	--	8	8	348
Net purchases (sales)	8	(58)	(11)	--	(61)	--	--	--	(61)
Production	(494)	(95)	(81)	(36)	(706)	--	(24)	(24)	(730)
Total changes	225	(141)	(49)	128	163	33	(12)	21	184
Developed reserves	3,299	738	573	977	5,587	--	121	121	5,708
Undeveloped reserves	1,131	62	340	1,017	2,550	33	1	34	2,584
As of December 31, 2000	4,430	800*	913	1,994	8,137*	33	122	155	8,292*

* Additionally, there are approximately 302 BCF of natural gas in Other West which will be available from production during the period 2005-2016 under a long-term purchase associated with a service agreement.

The following chart summarizes our experience in finding new quantities of oil and gas to replace our production. Our reserve replacement performance is calculated by dividing our reserve additions by our production. Our additions relate to new discoveries, existing reserve extensions, improved recoveries and revisions to previous reserve estimates. The chart excludes oil and gas quantities from purchases and sales.

	Worldwide	United States	International
Year 2000	172%	76%	267%
Year 1999	111%	99%	124%
Year 1998	166%	144%	191%
3-year average	150%	109%	192%
5-year average	146%	108%	189%

Table II -- Standardized Measure

The standardized measure provides a common benchmark among those companies that have exploration and producing activities. This measure may not necessarily match our view of the future cash flows from our proved reserves.

The standardized measure is calculated at a 10% discount. Future revenues are based on year-end prices for oil and gas. Future production and development costs are based on current year costs. Extensive judgment is used to estimate the timing of production and future costs over the remaining life of the reserves. Future income taxes are calculated using each country's statutory tax rate.

Our inventory of potential hydrocarbon resources, which may become proved in the future, are excluded. This could significantly impact our standardized measure in the future.

Table II -- Standardized Measure of Discounted Future Net Cash Flows

(Millions of dollars)	Consolidated Subsidiaries				Total
	United States	Other West	Europe	Other East	
As of December 31, 2000					
Future cash inflows from sale of oil & gas, and service fee revenue	\$ 67,115	\$ 1,559	\$ 10,549	\$ 15,512	\$ 94,735
Future production costs	(13,107)	(252)	(2,074)	(2,768)	(18,201)
Future development costs	(3,588)	(30)	(1,244)	(1,280)	(6,142)
Future income tax expense	(17,024)	(612)	(2,238)	(6,681)	(26,555)
Net future cash flows before discount	33,396	665	4,993	4,783	43,837
10% discount for timing of future cash flows	(15,407)	(259)	(1,778)	(2,239)	(19,683)
Standardized measure of discounted future net cash flows	\$ 17,989	\$ 406	\$ 3,215	\$ 2,544	\$ 24,154
As of December 31, 1999					
Future cash inflows from sale of oil & gas, and service fee revenue	\$ 45,281	\$ 2,668	\$ 11,875	\$ 16,890	\$ 76,714
Future production costs	(10,956)	(913)	(2,264)	(2,946)	(17,079)
Future development costs	(3,853)	(239)	(1,749)	(1,956)	(7,797)
Future income tax expense	(8,304)	(758)	(2,428)	(7,665)	(19,155)
Net future cash flows before discount	22,168	758	5,434	4,323	32,683
10% discount for timing of future cash flows	(10,816)	(327)	(1,985)	(2,243)	(15,371)
Standardized measure of discounted future net cash flows	\$ 11,352	\$ 431	\$ 3,449	\$ 2,080	\$ 17,312
As of December 31, 1998					
Future cash inflows from sale of oil & gas, and service fee revenue	\$ 23,147	\$ 1,657	\$ 6,581	\$ 4,816	\$ 36,201
Future production costs	(10,465)	(605)	(2,574)	(2,551)	(16,195)
Future development costs	(4,055)	(142)	(1,695)	(761)	(6,653)
Future income tax expense	(2,583)	(419)	(715)	(1,023)	(4,740)
Net future cash flows before discount	6,044	491	1,597	481	8,613
10% discount for timing of future cash flows	(2,626)	(244)	(644)	(167)	(3,681)
Standardized measure of discounted future net cash flows	\$ 3,418	\$ 247	\$ 953	\$ 314	\$ 4,932

Table II -- Standardized Measure of Discounted Future Net Cash Flows

(Millions of dollars)	Equity			World-wide
	Affiliate -- Other West	Affiliate -- Other East	Total	
As of December 31, 2000				
Future cash inflows from sale of oil & gas, and service fee revenue	\$ 3,917	\$ 7,873	\$ 11,790	\$ 106,525
Future production costs	(273)	(2,853)	(3,126)	(21,327)
Future development costs	(406)	(694)	(1,100)	(7,242)
Future income tax expense	(1,101)	(2,189)	(3,290)	(29,845)

Net future cash flows before discount	2,137	2,137	4,274	48,111
10% discount for timing of future cash flows	(1,431)	(809)	(2,240)	(21,923)

Standardized measure of discounted future net cash flows	\$ 706	\$ 1,328	\$ 2,034	\$ 26,188
=====				
As of December 31, 1999				
Future cash inflows from sale of oil & gas, and service fee revenue	\$ --	\$ 7,646	\$ 7,646	\$ 84,360
Future production costs	--	(2,254)	(2,254)	(19,333)
Future development costs	--	(767)	(767)	(8,564)
Future income tax expense	--	(2,340)	(2,340)	(21,495)

Net future cash flows before discount	--	2,285	2,285	34,968
10% discount for timing of future cash flows	--	(887)	(887)	(16,258)

Standardized measure of discounted future net cash flows	\$ --	\$ 1,398	\$ 1,398	\$ 18,710
=====				
As of December 31, 1998				
Future cash inflows from sale of oil & gas, and service fee revenue	\$ --	\$ 4,708	\$ 4,708	\$ 40,909
Future production costs	--	(1,992)	(1,992)	(18,187)
Future development costs	--	(803)	(803)	(7,456)
Future income tax expense	--	(967)	(967)	(5,707)

Net future cash flows before discount	--	946	946	9,559
10% discount for timing of future cash flows	--	(391)	(391)	(4,072)

Standardized measure of discounted future net cash flows	\$ --	\$ 555	\$ 555	\$ 5,487
=====				

Table III -- Changes in the Standardized Measure

The annual change in the standardized measure is explained in this table by the major sources of change, discounted at 10%.

- > Sales & transfers, net of production costs capture the current year's revenues less the associated producing expenses. The net amount reflected here correlates to Table VII for revenues less production costs.
- > Net changes in prices, production & development costs are computed before the effects of changes in quantities. The beginning-of-the-year production forecast is multiplied by the net annual change in the unit sales price and production cost.
- > Discoveries & extensions indicate the value of the new reserves at year-end prices, less related costs.
- > Development costs incurred during the period capture the current year's development costs that are shown in Table V. These costs will reduce the previously estimated future development costs.
- > Accretion of discount represents 10% of the beginning discounted future net cash flows before income tax effects.
- > Net change in income taxes is computed as the change in present value of future income taxes.

Table III -- Changes in the Standardized Measure

(Millions of dollars)	Worldwide Including Equity in Affiliates		
	2000	1999	1998
Standardized measure - beginning of year	\$ 18,710	\$ 5,487	\$ 12,057
Sales of minerals-in-place	(3,990)	(352)	(160)
	14,720	5,135	11,897
Changes in ongoing oil and gas operations:			
Sales and transfers of produced oil and gas, net of production costs during the period	(7,345)	(4,276)	(3,129)
Net changes in prices, production and development costs	11,389	22,036	(11,205)
Discoveries and extensions and improved recovery, less related costs	4,543	1,821	728
Development costs incurred during the period	2,043	1,598	1,770
Timing of production and other changes	670	(517)	(1,170)
Revisions of previous quantity estimates	668	301	852
Purchases of minerals-in-place	901	895	48
Accretion of discount	3,120	881	1,916
Net change in discounted future income taxes	(4,521)	(9,164)	3,780
Standardized measure -- end of year	\$ 26,188	\$ 18,710	\$ 5,487

Table IV - Capitalized Costs

Costs of the following assets are capitalized under the "successful efforts" method of accounting. These costs include the activities of Texaco's upstream operations but exclude the crude oil marketing and other non-producing activities. As a result, this table will not correlate to information in Note 6 to the financial statements.

- > Proved properties include mineral properties with proved reserves, development wells and uncompleted development well costs.
- > Unproved properties include leaseholds under exploration (even where hydrocarbons were found but not in sufficient quantities to be considered proved reserves) and uncompleted exploratory well costs.
- > Support equipment and facilities include costs for seismic and drilling equipment, construction and grading equipment, repair shops, warehouses and other supporting assets involved in oil and gas producing activities.
- > The accumulated depreciation, depletion and amortization represents the portion of the assets that have been charged to expense in prior periods. It also includes provisions for future restoration and abandonment activity.

Table IV -- Capitalized Costs

(Millions of dollars)	Consolidated Subsidiaries				Equity			Total	World-wide
	United States	Other West	Europe	Other East	Affiliate -- Other West*	Affiliate -- Other East			
As of December 31, 2000									
Proved properties	\$ 18,213	\$ 137	\$ 3,295	\$ 3,699	\$ 25,344	\$ 66	\$ 1,370	\$ 1,436	\$ 26,780
Unproved properties	1,026	98	58	655	1,837	68	265	333	2,170
Support equipment and facilities	257	81	28	135	501	42	906	948	1,449
Gross capitalized costs	19,496	316	3,381	4,489	27,682	176	2,541	2,717	30,399
Accumulated depreciation, depletion and amortization	(12,084)	(92)	(1,821)	(1,508)	(15,505)	(1)	(1,349)	(1,350)	(16,855)
Net capitalized costs	\$ 7,412	\$ 224	\$ 1,560	\$ 2,981	\$ 12,177	\$ 175	\$ 1,192	\$ 1,367	\$ 13,544
As of December 31, 1999									
Proved properties	\$ 20,364	\$ 304	\$ 5,327	\$ 2,525	\$ 28,520	\$ --	\$ 1,158	\$ 1,158	\$ 29,678
Unproved properties	983	139	50	619	1,791	--	335	335	2,126
Support equipment and facilities	441	267	37	277	1,022	--	902	902	1,924
Gross capitalized costs	21,788	710	5,414	3,421	31,333	--	2,395	2,395	33,728
Accumulated depreciation, depletion and amortization	(13,855)	(298)	(3,955)	(1,365)	(19,473)	--	(1,217)	(1,217)	(20,690)
Net capitalized costs	\$ 7,933	\$ 412	\$ 1,459	\$ 2,056	\$ 11,860	\$ --	\$ 1,178	\$ 1,178	\$ 13,038

* Existing costs were transferred from a consolidated subsidiary to an affiliate at year-end 2000.

Table V -- Costs Incurred

This table summarizes how much we spent to explore and develop our existing reserve base, and how much we spent to acquire mineral rights from others (classified as proved or unproved).

- > Exploration costs include geological and geophysical costs, the cost of carrying and retaining undeveloped properties and exploratory drilling costs.
- > Development costs include the cost of drilling and equipping development wells and constructing related production facilities for extracting, treating, gathering and storing oil and gas from proved reserves.
- > Exploration and development costs may be capitalized or expensed, as applicable. Such costs also include administrative expenses and depreciation applicable to support equipment associated with these activities. As a result, the costs incurred will not correlate to Capital and Exploratory Expenditures.

On a worldwide basis, in 2000 we spent \$3.62 for each BOE we added. Finding and development costs averaged \$3.74 for the three-year period 1998-2000 and \$3.92 per BOE for the five-year period 1996-2000.

Table V -- Costs Incurred

(Millions of dollars)	Consolidated Subsidiaries					Equity			World-wide
	United States	Other West	Europe	Other East	Total	Affiliate -- Other West	Affiliate -- Other East	Total	
For the year ended December 31, 2000									
Proved property acquisition	\$ 138	\$ --	\$ --	\$ 276	\$ 414	\$ --	\$ --	\$ --	\$ 414
Unproved property acquisition	5	12	--	--	17	--	--	--	17
Exploration	227	62	18	287	594	--	19	19	613
Development	716	121	334	677	1,848	--	169	169	2,017
Total	\$1,086	\$195	\$352	\$1,240	\$2,873	\$ --	\$188	\$188	\$3,061
For the year ended December 31, 1999									
Proved property acquisition	\$ 4	\$ --	\$ --	\$ 481	\$ 485	\$ --	\$ --	\$ --	\$ 485
Unproved property acquisition	39	25	--	27	91	--	--	--	91
Exploration	204	92	23	224	543	--	19	19	562
Development	698	97	319	301	1,415	--	183	183	1,598
Total	\$ 945	\$214	\$342	\$1,033	\$2,534	\$ --	\$202	\$202	\$2,736
For the year ended December 31, 1998									
Proved property acquisition	\$ 27	\$ --	\$ --	\$ 199	\$ 226	\$ --	\$ --	\$ --	\$ 226
Unproved property acquisition	85	1	--	32	118	--	--	--	118
Exploration	417	92	65	277	851	--	19	19	870
Development	1,073	25	308	204	1,610	--	160	160	1,770
Total	\$1,602	\$118	\$373	\$ 712	\$2,805	\$ --	\$179	\$179	\$2,984

Table VI -- Unit Prices

Average sales prices are calculated using the gross revenues in Table VII. Average lifting costs equal production costs and the depreciation, depletion and amortization of support equipment and facilities, adjusted for inventory changes.

	Average sales prices					
	United States	Other West	Europe	Other East	Affiliate -- Other West	Affiliate -- Other East
Crude oil (per barrel)						
2000	\$ 26.20	\$ 22.74	\$ 26.86	\$ 22.81	\$ --	\$ 21.52
1999	14.97	14.12	17.15	15.33	--	13.24
1998	10.40	9.65	11.73	9.61	--	9.81
Natural gas liquids (per barrel)						
2000	18.73	--	17.93	--	--	--
1999	10.86	--	12.53	--	--	--
1998	8.99	--	11.89	--	--	--
Natural gas (per thousand cubic feet)						
2000	3.67	1.13	2.49	1.23	--	--
1999	2.07	.77	1.99	.18	--	--
1998	1.93	.92	2.42	.38	--	--

	Average lifting costs (per barrel of oil equivalent)					
	United States	Other West	Europe	Other East	Affiliate -- Other West	Affiliate -- Other East
2000	\$ 5.05	\$ 2.94	\$ 5.08	\$ 3.03	\$ --	\$ 5.06
1999	4.01	2.87	6.15	3.45	--	3.95
1998	4.07	1.86	5.24	3.65	--	2.68

Table VII - Results of Operations

Results of operations for exploration and production activities consist of all the activities within our upstream operations, except for crude oil marketing and other non-producing activities. As a result, this table will not correlate to the Analysis of Income by Operating Segments.

- > Revenues are based upon our production that is available for sale and excludes revenues from resale of third-party volumes, equity earnings of certain smaller affiliates, trading activity and miscellaneous operating income. Expenses are associated with current year operations, but do not include general overhead and special items.
- > Production costs consist of costs incurred to operate and maintain wells and related equipment and facilities. These costs also include taxes other than income taxes and administrative expenses.
- > Exploration costs include dry hole, leasehold impairment, geological and geophysical expenses, the cost of retaining undeveloped leaseholds and administrative expenses. Also included are taxes other than income taxes.
- > Depreciation, depletion and amortization includes the amount for support equipment and facilities.
- > Estimated income taxes are computed by adjusting each country's income before income taxes for permanent differences related to the oil and gas producing activities, then multiplying the result by the country's statutory tax rate and adjusting for applicable tax credits.

Table VII -- Results of Operations

(Millions of dollars)	Consolidated Subsidiaries				Total
	United States	Other West	Europe	Other East	
For the year ended December 31, 2000					
Gross revenues from:					
Sales and transfers, including affiliate sales	\$ 4,460	\$ --	\$ 869	\$ 1,440	\$ 6,769
Sales to unaffiliated entities	545	190	591	315	1,641
Production costs	(1,070)	(46)	(375)	(232)	(1,723)
Exploration costs	(130)	(62)	(18)	(152)	(362)
Depreciation, depletion and amortization	(723)	(18)	(221)	(147)	(1,109)
Other expenses	(190)	(27)	(2)	(88)	(307)
Results before estimated income taxes	2,892	37	844	1,136	4,909
Estimated income taxes	(972)	(48)	(269)	(945)	(2,234)
Net results	\$ 1,920	\$ (11)	\$ 575	\$ 191	\$ 2,675
For the year ended December 31, 1999					
Gross revenues from:					
Sales and transfers, including affiliate sales	\$ 2,936	\$ --	\$ 617	\$ 935	\$ 4,488
Sales to unaffiliated entities	230	116	498	202	1,046
Production costs	(943)	(39)	(435)	(252)	(1,669)
Exploration costs	(243)	(97)	(21)	(154)	(515)
Depreciation, depletion and amortization	(794)	(22)	(336)	(134)	(1,286)
Other expenses	(138)	(15)	(1)	(53)	(207)
Results before estimated income taxes	1,048	(57)	322	544	1,857
Estimated income taxes	(322)	(8)	(114)	(457)	(901)
Net results	\$ 726	\$ (65)	\$ 208	\$ 87	\$ 956
For the year ended December 31, 1998					
Gross revenues from:					
Sales and transfers, including affiliate sales	\$ 2,570	\$ --	\$ 438	\$ 571	\$ 3,579
Sales to unaffiliated entities	218	120	509	122	969
Production costs	(1,066)	(35)	(400)	(250)	(1,751)
Exploration costs	(286)	(31)	(53)	(137)	(507)
Depreciation, depletion and amortization	(832)	(22)	(422)	(113)	(1,389)
Other expenses	(198)	--	(4)	(10)	(212)
Results before estimated income taxes	406	32	68	183	689
Estimated income taxes	(49)	(14)	(27)	(166)	(256)
Net results	\$ 357	\$ 18	\$ 41	\$ 17	\$ 433

(Millions of dollars)	Equity			World-wide
	Affiliate -- Other West	Affiliate -- Other East	Total	
For the year ended December 31, 2000				
Gross revenues from:				
Sales and transfers, including affiliate sales	\$ --	\$ 831	\$ 831	\$ 7,600
Sales to unaffiliated entities	--	50	50	1,691
Production costs	--	(223)	(223)	(1,946)
Exploration costs	--	(14)	(14)	(376)
Depreciation, depletion and amortization	--	(129)	(129)	(1,238)
Other expenses	--	(2)	(2)	(309)
Results before estimated income taxes	--	513	513	5,422
Estimated income taxes	--	(258)	(258)	(2,492)
Net results	\$ --	\$ 255	\$ 255	\$ 2,930
For the year ended December 31, 1999				
Gross revenues from:				
Sales and transfers, including affiliate sales	\$ --	\$ 592	\$ 592	\$ 5,080
Sales to unaffiliated entities	--	24	24	1,070
Production costs	--	(205)	(205)	(1,874)
Exploration costs	--	(17)	(17)	(532)
Depreciation, depletion				

and amortization	--	(109)	(109)	(1,395)
Other expenses	--	(3)	(3)	(210)

Results before estimated income taxes	--	282	282	2,139
Estimated income taxes	--	(143)	(143)	(1,044)

Net results	\$ --	\$ 139	\$ 139	\$ 1,095
=====				
For the year ended December 31, 1998				
Gross revenues from:				
Sales and transfers, including				
affiliate sales	\$ --	\$ 454	\$ 454	\$ 4,033
Sales to unaffiliated entities	--	28	28	997
Production costs	--	(150)	(150)	(1,901)
Exploration costs	--	(16)	(16)	(523)
Depreciation, depletion				
and amortization	--	(106)	(106)	(1,495)
Other expenses	--	(1)	(1)	(213)

Results before estimated income taxes	--	209	209	898
Estimated income taxes	--	(102)	(102)	(358)

Net results	\$ --	\$ 107	\$ 107	\$ 540
=====				

SUPPLEMENTAL MARKET RISK DISCLOSURES

We use derivative financial instruments to hedge interest rate, foreign currency exchange and commodity market risks. Derivatives principally include interest rate and/or currency swap contracts, forward and option contracts to buy and to sell foreign currencies, and commodity futures, options, swaps and other instruments. We hedge only a portion of our risk exposures for assets, liabilities, commitments and future production, purchases and sales. We remain exposed on the unhedged portion of such risks.

The estimated sensitivity effects below assume that valuations of all items within a risk category will move in tandem. This cannot be assured for exposures involving interest rates, currency exchange rates, petroleum and natural gas. Users should realize that actual impacts from future interest rate, currency exchange and petroleum and natural gas price movements will likely differ from the disclosed impacts due to ongoing changes in risk exposure levels and concurrent adjustments of hedging derivative positions. Additionally, the range of variability in prices and rates is representative only of past fluctuations for each risk category. Past fluctuations in rates and prices may not necessarily be an indicator of probable future fluctuations.

Notes 9, 14 and 15 to the financial statements include details of our hedging activities, fair values of financial instruments, related derivatives exposures and accounting policies.

DEBT AND DEBT-RELATED DERIVATIVES

We had variable rate debt of approximately \$2.4 billion and \$2.8 billion at year-end 2000 and 1999, before effects of related interest rate swaps. Interest rate swap notional amounts at year-end 2000 were virtually unchanged from year-end 1999.

Based on our overall interest rate exposure on variable rate debt and interest rate swaps at December 31, 2000 (including the interest rate and equity swap), a hypothetical two percentage point increase or decrease in interest rates would decrease or increase net income approximately \$50 million.

CURRENCY FORWARD EXCHANGE AND OPTION CONTRACTS

During 2000, the net notional amount of open forward contracts decreased \$710 million. This related to decreases in balance sheet monetary exposures and foreign currency capital projects.

The effect on fair value of our forward exchange contracts at year-end 2000 from a hypothetical 10% change in currency exchange rates would be an increase or decrease of approximately \$114 million. This would be offset by an opposite effect on the related hedged exposures.

PETROLEUM AND NATURAL GAS HEDGING

The notional amount of commodity derivatives outstanding at year-end 2000 that are permitted to be settled in cash or another financial instrument declined about 20% from year-end 1999. The aggregate effect of a hypothetical 20% change in natural gas prices, a 15% change in crude oil prices and a 20% change in petroleum product prices would not be material to our consolidated financial position, net income or cash flows.

INVESTMENTS IN DEBT AND PUBLICLY TRADED EQUITY SECURITIES

We are subject to price risk on this unhedged portfolio of available-for-sale securities. Our investments in available-for-sale securities were approximately the same at year-end 2000 and 1999. At year-end 2000, a 10% appreciation or depreciation in debt and equity prices would not have a material effect on consolidated financial position, net income or cash flows. This assumes no fluctuations in currency exchange rates.

PREFERRED SHARES OF SUBSIDIARIES

We are exposed to interest rate risk on dividend requirements of Series B preferred shares of Texaco Capital LLC.

We are exposed to currency exchange risk on the Canadian dollar denominated Series C preferred shares of Texaco Capital LLC. We are exposed to offsetting currency exchange risk as well as interest rate risk on a swap contract used to hedge the Series C.

Based on the above exposures, a hypothetical two percentage point increase or decrease in the applicable variable interest rates and a hypothetical 10% appreciation or depreciation in the Canadian dollar exchange rate would not materially affect our consolidated financial position, net income or cash flows.

MARKET AUCTION PREFERRED SHARES (MAPS)

We are exposed to interest rate risk on dividend requirements of MAPS. A hypothetical two percentage point increase or decrease in interest rates would not materially affect our consolidated financial position or cash flows. There are no derivatives related to MAPS.

SELECTED FINANCIAL DATA

Selected Quarterly Financial Data

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(Millions of dollars)	2000				1999			
=====								
Revenues								
Sales and services	\$11,086	\$11,776	\$13,027	\$14,211	\$ 6,914	\$8,116	\$ 9,472	\$10,473
Equity in income of affiliates, interest, asset sales and other	185	293	332	220	276	153	205	82
	11,271	12,069	13,359	14,431	7,190	8,269	9,677	10,555

Deductions								
Purchases and other costs	8,630	9,425	10,251	11,270	5,450	6,356	7,448	8,188
Operating expenses	590	678	667	873	559	550	544	666
Selling, general and administrative expenses	325	256	323	387	290	311	270	315
Exploratory expenses	53	60	106	139	130	80	72	219
Depreciation, depletion and amortization	484	391	356	686	361	365	356	461
Interest expense, taxes other than income taxes and minority interest	252	230	236	244	216	212	214	279
	10,334	11,040	11,939	13,599	7,006	7,874	8,904	10,128

Income before income taxes	937	1,029	1,420	832	184	395	773	427
Provision for (benefit from) income taxes	363	404	622	287	(15)	122	386	109
Net income	\$ 574	\$ 625	\$ 798	\$ 545	\$ 199	\$ 273	\$ 387	\$ 318

Comprehensive income	\$ 576	\$ 620	\$ 801	\$ 534	\$ 179	\$ 271	\$ 393	\$ 316
=====								
Net income per common share (dollars)								
Basic	\$ 1.05	\$ 1.14	\$ 1.47	\$ 1.00	\$.35	\$.50	\$.71	\$.58
Diluted	\$ 1.05	\$ 1.14	\$ 1.46	\$ 1.00	\$.35	\$.50	\$.71	\$.58
=====								

See accompanying notes to consolidated financial statements.

Five-Year Comparison of Selected Financial Data

(Millions of dollars)	2000	1999	1998	1997	1996
=====					
For the year:					
Revenues	\$51,130	\$35,691	\$ 31,707	\$46,667	\$45,500
Net income before cumulative effect of accounting change	\$ 2,542	\$ 1,177	\$ 603	\$ 2,664	\$ 2,018
Cumulative effect of accounting change	--	--	(25)	--	--
Net income	\$ 2,542	\$ 1,177	\$ 578	\$ 2,664	\$ 2,018
Comprehensive income	\$ 2,531	\$ 1,159	\$ 572	\$ 2,601	\$ 1,863
Net income per common share* (dollars)					
Basic					
Income before cumulative effect of accounting change	\$ 4.66	\$ 2.14	\$ 1.04	\$ 4.99	\$ 3.77
Cumulative effect of accounting change	--	--	(.05)	--	--
Net income	\$ 4.66	\$ 2.14	\$.99	\$ 4.99	\$ 3.77
Diluted					
Income before cumulative effect of accounting change	\$ 4.65	\$ 2.14	\$ 1.04	\$ 4.87	\$ 3.68
Cumulative effect of accounting change	--	--	(.05)	--	--
Net income	\$ 4.65	\$ 2.14	\$.99	\$ 4.87	\$ 3.68
Cash dividends per common share* (dollars)	\$ 1.80	\$ 1.80	\$ 1.80	\$ 1.75	\$ 1.65
Total cash dividends paid on common stock	\$ 976	\$ 964	\$ 952	\$ 918	\$ 859
At end of year:					
Total assets	\$30,867	\$28,972	\$ 28,570	\$29,600	\$26,963
Debt and capital lease obligations					
Short-term	\$ 376	\$ 1,041	\$ 939	\$ 885	\$ 465
Long-term	6,815	6,606	6,352	5,507	5,125
Total debt and capital lease obligations	\$ 7,191	\$ 7,647	\$ 7,291	\$ 6,392	\$ 5,590
=====					

* Reflects two-for-one stock split effective September 29, 1997.

See accompanying notes to consolidated financial statements.

INVESTOR INFORMATION

COMMON STOCK - MARKET
AND DIVIDEND INFORMATION:

Texaco Inc. common stock (symbol TX) is traded principally on the New York Stock Exchange. As of February 22, 2001, there were 184,958 shareholders of record. In 2000, Texaco's common stock price reached a high of \$63 3/4, and closed December 21, 2000, at \$62 1/8.

	Common Stock Price Range				Dividends	
	High	Low	High	Low	2000	1999
	2000		1999			
First Quarter	\$ 61 7/16	\$ 44 1/4	\$ 59 3/16	\$ 44 9/16	\$.45	\$.45
Second Quarter	59 11/16	48 9/16	70 1/16	55 1/8	.45	.45
Third Quarter	56 1/8	48 1/4	68 1/2	60 5/16	.45	.45
Fourth Quarter	63 3/4	50 13/16	67 3/16	52 3/8	.45	.45

STOCK TRANSFER AGENT AND
SHAREHOLDER COMMUNICATIONS

FOR INFORMATION ABOUT TEXACO
OR ASSISTANCE WITH YOUR ACCOUNT,
PLEASE CONTACT:

Texaco Inc.
Investor Services
2000 Westchester Avenue
White Plains, NY 10650-0001
Phone: 1-800-283-9785
Fax: (914) 253-6286
E-mail: invest@texaco.com

NY DROP AGENT
Mellon Investor Services LLC
120 Broadway - 13th Floor
New York, NY 10271
Phone: (212) 374-2500
Fax: (212) 571-0871

SECURITY ANALYSTS AND INSTITUTIONAL
INVESTORS SHOULD CONTACT:
Elizabeth P. Smith
Vice President, Texaco Inc.
Phone: (914) 253-4478
Fax: (914) 253-6269
E-mail: smithep@texaco.com

ANNUAL MEETING

We have not scheduled an Annual Meeting of Stockholders for 2001, because of the pending merger with Chevron Corporation. A formal notice of a special meeting of stockholders to approve the merger, together with proxy materials will be mailed to stockholders after we have obtained regulatory approvals of the merger.

INVESTOR SERVICES PLAN

The company's Investor Services Plan offers a variety of benefits to individuals seeking an easy way to invest in Texaco Inc. common stock. Enrollment in the Plan is open to anyone, and investors may make initial investments directly through the company. The Plan features dividend reinvestment, optional cash investments and custodial service for stock certificates. Open an account or access your registered shareholder account on the Internet through our new TexLink connection at www.texaco.com. Texaco's Investor Services Plan is an excellent way to start an investment program for family or friends. For a complete informational package, including a Plan prospectus, call 1-800-283-9785, e-mail at invest@texaco.com, or visit Texaco's Internet home page at www.texaco.com.

Subsidiaries of Registrant
2000Parents of Registrant
NoneRegistrant
Texaco Inc.The significant subsidiaries included in the consolidated financial statements
of the Registrant are as follows:

	Organized under the laws of -----
Fuel and Marine Marketing LLC	Delaware
Fuel and Marine Marketing Limited	England
Four Star Oil and Gas Company	Delaware
Heddington Insurance Ltd.	Bermuda
MVP Production Inc.	Delaware
S.A. Texaco Belgium N.V.	Belgium
Saudi Arabian Texaco Inc.	Delaware
Star Deep Water Petroleum Limited	Nigeria
TEPI Holdings Inc.	Delaware
TRMI Holdings Inc.	Delaware
Texaco Australia Pty. Limited	Australia
Texaco Aviation Products LLC	Delaware
Texaco Block B South Natuna Sea Inc.	Liberia
Texaco Brazil S.A. - Produtos de Petroleo	Brazil
Texaco Britain Limited	England
Texaco California Inc.	Delaware
Texaco Captain Holdings Inc.	Delaware
Texaco Caribbean Inc.	Delaware
Texaco China B.V.	Netherlands
Texaco Denmark Inc.	Delaware
Texaco Exploration and Production Inc.	Delaware
Texaco Group Inc.	Delaware
Texaco International Trader Inc.	Delaware
Texaco International Petroleum Co.	Delaware
Texaco Investments (Netherlands), Inc.	Delaware
Texaco (Ireland) Limited	Ireland
Texaco Limited	England
Texaco Natural Gas Inc.	Delaware
Texaco Nederland B.V.	Netherlands
Texaco North Sea U.K. Company	Delaware
Texaco Overseas (Nigeria) Petroleum Company Unlimited	Nigeria
Texaco Overseas Holdings Inc.	Delaware
Texaco Panama Inc.	Panama
Texaco Philippines Inc.	Liberia
Texaco Pipeline International LLC	Delaware
Texaco Puerto Rico Inc.	Puerto Rico
Texaco Raffinaderij Pernis B.V.	Netherlands
Texaco Refining and Marketing Inc.	Delaware
Texaco Refining and Marketing (East) Inc.	Delaware
Texaco Trinidad, Inc.	Delaware
Texaco Venezuela Holdings (I) Company	Delaware
Texas Petroleum Company	New Jersey

Names of certain subsidiary companies are omitted because, considered in the
aggregate as a single subsidiary company, they do not constitute a significant
subsidiary company.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 22, 2001 included or incorporated by reference in Texaco Inc.'s Form 10-K for the year ended December 31, 2000, into the following previously filed Registration Statements:

- | | |
|-------------|--|
| 1. Form S-3 | File Number 33-31148 |
| 2. Form S-8 | File Number 2-67125 |
| 3. Form S-8 | File Number 2-76755 |
| 4. Form S-8 | File Number 2-90255 |
| 5. Form S-8 | File Number 33-34043 |
| 6. Form S-3 | File Number 33-50553 and 33-50553-01 |
| 7. Form S-8 | File Number 333-11019 |
| 8. Form S-3 | File Number 333-82893 and 333-82893-01 |
| 9. Form S-8 | File Number 333-73329 |

ARTHUR ANDERSEN LLP

New York, N.Y.
March 20, 2001

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

Texaco Inc.:

We hereby consent to the incorporation by reference of our report dated February 8, 2001 relating to the combined balance sheets of the Caltex Group of Companies as of December 31, 2000 and 1999, and the related combined statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000, which report appears in the December 31, 2000 Annual Report on Form 10-K of Texaco Inc., into the following previously filed Registration Statements:

- | | |
|-------------|--|
| 1. Form S-3 | File Number 33-31148 |
| 2. Form S-8 | File Number 2-67125 |
| 3. Form S-8 | File Number 2-76755 |
| 4. Form S-8 | File Number 2-90255 |
| 5. Form S-8 | File Number 33-34043 |
| 6. Form S-3 | File Number 33-50553 and 33-50553-01 |
| 7. Form S-8 | File Number 333-11019 |
| 8. Form S-3 | File Number 333-82893 and 333-82893-01 |
| 9. Form S-8 | File Number 333-73329 |

KPMG

Singapore
March 23, 2001

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference of our report dated March 1, 2001, on our audits of the consolidated balance sheets of Equilon Enterprises LLC as of December 31, 2000 and 1999, and the related statements of consolidated income, owners' equity and cash flows for each of the years in the three-year period ended December 31, 2000, included in the Annual Report on Form 10-K of Texaco Inc. for the year ended December 31, 2000, into the following previously filed Registration Statements:

- | | |
|-------------|--|
| 1. Form S-3 | File Number 33-31148 |
| 2. Form S-8 | File Number 2-67125 |
| 3. Form S-8 | File Number 2-76755 |
| 4. Form S-8 | File Number 2-90255 |
| 5. Form S-8 | File Number 33-34043 |
| 6. Form S-3 | File Number 33-50553 and 33-50553-01 |
| 7. Form S-8 | File Number 333-11019 |
| 8. Form S-3 | File Number 333-82893 and 333-82893-01 |
| 9. Form S-8 | File Number 333-73329 |

PricewaterhouseCoopers LLP
Houston, Texas
March 22, 2001

Arthur Andersen LLP
Houston, Texas
March 22, 2001

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference of our report dated March 1, 2001, on our audits of the balance sheets of Motiva Enterprises LLC as of December 31, 2000 and 1999, and the related statements of income, owners' equity and cash flows for the years ended December 31, 2000 and 1999 and the six months ended December 31, 1998, included in the Annual Report on Form 10-K of Texaco Inc. for the year ended December 31, 2000, into the following previously filed Registration Statements:

- | | |
|-------------|--|
| 1. Form S-3 | File Number 33-31148 |
| 2. Form S-8 | File Number 2-67125 |
| 3. Form S-8 | File Number 2-76755 |
| 4. Form S-8 | File Number 2-90255 |
| 5. Form S-8 | File Number 33-34043 |
| 6. Form S-3 | File Number 33-50553 and 33-50553-01 |
| 7. Form S-8 | File Number 333-11019 |
| 8. Form S-3 | File Number 333-82893 and 333-82893-01 |
| 9. Form S-8 | File Number 333-73329 |

Arthur Andersen LLP

Deloitte & Touche LLP

PricewaterhouseCoopers LLP

Houston, Texas
March 22, 2001

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, Chairman of the Board and Chief Executive Officer of TEXACO INC., a Delaware corporation (the "Company"), hereby appoints MICHAEL H. RUDY and CALLI P. CHECKI, and either of them (with full power to act without the other) as the undersigned's attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, preferred stock and debt securities, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

Without limiting the generality of the foregoing grant of authority, such attorneys-in-fact and agents, or either of them, are hereby granted full power and authority, on behalf of and in the name, place and stead of the undersigned, to execute and deliver all such Registration Statements, registrations, qualifications, or notifications, the Company's Form 10-K, any and all amendments thereto, statements of changes, and any and all other documents in connection with the foregoing, and take such other and further action as such attorneys-in-fact and agents, or either of them, deem necessary or appropriate. The powers and authorities granted herein to such attorneys-in-fact and agents, and either of them, also include the full right, power and authority to effect necessary or appropriate substitutions or revocations. The undersigned hereby ratifies, confirms, and adopts, as the undersigned's own act and deed, all action lawfully taken pursuant to the powers and authorities herein granted by such attorneys-in-fact and agents, or either of them, or by their respective substitutes. This Power of Attorney expires by its terms and shall be of no further force and effect on December 31, 2002.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 4th day of February, 2001.

/S/Glenn F. Tilton

 Glenn F. Tilton
 Chairman of the Board
 and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby appoints MICHAEL H. RUDY and DEVAL L. PATRICK, and either of them (with full power to act without the other) as the undersigned's attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, preferred stock and debt securities, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

Without limiting the generality of the foregoing grant of authority, such attorneys-in-fact and agents, or either of them, are hereby granted full power and authority, on behalf of and in the name, place and stead of the undersigned, to execute and deliver all such Registration Statements, registrations, qualifications, or notifications, the Company's Form 10-K, any and all amendments thereto, statements of changes, and any and all other documents in connection with the foregoing, and take such other and further action as such attorneys-in-fact and agents, or either of them, deem necessary or appropriate. The powers and authorities granted herein to such attorneys-in-fact and agents, and either of them, also include the full right, power and authority to effect necessary or appropriate substitutions or revocations. The undersigned hereby ratifies, confirms, and adopts, as the undersigned's own act and deed, all action lawfully taken pursuant to the powers and authorities herein granted by such attorneys-in-fact and agents, or either of them, or by their respective substitutes. This Power of Attorney expires by its terms and shall be of no further force and effect on March 31, 2001.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 27th day of October, 2000.

/S/ Robert J. Eaton
