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, 1996 Commission file number 1-27

# T e x a c o I n c .

(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<br>White Plains, New York | 10650 |
| (Address of principal executive offices) | (Zip Code) |

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

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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 $6.25 | New York Stock Exchange<br>Chicago Stock Exchange<br>The Stock Exchange, London<br>Antwerp and Brussels Exchanges<br>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 |
| 8.65% Notes, due January 30, 1998** | New York Stock Exchange |
| 9% Notes, due November 15, 1997** | New York Stock Exchange |
| 9% Notes, due December 15, 1999** | New York Stock Exchange |
| 9 3/4% Debentures, due March 15, 2020** | New York Stock Exchange |
| Extendible Notes, due June 1, 1999 (8 1/2% to June 1, 1998)** | New York Stock Exchange |
| Extendible Notes, due March 1, 2000 (9.45% to March 1, 2000)** | 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.

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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 stock of Texaco Inc. held by non-affiliates at the close of business on February 28, 1997, based on the New York Stock Exchange composite sales price, was approximately $26,050,000,000. The market value of the voting stock of Series B ESOP Convertible Preferred Stock held in the Employees Thrift Plan of Texaco Inc. at the close of business on February 28, 1997, totaled approximately $910,893,000. The market value of the voting stock of Series F ESOP Convertible Preferred Stock held in the Employees Savings Plan of Texaco Inc. at the close of business on February 28, 1997, totaled approximately $56,446,000.

As of February 28, 1997, there were 263,651,162 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 1996................................ | I, II |
| Proxy Statement of Texaco Inc. relating to the 1997 Annual Meeting of Stockholders.......... | III |

TABLE OF CONTENTS

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 of a corporation incorporated in Texas in 1902. As used herein and within the portions of the documents incorporated by reference, the term Texaco Inc. refers solely to Texaco Inc., a Delaware corporation. The use of such terms as "Texaco," "company," "division," "organization," "unit," "we," "us," "our" and "its," when referring either to Texaco Inc. and its consolidated subsidiaries or to subsidiaries and affiliates either individually or collectively, is for convenience only and is not intended to describe legal relationships.

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 and petroleum products.

### Research Expenditures

Worldwide expenditures of Texaco Inc. and subsidiary companies for research, development and technical support for continuing operations amounted to approximately $139 million in 1996, $154 million in 1995, and $175 million in 1994. These expenditures exclude amounts applicable to discontinued operations of approximately $6 million in 1996, $14 million in 1995 and $20 million in 1994.

### Environmental Expenditures

Information regarding capital environmental expenditures of Texaco Inc. and subsidiary companies, including equity in affiliates, during 1996, and projections for 1997 and 1998, for air, water and solid waste pollution abatement, and related environmental projects and facilities, is incorporated herein by reference from pages 33 and 34 of Texaco Inc.'s 1996 Annual Report to Stockholders.

### Employees

The number of employees of Texaco Inc. and subsidiary companies engaged in continuing operations as of December 31, 1996 and 1995 totaled 28,957 and 28,247, respectively.

The 1995 total excludes approximately 300 employees involved in supporting discontinued operations sold during 1996.

## CERTAIN FACTORS WHICH MAY AFFECT BUSINESS

In recent years, a number of changes affecting the petroleum industry have occurred both in the United States and abroad. In the United States and other countries in which Texaco operates, various laws and regulations are either now in force, in standby status or under consideration, dealing with such matters as production restrictions, import and export controls, price controls, crude oil and refined product allocations, refined product specifications, environmental, health and safety regulations, retroactive and prospective tax increases, cancellation of contract rights, expropriation of property, divestiture of certain operations, foreign exchange rate changes and restrictions as to convertibility of currencies, tariffs and other international trade restrictions. The industry may also be affected by strikes and other industrial disputes.

A number of legislative proposals are currently under consideration by the U.S. Congress and various State legislatures. Although it is not possible at this time to predict the ultimate form that any such proposals might take, or the likelihood of their enactment, such legislation, if passed, could adversely affect the petroleum industry and Texaco.

In addition, operations and investments in some foreign areas are subject to political and business risks. The nature of these risks varies from country to country and from time to time. The overall effect of the foregoing on Texaco cannot be predicted with any certainty.

Industry Review of 1996

WORLD PETROLEUM DEMAND
(MILLIONS OF BARRELS A DAY)

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| INDUSTRIAL NATIONS | 41.2 | 40.3 | 40.0 |
| DEVELOPING NATIONS | 24.9 | 23.7 | 22.6 |
| FORMER SOVIET BLOC | 5.7 | 6.1 | 6.2 |
| TOTAL | 71.8 | 70.1 | 68.8 |

The world economy grew at a strong 3.8% rate in 1996. However, growth patterns were mixed among regions. Economic expansion in the industrialized world as a whole was relatively modest. While the pivotal U.S. economy enjoyed another year of steady advance, the adoption of fiscal austerity measures in Western Europe led to a slowing of economic expansion. A large increase in governmental spending in the first quarter boosted Japanese GDP growth in 1996, but the recovery has yet to become deep-rooted. On the other hand, economic expansion in the developing world was generally robust, particularly in the Pacific Rim countries. One major disappointment in 1996 was the failure of the former Soviet bloc to turn around. Although some of the former Eastern European "satellite" countries enjoyed relatively strong growth, the Russian economy registered another decline, pulling down the region as a whole.

World demand for petroleum products continued to attain new highs in 1996, spurred by the global economic expansion and cold winter conditions early in the year. Oil consumption averaged 71.8 million barrels per day (BPD), an increase of 1.7 million BPD from the 1995 level. Growth in the industrialized nations rose sharply, up 900,000 BPD, boosted by the very cold winter weather across the Northern Hemisphere. In the developing countries, buoyant economic conditions, particularly in the Pacific Rim region, led to a robust increase of 1.2 million BPD in oil consumption. However, the contraction in the Russian economy offset gains in several Eastern European countries, leading to an overall 400,000 BPD demand decline for the former Soviet bloc.

Crude oil supplies also rose sharply during the year. However, very ambitious gains that had been expected from non-OPEC sources did not materialize fully. In the North Sea, for example, extended field maintenance during the summer, underperformance by several old fields and delayed projects limited production increases. Even with these constraints, output from the North Sea contributed significantly to non-OPEC's near 1 million BPD gain from the 1995 level.

Latin America also posted significant increases, resulting from higher output levels from Argentina, Brazil, Colombia and Mexico. Likewise, there were significant gains from countries such as Angola, Australia and Canada, but these were partially offset by production losses from the former Soviet Union and the United States.

The step-up in world oil demand and lower than anticipated non-OPEC output combined to boost world requirements for OPEC oil during 1996, the first substantial output gain for the organization in several years. Crude oil production averaged 25.9 million BPD, a 900,000 BPD increase over its year-earlier level. Cash strapped countries such as Nigeria and Venezuela substantially exceeded OPEC quotas and accounted for more than half of this increase. Iraqi exports remained embargoed until near year-end, when agreement was reached allowing so-called "oil-for-food" flows under U.N. Resolution 986.

World petroleum prices were surprisingly strong throughout 1996. Special factors, such as exceptionally cold weather early in 1996, the absence of Iraqi exports and the delayed start-up of new North Sea production, had a major impact. At the same time, crude oil and petroleum product stocks were lean by historical standards, thus contributing to price strength and volatility. The spot price of U.S. benchmark West Texas Intermediate (WTI) averaged $22.16 per barrel, which was $3.73 per barrel higher than the previous year and a level not seen since the Gulf War.

Refiners' margins during 1996 were higher than 1995's very depressed levels in key U.S. and European markets. Despite the run-up in underlying crude oil costs, special factors contributed to strong light-end product prices. For instance, the extreme cold winter within the Atlantic basin boosted heating oil prices and delayed the refinery switchover to gasoline, leading to low stock levels prior to the summer driving season. In addition, on the U.S. West Coast, refinery outages and dislocations resulting from the introduction of CARB reformulated gasoline also pushed up margins during the spring and summer. Marketing margins, however, decreased relative to 1995 due to intense competitive pressures and oversupply in the marketplace, especially in the U.S., the United Kingdom and the Asia-Pacific area.

## Near-Term Outlook

NEAR-TERM WORLD SUPPLY/DEMAND BALANCE
(MILLIONS OF BARRELS A DAY)

| | 1997 | 1996 |
|---|---|---|
| DEMAND | 73.8 | 71.8 |
| SUPPLY | | |
| NON-OPEC CRUDE | 38.3 | 37.1 |
| OPEC CRUDE | 26.7 | 25.9 |
| OTHER LIQUIDS | 9.3 | 9.0 |
| TOTAL SUPPLY | 74.3 | 72.0 |
| STOCK CHANGE | 0.5 | 0.2 |

World economic growth is projected to remain strong in 1997, as continued powerful expansion in the developing world and modest increases in the industrialized nations are reinforced by an anticipated turnaround in the former Soviet bloc. The United States is forecast to continue to enjoy modest growth in 1997, and economic expansion in Western Europe is expected to pick up. In Japan, growth should weaken somewhat from the artificially high rate created by the stimulative government spending in 1996. Within the developing world, expansion in Asia may also moderate somewhat, but will remain relatively strong. The former Soviet bloc as a whole is anticipated to register positive GDP growth for the first time in eight years, as the Russian economy shows signs of turning around.

Strong economic conditions should result in one of the highest rates of growth for world oil consumption witnessed over the last two decades. World demand is projected to average 73.8 million BPD, a 2.0 million BPD, or 2.8% increase over 1996 levels. Growth in the industrialized nations is expected to slow to 500,000 BPD in 1997, as normal winter conditions are projected. In the developing countries, demand is expected to rise by 1.4 million BPD, fueled by the ongoing economic expansion. Also, in the former Soviet bloc, demand is expected to rise by 100,000 BPD from the 1996 level, as consumption rises in Central Europe.

Despite the strength in demand, anticipated increases in non-OPEC and OPEC production may actually run ahead of consumption, causing the global supply/demand balance to loosen and prices to weaken. Non-OPEC crude oil production has been on an uptrend over the last few years and, despite the somewhat disappointing performance in 1996, output in 1997 is expected to climb to 38.3 million BPD, a dramatic 1.2 million BPD gain. As in the past, the North Sea will be the major contributor, followed by Brazil, Mexico, Australia, India, Angola and some other African nations. By year-end, output from Colombia's giant Cusiana/Cupiagua fields is expected to rise significantly as the Ocensa pipeline nears completion. Even output from the former Soviet Union may increase after many years of decline. Among the major producers, only the United States will continue to slip, and very slowly, as declining production from Prudhoe Bay and other North Slope fields is offset by new flows from the Gulf of Mexico.

OPEC production is also expected to rise in 1997, given the resumption in Iraqi oil exports. The agreed partial lifting of the U.N. embargo will likely add about 600,000 BPD to the market. In addition, ongoing capacity expansions in Venezuela, Algeria and Nigeria may translate into a further increase in OPEC production. This could occur at a time when market fundamentals point toward weaker crude oil and product prices.

U.S. natural gas consumption in 1996 rose to over 22 trillion cubic feet (TCF), up 0.6 TCF from the prior-year level. The extreme cold weather and growing industrial usage boosted demand to a level that has not been experienced since the early 1970's. In 1997, demand should continue to grow, despite the assumption of more normal winter conditions.

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Forward-Looking Statements

Part I of this Form 10-K may contain forward-looking statements that are based on current expectations, estimates and projections about the industries in which Texaco operates, management's beliefs and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, and are subject to the safe harbors created thereby. These statements are based on a number of assumptions that could ultimately prove inaccurate and, therefore, there can be no assurance that they will prove to be accurate. Factors which could affect performance include estimation of reserves, inaccurate seismic data, mechanical failures, unilateral cancellation of concessions by host governments, decreased demand for motor fuels, natural gas and other products, above-average temperatures, pipeline failures, oil spills, increasing price and product competition, higher or lower costs and expenses, domestic and foreign governmental and public policy changes including environmental regulations, the outcome of pending and future litigation and governmental proceedings and continued availability of financing. These are representative of factors which could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general domestic and international economic conditions including interest rate and currency exchange rate fluctuations and other factors. Texaco undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

WORLDWIDE OPERATIONS

Texaco owns, leases, or has interests in extensive production, manufacturing, marketing, transportation and other facilities throughout the world. A description of the company's worldwide operations appears on pages 12 through 24, and information regarding sales to significant affiliates and geographical financial data appear on pages 41 and 67-68, respectively, of Texaco Inc.'s 1996 Annual Report to Stockholders, applicable portions of which are incorporated herein by reference. Except as indicated under Items 1, 2, 3, 5, 6, 7, 8 and 14, no other data and information appearing in the 1996 Annual Report to Stockholders are deemed to be filed as part of this Annual Report on Form 10-K.

In 1993, Texaco announced its intention to dispose of substantially all of its worldwide chemical operations, including its lubricant additives business, and entered into a memorandum of understanding with an affiliate of the Jon M. Huntsman Group of Companies for the sale of Texaco Chemical Company and related international chemical operations. On April 21, 1994, Texaco received from Huntsman Corporation $850 million, consisting of $650 million in cash and an 11-year subordinated note with a face amount of $200 million, which was prepaid in January, 1996.

On February 29, 1996, Texaco completed the disposition of its worldwide chemical operations by completing the sale of its worldwide lubricant additives business, which included manufacturing facilities, as well as sales and marketing offices in various locations in the U.S. and abroad to Ethyl Corporation, a fuel and lubricant additives manufacturer. Ethyl purchased this business for $196 million, comprised of $136 million in cash and a three year note of $60 million.

On March 21, 1997, Texaco completed the sale of its propylene oxide/methyl tertiary butyl ether (PO/MTBE) business to a subsidiary of Huntsman Corporation, for approximately $600 million.

On March 18, 1997, Texaco announced that it and Shell Oil Company signed a memorandum of understanding to combine the major elements of their midwestern and western U.S. refining and marketing activities and their total U.S. transportation, trading and lubricants businesses. The new company will continue to market gasoline under both the Texaco and Shell brands through the thousands of independent wholesalers and retailers.

Under the terms of the memorandum of understanding, Texaco and Shell will form a limited liability company comprising their midwestern and western refining and marketing activities and nationwide transportation and lubricants businesses. Shell will own 56 percent and Texaco 44 percent of the new company, which is expected to be formed as soon as practical following regulatory review and the signing of definitive agreements.

The two companies also announced that they and Saudi Refining Inc. (SRI), have made significant progress in discussions toward a separate memorandum of understanding to combine Star Enterprise (a 50/50 joint venture between SRI and Texaco in the eastern U.S.) with Shell's eastern U.S. refining and marketing business. An agreement could be reached in the second quarter of 1997.

On March 1, 1995, Texaco completed the sale of more than 300 scattered producing fields to Apache Corporation. The sale included properties located in the Permian Basin of Texas, offshore Gulf of Mexico, onshore Louisiana, East and South Texas, the Rocky Mountains and the Mid-Continent area of the United Sates.

## SUPPLEMENTARY EXPLORATION AND PRODUCTION INFORMATION

The following information concerns the oil and gas exploration, development and producing activities of Texaco Inc. and consolidated subsidiaries, as well as Texaco's equity in P.T. Caltex Pacific Indonesia (CPI), a 50%-owned affiliate operating in Other Eastern Hemisphere:

### Estimates of Total Proved Net Oil and Gas Reserve Data Provided to Other Governmental Bodies and Availability of Oil and Gas

Information concerning estimates of total proved net oil and gas reserve data provided to other governmental bodies and availability of oil and gas is incorporated herein by reference from pages 71 to 74 of Texaco Inc.'s 1996 Annual Report to Stockholders.

### Average Sales Prices and Production Costs--Per Unit

Information concerning average sales prices and production costs on a per unit basis is incorporated herein by reference from page 78 of Texaco Inc.'s 1996 Annual Report to Stockholders.

Oil and Gas Acreage

| Thousands of acres | As of December 31, 1996 Gross | Net |
|---|---|---|
| Producing | | |
| Texaco Inc. and Consolidated Subsidiaries | | |
| United States | 3,147 | 1,835 |
| Other Western Hemisphere | 518 | 169 |
| Europe | 122 | 29 |
| Other Eastern Hemisphere | 794 | 199 |
| Total Texaco Inc. and Consolidated Subsidiaries | 4,581 | 2,232 |
| Equity in an Affiliate-Other Eastern Hemisphere | 206 | 103 |
| Total worldwide | 4,787 | 2,335 |
| Undeveloped | | |
| Texaco Inc. and Consolidated Subsidiaries | | |
| United States | 7,042 | 5,235 |
| Other Western Hemisphere | 3,800 | 3,062 |
| Europe | 7,066 | 2,831 |
| Other Eastern Hemisphere | 59,755 | 31,104 |
| Total Texaco Inc. and Consolidated Subsidiaries | 77,663 | 42,232 |
| Equity in an Affiliate-Other Eastern Hemisphere | 2,240 | 1,120 |
| Total worldwide | 79,903 | 43,352 |
| Total Oil and Gas Acreage | 84,690 | 45,687 |

Number of Wells Capable of Producing*

| Oil wells | As of December 31, 1996 Gross | Net |
|---|---|---|
| Texaco Inc. and Consolidated Subsidiaries | | |
| United States | 29,439 | 14,377 |
| Other Western Hemisphere | 1,912 | 227 |
| Europe | 238 | 61 |
| Other Eastern Hemisphere | 1,574 | 558 |
| Total Texaco Inc. and Consolidated Subsidiaries | 33,163 | 15,223 |
| Equity in an Affiliate-Other Eastern Hemisphere | 4,334 | 2,167 |
| Total worldwide** | 37,497 | 17,390 |
| Gas wells | | |
| Texaco Inc. and Consolidated Subsidiaries | | |
| United States | 6,838 | 3,119 |
| Other Western Hemisphere | 273 | 69 |
| Europe | 44 | 10 |
| Other Eastern Hemisphere | 22 | 7 |
| Total Texaco Inc. and Consolidated Subsidiaries | 7,177 | 3,205 |
| Equity in an Affiliate-Other Eastern Hemisphere | 32 | 16 |
| Total worldwide** | 7,209 | 3,221 |

* Producible 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 36 net multiple completion oil wells and 5 gross and 3 net multiple completion gas wells.

Oil, Gas and Dry Wells Completed

| | For the years ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1996 | | | 1995 | | | 1994 | | |
| | Oil | Gas | Dry | Oil | Gas | Dry | Oil | Gas | Dry |
| Net exploratory wells* | | | | | | | | | |
| Texaco Inc. and Consolidated Subsidiaries | | | | | | | | | |
| United States | 29 | 28 | 29 | 12 | 15 | 14 | 16 | 23 | 17 |
| Other Western Hemisphere | -- | 3 | 1 | -- | 2 | 1 | -- | -- | 1 |
| Europe | 3 | -- | 1 | 14 | 1 | 3 | -- | -- | 2 |
| Other Eastern Hemisphere | 1 | 2 | 2 | 1 | -- | 5 | 2 | -- | 11 |
| Total Texaco Inc. and Consolidated Subsidiaries | 33 | 33 | 33 | 27 | 18 | 23 | 18 | 23 | 31 |
| Equity in an Affiliate | | | | | | | | | |
| Other Eastern Hemisphere | -- | -- | -- | -- | -- | -- | -- | -- | 1 |
| Total worldwide | 33 | 33 | 33 | 27 | 18 | 23 | 18 | 23 | 32 |
| Net development wells | | | | | | | | | |
| Texaco Inc. and Consolidated Subsidiaries | | | | | | | | | |
| United States | 283 | 191 | 44 | 291 | 91 | 19 | 244 | 82 | 7 |
| Other Western Hemisphere | 33 | 8 | -- | 8 | 1 | -- | 5 | 5 | 1 |
| Europe | 1 | -- | 1 | 2 | 1 | -- | 7 | 2 | -- |
| Other Eastern Hemisphere | 44 | -- | 1 | 23 | -- | 1 | 13 | -- | -- |
| Total Texaco Inc. and Consolidated Subsidiaries | 361 | 199 | 46 | 324 | 93 | 20 | 269 | 89 | 8 |
| Equity in an Affiliate | | | | | | | | | |
| Other Eastern Hemisphere | 259 | 1 | -- | 135 | -- | -- | 98 | -- | -- |
| Total worldwide | 620 | 200 | 46 | 459 | 93 | 20 | 367 | 89 | 8 |

*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 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, 1996 | | | |
|---|---|---|---|---|
| | Wells in the process of drilling | | Pressure Maintenance | |
| | Gross | Net | Installations in operation | Projects in the process of being installed |
| Texaco Inc. and Consolidated Subsidiaries | | | | |
| United States | 103 | 67 | 250 | -- |
| Other Western Hemisphere | 2 | 1 | 13 | -- |
| Europe | 35 | 17 | 8 | -- |
| Other Eastern Hemisphere | 22 | 7 | 5 | 1 |
| Total Texaco Inc. and Consolidated Subsidiaries | 162 | 92 | 276 | 1 |
| Equity in an Affiliate | | | | |
| Other Eastern Hemisphere | 7 | 4 | 6 | -- |
| Total worldwide | 169 | 96 | 282 | 1 |

## Item 3. Legal Proceedings

Litigation--Information relative to legal proceedings pending against Texaco Inc. and subsidiary companies is presented in Note 16, Contingent Liabilities, on page 67 of Texaco Inc.'s 1996 Annual Report to Stockholders, which note is incorporated herein by reference.

Two purported stockholder derivative suits are pending against Texaco Inc., as nominal defendant, its directors, and certain current and former officers and employees alleging among other things that the directors breached their fiduciary duties to the corporation and its stockholders by failing to oversee Texaco's compliance with the employment discrimination laws and with the discovery obligations in a discrimination case. The cases, titled Kaplan v. Beck, et al. and Citron v. Murphy, et al., seek money damages on behalf of Texaco Inc., attorneys fees, and injunctive relief. The cases are pending in federal court in White Plains, N.Y.

As of December 31, 1996, Texaco Inc. and its subsidiaries were parties to various proceedings instituted or contemplated by governmental authorities arising under the provisions of applicable laws or regulations relating to the discharge of materials into the environment or otherwise relating to the protection of the environment, none of which is material to the business or financial condition of the company. The following is a brief description of pending proceedings and a settled proceeding which, because of the amounts involved, require disclosure under applicable Securities and Exchange Commission regulations.

> On June 9, 1992, an administrative complaint was served on Texaco Chemical Company ("TCC")* by the U.S. Environmental Protection Agency ("EPA"), Region VI, alleging certain violations of the State Implementation Plan at TCC's Port Neches, Texas chemical plant. The EPA is seeking civil penalties of $149,000. Texaco Inc. is contesting liability.
>
> On December 28, 1992, an administrative complaint was served on TCC by the EPA, Region VI, alleging 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. Texaco Inc. is contesting liability. The EPA and the company agreed to consolidate this complaint with the above-referenced June 9, 1992 complaint, and the consolidated matter is pending before an EPA administrative law judge.
>
> On May 23, 1994, the EPA, Region VII, instituted an administrative proceeding alleging that on 12 occasions pipelines owned by Texaco Trading and Transportation Inc. ("TTTI"), a wholly-owned subsidiary of the registrant, released oil into surface waters in violation of the Federal Clean Water Act. The agency is seeking a penalty of $10,000 for each release. TTTI is contesting liability.
>
> On February 22, 1996, the Los Angeles Air Quality Management District ("AQMD") issued a notice of violation to Texaco Refining and Marketing Inc. ("TRMI"), a wholly-owned subsidiary of the registrant, in connection with refrigerant use and maintenance at TRMI's Los Angeles refinery. AQMD penalties for violation of certain air regulations may exceed $100,000.

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* Texaco Chemical Company was sold on April 21, 1994 to Huntsman Corporation and, by agreement, Texaco Inc. retains obligations applicable to events occurring prior to the closing date.

The U.S. Department of Justice has filed suit againt TTTI in connection with spills along Texaco Pipeline Inc. systems in Kansas in 1991. The suit seeks civil penalties of approximately $4,200,000 and injunctive relief. TTTI has not been served with the complaint, and the parties continue to discuss this matter.

On June 6, 1995, the Delaware Department of Natural Resources and Environmental Control ("DNREC") informally cited Star Enterprise's Delaware City refinery for emitting nitrogen oxide in quantities exceeding the refinery's permit levels in 1993 and 1994. Star Enterprise and DNREC settled the matter on March 6, 1996 for $175,000.

Additionally, Texaco Inc., on behalf of its subsidiaries and affiliates, agreed in 1992 to participate in the EPA's Toxic Substances Control Act ("TSCA") Section 8(e) Compliance Audit Program. There were 125 participants in the program. As a participant, Texaco agreed to audit its files for materials which under current EPA guidelines would be subject to reporting under Section 8(e) of TSCA and to pay stipulated penalties for each such report submitted under this program. On December 17, 1996, an Administrative Order on Consent between the EPA and Texaco was finalized, and Texaco paid $237,000 to finalize its participation in the program.

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

Not applicable.

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Executive Officers of Texaco Inc.

The executive and other elected officers of Texaco Inc. as of March 27, 1997 are:

| Name | Age | Position |
|---|---|---|
| Peter I. Bijur.................. | 54 | Chairman of the Board and Chief Executive Officer |
| Allen J. Krowe.................. | 64 | Vice Chairman |
| C. Robert Black................. | 61 | Senior Vice President |
| Patrick J. Lynch................ | 59 | Senior Vice President and Chief Financial Officer |
| William K. Tell, Jr............. | 63 | Senior Vice President |
| Glenn F. Tilton ................ | 48 | Senior Vice President |
| Stephen M. Turner............... | 58 | Senior Vice President and General Counsel |
| Richard F. Brenner.............. | 57 | Vice President |
| Clarence P. Cazalot, Jr......... | 46 | Vice President |
| Eugene G. Celentano............. | 58 | Vice President |
| David C. Crikelair.............. | 49 | Vice President |
| Carl B. Davidson................ | 63 | Vice President and Secretary |
| Claire S. Farley................ | 38 | Vice President |
| James R. Metzger................ | 49 | Vice President |
| Robert C. Oelkers............... | 52 | Vice President and Comptroller |
| Elizabeth P. Smith.............. | 47 | Vice President |
| Robert A. Solberg............... | 51 | Vice President |
| Michael N. Ambler .............. | 60 | General Tax Counsel |
| James F. Link................... | 52 | Treasurer |

For more than five years, each of the above listed officers of Texaco Inc., except for Mr. Richard F. Brenner, has been actively engaged in the business of Texaco Inc. or one of its subsidiary or affiliated companies.

Effective April 1, 1996, Mr. Brenner joined Texaco as President of the company's Human Resources Division and as a Texaco Inc. Vice President. Prior to joining Texaco, Mr. Brenner was Vice President, Global Human Resources for AT&T/NCR, at that time a computer subsidiary of AT&T. Mr. Brenner joined the computer firm Teradata Corporation in 1991 as Vice President, Human Resources. Teradata was acquired by NCR later that same year.

There are no family relationships among any of the officers of Texaco Inc.

PART II

The following information, contained in Texaco Inc.'s 1996 Annual Report to Stockholders, is incorporated herein by reference. The page references indicated are to the actual and complete paper document version of Texaco Inc.'s 1996 Annual Report to Stockholders, as provided to stockholders:



(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

The following information, contained in Texaco Inc.'s Proxy Statement dated March 27, 1997, relating to the 1997 Annual Meeting of Stockholders, is incorporated herein by reference. Except as indicated under Items 10, 11, 12 and 13, no other data and information appearing in the Proxy Statement dated March 27, 1997 are deemed to be filed as part of this Annual Report on Form 10-K. The page references indicated are to the actual and complete paper document version of Texaco Inc.'s 1997 Proxy Statement, as provided to stockholders:

| Form 10-K Item | | Texaco Inc. March 27, 1997 Proxy Statement Page Reference |
|---|---|---|
| Item 10. | Directors and Executive Officers of the Registrant | |
| | --The Board of Directors | |
| | Governance, Committees, Qualifications and Nomination of Directors, Compensation of Directors and Litigation | 3-7 |
| | --Security Ownership of Directors and Management | 8 |
| | --Item 1--Election of Directors | 9-12 |
| Item 11. | Executive Compensation | |
| | --The Board of Directors | |
| | Compensation of Directors | 6-7 |
| | --Summary Compensation Table | 31 |
| | --Option Grants in 1996 | 32-34 |
| | --Aggregated Option Exercises in 1996 and Year-End Option Values | 35 |
| | --Retirement Plan | 37 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management | |
| | --Voting of Shares | 2 |
| | --Security Ownership of Directors and Management | 8 |
| Item 13. | Certain Relationships and Related Transactions | None |

PART IV

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

The following information, contained in Texaco Inc.'s 1996 Annual Report to Stockholders, is incorporated herein by reference. The page references indicated are to the actual and complete paper document version of Texaco Inc.'s 1996 Annual Report to Stockholders, as provided to stockholders:

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

| | Texaco Inc. Year 1996 Annual Report To Stockholders Page Reference |
|---|---|
| 1. Financial Statements (incorporated by reference from the indicated pages of Texaco Inc.'s 1996 Annual Report to Stockholders): | |
| Statement of Consolidated Income for the three years ended December 31, 1996 | 41 |
| Consolidated Balance Sheet at December 31, 1996 and 1995 | 42 |
| Statement of Consolidated Cash Flows for the three years ended December 31, 1996 | 43 |
| Statement of Consolidated Stockholders' Equity for the three years ended December 31, 1996 | 44-45 |
| Notes to Consolidated Financial Statements | 46-68 |
| Report of Independent Public Accountants | 70 |

2. Financial Statement Schedules

Caltex Group of Companies Combined Financial Statements, the investments in which are accounted for on the equity method and are filed as part of this report.

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 are omitted as permitted under Rule 4.03 and Rule 5.04 of Regulation S-X.

3. Exhibits

-- (3.1) Copy of Restated Certificate of Incorporation of Texaco Inc., as amended to and including November 9, 1994, including Certificate of Designations, Preferences and Rights of Series B ESOP Convertible Preferred Stock, Series D Junior Participating Preferred Stock, Series F ESOP Convertible Preferred Stock and Series G, H, I and J Market Auction Preferred Shares, filed as Exhibit 3.1 to Texaco Inc.'s Annual Report on Form 10-K for 1994 dated March 27, 1995, incorporated herein by reference, SEC File No. 1-27.

-- (3.2) Copy of By-Laws of Texaco Inc., as amended to and including January 24, 1997.

-- (4) 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)) 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)(b)) 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)(c)) | Texaco Inc.'s Incentive Bonus Plan, incorporated herein by reference to page IV-5 of Texaco Inc.'s proxy statement dated April 10, 1989, SEC File No. 1-27. |
| -- | (10(iii)(d)) | 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)(e)) | 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)(f)) | 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. |
| -- | (11) | Computation of Earnings Per Share of Common Stock of Texaco Inc. and Subsidiary Companies. |
| -- | (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 1996 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) | Consent of Arthur Andersen LLP. |
| -- | (24) | Powers of Attorney for the Directors and certain Officers of Texaco Inc. authorizing, among other things, the signing of Texaco Inc.'s Annual Report on Form 10-K on their behalf. |
| -- | (27) | Financial Data Schedule. |

(b) -- Reports on Form 8-K.

During the fourth quarter of 1996, Texaco Inc. filed Current Reports on Form 8-K relating to the following events:

1. October 21, 1996 (date of earliest event reported: October 21, 1996)

   Item 5. Other Events--reported that Texaco issued an Earnings Press Release for the third quarter and first nine months of 1996. Texaco appended as an exhibit thereto a copy of the Press Release entitled "Texaco Reports Results for the Third Quarter and Nine Months 1996" dated October 21, 1996.

2. November 22, 1996 (date of earliest event reported: November 14, 1996)

   Item 5. Other Events--(1) reported that Texaco reached an Agreement in Principle to settle a purported class action filed against Texaco in 1994 for allegedly discriminating against salaried African-American employees, principally with respect to promotions. Texaco appended as an exhibit thereto a copy of the Press Release entitled "Texaco Announces Settlement in Class Action Lawsuit" dated November 15, 1996, and (2) reported that a second purported derivative action was filed against Texaco, as nominal defendent, its directors and certain current and former officers and employees.

Subsequent to the fourth quarter of 1996, Texaco Inc. filed a Current Report on Form 8-K relating to the following event:

1. January 7, 1997 (date of earliest event reported: December 24, 1996)

   Item 5. Other Events--reported that Texaco announced that it had reached an agreement to sell its propylene oxide/methyl tertiary butyl ether (PO/MTBE) business to Huntsman Corporation. Texaco appended as an exhibit thereto a copy of the Press Release entitled "Texaco Sells PO/MTBE Business to Huntsman Corporation" dated December 24, 1996.

## 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 27th day of March, 1997.

TEXACO INC.
(Registrant)

Carl B. Davidson
By .......................................
(Carl B. Davidson)
Vice President and Secretary

Attest:

R. E. Koch
By .......................................
(R. E. Koch)
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.

Peter I. Bijur ..........Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
Patrick J. Lynch .......Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
Robert C. Oelkers ......Vice President and Comptroller
(Principal Accounting Officer)

Directors:

| | |
|---|---|
| Robert A. Beck | Allen J. Krowe |
| Peter I. Bijur | Thomas S. Murphy |
| John Brademas | Charles H. Price, II |
| Willard C. Butcher | Robin B. Smith |
| Edmund M. Carpenter | William C. Steere, Jr. |
| Michael C. Hawley | Thomas A. Vanderslice |
| Franklyn G. Jenifer | William Wrigley |

R. E. Koch
By .......................................
(R. E. Koch)
Attorney-in-fact for the above-named
officers and directors

March 27, 1997

CALTEX GROUP OF COMPANIES
COMBINED FINANCIAL STATEMENTS

December 31, 1996

CALTEX GROUP OF COMPANIES
COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1996

INDEX



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. and was created in 1936 by its two owners to produce, transport, refine and market crude oil and petroleum products. The Group is comprised of the following companies:

- Caltex Petroleum Corporation, a company incorporated in Delaware that, through its many subsidiaries and affiliates, conducts refining, transporting, 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, that, through its subsidiary, provides services for and manages certain exploration and production operations in Indonesia in which Chevron and Texaco have interests, but not necessarily jointly or in the same properties.

A brief description of each company's operations and the Group's environmental activities follows:

## Caltex Petroleum Corporation (Caltex)

Through its subsidiaries and affiliates, Caltex operates in approximately 60 countries with some of the highest economic and petroleum growth rates in the world, principally in Africa, Asia, the Middle East, New Zealand and Australia. At year end 1996, Caltex had over 7,000 employees, of which about 3% were located in the United States.

The majority of refining and certain marketing operations are conducted through joint ventures. Caltex has equity interests in 14 refineries in 11 countries and its share of refinery inputs approximated 743,000 barrels per day in 1996. Caltex continues to improve its refineries with investments designed to provide higher yields and meet environmental regulations. Construction of the new 130,000 barrels per day refinery in Thailand was completed and operations began in July, 1996. In Korea, a new crude unit with a capacity of 220,000 barrels per day and a 70,000 barrel per day diesel desulfurizer were completed during the fourth quarter of 1996 bringing total refining capacity at LG-Caltex to 600,000 barrels per day. Caltex companies sold approximately 1.4 million barrels per day of crude and petroleum products in 1996.

Caltex continues to place emphasis on high-growth markets and is moving towards a better strategic balance in its refining capacity. During 1996, Caltex sold its 50 percent interest in Nippon Petroleum Refining Company, Limited for approximately $2 billion, and it continues to actively manage the performance of its refining assets.

Caltex introduced a new corporate and retail identity in 1996 and accelerated its downstream marketing activities. New and refurbished service stations are being introduced across the Asia-Pacific region, Africa and the Middle East, where there are more than 4,100 Caltex-branded service stations. Caltex affiliates operate another 3,800 sites under other names. Underperforming stations with poor prospects for improvement are being eliminated. New Caltex Star Mart convenience stores anchor many high-volume station locations. Many stations also include new ancillary revenue centers such as quick-service restaurants, auto lube bays and brushless car washes. Caltex had an average 17.4% market share in its principal operating areas in 1996.

In addition to the retail initiatives, the company has created specialized business units that are helping Caltex operating companies position for larger shares of the high-growth markets for lubricating oils and greases, aviation fuels, and liquefied petroleum gas. Caltex conducts international crude oil and petroleum product logistics and trading operations from a subsidiary in Singapore. The company has an interest in a fleet of vessels and owns or has equity interests in numerous pipelines, terminals and depots. Caltex is also active in the petrochemical business, particularly in Japan and South Korea.

CALTEX GROUP OF COMPANIES
GENERAL INFORMATION

P. T. Caltex Pacific Indonesia (CPI)

CPI holds a Production Sharing Contract in Central Sumatra for which the Indonesian government has granted an extension to the year 2021. CPI also acts as operator in Sumatra for four other petroleum contract areas, with 32 fields, which are jointly held by Chevron and Texaco. Exploration is pursued through an area comprising 2.4 million acres with production established in the giant Minas and Duri fields. Gross production from fields operated by CPI for 1996 was over 753,000 barrels a day. CPI entitlements are sold to its stockholders, who use them in their systems or sell them to third parties. At year end 1996, CPI had approximately 6,100 employees, all located in Indonesia.

American Overseas Petroleum Limited (AOPL)

In addition to providing services to CPI, AOPL, through its subsidiary Amoseas Indonesia Inc., manages selective contract areas for Texaco's and Chevron's undivided interests in Indonesia, excluding Sumatra. At year end, AOPL had approximated 245 employees, of which 7% were located in the United States.

Environmental Activities

The Group's activities are subject to various environmental, health and safety regulations in each of the countries in which it operates. Such regulations vary significantly in degree of scope, standards and enforcement. The Group's policy is to comply with all applicable environmental, health and safety laws and regulations as well as its own internal policies. The Group has an active program to ensure that its environmental standards are maintained, which includes closely monitoring applicable statutory and regulatory requirements, as well as enforcement policies in each of the countries in which it operates, and conducting periodic environmental compliance audits.

The environmental guidelines and definitions promulgated by the American Petroleum Institute provide the basis for reporting the Group's expenditures. For the year ended December 31, 1996, the Group, including its equity share of affiliates, incurred total costs of approximately $225 million, including capital costs of $156 million and nonremediation related operating expenses of $69 million. The major component of the Group's expenditures is for the prevention of air pollution. As of December 31, 1996, the Group had accrued $96 million for various known remediation activities, including $74 million relating to the future cost of restoring and abandoning existing oil and gas properties.

Based upon existing statutory and regulatory requirements, investment and operating plans, and known exposures, the Group believes that future environmental expenditures will not materially affect its liquidity, financial position or results of operations.

KPMG Peat marwich LLP
200 Crescent Court Telephone 214 754 2000 Telefax 214 754 2297
Suite 300
Dallas, TX 75201-1885

## Report of Independent Auditors

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, 1996 and 1995, and the related combined statements of income, stockholder's equity, and cash flows for each of the years in the three-year period ended December 31, 1996. 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 generally accepted auditing standards. 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, 1996 and 1995 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Dallas, Texas
February 10, 1997

CALTEX GROUP OF COMPANIES
COMBINED BALANCE SHEET

ASSETS

| | As of December 31 (Millions of dollars) 1996 | 1995 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents, including time deposits of $21 in 1996 and $60 in 1995 | $ 206 | $ 166 |
| Accounts and notes receivable, less allowance for doubtful accounts of $18 in 1996 and $11 in 1995: | | |
| Trade | 864 | 1,002 |
| Affiliates | 452 | 210 |
| Other | 318 | 238 |
| | 1,634 | 1,450 |
| Inventories: | | |
| Crude oil | 159 | 130 |
| Petroleum products | 503 | 516 |
| Materials and supplies | 53 | 61 |
| | 715 | 707 |
| Deferred income taxes | 10 | - |
| Total current assets | 2,565 | 2,323 |
| Investments and advances: | | |
| Equity in affiliates | 1,842 | 3,163 |
| Miscellaneous investments and long-term receivables, less allowance of $8 in 1995 | 269 | 207 |
| Total investments and advances | 2,111 | 3,370 |
| Property, plant, and equipment, at cost: | | |
| Producing | 3,721 | 3,485 |
| Refining | 1,550 | 1,468 |
| Marketing | 2,451 | 2,160 |
| Other | 8 | 9 |
| | 7,730 | 7,122 |
| Accumulated depreciation, depletion and amortization | (3,217) | (2,868) |
| Net property, plant and equipment | 4,513 | 4,254 |
| Prepaid and deferred charges | 206 | 170 |
| Total assets | $ 9,395 | $10,117 |

See accompanying notes to combined financial statements.

CALTEX GROUP OF COMPANIES
COMBINED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

| | As of December 31 (Millions of dollars) 1996 | 1995 |
|---|---|---|
| Current liabilities: | | |
| Short-term debt | $ 1,246 | $ 1,665 |
| Accounts payable: | | |
| Trade and other | 1,236 | 1,165 |
| Stockholders | 176 | 90 |
| Affiliates | 84 | 74 |
| | 1,496 | 1,329 |
| Accrued liabilities | 148 | 127 |
| Estimated income taxes | 109 | 102 |
| Total current liabilities | 2,999 | 3,223 |
| Long-term debt | 713 | 628 |
| Employee benefit plans | 107 | 98 |
| Deferred credits and other non-current liabilities | 949 | 864 |
| Deferred income taxes | 249 | 209 |
| Minority interest in subsidiary companies | 122 | 136 |
| Total | 5,139 | 5,158 |
| Stockholders' equity: | | |
| Common stock | 355 | 355 |
| Capital in excess of par value | 2 | 2 |
| Retained earnings | 3,910 | 4,187 |
| Currency translation adjustment | (36) | 350 |
| Unrealized holding gain on investments | 25 | 65 |
| Total stockholders' equity | 4,256 | 4,959 |
| Total liabilities and stockholders' equity | $ 9,395 | $10,117 |

See accompanying notes to combined financial statements.

CALTEX GROUP OF COMPANIES
COMBINED STATEMENT OF INCOME

| | Year ended December 31 (Millions of dollars) 1996 | 1995 | 1994 |
|---|---|---|---|
| Revenues: | | | |
| Sales and other operating revenues(1) | $ 16,895 | $ 15,067 | $ 14,751 |
| Gain on sale of investment in affiliate | 1,132 | - | - |
| Equity in net income of affiliates | 51 | 425 | 263 |
| Dividends, interest and other income | 88 | 130 | 134 |
| Total revenues | 18,166 | 15,622 | 15,148 |
| Costs and deductions: | | | |
| Cost of sales and operating expenses(2) | 14,774 | 13,045 | 12,801 |
| Selling, general and administrative expenses | 532 | 620 | 568 |
| Depreciation, depletion and amortization | 407 | 361 | 331 |
| Maintenance and repairs | 134 | 104 | 160 |
| Foreign exchange, net | 6 | (37) | 73 |
| Interest expense | 140 | 159 | 101 |
| Minority interest | (2) | 4 | 3 |
| Total costs and deductions | 15,991 | 14,256 | 14,037 |
| Income before income taxes | 2,175 | 1,366 | 1,111 |
| Provision for income taxes | 982 | 467 | 422 |
| Net income | $ 1,193 | $ 899 | $ 689 |

| | | | |
|---|---|---|---|
| (1) Includes sales to: | | | |
| Stockholders | $1,711 | $1,376 | $1,250 |
| Affiliates | 2,841 | 1,524 | 1,044 |
| (2) Includes purchases from: | | | |
| Stockholders | $2,634 | $1,834 | $1,662 |
| Affiliates | 1,297 | 1,638 | 1,587 |

See accompanying notes to combined financial statements.

CALTEX GROUP OF COMPANIES
COMBINED STATEMENT OF STOCKHOLDERS' EQUITY
(Millions of dollars)

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Common stock and capital in excess of par value | $ 357 | $ 357 | $ 357 |
| Retained earnings: | | | |
| Balance at beginning of year | $ 4,187 | $ 3,898 | $ 3,688 |
| Net income | 1,193 | 899 | 689 |
| Cash dividends | (1,470) | (610) | (479) |
| Balance at end of year | $ 3,910 | $ 4,187 | $ 3,898 |
| Currency translation adjustment: | | | |
| Balance at beginning of year | $ 350 | $ 399 | $ 250 |
| Sale of investment in affiliate | (240) | - | - |
| Other changes during the year | (146) | (49) | 149 |
| Balance at end of year | $ (36) | $ 350 | $ 399 |
| Unrealized holding gain on investments: | | | |
| Balance at beginning of year | $ 65 | $ 79 | $ 70 |
| Change during the year | (40) | (14) | 9 |
| Balance at end of year | $ 25 | $ 65 | $ 79 |
| Total stockholders' equity - end of year | $ 4,256 | $ 4,959 | $ 4,733 |

See accompanying notes to combined financial statements.

CALTEX GROUP OF COMPANIES
COMBINED STATEMENT OF CASH FLOWS

| | Year ended December 31 (Millions of dollars) 1996 | 1995 | 1994 |
|---|---|---|---|
| Operating activities: | | | |
| Net income | $ 1,193 | $ 899 | $ 689 |
| Reconciliation to net cash provided by operating activities: | | | |
| Depreciation, depletion and amortization | 407 | 361 | 331 |
| Dividends more (less) than equity in affiliate income | 38 | (349) | (220) |
| Net losses (gains) on asset sales | 10 | 11 | (17) |
| Deferred income taxes | 36 | 18 | (45) |
| Prepaid charges and deferred credits | 38 | 69 | 115 |
| Changes in operating working capital | (7) | (27) | 58 |
| Gain on sale of investment in affiliate | (1,132) | - | - |
| Other | (12) | 66 | 77 |
| Net cash provided by operating activities | 571 | 1,048 | 988 |
| Investing activities: | | | |
| Capital expenditures | (741) | (663) | (837) |
| Investments in and advances to affiliates | (30) | (150) | (131) |
| Net (purchases) sales of investment instruments | (55) | (7) | 14 |
| Proceeds from sale of investment in affiliate | 1,984 | - | - |
| Proceeds from asset sales | 95 | 46 | 37 |
| Net cash provided by (used for) investing activities | 1,253 | (774) | (917) |
| Financing activities: | | | |
| Debt with terms in excess of three months : | | | |
| Borrowings | 1,112 | 1,063 | 1,257 |
| Repayments | (1,351) | (1,093) | (880) |
| Net (decrease) increase in other debt | (53) | 275 | 135 |
| Dividends paid, including minority interest | (1,490) | (617) | (482) |
| Net cash (used for) provided by financing activities | (1,782) | (372) | 30 |
| Effect of exchange rate changes on cash and cash equivalents | (2) | 13 | (16) |
| Cash and cash equivalents: | | | |
| Net change during the year | 40 | (85) | 85 |
| Beginning of year balance | 166 | 251 | 166 |
| End of year balance | $ 206 | $ 166 | $ 251 |

See accompanying 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 Petroleum 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 percent except cases in which control does not rest with the Group.

Chevron Corporation and Texaco Inc. (stockholders), through subsidiary companies, each own 50% of the outstanding common shares of the Group companies. The Group is primarily engaged in exploring, producing, refining, transporting and marketing crude oil and petroleum products in the Asia-Pacific and East-of-Suez Regions. The Group's accounting policies are in accordance with United States generally accepted accounting principles.

Translation of foreign currencies -- The U.S. dollar is the functional currency for all principal subsidiary and most affiliate operations. Affiliates in Japan and Korea use the local currency as the functional currency.

Estimates -- The preparation of financial statements in conformity with 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.

Inventories -- Crude oil and petroleum product inventories are stated at cost, primarily determined using the last-in, first-out (LIFO) method. Costs include applicable acquisition and refining costs, duties, import taxes, freight, etc. Materials and supplies are stated at average cost. Inventories are valued at the lower of cost or current market.

Investments and advances -- Investments in affiliates in which the Group has an ownership of 20% to 50% are accounted for by the equity method (including majority owned investments where control does not rest with the Group). 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. Depreciation, depletion and amortization expenses for capitalized costs relating to producing properties, including intangible development costs, are determined using the unit-of-production method.

All other assets are depreciated by class on a straight-line basis using rates based upon the estimated useful life of each class of asset.

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.

Derivative financial instruments -- Gains and losses on hedges of existing assets or liabilities are included in the carrying value of those assets and liabilities, and are ultimately recognized in income as part of the carrying value. Gains and losses related to qualifying hedges of firm commitments or anticipated transactions are also deferred and recognized in income or included in the carrying value when the underlying hedged transaction occurs. If the derivative instrument ceases to be a hedge, the related gains and losses are recognized currently in income. Gains and losses on derivative contracts that do not qualify as hedges are recognized currently in other income.

Note 1 - Summary of significant accounting policies - continued

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.

Reclassifications -- Certain amounts for preceding periods have been reclassified to conform with the current year's presentation.

Note 2 - Change in accounting principles

During 1995, the Group adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" which establishes guidelines for recognizing and measuring impairment of long-lived assets. Adoption of this standard did not impact the combined financial statements of the Group.

Note 3 - Inventories

The excess of current cost over the reported value of inventory maintained on the LIFO basis was approximately $125 million and $52 million at December 31, 1996 and 1995, respectively.

During the periods presented, inventory quantities valued on the LIFO basis were reduced at certain locations. The inventory reductions, net of market valuation adjustments, increased net income by approximately $4 million in 1996, and decreased net income by $1 million in 1995 and $8 million in 1994.

Certain inventories were previously recorded at market, which was lower than the LIFO carrying value. Earnings of $29 million, $25 million and $30 million, net of inventory volume reductions, were recorded in 1996, 1995 and 1994, respectively, reflecting improved market values over previous years. As of December 31, 1996 substantially all inventories were recorded at cost.

Note 4 - Equity in affiliates

Investments in affiliates at equity include the following:

| | | As of December 31 (Millions of dollars) | |
|---|---|---|---|
| | Equity % | 1996 | 1995 |
| Nippon Petroleum Refining Company, Limited | - | $ - | $1,132 |
| Koa Oil Company, Limited | 50% | 364 | 427 |
| LG-Caltex Oil Corporation (formerly Honam Oil Refinery, Limited) | 50% | 739 | 762 |
| Australian Petroleum Pty. Limited | 50% | 336 | 412 |
| Star Petroleum Refining Company, Ltd. | 64% | 287 | 327 |
| All other | Various | 116 | 103 |
| | | $ 1,842 | $3,163 |

Note 4 - Equity in affiliates - continued

Effective April 1, 1996, the Group sold its 50% investment in Nippon Petroleum Refining Company, Limited (NPRC) to its partner, Nippon Oil Company, Limited (NOC) for yen 200 billion (approximately $2 billion) in cash. The Group's net income in 1996 includes a net after-tax gain of approximately $620 million related to this sale. The combined statement of income includes Group product sales to NOC of approximately $ .5 billion, $2.1 billion, and $2.0 billion in 1996 (first quarter only), 1995 and 1994, respectively.

Effective May 1995, Caltex Australia Limited (CAL), a subsidiary of the Group, combined its petroleum refining and marketing operations with those of Ampol Limited to form Australian Petroleum Pty. Limited (APPL) which owns and manages the combined refining and marketing operations. CAL contributed net assets at their carrying value of $419 million for its 50% equity interest in APPL and no gain or loss was recognized. The carrying value of CAL's investment in APPL in excess of its proportionate share of APPL's net equity is being amortized over approximately 20 years.

The remaining interest in Star Petroleum Refining Company, Ltd. (SPRC) is owned by a Thailand governmental entity. Provisions in the SPRC shareholders agreement limit the Group's control and mandate reduction in ownership to a minority position by the year 2000.

Shown below is summarized financial information for these affiliates (in millions of dollars):

| | 100% | | Equity Share | |
|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 |
| Current assets | $ 6,128 | $ 7,125 | $ 3,075 | $ 3,556 |
| Other assets | 7,303 | 10,415 | 3,836 | 5,368 |
| Current liabilities | 5,191 | 5,608 | 2,618 | 2,804 |
| Other liabilities | 4,768 | 5,865 | 2,533 | 3,039 |
| Net worth | 3,472 | 6,067 | 1,760 | 3,081 |

| | 100% | | | Equity Share | | |
|---|---|---|---|---|---|---|
| | 1996 | 1995 | 1994 | 1996 | 1995 | 1994 |
| Operating revenues | $15,436 | $15,396 | $10,886 | $7,751 | $7,674 | $5,418 |
| Operating income | 749 | 955 | 770 | 364 | 472 | 381 |
| Net income | 133 | 859 | 526 | 51 | 425 | 263 |

Cash dividends received from these affiliates were $89 million, $76 million, and $43 million in 1996, 1995 and 1994, respectively.

During 1995, an affiliate sold certain property required by the local government. The Group's share (approximately $171 million) of the resulting gain was included in the Group's 1995 net income.

Retained earnings as of December 31, 1996 and 1995, includes $1.0 billion and $1.7 billion, respectively, representing the Group's share of undistributed earnings of affiliates at equity.

Note 5 - 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, 1996, and 1995 were 7.5% and 7.0%, respectively.

Unutilized lines of credit available for short-term financing totaled $727 million as of December 31, 1996.

Note 6 - Long-term debt

Long-term debt, with related interest rates for 1996 and 1995, are as follows:

| | As of December 31 (Millions of dollars) | |
|---|---|---|
| | 1996 | 1995 |
| U.S. dollar debt: | | |
| Variable interest rate term loans | $ 294 | $ 243 |
| Fixed interest rate term loans with 6.25% and 6.7% average rates | 110 | 58 |
| Australian dollar debt: | | |
| Variable interest rate term loan | - | 50 |
| Promissory notes payable with 6.73% and 7.6% average rate | 20 | 19 |
| Fixed interest rate loans with 11.2% rate due 2001-2002 | 224 | 230 |
| New Zealand dollar debt: | | |
| Variable interest rate term loans | 46 | 13 |
| Fixed interest rate loan with 8.09% rate due 2000 | 7 | - |
| Other | 12 | 15 |
| | $ 713 | $ 628 |

As of December 31, 1996 and 1995, $20 million and $19 million, respectively, of short-term debt was classified as long-term debt. Settlement of these obligations is not expected to require the use of working capital in 1997 as the Group has both the intent and ability to refinance this debt on a long-term basis. These borrowings were fully covered by long-term committed credit facilities with major banks.

Aggregate maturities of long-term debt for the next five years are as follows (in millions of dollars): 1997 - $23 (included in short-term debt); 1998 - - $52; 1999 - $110; 2000 - $105; 2001 - $151; 2002 and thereafter - $295.

Note 7 - Operating leases

The Group has operating leases involving various marketing assets for which net rental expense was $92 million, $91 million, and $121 million in 1996, 1995 and 1994, respectively.

Future net minimum rental commitments under operating leases having non-cancelable terms in excess of one year are as follows (in millions of dollars): 1997 - $35; 1998 - $35; 1999 - $35; 2000 - $37; 2001 - $38; 2002 and thereafter - $73.

Note 8 - Employee benefit plans

The Group has various retirement plans. Generally, these plans provide defined benefits based on final or final average pay. The benefit levels, vesting terms and funding practices vary among plans.

The funded status of retirement plans, primarily foreign and inclusive of affiliates at equity, is as follows:

| Funding Status | As of December 31 (Millions of dollars) Assets Exceed Accumulated Benefits 1996 | 1995 | Accumulated Benefits Exceed Assets 1996 | 1995 |
|---|---|---|---|---|
| Actuarial present value : | | | | |
| Vested benefit obligation | $ 203 | $ 186 | $ 88 | $ 215 |
| Accumulated benefit obligation | 224 | 208 | 113 | 251 |
| Projected benefit obligation | 387 | 362 | 136 | 308 |
| Amount of assets available for benefits : | | | | |
| Funded assets at fair value | $ 348 | $ 341 | $ 51 | $ 123 |
| Net pension (asset) liability recorded | (3) | (23) | 67 | 146 |
| Total assets | $ 345 | $ 318 | $ 118 | $ 269 |
| Assets less than projected benefit obligation | $ (42) | $ (44) | $ (18) | $ (39) |
| Consisting of: | | | | |
| Unrecognized transition net assets (liabilities) | - | 13 | ( 9) | (5) |
| Unrecognized net losses | (26) | (38) | ( 6) | (30) |
| Unrecognized prior service costs | (16) | (19) | ( 3) | (4) |
| Weighted average rate assumptions: | | | | |
| Discount rate | 10.9% | 10.5% | 5.6% | 5.1% |
| Rate of increase in compensation | 8.6% | 8.2% | 3.3% | 3.1% |
| Expected return on plan assets | 11.0% | 10.1% | 4.5% | 4.5% |

| Components of Pension Expense | Year ended December 31 (Millions of dollars) 1996 | 1995 | 1994 |
|---|---|---|---|
| Cost of benefits earned during the year | $ 26 | $ 32 | $ 27 |
| Interest cost on projected benefit obligation | 46 | 55 | 55 |
| Actual return on plan assets | (40) | (47) | (23) |
| Net amortization and deferral | 10 | 12 | (16) |
| Total | $ 42 | $ 52 | $ 43 |

Note 9 - Commitments and contingencies

On January 25, 1990, Caltex Petroleum Corporation and certain of its subsidiaries were named as defendants, along with privately held Philippine ferry and shipping companies and the shipping company's insurer, in a lawsuit filed in Houston, Texas State Court. After removal to Federal District Court in Houston, the litigation's disposition turned on questions of federal court jurisdiction and whether the case should be dismissed for forum non conveniens. The plaintiffs' petition purported to be a class action on behalf of at least 3,350 parties, who were either survivors of, or next of kin of persons deceased in a collision in Philippine waters on December 20, 1987. One vessel involved in the collision was carrying Group products in connection with a freight contract. Although the Group had no direct or indirect ownership in or operational responsibility for either vessel, various theories of liability were alleged against the Group. No specific monetary recovery was sought although the petition contained a variety of demands for various categories of compensatory as well as punitive damages. Consequently, no reasonable estimate of damages involved or being sought can be made. The Federal District Court in March 1992, dismissed the case for forum non conveniens. Subsequent to that dismissal, but consistent with its terms, cases were filed against the Group entities in the Philippine courts (over and above those previously filed there subsequent to the collision, all of which are in various stages of litigation and are being vigorously resisted). The plaintiffs also filed another lawsuit, alleging the same causes of action as in the Texas litigation, in Louisiana State Court in New Orleans. The Group removed that case to Federal District Court in New Orleans from which it was remanded back to Louisiana State Court. The Group then sought injunctive and other relief from the Federal District Court in Houston in order to ensure that Court's previous dismissal would be given proper effect. On having its request for relief denied, the Group then filed an expedited appeal to the U. S. Fifth Circuit Court of Appeals. The case was argued in the Fifth Circuit in October of 1994. The court, in January of 1996, affirmed the Federal District Court's refusal to enjoin the plaintiffs' proceeding with their Louisiana lawsuit. The Group sought and obtained en banc reconsideration of the case by the entire Fifth Circuit Court of Appeals. The en banc Court issued an opinion in which they were evenly divided (8-8) on the merits of the Group's position. That opinion served to uphold the District Court's refusal to grant the Group the relief it sought. The Group is now filing a petition for a writ of certiorari with the U.S. Supreme Court. The Group's management intends to continue to contest the case (and companion litigation in the Philippines) vigorously on various procedural and substantive grounds.

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.

The Group is also involved in certain other litigation and U.S. Internal Revenue Service tax audits in which claims can be made for substantial amounts, and which may require cash deposits until such claims are resolved.

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.

In April 1994, a Group subsidiary entered into a contractual commitment, effective October 1996, for a period of eleven years, to purchase petroleum products in conjunction with the financing of a refinery owned by an affiliate which commenced operation in 1996. Total future estimated commitments (in billions of dollars) for the Group under this and other similar contracts, based on current pricing and projected growth rates, are: 1997 - $1.1, 1998 - $1.1, 1999 - $1.2, 2000 - $1.2, 2001 - $1.2, and 2002 to expiration of contracts - $6.4. Purchases (in billions of dollars) under this and other similar contracts were $0.8, $0.5, and $0.5 in 1996, 1995 and 1994, respectively.

Note 9 - Commitments and contingencies - continued

The Group is contingently liable for sponsor support funding for both construction completion (maximum $192 million) and post-completion loan repayments (maximum $304 million) in connection with an affiliate's project finance obligations. While the project is operational, construction completion as defined includes achieving extended continuous operation and satisfying certain financial conditions, which will only be met by the middle of 1997 at the earliest. The post-completion support declines progressively as the related long-term loans are repaid (final payment due 2010). As of December 31, 1996, there have been no calls made by lenders on either type of sponsor support. However, the Group has provided short-term extended trade credit on commercial terms related to crude supply of approximately $61 million to the affiliate as of December 31, 1996. The Group does not expect that any required sponsor support will have a material impact on its combined financial position.

The Group had commitments of $5 million and $12 million as of December 31, 1996 and 1995, respectively, in the form of letters of credit which have been issued on behalf of Group companies to facilitate either the Group's or other parties' ability to trade in the normal course of business.

Note 10 - 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 dollars) | |
|---|---|---|
| | 1996 | 1995 |
| Interest rate swaps - Pay Fixed, Receive Floating | $ 460 | $ 485 |
| Interest rate swaps - Pay Floating, Receive Fixed | 265 | 230 |
| Commitments to purchase foreign currencies | 417 | 439 |
| Commitments to sell foreign currencies | 11 | 2,001 |

The Group enters into interest rate swaps in managing its interest rate 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 nine years. Unrealized gains and losses on contracts outstanding at year-end 1996 and 1995 were not material.

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) hedging existing liabilities have maturities of up to six years. As of December 31, 1995, contracts to sell foreign currencies primarily reflected a hedge of the agreed proceeds of yen 200 billion (approximately $2 billion) relating to the April 1, 1996 sale of the Group's interest in NPRC. The estimated realized gain on this hedge, which was included in the sales proceeds received on April 1, 1996, was approximately $121 million. Unrealized gains and losses applicable to all other outstanding forward exchange contracts at December 31, 1996 and 1995 were not material.

The Group's activities in commodity-based derivative contracts, that must be settled in cash, are not material. Unrealized gains and losses on commodity-based derivative contracts outstanding as of December 1996 and 1995 were not material.

Note 10 - Financial instruments - continued

The Group's long-term debt of $713 million and $628 million as of December 31, 1996 and 1995, respectively, had fair values of $756 million and $639 million as of December 31, 1996 and 1995, 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, notes and accounts receivable, and all current liabilities approximate fair value because of their short maturities.

The Group had investments in debt securities available-for-sale at amortized costs of $70 million and $65 million at December 31, 1996 and 1995, respectively, and investments in debt securities held to maturity at amortized costs of $7 million and $14 million as of December 31, 1996 and 1995, respectively. The fair value of these securities at December 31, 1996 and 1995 approximates amortized costs. As of December 31, 1996 and 1995, investments in debt securities available-for-sale had maturities less than ten years and investments in debt securities held to maturity had maturities less than one year. As of December 31, 1996 and 1995, the Group's carrying amount for investments in affiliates accounted for at equity included $25 million and $65 million, 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 counterparties to financial instruments. For financial instruments with institutions, the Group does not expect any counterparty to fail to meet its obligations given the 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.

Note 11 - Taxes

Taxes charged to income consist of the following:

| | Year ended December 31 (Millions of dollars) 1996 | 1995 | 1994 |
|---|---|---|---|
| Taxes other than income taxes (International): | | | |
| Duties, import and excise taxes | $ 1,349 | $ 1,660 | $2,384 |
| Other | 18 | 29 | 32 |
| Total taxes other than income taxes | $ 1,367 | $ 1,689 | $2,416 |
| Income taxes: | | | |
| U.S. taxes : | | | |
| Current | $ 455 | $ 24 | $ 23 |
| Deferred | 19 | (23) | (3) |
| Total U.S. | 474 | 1 | 20 |
| International taxes: | | | |
| Current | 491 | 425 | 444 |
| Deferred | 17 | 41 | (42) |
| Total International | 508 | 466 | 402 |
| Total provision for income taxes | $ 982 | $ 467 | $ 422 |

Note 11 - Taxes - continued

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 | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Computed "expected" tax rate | 35.0% | 35.0% | 35.0% |
| Effect of recording equity in net income of affiliates on an after tax basis | (0.7) | (10.9) | (8.3) |
| Effect of dividends received from subsidiaries and affiliates | (0.5) | 2.9 | 4.4 |
| Income subject to foreign taxes in excess of U.S. statutory tax rate | 8.1 | 8.3 | 6.9 |
| Effect of sale of investment in affiliate | 3.6 | - | - |
| Other | (0.3) | (1.1) | - |
| Effective tax rate | 45.2% | 34.2% | 38.0% |

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 carryforwards which give rise to deferred tax liabilities (assets) are as follows:

| | As of December 31 (Millions of dollars) | |
|---|---|---|
| | 1996 | 1995 |
| Depreciation | $ 337 | $ 306 |
| Miscellaneous | 28 | 56 |
| Deferred tax liabilities | 365 | 362 |
| Investment allowances | (73) | (62) |
| Retirement benefits | (28) | (29) |
| Tax loss carryforwards | (10) | (24) |
| Miscellaneous | (25) | (47) |
| Deferred tax assets | (136) | (162) |
| Valuation allowance | 10 | 17 |
| Net deferred taxes | $ 239 | $ 217 |

Note 11 - Taxes - continued

Deferred taxes are classified on the combined balance sheet as current assets of $10 million and noncurrent liabilities of $249 million as of December 31, 1996, and as current liabilities of $8 million and noncurrent liabilities of $209 million as of December 31, 1995.

A valuation allowance has been established to adjust recorded deferred tax assets to amounts where recoverability is more likely than not. Net income increased by $7 million in 1996, and decreased in 1995 and 1994 by $8 million and $3 million, respectively, for changes in the deferred tax asset valuation allowance.

Undistributed earnings of subsidiaries and affiliates, for which no U.S. deferred income tax provision has been made, approximated $3.0 billion as of December 31, 1996 and $3.7 billion as of December 31, 1995. 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.

Note 12 - Combined statement of cash flows

For purposes of the combined statement of cash flows, all highly liquid debt instruments with original maturities of three months or less are considered cash equivalents.

Changes in operating working capital consist of the following:

| | Year ended December 31 (Millions of dollars) | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Accounts and notes receivable | $(235) | $ 42 | $ (97) |
| Inventories | (16) | (89) | (37) |
| Accounts payable | 210 | 15 | 152 |
| Accrued liabilities | 18 | 31 | 16 |
| Estimated income taxes | 16 | (26) | 24 |
| Total | $ (7) | $ (27) | $ 58 |

Net cash provided by operating activities includes the following cash payments for interest and income taxes:

| | Year ended December 31 (Millions of dollars) | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Interest paid (net of capitalized interest) | $ 137 | $ 144 | $ 94 |
| Income taxes paid | 865 | 466 | 444 |

During 1995, Caltex Australia Limited exchanged, in a non-cash investing transaction, its petroleum refining and marketing net assets of $419 million for an investment in Australian Petroleum Pty. Limited, an affiliate of the Group. No significant non-cash investing or financing transactions occurred in either 1996 or 1994 .

Net cash provided by operating activities in 1996 includes income tax payments relating to the sale of an investment in an affiliate. Proceeds from this sale are included in net cash provided by investing activities.

Note 13 - Other

During 1996, Caltex Trading and Transport Corporation, a subsidiary of the Group, entered into an agreement with its partner, the Government of the State of Bahrain, ceding the Group's throughput rights in its Bahrain refining joint venture (Bapco) in exchange for recovery of costs. Subsequent to year end, a Memorandum of Understanding was signed whereby the Group's 40% interest in Bapco and related assets will be sold to the Government effective April 1, 1997 at approximately net book value. While negotiations are still in progress, the Group believes that the sale will not have a material impact on the Group's combined financial position or results of operations.

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.

DESCRIPTION OF GRAPHIC/IMAGE/ILLUSTRATION MATERIAL INCLUDED IN EXHIBIT 13 - TEXACO INC.'S 1996 ANNUAL REPORT TO STOCKHOLDERS.

The following information is depicted in graphic/image/illustration form in Texaco Inc.'s 1996 Annual Report to Stockholders filed as Exhibit 13 to Texaco Inc.'s 1996 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 1996 Annual Report to Stockholders as provided to Texaco Inc.'s stockholders:

This Appendix is separated into two parts. Part A (Items A1-A19) describes the graphic/image/illustration material contained in the portion of Texaco Inc.'s 1996 Annual Report to Stockholders which is incorporated by reference into Texaco Inc.'s 1996 Annual Report on Form 10-K, in response to Form 10-K Items l and 2 - Business and Properties. Part B (Items B1-B20) describes the graphic material contained in the portion of Texaco Inc.'s 1996 Annual Report to Stockholders which is incorporated by reference into Texaco Inc.'s 1996 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.

PART A

A1. The first item is a bar graph located on the lower left margin of page 12. The bar graph is entitled "Exploration and Production - Total Operating Earnings" and is reflected in millions of dollars. The Y axis depicts dollars in millions from $0 to $1,800 with $300 increments. The X axis depicts the years 1994, 1995 and 1996. Each year's bar graph is segmented into 2 colors representing operating earnings in the United States (blue) and International (yellow). The operating earnings, in millions of dollars are depicted as follows:

| | United States | International | Total |
|---|---|---|---|
| 1994 | $ 414 | $253 | $ 667 |
| 1995 | $ 293 | $340 | $ 633 |
| 1996 | $1,123 | $478 | $1,601 |

A2. The second item is a map illustration located on the bottom left of page 13. The map illustration is entitled, "Major Projects Onshore Louisiana and Gulf of Mexico." The map depicts the locations and names of various Texaco upstream projects in this area of the United States.

A3. The third item is a bar graph located on the upper right margin of page 13. The bar graph is entitled, "Lease Operating Expenses - U.S." and is reflected in cost per barrel of oil extracted. The Y axis depicts dollars from $0 to $5 with $1 increments. The X axis depicts the years 1994, 1995 and 1996. The lease operating expenses are depicted as follows:

| | |
|---|---|
| 1994 | $4.29 per barrel of oil extracted |
| 1995 | $4.01 per barrel of oil extracted |
| 1996 | $3.96 per barrel of oil extracted |

A4. The fourth item is a bar graph located on the lower left margin of page 14. The bar graph is entitled "Net Production of Crude Oil - Kern River" and is reflected in thousands of barrels a day. The Y axis depicts thousands of barrels from 0 to 100 with increments of 20. The X axis depicts the years 1994, 1995 and 1996.
The net production is depicted as follows:

| | |
|---|---|
| 1994 | 81 Thousand barrels a day |
| 1995 | 85 Thousand barrels a day |
| 1996 | 94 Thousand barrels a day |

A5. The fifth item is a map illustration located on the bottom left of page 15. The map illustration is entitled "Major projects in the North Sea." The map depicts the locations of various Texaco upstream projects in the North Sea area.

A6. The sixth item is a bar graph located on the upper right margin of page 15. The bar graph is entitled "Net Production of Crude Oil and Natural Gas Liquids - PNZ" and is reflected in thousands of barrels a day. The Y axis depicts thousands of barrels from 0 to 100 with increments of 20. The X axis depicts the years 1994, 1995 and 1996. The net production is depicted as follows:

| | |
|---|---|
| 1994 | 42 Thousand barrels a day |
| 1995 | 59 Thousand barrels a day |
| 1996 | 76 Thousand barrels a day |

A7. The seventh item is a pie chart located on the upper left margin of page 16. The pie chart is entitled "1996 Capital and Exploratory Expenditures - Upstream." The pie chart is segmented into 2 colors depicting 1996 upstream capital and exploratory expenditures for the U. S. (blue) and International (red) and are shown as a percentage of the total. The legend to the pie chart lists geographically the corresponding dollar amounts in millions. The dollar amounts and percentages are as follows:

| | Millions of Dollars | Percent |
|---|---|---|
| United States | $1,243 | 52% |
| International | $1,135 | 48% |
| Total | $2,378 | |

Below the pie chart a footnote appears which states "Includes Equity in Affiliates."

A8. The eighth item is a pie chart located on the lower left margin of page 16. The pie chart is entitled "1997 Planned Capital and Exploratory Expenditures - Upstream." The pie chart is segmented into 2 colors depicting the planned 1997 upstream capital and exploratory expenditure for the U. S. (blue) and International (red) and are shown as a percentage of the total. The legend to the pie chart lists geographically the corresponding dollar amounts in millions. The dollar amounts and percentages are as follows:

| | Millions of Dollars | Percent |
|---|---|---|
| United States | $1,400 | 48% |
| International | $1,500 | 52% |
| Total | $2,900 | |

Below the pie chart a footnote appears which states "Includes Equity in Affiliates."

A9. The ninth item is a map illustration located on the bottom right of page 16. The map illustration is entitled "Major Projects in Colombia, Trinidad and Venezuela." The map depicts the location of a major Texaco upstream project in each of those three countries.

A10. The tenth item is a bar graph located on the upper right margin of page 17. The bar graph is entitled "Net Production of Natural Gas Available for Sale - Latin America" and is reflected in millions of cubic feet a day. The Y axis depicts millions of cubic feet a day from 0 to 200 with increments of 50. The X axis depicts the years 1994, 1995 and 1996. The net production is depicted as follows:

| | |
|---|---|
| 1994 | 117 Million cubic feet a day |
| 1995 | 127 Million cubic feet a day |
| 1996 | 158 Million cubic feet a day |

A11. The eleventh item is a bar graph located on the lower left margin of page 18. The bar graph is entitled "Manufacturing, Marketing and Distribution - Total Operating Earnings" and is reflected in millions of dollars. The Y axis depicts millions of dollars from $0 to $800 with increments of $200. The X axis depicts the years 1994, 1995 and 1996. Each year's graph is segmented into 2 colors representing operating earnings in the United States (blue) and International (yellow). The operating earnings, in millions of dollars, is depicted as follows:

| | United States | International | Total |
|---|---|---|---|
| 1994 | $257 | $360 | $617 |
| 1995 | $121 | $365 | $486 |
| 1996 | $207 | $450 | $657 |

A12. The twelfth item is a map illustration located on the bottom left of page 19. The map illustration is entitled "U. S. Refineries - Texaco and Star Enterprise." The map depicts the location of refineries owned by Texaco (red) and Star Enterprise (yellow), a joint venture partnership in which Texaco holds a 50% interest. There are 4 Texaco refineries and 3 Star Enterprise refineries in the U. S. depicted as follows:

| Texaco Refineries | Star Enterprise Refineries |
|---|---|
| Anacortes, WA | Delaware City, DE |
| Bakersfield, CA | Convent, LA |
| Los Angeles, CA | Port Arthur, TX |
| El Dorado, KS | |

A13. The thirteenth item is a bar graph located on the upper right margin of page 19. The bar graph is entitled "Branded Gasoline Sales - U. S." and is reflected in thousands of barrels a day. The Y axis depicts thousands of barrels from 0 to 600 with increments of 100. The X axis depicts the years 1994, 1995 and 1996. The sales are depicted as follows:

| | |
|---|---|
| 1994 | 547 Thousand barrels a day |
| 1995 | 545 Thousand barrels a day |
| 1996 | 563 Thousand barrels a day |

Below the graph a footnote appears which states "Includes Star Enterprise on a 100% basis."

A14. The fourteenth item is a pie chart located on the upper left margin of page 20. The pie chart is entitled "1996 Capital Expenditures - Downstream." The pie chart is segmented into 2 colors depicting 1996 downstream capital expenditures for the U. S. (blue) and International (red) and are shown as a percentage of the total. The legend to the pie chart lists geographically the corresponding dollar amounts in millions. The dollar amounts and percentages are as follows:

| | Millions of Dollars | Percent |
|---|---|---|
| United States | $ 360 | 35% |
| International | $ 658 | 65% |
| Total | $ 1,018 | |

Below the pie chart a footnote appears which states "Includes Equity in Affiliates."

A15. The fifteenth item is a pie chart located on the lower left margin of page 20. The pie chart is entitled "1997 Planned Capital Expenditures - Downstream." The pie chart is segmented into 2 colors depicting the planned 1997 downstream capital expenditures for the U. S. (blue) and International (red) and are shown as a percentage of the total. The legend to the pie chart lists geographically the corresponding dollar amounts in millions.
The dollar amounts and percentages are as follows:

| | Millions of Dollars | Percent |
|---|---|---|
| United States | $ 500 | 33% |
| International | $1,000 | 67% |
| Total | $1,500 | |

Below the pie chart a footnote appears which states "Includes Equity in Affiliates."

A16. The sixteenth item is a bar graph located on the upper right margin of page 21. The bar graph is entitled "Refined Product Sales - Latin America" and is reflected in thousands of barrels a day. The Y axis depicts thousands of barrels from 0 to 400 with increments of 100. The X axis depicts the years 1994, 1995 and 1996.
The sales are depicted as follows:

| | |
|---|---|
| 1994 | 312 Thousand barrels a day |
| 1995 | 346 Thousand barrels a day |
| 1996 | 376 Thousand barrels a day |

A17. The seventeenth item is a bar graph located on the lower left margin of page 22. The bar graph is entitled "Revenues from Licensed Gasification Technology" and is reflected in millions of dollars. The Y axis depicts millions of dollars from $0 to $40 with increments of $10. The X axis depicts the years 1994, 1995 and 1996.
The revenues are depicted as follows:

| | |
|---|---|
| 1994 | $14.2 Million |
| 1995 | $ 9.2 Million |
| 1996 | $30.3 Million |

A18. The eighteenth item is a line graph located on the lower right margin of page 23. The line graph is entitled "Lost-Time Incidence Rate - U.S. and Worldwide" and is reflected in number of incidents per 200,000 hours worked. The Y axis depicts the number of incidents per 200,000 hours worked from 0.0 to 0.8 with increments of 0.2. The X axis depicts the years 1994, 1995 and 1996. Each year has 2 sets of line points plotted representing United States (blue) and Worldwide (red). The incidences per 200,000 hours worked are depicted as follows:

| | United States | Worldwide |
|---|---|---|
| 1994 | 0.75 | 0.74 |
| 1995 | 0.59 | 0.58 |
| 1996 | 0.58 | 0.55 |

A19. The nineteenth item is a bar graph located on the lower left margin of page 24. The bar graph is entitled "TRMI/Star Enterprise - TRI Releases to the Environment" and is reflected in million pounds per year. The Y axis depicts millions of pounds from 0 to 4 with increments of 1. The X axis depicts the years 1994, 1995 and 1996. The amount of TRI releases to the environment are depicted as follows:

| | |
|---|---|
| 1993 | 3.96 Million pounds per year |
| 1994 | 3.01 Million pounds per year |
| 1995 | 2.32 Million pounds per year |

Below the graph a footnote appears which states "1996 figures will be reported to the EPA later in 1997."

PART B

B1. The first graph is located on the upper left margin of page 26. The bar graph is entitled "Returns on Average Stockholders' Equity" and is reflected in percentages. The Y axis depicts percentages from 0% to 25% with 5% increments. The X axis depicts the years 1994, 1995 and 1996. Each year has 2 bar graphs, one next to the other, representing rates of return based on net income excluding special items (yellow) and rates of return based on net income as reported (blue). The returns are depicted as follows:

| | Excluding Special Items | As Reported |
|---|---|---|
| 1994 | 9.2% | 9.8% |
| 1995 | 11.9% | 7.5% |
| 1996 | 16.8% | 20.4% |

Below the graph a footnote appears which states "Returns exclude the 1995 cumulative effect of accounting change and discontinued operations."

B2. The second graph is located on the lower left margin of page 26. The bar graph is entitled "Returns on Average Capital Employed" and is shown in percentages. The Y axis depicts percentages from 0% to 16% with 4% increments. The X axis depicts the years 1994, 1995 and 1996. Each year has 2 bar graphs, one next to the other, representing rates of return based on net income excluding special items (yellow) and rates of return based on net income as reported (blue). The returns are depicted as follows:

| | Excluding Special Items | As Reported |
|---|---|---|
| 1994 | 7.7% | 8.0% |
| 1995 | 9.5% | 6.9% |
| 1996 | 12.8% | 14.9% |

Below the graph a footnote appears which states "Returns exclude the 1995 cumulative effect of accounting change and discontinued operations."

B3. The third graph is located on the upper right margin of page 27. The bar graph is entitled "Revenues" and is reflected in billions of dollars. The Y axis depicts dollars in billions from $0 to $50 with $10 increments. The X axis depicts the years 1994, 1995 and 1996. Each years' bar graph is segmented into 5 colors representing the sources of revenues from refined products (blue), crude oil (green), natural gas (red), natural gas liquids (yellow) and other revenues (including equity and services) (gray). The revenues, in billions of dollars, for each year and segment are depicted as follows:

| | Refined Products | Crude Oil | Natural Gas | Natural Gas Liquids | Other Revenues (Including Equity and Services) | Total |
|---|---|---|---|---|---|---|
| 1994 | $17.9 | $ 9.8 | $2.4 | $1.3 | $2.0 | $33.4 |
| 1995 | $19.4 | $11.4 | $2.3 | $1.6 | $2.1 | $36.8 |
| 1996 | $23.0 | $15.4 | $3.1 | $1.9 | $2.1 | $45.5 |

B4. The fourth graph is located on the lower right margin of page 27. The bar graph is entitled "Costs and Expenses" and is reflected in billions of dollars. The Y axis depicts dollars in billions from $0 to $50 with $10 increments. The X axis depicts the years 1994, 1995 and 1996. Each years' bar graph is segmented into 2 colors representing purchases and other costs (blue) and expenses (yellow). Purchases and other costs and expenses, in billions of dollars, for each year and segment are depicted as follows:

| | Purchases and Other Costs | Expenses | Total |
|---|---|---|---|
| 1994 | $23.9 | $8.2 | $32.1 |
| 1995 | $27.2 | $8.5 | $35.7 |
| 1996 | $34.6 | $7.8 | $42.4 |

B5. The fifth graph is located on the upper right margin of page 29. The bar graph is entitled "Exploration and Production - Total Operating Earnings" and is reflected in millions of dollars. The Y axis depicts dollars in millions from $0 to $1800 with $300 increments. The X axis depicts the years 1994, 1995 and 1996. Each years' bar graph is segmented into 2 colors representing total operating earnings in the United States (blue) and International (yellow). The total exploration and production operating earnings, in millions of dollars, are depicted as follows:

| | United States | International | Total |
|---|---|---|---|
| 1994 | $ 414 | $253 | $ 667 |
| 1995 | $ 293 | $340 | $ 633 |
| 1996 | $1,123 | $478 | $ 1,601 |

B6. The sixth graph is located on the lower right margin of page 29. The line graph is entitled "Average U.S. Natural Gas Selling Price-Per Quarter" and is shown in dollars per thousand cubic feet (MCF) by quarter for the years 1994, 1995 and 1996. The X axis depicts the calendar quarters for the years 1994, 1995 and 1996. The Y axis depicts dollars per thousand cubic feet from $1.00 to $3.00 with $0.50 increments. The selling prices per quarter are depicted as follows:

| | |
|---|---|
| First Quarter 1994 | $2.15 Per MCF |
| Second Quarter 1994 | $1.99 Per MCF |
| Third Quarter 1994 | $1.80 Per MCF |
| Fourth Quarter 1994 | $1.75 Per MCF |
| First Quarter 1995 | $1.60 Per MCF |
| Second Quarter 1995 | $1.67 Per MCF |
| Third Quarter 1995 | $1.52 Per MCF |
| Fourth Quarter 1995 | $1.81 Per MCF |
| First Quarter 1996 | $2.11 Per MCF |
| Second Quarter 1996 | $2.07 Per MCF |
| Third Quarter 1996 | $2.02 Per MCF |
| Fourth Quarter 1996 | $2.54 Per MCF |

B7. The seventh graph is located on the upper left margin of page 30. The line graph is entitled "Average Crude Oil Selling Prices-Per Quarter" and is shown in dollars per barrel by quarter for the years 1994, 1995 and 1996. The X axis depicts the calendar quarters for 1994, 1995 and 1996. The Y axis depicts dollars per barrel from $10 to $22 with $2 increments. Each quarter has 2 sets of points plotted represented by a blue line and a red line graph. The blue line represents average crude oil selling prices per barrel in the United States and the red line represents average International crude oil selling prices per barrel. The selling prices per quarters are depicted as follows:

| | United States | International |
|---|---|---|
| First Quarter 1994 | $11.02 per barrel | $13.12 per barrel |
| Second Quarter 1994 | $13.45 per barrel | $14.57 per barrel |
| Third Quarter 1994 | $14.82 per barrel | $16.02 per barrel |
| Fourth Quarter 1994 | $14.45 per barrel | $15.58 per barrel |
| First Quarter 1995 | $14.85 per barrel | $16.38 per barrel |
| Second Quarter 1995 | $15.85 per barrel | $17.30 per barrel |
| Third Quarter 1995 | $14.88 per barrel | $15.45 per barrel |
| Fourth Quarter 1995 | $14.89 per barrel | $16.17 per barrel |
| First Quarter 1996 | $16.51 per barrel | $18.02 per barrel |
| Second Quarter 1996 | $17.30 per barrel | $18.41 per barrel |
| Third Quarter 1996 | $17.93 per barrel | $19.43 per barrel |
| Fourth Quarter 1996 | $20.00 per barrel | $21.96 per barrel |



B8. The eighth graph is located on the lower left margin of page 30. The bar graph is entitled "Manufacturing, Marketing and Distribution - Total Operating Earnings" and is reflected in millions of dollars. The Y axis depicts dollars in millions from $0 to $800 with $200 increments. The X axis depicts the years 1994, 1995 and 1996. Each years' bar graph is segmented into 2 colors representing total operating earnings in the United States (blue) and International (yellow). The total manufacturing, marketing and distribution operating earnings, in millions of dollars, are depicted as follows:

| | United States | International | Total |
|---|---|---|---|
| 1994 | $257 | $360 | $617 |
| 1995 | $121 | $365 | $486 |
| 1996 | $207 | $450 | $657 |

B9. The ninth graph is located on the upper right margin of page 31. The bar graph is entitled "Refined Product Sales - U.S. by Principal Products" and is reflected in thousands of barrels a day. The Y axis depicts thousands of barrels from 0 to 1,200 with 200 increments. The Y axis depicts the years 1994, 1995 and 1996. Each years' bar graph is segmented into 5 colors representing sales of gasolines (blue), middle distillates (yellow), avjets (green), residuals (gray) and other (orange). U. S. refined product sales, in thousands of barrels a day, for each year and segment, are depicted as follows:

| | Gasolines | Middle Distillates | Avjets | Residuals | Other | Total |
|---|---|---|---|---|---|---|
| 1994 | 443 | 182 | 88 | 51 | 118 | 882 |
| 1995 | 449 | 196 | 99 | 51 | 139 | 934 |
| 1996 | 499 | 216 | 123 | 67 | 131 | 1,036 |

Below the graph a footnote appears which states "Includes equity in an affiliate."

B10. The tenth graph is located on the lower right margin of page 31. The bar graph is entitled "Refinery Input - U. S." and is shown in thousands of barrels a day. The Y axis depicts thousands of barrels from 0 to 1,000 with 200 increments. The X axis depicts the years 1994, 1995 and 1996. The refinery input is depicted as follows:

| | |
|---|---|
| 1994 | 673 Thousand barrels a day |
| 1995 | 693 Thousand barrels a day |
| 1996 | 724 Thousand barrels a day |

Below the graph a footnote appears which states "Includes equity in an affiliate."

B11. The eleventh graph is located on the upper right margin of page 33. The bar graph is entitled "Environmental Cash Expenditures." The Y axis depicts dollars in millions from $0 to $1200 with $200 increments. The X axis depicts the years 1994, 1995 and 1996. Each years' bar graph is segmented into 2 colors representing capital expenditures (blue) and other (yellow). Environmental cash expenditures, in millions of dollars, for each year and segment are depicted as follows:

| | Capital Expenditures | Other | Total |
|---|---|---|---|
| 1994 | $350 | $640 | $990 |
| 1995 | $275 | $660 | $935 |
| 1996 | $19 | $612 | $803 |

Below the graph a footnote appears which states "Includes equity in affiliates."

B12. The twelfth graph is located on the lower right margin of page 33. The bar graph is entitled "Environmental Cash Expenditures by Geographic Location." The Y axis depicts dollars in millions from $0 to $1200 with $200 increments. The X axis depicts the years 1994, 1995 and 1996. Each years' bar graph is segmented into 2 colors representing cash expenditures in the United States (blue) and International (yellow). Environmental cash expenditures, in millions of dollars, for each year and segment are depicted as follows:

| | United States | International | Total |
|---|---|---|---|
| 1994 | $752 | $238 | $990 |
| 1995 | $762 | $173 | $935 |
| 1996 | $618 | $185 | $803 |

Below the graph a footnote appears which states "Includes equity in affiliates."

B13. The thirteenth graph is located on the upper left margin of page 34. The pie chart is entitled "1996 Sources of Cash and Cash Equivalents" and each source is shown as a percentage of the total. The pie chart is segmented with 4 colors depicting the 1996 sources of cash and cash equivalents. The four sources are operations (blue), asset sales (orange), borrowings (green) and other sources (red). The legend to the pie chart lists each source as well as corresponding dollar amounts in billions. The dollar amounts and percentages are as follows:

| 1996 Sources of Cash and Cash Equivalents | Billions of Dollars | Percent |
|---|---|---|
| Operations | $3.8 | 75% |
| Asset Sales | $0.5 | 10% |
| Borrowings | $0.3 | 6% |
| Other Services | $0.4 | 9% |
| Total | $5.0 | |

B14. The fourteenth graph is located on the lower left margin of page 34. The pie chart is entitled "1996 Uses of Cash and Cash Equivalents" and each use is shown as a percentage of the total. The pie chart is segmented with 4 colors depicting the 1996 uses of cash and cash equivalents. The four uses are capital and exploratory (capex) (blue), dividends (orange), repayment of borrowings (green) and other uses (red). The legend to the pie chart lists each use as well as corresponding dollar amounts in billions. The dollar amounts and percentages are as follows:

| 1996 Uses of Cash and Cash Equivalents | Billions of Dollars | Percent |
|---|---|---|
| Capex | $2.9 | 58% |
| Dividends | $1.0 | 20% |
| Repayment of Borrowings | $0.9 | 19% |
| Other Uses | $0.2 | 3% |
| Total | $5.0 | |

B15. The fifteenth graph is located on the upper right margin of page 35. The bar graph is entitled "Total Debt to Total Borrowed and Invested Capital." The Y axis depicts percentages from 20% to 40% with 5% increments. The X axis depicts the years 1994, 1995 and 1996. The percentages are depicted as follows:

| | |
|---|---|
| 1994 | 38.5% |
| 1995 | 38.0% |
| 1996 | 33.6% |

B16. The sixteenth graph is located on the lower right margin of page 35. The bar graph is entitled "Total Production and Reserve Additions" and is reflected in millions of barrels of oil equivalent. The Y axis depicts barrels of oil equivalent, in millions, from 0 to 600 with 100 increments. The X axis depicts the years 1994, 1995 and 1996. Each year has 2 bar graphs, one a single bar (green) representing total production, the other bar depicts reserve additions and is segmented into 2 colors representing extensions, discoveries and other additions (blue) and revisions (yellow). The production and reserve additions, in million barrels of oil equivalent, for each year and segment are depicted as follows:

| | | Reserve Additions | | |
|---|---|---|---|---|
| | Total Production | Extensions, Discoveries and Other Additions | Revisions | Total Reserve Additions |
| 1994 | 427 | 369 | 103 | 472 |
| 1995 | 418 | 398 | 141 | 539 |
| 1996 | 433 | 427 | 61 | 488 |

Below the graph a footnote appears which states "Includes equity in an affiliate."

B17. The seventeenth graph is located on the upper left margin of page 36. The bar graph is entitled "Capital and Exploratory Expenditures - Geographical" and is reflected in billions of dollars. The Y axis depicts dollars in billions from $0 to $4 with $1 increments. The X axis depicts the years 1994, 1995 and 1996. Each year's bar graph is segmented into 2 colors, representing the expenditures in the United States (blue) and International (yellow).

Capital and exploratory expenditures, in billions of dollars, for each year and geographical location are depicted as follows:

| | United States | International | Total |
|---|---|---|---|
| 1994 | $1.2 | $1.5 | $2.7 |
| 1995 | $1.4 | $1.7 | $3.1 |
| 1996 | $1.6 | $1.8 | $3.4 |

Below the graph a footnote appears which states "Includes equity in affiliates."

B18. The eighteenth graph is located on the lower left margin of page 36. The bar graph is entitled "Capital and Exploratory Expenditures - Functional" and is reflected in billions of dollars. The Y axis depicts dollars in billions from $0 to $4 with $1 increments. The X axis depicts the years 1994, 1995 and 1996. Each year's bar graph is segmented into 2 colors, representing the expenditures relating to exploration and production (blue) and manufacturing, marketing, distribution and other (yellow). Capital and exploratory expenditures, in billions of dollars, for each year and function are depicted as follows:

| | Exploration and Production | Manufacturing, Marketing, Distribution and Other | Total |
|---|---|---|---|
| 1994 | $1.5 | $1.2 | $2.7 |
| 1995 | $1.9 | $1.2 | $3.1 |
| 1996 | $2.4 | $1.0 | $3.4 |

Below the graph a footnote appears which states "Includes equity in affiliates."

B19. The nineteenth graph is located on the upper right margin of page 39. The bar graph is entitled "Real GDP Growth - Worldwide." The Y axis depicts percentages from 3.0% to 4.0% with 0.2% increments. The X axis depicts the years 1994, 1995 and 1996. The growth, in percentages, for each year is as follows:

| | Real GDP Growth Worldwide |
|---|---|
| 1994 | 3.6% |
| 1995 | 3.5% |
| 1996 | 3.8% |

B20. The twentieth graph is located on the lower right margin of page 39. The line graph is entitled "Average West Texas Intermediate Spot Prices - Per Quarter" and is shown in dollars per barrel by quarter for the years 1994, 1995 and 1996. The Y axis depicts the dollars per barrel from $10 to $30 with $5 increments. The X axis depicts the calendar quarters for the years 1994, 1995 and 1996. The spot prices per quarter are depicted as follows:

| | |
|---|---|
| First Quarter 1994 | $14.84 per barrel |
| Second Quarter 1994 | $17.81 per barrel |
| Third Quarter 1994 | $18.49 per barrel |
| Fourth Quarter 1994 | $17.66 per barrel |
| First Quarter 1995 | $18.37 per barrel |
| Second Quarter 1995 | $19.35 per barrel |
| Third Quarter 1995 | $17.85 per barrel |
| Fourth Quarter 1995 | $18.15 per barrel |
| First Quarter 1996 | $19.74 per barrel |
| Second Quarter 1996 | $21.73 per barrel |
| Third Quarter 1996 | $22.42 per barrel |
| Fourth Quarter 1996 | $24.67 per barrel |

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 | | |
|---|---|---|
| (3.1) | Copy of Restated Certificate of Incorporation of Texaco Inc., as amended to and including November 9, 1994, including Certificate of Designations, Preferences and Rights of Series B ESOP Convertible Preferred Stock, Series D Junior Participating Preferred Stock, Series F ESOP Convertible Preferred Stock and Series G, H, I and J Market Auction Preferred Shares, incorporated herein by reference to Texaco Inc.'s Annual Report on Form 10-K for 1994 dated March 27, 1995. | * |
| (3.2) | Copy of By-Laws of Texaco Inc., as amended to and including January 24, 1997. | |
| (10(iii)(a)) | 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)(b)) | 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)(c)) | Texaco Inc.'s Incentive Bonus Plan, incorporated herein by reference to page IV-5 of Texaco Inc.'s proxy statement dated April 10, 1989. | * |
| (10(iii)(d)) | 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)(e)) | 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)(f)) | 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. | * |
| (11) | Computation of Earnings Per Share of Common Stock of Texaco Inc. and Subsidiary Companies. | |
| (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 1996 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) Consent of Arthur Andersen LLP.

(24) Powers of Attorney for the Directors and certain Officers of Texaco Inc. authorizing, among other things, the signing of Texaco Inc.'s Annual Report on Form 10-K on their behalf.

(27) Financial Data Schedule.

EXHIBIT 3.2

# BY-LAWS OF TEXACO INC.
A Delaware Corporation

## ARTICLE I.
Stockholders.

SECTION 1. Annual Meeting. The annual meeting of stockholders shall be held on the second Tuesday in May of each year at 10:00 A.M., or at such time of day or on such other date in each calendar year as may be fixed by the Board of Directors, for the election of directors and the transaction of any other business as may properly come before the meeting.

SECTION 2. Stockholder Action; Special Meetings. Any action required or permitted to be taken by the stockholders of the Company must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders. Except as otherwise required by law and subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, special meetings of stockholders of the Company may be called only by the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors.

SECTION 3. Notice of Meetings. Notice of each meeting of stockholders, annual or special, stating the time and place, and, if a special meeting, the purpose or purposes in general terms, shall be mailed no earlier than 60 days and no later than 10 days prior to the meeting to each stockholder at the stockholder's address as the same appears on the books of the Company.

SECTION 4. Place. Meetings of the stockholders shall be held at such place or places as the Board of Directors may direct, the place to be specified in the notice.

Section 5. Quorum. At any meeting of stockholders, the holders of a majority of the voting shares issued and outstanding, being present in person or represented by proxy, shall be a quorum for all purposes, except where otherwise provided by statute.

SECTION 6. Adjournments. Any annual or special meeting of stockholders duly and regularly called in accordance with these by-laws may adjourn one or more times and no further notice of such adjourned meeting or meetings shall be necessary. If at any annual or special meeting of stockholders a quorum shall fail to attend in person or by proxy, a majority in interest of the stockholders attending in person or by proxy may adjourn the meeting to another time, or to another time and place, and there may be successive adjournments for like cause and in like manner without further notice until a quorum shall attend. Any business may be transacted at any such adjourned meeting or meetings which might have been transacted at the meeting as originally called.

SECTION 7. Organization. The Chairman of the Board, or, in his absence, the Vice Chairman, or, in their absence, the President, or, in their absence, one of the Executive Vice Presidents, or, in their absence, one of the Senior Vice Presidents, or, in their absence, a Vice President appointed by the stockholders, shall call meetings of the stockholders to order and shall act as chairman thereof. The Secretary of the Company, if present, shall act as secretary of all meetings of the stockholders; and, in his absence, the presiding officer may appoint a secretary.

SECTION 8. Voting. At each meeting of the stockholders, every stockholder of record (at the closing of the transfer books if closed) shall be entitled to vote in person or by proxy appointed by an instrument in writing subscribed by such stockholder or by his duly authorized attorney and delivered to and filed with the Secretary at the meeting; and each stockholder shall have one vote for each share of stock standing in his name. Voting for directors, and upon any question at any meeting, shall be by ballot, if demanded by any stockholder.

SECTION 9. Stockholder Proposals. Stockholders may present proper business for stockholder action at an annual meeting by giving timely notice in writing to the Secretary of their intention to bring such business before the meeting. To be timely, a stockholder's notice must be delivered to, or mailed and received at, the office of the Company in Harrison, New York, addressed to the attention of the Secretary, not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting of stockholders; provided, however, that if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. The stockholder's notice shall set forth (a) the name and address of the stockholder proposing such business, (b) a brief description of the business desired to be brought before the meeting and any material interest in such business of such stockholder, and (c) the number of shares of the Company which are beneficially owned by the stockholder. The chairman of the meeting may refuse to permit any business to be brought before an annual meeting by a stockholder without compliance with the procedure set forth in this Section 9.



For purposes of this section, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the Company with the Securities and Exchange Commission.

Notwithstanding the foregoing provisions of this by-law, a stockholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations thereunder with respect to matters set forth in this by-law. Nothing in this by-law shall be deemed to affect any rights of stockholders to request inclusion of proposals in the company's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

SECTION 10. List of Stockholders. The Secretary shall keep records from which a list of stockholders can be compiled, and shall furnish such list upon order of the Board of Directors.

## ARTICLE II.
The Board of Directors.

SECTION 1. Number, Election and Terms. Except as otherwise fixed by or pursuant to the provisions of Article IV of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of the directors of the Company shall be fixed from time to time by the Board of Directors but shall not be less than three. The directors, other than those who may be elected by the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, as determined by the Board of Directors, one class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1985, another class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1986, and another class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1987, with each class to hold office until its successor is elected and qualified. At each annual meeting of the stockholders of the Company, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election.

SECTION 2. Newly Created Directorships and Vacancies. Except as otherwise provided for or fixed by or pursuant to the provisions of Article IV of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, newly created directorships resulting from any increases in the number of directors or any vacancies on the Board of Directors resulting from death, resignation or disqualification, or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director so elected shall stand for election (for the balance of his term) at the next annual meeting of stockholders, unless his term expires at such Annual Meeting. Any vacancy on the Board of Directors resulting from removal by stockholder vote shall be filled only by the vote of a majority of the voting power of all shares of the Company entitled to vote generally in the election of Directors, voting together as a single class. The affirmative vote of the holders of at least a majority of the then outstanding shares of capital stock of the Company voting generally in the election of Directors, voting together as a single class, shall be required to repeal the foregoing provisions.

SECTION 3. Removal. Subject to the rights of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect Directors under specified circumstances, any director may be removed from office, with or without cause, only by the affirmative vote of the holders of 66 2/3% of the combined voting power of the then outstanding shares of stoc entitled to vote generally in the election of Directors, voting together as a single class.

SECTION 4. Nominations. Subject to the rights of holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, nominations for the election of Directors may be made by the Board of Directors or a proxy committee appointed by the Board of Directors or by any stockholder entitled to vote in the election of Directors generally. However, any stockholder entitled to vote in the election of Directors generally may nominate one or more persons for election as Directors at a meeting only if written notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Company not later than (i) with respect to an election to be held at an annual meeting of stockholders, 90 days in advance of such meeting, and (ii) with respect to an election to be held at a special meeting of stockholders for the election of Directors, the close of business on the seventh day following the date on which notice of such meeting is first given to stockholders. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a director of the Company if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

SECTION 5. Organization Meeting of the Board. At the last regular meeting of the Board of Directors prior to each annual meeting of stockholders, the Board of Directors shall establish its organization, elect and appoint officers and appoint committee members. Such action may also be taken at another place and time fixed by written consent of the Directors.

SECTION 6. Regular Meetings. Regular meetings of the Board are fixed and may be held without notice at the office of the Company in Harrison, New York on the fourth Friday in each month at 9:00 A.M., or at such other time and place, either within or without the State of Delaware, as the Board may provide by resolution, without other notice than such resolution. If less than a quorum is present at any meeting time and place, those present may adjourn from time to time until a quorum shall be present, but if there shall be no quorum prior to another regular meeting time, then such meetings of less than a quorum need not be recorded.

SECTION 7. Special Meetings. Special meetings of the Board shall be held whenever called by the Chairman of the Board, or, in his absence, by the Vice Chairman of the Board, or, in their absence, by the President, or by one-third of the Directors then in office. The person or persons authorized to call special meetings of the Board may fix any place, either within or without the State of Delaware, as the place for holding any special meeting. Unless otherwise specified in the notice thereof, any business may be transacted at a special meeting.

SECTION 8. Notice of Special Meetings. The Secretary shall mail to each director notice of any special meeting at least two days before the meeting, or shall telegraph or telephone such notice not later than the day before the meeting. When all Directors are present, any business may be transacted without any previous notice. Any director may waive notice of any meeting.

SECTION 9. Quorum. A majority of the total number of Directors, or half of the total number when the number of Directors then in office is even, shall constitute a quorum for the transaction of business, and a majority of those present at the time and place of any regular or special meeting, although less than a quorum, may adjourn the same from time to time, as provided in these by-laws.

SECTION 10. Chairman. At all meetings of the Board, the Chairman of the Board, or, in his absence, the Vice Chairman of the Board, or, in their absence, the President, or, in their absence, a chairman chosen by the Directors present, shall preside.

SECTION 11. Action without Meeting. A statement in writing, signed by all members of the Board of Directors or the Executive Committee, shall be deemed to be action by the Board or Committee, as the case may be, to the effect therein expressed, and it shall be the duty of the Secretary to record such statement in the minute books of the Company under its proper date.

## ARTICLE III.
## Executive Committee and Other Committees.

SECTION 1. Executive Committee. The Board of Directors shall appoint an Executive Committee of seven or more members to serve during the pleasure of the Board to consist of the Chairman of the Executive Committee, the Chairman of the Board, the Vice Chairman of the Board, the President, and such additional Directors as the Board may from time to time designate.

SECTION 2. The Chairman of the Executive Committee. The Chairman of the Executive Committee shall be designated by the Board of Directors and shall be a member of the Board and of the Executive Committee. He shall preside at meetings of the Executive Committee, and shall do and perform such other things as may from time to time by assigned to him by the Board of Directors.

SECTION 3. Vacancies. Vacancies in the Executive Committee shall be filled by the Board.

SECTION 4. Executive Committee to Report. All action by the Executive Committee shall be reported promptly to the Board and such action shall be subject to review by the Board, provided that no rights of third parties shall be affected by such review.

SECTION 5. Procedure. The Executive Committee, by a vote of a majority of all of its members, shall fix its own times and places of meeting, shall determine the number of its members constituting a quorum for the transaction of business, and shall prescribe its own rules of procedure, no change in which shall be made save by a majority vote of all of its members.

SECTION 6. Powers. During the intervals between the meetings of the Board, the Executive Committee shall possess and may exercise all the powers of the Board in the management and direction of the business and affairs of the Company, except those which by applicable statute are reserved to the Board of Directors.

SECTION 7. Other Committees. From time to time the Board may appoint other committees, and they shall have such powers as shall be specified in the resolution of appointment.

ARTICLE IV.
Officers.

SECTION 1. Number. The Board of Directors shall elect the executive officers of the Company which may include a Chairman of the Board, one or more Vice Chairmen of the Board, a President, one or more Vice Presidents (one or more of whom may be designated as Executive Vice Presidents or as Senior Vice Presidents or by other designations), a General Counsel, a Secretary, a Treasurer, a Comptroller, and a General Tax Counsel. A person may at the same time hold, exercise and perform the powers and duties of more than one executive officer position. In addition to the executive officers, the Board may appoint one or more Assistant Secretaries, Assistant Treasurers and Assistant Comptrollers and such other officers or agents as the Board may from time to time deem necessary or desirable. All officers and agents shall perform the duties and exercise the powers usually incident to the offices or positions held by them, those prescribed by these by-laws, and those assigned to them from time to time by the Board or by the Chief Executive Officer.

SECTION 2. The Chairman of the Board. The Chairman of the Board shall be a member of the Board of Directors and of the Executive Committee. He shall preside at meetings of the stockholders and of the Directors, and shall keep in close touch with the administration of the affairs of the Company, shall advise and counsel with the Vice Chairman of the Board and the President, and with other executives of the Company and shall do and perform such other duties as may from time to time be assigned to him by the Board of Directors or by the Executive Committee.

SECTION 3. The Vice Chairman of the Board. The Vice Chairman of the Board shall be a member of the Board of Directors and the Executive Committee. He shall keep in close touch with the administration of the affairs of the Company, shall advise and counsel with the Chairman of the Board and the President, and with other executives of the Company, and shall do and perform such other duties as may from time to time be assigned to him by the Board of Directors or the Executive Committee.

SECTION 4. The President. The President shall be a member of the Board of Directors and of the Executive Committee. He shall keep in close touch with the administration of the affairs of the Company, shall advise and counsel with the Chairman of the Board and the Vice Chairman of the Board and with other executives of the Company, and shall do and perform such other duties as may from time to time be assigned to him by the Board of Directors or the Executive Committee. In the absence of the Chairman of the Board, he shall preside at meetings of the stockholders and of the Directors.

SECTION 5. The Chief Executive Officer. Either the Chairman of the Board, or the President, as the Board of Directors may designate, shall be the Chief Executive Officer of the Company. The officer so designated shall have, in addition to the powers and duties applicable to the office set forth in either Section 2 or 4 of this Article IV, general active supervision over the business and affairs of the Company and over its several officers, agents, and employees, subject, however, to the direction and control of the Board or the Executive Committee. The Chief Executive Officer shall see that all orders and resolutions of the Board or the Executive Committee are carried into effect, and, in general, shall perform all duties incident to the position of Chief Executive Officer and such other duties as may from time to time be assigned by the Board or the Executive Committee.

SECTION 6. The Executive Vice Presidents. The Executive Vice Presidents shall keep in touch with the administration of the affairs of the Company, shall advise and counsel with the Chairman of the Board, the Vice Chairman of the Board and with the President and with other executives of the Company, and shall do and perform such other duties as from time to time may be assigned to them by the Board of Directors, the Executive Committee, the Chairman of the Board, the Vice Chairman of the Board, or the President. In the absence of the Chairman of the Board, the Vice Chairman of the Board and the President, the senior Executive Vice President shall preside at meetings of the stockholders.

SECTION 7. The Senior Vice Presidents. Each Senior Vice President shall have such powers as may be conferred upon him by the Board of Directors, and shall perform such duties as from time to time may be assigned to him by the Board of Directors, the Executive Committee, the Chairman of the Board, the Vice Chairman of the Board, or the President.

SECTION 8. The Vice Presidents. Each Vice President shall have such powers as may be conferred upon him by the Board of Directors, and shall perform such duties as from time to time may be assigned to him by the Board of Directors, the Executive Committee, the Chairman of the Board, the Vice Chairman of the Board, or the President.

SECTION 9. The General Counsel. The General Counsel shall have charge of all the legal affairs of the Company and shall exercise supervision over its contract relations.

SECTION 10. The Secretary. The Secretary shall keep the minutes of all meetings of the stockholders and the Board of Directors in books provided for the purpose. He shall attend to the giving and serving of all notices for the Company. He shall sign with the Chairman of the Board, the Vice Chairman of the Board, the President, and Executive Vice President, a Senior Vice President, or a Vice President, such contracts as may require his signature, and shall in proper cases affix the seal of the Company thereto. He shall have charge of the certificate books and such other books and papers as the Board of Directors may direct. He shall sign with the Chairman of the Board, the President, or a Vice President certificates of stock, and he shall in general perform all the duties incident to the Office of Secretary, subject to the control of the Board, and shall perform such other duties as from time to time may be assigned to him by the Board of Directors, the Executive Committee, the Chairman of the Board, the Vice Chairman of the Board, or the President. Any Assistant Secretary may, in his own name, perform any duty of the Secretary, when so requested by the Secretary or in the absence of that officer, and may perform such duties as may be prescribed by the Board. In the absence of the Secretary and of all Assistant Secretaries, minutes of any meetings may be kept by a Secretary pro tem, appointed for that purpose by the presiding officer.

SECTION 11. The Treasurer. The Treasurer shall have charge and custody of and be responsible for all the funds and securities of the Company, and may invest the same in any securities as may be permitted by law; designate depositories in which all monies and other valuables to the credit of the Company may be deposited; render to the Board, or any committee designated by the Board, whenever the Board or such committee may require, an account of all transactions as Treasurer; and in general perform all the duties of the office of Treasurer and such other duties as from time to time may be assigned by the Chairman of the Board, the Vice Chairman of the Board, the President, the officer of the Company who may be designated Chief Financial Officer, and the Board of Directors. In case one or more Assistant Treasurers be appointed, the Treasurer may delegate to them the authority to perform such duties as the Treasurer may determine.

SECTION 12. The Comptroller. The Comptroller shall be the principal accounting officer of the corporation; shall have charge of the Company's books of accounts, records and auditing, shall ensure that the necessary internal controls exist within the Company to provide reasonable assurance that the Company's assets are safeguarded and that financial records are maintained and publicly disclosed in accordance with generally accepted accounting principles; and in general perform all the duties incident to the office of Comptroller and such other duties as from time to time may be assigned by the Chairman of the Board, the Vice Chairman of the Board, the President, the officer of the Company who may be designated Chief Financial Officer, and the Board of Directors. In case one or more Assistant Comptrollers be appointed, the Comptroller may delegate to them such duties as the Comptroller may determine.

SECTION 13. The General Tax Counsel. The General Tax Counsel shall have charge of all the tax affairs of the Company.

SECTION 14. Tenure of Officers: Removal. All officers elected or appointed by the Board shall hold office until their successor is elected or appointed and qualified, or until their earlier resignation or removal. All such officers shall be subject to removal, with or without cause, at any time by the affirmative vote of a majority of the whole Board.

## ARTICLE V.
## Indemnification.

SECTION 1. Right to Indemnification. The Company shall indemnify, defend and hold harmless any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or other, including appeals, by reason of the fact that he is or was a director, officer or employee of the Company, or is or was serving at the request of the Company as a director, officer or employee of any corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer or employee or in any other capacity while serving as a director, officer or employee, to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended, (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than said Law permitted the Company to provide prior to such amendment) against all expenses, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith; provided, however, that except as provided in Section 2 hereof with respect to proceedings seeking to enforce rights to indemnification, the Company shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if the proceeding (or part thereof) was authorized by the Board of Directors of the Company.

The right to indemnification conferred in this Article shall be a contract right and shall include the right to be paid by the Company expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that if required by law at the time of such payment, the payment of such expenses incurred by a director or officer in his capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of such proceeding, shall be made only upon delivery to the Company of an undertaking, by or on behalf of such director or officer to repay all amounts so advanced if it should be determined ultimately that such director or officer is not entitled to be indemnified under this Section or otherwise.

"Employee." as used herein, includes both an active employee in the Company's service as well as a retired employee who is or has been a party to a written agreement under which he might be, or might have been obligated to render services to the Company.

SECTION 2. Right of Claimant to Bring Suit. If a claim under Section 1 is not paid in full by the Company within sixty days or, in cases of advances of expenses, twenty days, after a written claim has been received by the Company, the claimant may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking has been tendered to the Company) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the Company to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Company. Neither the failure of the Company (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Company (including its Board of Directors, independent legal counsel or its stockholders) that the claimant had not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant had not met the applicable standard of conduct. The Company shall be precluded from asserting in any judicial proceeding commenced pursuant to this Article that the procedures and presumptions of this Article are not valid, binding and enforceable and shall stipulate in any such proceeding that the Company is bound by all the provisions of this Article.

SECTION 3. Non-Exclusivity and Survival. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article (a) shall apply to acts or omissions antedating the adoption of this by-law, (b) shall be severable, (c) shall not be exclusive of other rights to which any director, officer or employee may now or hereafter be entitled, (d) shall continue as to a person who has ceased to be such director, officer or employee and (e) shall inure to the benefit of the heirs, executors and administrators of such a person.

## ARTICLE VI.
## Capital Stock.

SECTION 1. Form and Execution of Certificates. The certificates of shares of the capital stock of the Company shall be in such form as shall be approved by the Board. The certificates shall be signed by the Chairman of the Board, the President, or a Vice President, and the Secretary or an Assistant Secretary.

Section 2. Certificates to be Entered. Certificates shall be consecutively numbered, and the names of the owners, the number of shares and the date of issue, shall be entered in the books of the Company.

SECTION 3. Old Certificates to be Canceled. Except in the case of lost or destroyed certificates, and in that case only upon performance of such conditions as the Board may prescribe, no new certificate shall be issued in lieu of a former certificate until such former certificate shall have been surrendered and canceled.

Section 4. Transfer of Shares. Shares shall be transferred only on the books of the Company by a holder thereof in person or by his attorney appointed in writing, upon the surrender and cancellation of certificates for a like number of shares.

SECTION 5. Regulations. The Board may make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates of stock of the Company.

Section 6. Registrar. The Board may appoint a registrar of transfers and may require all certificates to bear the signature of such registrar.

SECTION 7. Closing of Transfer Books. If deemed expedient by the Board, the stock books and transfer books may be closed for the meetings of the stockholders, or for other purposes, during such periods as from time to time may be fixed by the Board, and during such periods no stock shall be transferable on said books.

SECTION 8. Dates of Record. If deemed expedient by the Board, the Directors may fix in advance, a date, not exceeding 60 days preceding the date of any meeting of stockholders or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, and in such case only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the Company after any such record date fixed as aforesaid.

SECTION 9. Rights to Purchase Securities. The Company shall not, without either the prior approval of a majority of the total number of shares then issued and outstanding and entitled to vote or the receipt by the Company of a favorable opinion issued by a nationally recognized investment banking firm designated by the Committee of Equity Security Holders of Texaco Inc. appointed in the Company's jointly administered chapter 11 case in the United States Bankruptcy Court for the Southern District of New York or its last chairman (or his designee) to the effect that the proposed issuance is fair from a finance point of view to the stockholders of the Company issue to its stockholders generally (i) any warrant or other right to purchase any security of the Company, any successor thereto or any other person or entity or (ii) any security of the Company containing any such right to purchase, which warrant, right or security (a) is exercisable, exchangeable or convertible, based or conditioned in whole or in part on (I) a change of control of the Company or (II) the owning or holding of any number or percentage of outstanding shares or voting power or any offer to acquire any number of shares or percentage of voting power by any entity, individual or group of entities and/or individuals or (b) discriminates among holders of the same class of securities (or the class of securities for which such warrant or right is exercisable or exchangeable) of the Company or any successor thereto. The affirmative vote of the holders of at least a majority of the then outstanding shares of capital stock of the Company voting generally in the election of Directors, voting together as a single class, shall be required to repeal the foregoing provisions.

## ARTICLE VII
## Fair Price.

A. Vote Required for Certain Business Combinations.

1. Higher Vote for Certain Business Combinations. In addition to any affirmative vote required by law or the Certificate of Incorporation, and except as otherwise expressly provided in Section B of this Article VII:

a. any merger or consolidation of the Company or any Subsidiary (as hereinafter defined) with (i) any Interested Stockholder (as hereinafter defined) or (ii) any other person (whether or not itself an Interested Stockholder) which is, or after such merger or consolidation would be, an Affiliate (as hereinafter defined) of an Interested Stockholder; or

b. any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Stockholder or any Affiliate of any Interested Stockholder of any assets of the Company or any Subsidiary having an aggregate Fair Market Value of $100 million or more; or

c. the issuance or transfer by the Company or any Subsidiary (in one transaction or a series of transactions) of any securities of the Company or any Subsidiary to any Interested Stockholder or any Affiliate of any Interested Stockholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate Fair Market Value of $100 million or more; or

d. the adoption of any plan or proposal for the liquidation or dissolution of the Company proposed by or on behalf of an Interested Stockholder or any Affiliate of any Interested Stockholder; or

e. any reclassification of securities (including any reverse stock split), or recapitalization of the Company, or any merger or consolidation of the Company with any of its Subsidiaries or any other transaction (whether or not with or into or otherwise involving an Interested Stockholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the Company or any Subsidiary which is directly or indirectly owned by any Interested Stockholder or any Affiliate of any Interested Stockholder;

shall require the affirmative vote of the holders of at least 80% of the voting power of the then outstanding shares of capital stock of the Company entitled to vote generally in the election of Directors (the "Voting Stock"), voting together as a single class (it being understood that for purposes of this Article VII, each share of the Voting Stock shall have the number of votes granted to it pursuant to Article IV of the Certificate of Incorporation). Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or in any agreement with any national securities exchange or otherwise.

2. Definition of "Business Combination". The term "Business Combination" as used in this Article VII shall mean any transaction which is referred to in any one or more of clauses (a) through (e) of paragraph 1 of this Section A.

B. When Higher Vote is Not Required. The provisions of Section A of this Article VII shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote as is required by law and any provision of the Certificate of Incorporation, if all of the conditions specified in either of the following paragraphs 1 and 2 are met:

1. Approval by Disinterested Directors. The Business Combination shall have been approved by a majority of the Disinterested Directors (as hereinafter defined).

2. Price and Procedure Requirements. All of the following conditions shall have been met:

a. The aggregate amount of the cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the higher of the following:

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Stockholder for any shares of Common Stock acquired by it (a) within the two-year period immediately prior to the first publication announcement of the proposal of the Business Combination (the "Announcement Date") or (b) in the transaction in which it became an Interested Stockholder, whichever is higher; and

(ii) the Fair Market Value per share of Common Stock on the Announcement Date or on the date on which the Interested Stockholder became an Interested Stockholder (such latter date is referred to in this Article VII as the "Determination Date"), whichever is higher.

b. The aggregate amount of the cash to be received per share by holders of shares of any other class of outstanding Voting Stock shall be at least equal to the highest of the following (it being intended that the requirements of this paragraph 2b shall be required to be met with respect to every class of outstanding Voting Stock, whether or not the Interested Stockholder has previously acquired any shares of a particular class of Voting Stock):

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Stockholder for any shares of such class of Voting Stock acquired by it (a) within the two-year period immediately prior to the Announcement Date or (b) in the transaction in which it became an Interested Stockholder, whichever is higher;

(ii) (if applicable) the highest preferential amount per share to which the holders of shares of such class of Voting Stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company; and

(iii) the Fair Market Value per share of such class of Voting Stock on the Announcement Date or on the Determination Date, whichever is higher.

c. The consideration to be received by holders of a particular class of outstanding Voting Stock (including Common Stock) shall be in cash. The price determined in accordance with paragraphs 2a and 2b of this Section B shall be subject to appropriate adjustment in the event of any stock dividend, stock split, combination of shares or similar event.

d. After such Interested Stockholder has become an Interested Stockholder and prior to the consummation of such Business Combination: (i) except as approved by a majority of the Disinterested Directors, there shall have been no failure to declare and pay at the regular date therefor any full quarterly dividends (whether or not cumulative) on the outstanding Preferred Stock; (ii) there shall have been (a) no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock), except as approved by a majority of the Disinterested Directors, and (b) an increase in such annual rate of dividends as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock unless the failure so to increase such annual rate is approved by a majority of the Disinterested Directors; and (iii) such Interested Stockholder shall have not become the beneficial owner of any additional shares of Voting Stock except as part of the transaction which results in such Interested Stockholder becoming an Interested Stockholder.

e. After such Interested Stockholder has become an Interested Stockholder, such Interested Stockholder shall not have received the benefit, directly or indirectly (except proportionately as a stockholder), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the Company, whether in anticipation of or in connection with such Business Combination or otherwise.

f. A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to public stockholders of the Company at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

C. Vote Required for Certain Stock Repurchases. In addition to any other requirement of the Certificate of Incorporation, the affirmative vote of the holders of at least 50% of the Voting Stock (other than Voting Stock beneficially owned by a Selling Stockholder (as hereinafter defined)), shall be required before the Company purchases any outstanding shares of Common Stock at a price above the Market Price (as hereinafter defined) from a person actually known by the Company to be a Selling Stockholder, unless the purchase is made by the Company (a) on the same terms and as a result of an offer made generally to all holders of Common Stock or (b) pursuant to statutory appraisal rights.

D. Certain Definitions. For the purpose of this Article VII:

1. A "person" shall mean any individual, firm, corporation or other entity.

2. "Interested Stockholder" shall mean any person (other than the Company or any Subsidiary) who or which:

a. is the beneficial owner, directly or indirectly, of more than 20% of the voting power of the outstanding Voting Stock; or

b. is an Affiliate of the Company and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 20% or more of the voting power of the then outstanding Voting Stock; or

c. is an assignee of or has otherwise succeeded to any shares of Voting Stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by any Interested Stockholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

3. A person shall be a "beneficial owner" of any Voting Stock:

a. which such person or any of its Affiliates or Associates (as hereinafter defined) beneficially owns directly or indirectly; or

b. which such person or any of its Affiliates or Associates has (i) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (ii) the right to vote pursuant to any agreement, arrangement or understanding; or

c. which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

4. For the purposes of determining whether a person is an Interested Stockholder pursuant to paragraph 2 of this Section D, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of paragraph 3 of this Section D but shall not include any other shares which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

5. "Affiliate" or "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on January 1, 1988.

6. "Subsidiary" means any corporation of which a majority of any class of equity security is owned, directly or indirectly, by the Company; provided, however, that for the purposes of the definition of Interested Stockholder set forth in paragraph 2 of this Section D, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Company.

7. "Disinterested Director" means any member of the Board of Directors who is unaffiliated with the Interested Stockholder and was a member of the Board of Directors prior to the time that the Interested Stockholder became an Interested Stockholder, and any successor of a Disinterested Director who is unaffiliated with the Interested Stockholder and is recommended to succeed a Disinterested Director by a majority of Disinterested Directors then on the Board of Directors.

8. "Fair Market Value" means (a) in the case of the stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for the New York Stock Exchange-Listed Stocks, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by the Board of Directors in good faith; and (b) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the Disinterested Directors.

9. "Selling Stockholder" means any person who or which is the beneficial owner of in the aggregate more than 1% of the outstanding shares of Common Stock and who or which has purchased or agreed to purchase any of such shares within the most recent two-year period and who sells or proposes to sell Common Stock in a transaction requiring the affirmative vote provided for in Section C of this Article VII.

10. "Market Price" means the highest sale price on or during the period of five trading days immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-

Listed Stock, or if such stock is not quoted on the Composite Tape on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of stock on or during the period of five trading days immediately preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Disinterested Directors.

E. Powers of the Board of Directors. A majority of the Directors shall have the power and duty to determine for the purposes of this Article VII, on the basis of information known to them after reasonable inquiry, (1) whether a person is an Interested Stockholder, (2) the number of shares of Voting Stock beneficially owned by any person, (3) whether a person is an Affiliate or Associate of another, (4) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Company or any Subsidiary in any Business Combination has, an aggregate Fair Market Value of $100 million or more. A majority of the Directors shall have the further power to interpret all of the terms and provisions of this Article VII.

F. No Effect on Fiduciary Obligations of Interested Stockholders. Nothing contained in this Article VII shall be construed to relieve any Interested Stockholder from any fiduciary obligation imposed by law.

G. Amendment, Repeal, etc. Notwithstanding any other provisions of the Certificate of Incorporation or these by-laws (and notwithstanding the fact that a lesser percentage may be specified by law, the Certificate of Incorporation or these by-laws) the affirmative vote of the holders of at least a majority of then outstanding shares of capital stock of the Company voting generally in the election of Directors, voting together as a single class shall be required to repeal the foregoing provisions of this Article VII.

## ARTICLE VIII.
## Seal.

The seal of the Company shall be in circular form containing the name of the Company around the margin, with a five pointed star in the center embodying a capital "T".

## ARTICLE IX.
## By-Law Amendments.

Subject to the provisions of the Certificate of Incorporation, these by-laws may be altered, amended or repealed at any regular meeting of the stockholders (or at any special meeting thereof duly called for that purpose) by a majority vote of the shares represented and entitled to vote at such meeting; provided that in the notice of such special meeting notice of such purpose shall be given. Subject to the laws of the State of Delaware, the Certificate of Incorporation and these by-laws, the Board of Directors may by majority vote of those present at any meeting at which a quorum is present amend these by-laws, or enact such other by-laws as in their judgment may be advisable for the regulation of the conduct of the affairs of the Company.

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I, .....Robert E. Koch......... Assistant Secretary of Texaco Inc., a Delaware corporation, do hereby certify that the above and foregoing is a true and correct copy of the by-laws of said Company as amended to January 24, 1997 and now in effect.

Dated Harrison, N.Y March 27, 1997 .........R.E. Koch..........

Assistant Secretary

TEXACO INC. AND SUBSIDIARY COMPANIES
COMPUTATION OF EARNINGS PER SHARE OF COMMON STOCK
FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994
(Millions of dollars, except per share amounts)

| Primary Net Income Per Common Share | 1996 | 1995 | 1994 |
|---|---|---|---|
| Net income from continuing operations, before cumulative effect of accounting change | $ 2,018 | $ 728 | $ 979 |
| Net loss from discontinued operations | -- | -- | (69) |
| Cumulative effect of accounting change | -- | (121) | -- |
| Net income | 2,018 | 607 | 910 |
| Less: Preferred stock dividend requirements | (58) | (60) | (91) |
| Primary net income available for common stock | $ 1,960 | $ 547 | $ 819 |
| Average number of primary common shares outstanding for computation of earnings per share (thousands) | 260,717 | 259,983 | 258,813 |
| Primary net income per common share | $ 7.52 | $ 2.10 | $ 3.17 |
| **Fully Diluted Net Income Per Common Share** | | | |
| Net income | $ 2,018 | $ 607 | $ 910 |
| Less: Preferred stock dividend requirements of non-dilutive and anti-dilutive issues and adjustments to net income associated with dilutive securities | (24) | (60) | (90) |
| Fully diluted net income | $ 1,994 | $ 547 | $ 820 |
| Average number of primary common shares outstanding for computation of earnings per share (thousands) | 260,717 | 259,983 | 258,813 |
| Additional shares outstanding assuming full conversion of dilutive convertible securities into common stock (thousands): | | | |
| Convertible debentures | 145 | 147 | 148 |
| Series B ESOP Convertible Preferred Stock | 9,438 | -- | -- |
| Other | 612 | 408 | 69 |
| Average number of fully diluted common shares outstanding for computation of earnings per share (thousands) | 270,912 | 260,538 | 259,030 |
| Fully diluted net income per common share | $ 7.36 | $ 2.10 | $ 3.17 |

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, 1996 (a)
(in millions of dollars)

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1996 | 1995 | 1994 | 1993 | 1992 |
| Income from continuing operations, before provision or benefit for income taxes and cumulative effect of accounting changes effective 1-1-92 and 1-1-95........ | $4,215 | $1,201 | $1,409 | $1,392 | $1,707 |
| Dividends from less than 50% owned companies more or (less) than equity in net income.............. | (4) | 1 | (1) | (8) | (9) |
| Minority interest in net income.......................... | 72 | 54 | 44 | 17 | 18 |
| Previously capitalized interest charged to income during the period.............................. | 27 | 33 | 29 | 33 | 30 |
| Total earnings.................................. | 4,310 | 1,289 | 1,481 | 1,434 | 1,746 |
| Fixed charges: | | | | | |
| Items charged to income: | | | | | |
| Interest charges.................................... | 551 | 614 | 594 | 546 | 551 |
| Interest factor attributable to operating lease rentals................................. | 129 | 110 | 118 | 91 | 94 |
| Preferred stock dividends of subsidiaries guaranteed by Texaco Inc....................... | 35 | 36 | 31 | 4 | -- |
| Total items charged to income................... | 715 | 760 | 743 | 641 | 645 |
| Interest capitalized................................. | 16 | 28 | 21 | 57 | 109 |
| Interest on ESOP debt guaranteed by Texaco Inc........ | 10 | 14 | 14 | 14 | 18 |
| Total fixed charges............................. | 741 | 802 | 778 | 712 | 772 |
| Earnings available for payment of fixed charges.......... (Total earnings + Total items charged to income) | $5,025 | $2,049 | $2,224 | $2,075 | $2,391 |
| Ratio of earnings to fixed charges of Texaco on a total enterprise basis........................... | 6.79 | 2.55 | 2.86 | 2.91 | 3.10 |

(a) Excludes discontinued operations.

EXHIBIT 12.2

# 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.

EXPLORATION
AND PRODUCTION

ITEM A1
Exploration and
Production -- Total
Operating Earnings
MILLIONS OF DOLLARS

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A1.]

TEXACO'S UPSTREAM OPERATIONS form the foundation for our growth strategies as a financially successful energy company in the 21st century. Our dynamic and balanced asset portfolio is comprised of exploration and/or production (E&P) activities in 25 countries on six continents.

As we align our worldwide E&P businesses to become more nimble and efficient, our strategies remain constant: extract maximum value from our core producing assets; leverage technology and alliances; and invest in growth opportunities to increase shareholder value.

Between 1997 and 2001, Texaco plans to spend 65% of our $24.3 billion capital and exploratory budget on upstream activities to grow production and seize new opportunities.

Higher oil and natural gas prices, growth in worldwide production, and rigorous expense control contributed to increased 1996 upstream performance. Total upstream operating earnings increased 153% over the previous year, and worldwide production rose 3% over 1995. We replaced worldwide combined liquids and gas production at a rate of 113% and continued to grow our asset base for the future.

Increased exploratory activity and lease acquisitions in 1996 raised our per-barrel finding and development costs to $4.89. For the three-year period, 1994-1996, our costs were a competitive $3.89. We lowered 1996 lease operating expenses per barrel of oil equivalent from $4.01 to $3.96.

To continue the strong 1996 performance of our upstream units and to drive our growth strategies, we have reorganized our upstream operations and formed the Worldwide Exploration and Production unit, effective January 1, 1997. With four key units - Exploration, North America Production, International Production and New Business Development - the global team is dedicated to identifying new opportunities and squeezing more value out of our core assets through technology and cost efficiencies.

PROFITABLE PRODUCTION LEADS U.S. UPSTREAM EARNINGS RECORDS

Texaco's U.S. upstream operations earned a record $1.1 billion, helped by strong oil and gas prices, production growth and continuing expense control. Return on capital employed rose from 15% in 1995 to 24% in 1996.

In the U.S., we produced 667,000 barrels of oil equivalent daily in 1996, 2.5% above 1995 levels. Our daily increase of 16,000 barrels of



ITEM A2
Major projects onshore Louisiana & Gulf of Mexico

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A2.]

ITEM A3
Lease Operating
Expenses -- U.S.
COST PER BARREL OF OIL EXTRACTED

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A3.]

oil equivalent ranked among the best of our peer companies.

Higher oil prices and technology triggered an industry-wide increase in upstream activity in 1996. Despite the rising cost of rig leases, fuel and services, Texaco continued to contain costs through effective teamwork and alliances. Since 1993, we have lowered our U.S. lease operating expenses by $0.78 per barrel, exceeding our target of cutting $0.50 per barrel.

Texaco people understand our goals and strategies. Teamwork and technology application, combined with swift execution of focused plans, contributed to results such as those in our New Orleans-based Onshore Region. There, teams added new value to some of our longest-producing assets by designing and implementing a program to revitalize Texaco's fields in the coastal waters of Louisiana. Additional capital, better technologies and our multi-year investment commitment to revitalize properties in Louisiana have helped us pump more and more oil out of these mature coastal fields.

Using 3-D seismic surveys and improved data-processing techniques, our geoscientists found large, untapped reserves of hydrocarbons in several mature fields in South Louisiana where we have well-established pipeline infrastructure and gas gathering systems. In 1996, discovery of a new reservoir in our Lake Barre field in Terrebonne Bay pushed Lake Barre's oil production to a 15-year high.

For our Onshore Region, the aggregate success of its teams has turned what was a marginal business in 1994 into a major earnings contributor.

DRILLING MORE AND DRILLING DEEPER

[Call-out language appears top of page.]
Our aggressive lease-acquisition
program in the deepwater
Gulf of Mexico increased our
acreage in this important area
of exploration.

Beyond the Continental Shelf in the Gulf of Mexico, we are appraising and developing Petronius, Gemini and Fuji - three deepwater discoveries announced in late 1995. We also moved from fifth to third place in deepwater lease-acreage position versus our competitors. With the 1996 acquisition of 149 new leases in water depths greater than 1,300 feet, we now have 271 exploratory leases and 87 undrilled prospects in the Gulf.

We expect to bring Texaco-operated Petronius (50% Texaco) onstream in early 1999, with peak daily production rates of up to 60,000 barrels of oil and 100 million cubic feet of natural gas, less than four years after the field's initial discovery. Texaco teams, working side-by-side with our partner, Marathon Oil, and contractors began constructing the 1,870-foot compliant tower for the drilling and production platform in more than 1,700 feet of water. We expect development work on another recent deepwater discovery, Arnold, to be completed in 1998.

Our alliance strategy has helped us overcome a hurdle faced by many competitors in the deepwater Gulf: a drilling rig shortage created by heavy demand for this equipment.

ITEM A4
Net Production of
Crude Oil -- Kern River
THOUSANDS OF BARRELS A DAY

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A4.]

Anticipating the tight market for drilling rigs, we contracted with Diamond Offshore Drilling, Inc., to upgrade an existing semi-submersible drilling rig, outfitting it for drilling in water depths of up to 4,500 feet. The contract gives us exclusive use of the rig, rechristened Ocean Star, for three years. The rig will begin drilling delineation wells on Texaco's Fuji prospect in early 1997 to determine the extent of the reserves. The Ocean Star will enable us to continue exploration of other high-potential deepwater prospects through the end of the century.

LEADING TECHNOLOGY ALLIANCES AND APPLICATIONS

[Call-out language appears top of this page.]
Our geoscientists, research
scientists and engineers partner
with operating units throughout
the company, applying
technology to business needs.

Technology alliances help us reduce costs and manage risk. As we share costs and innovations with partners, our people focus on technology application.

Project DeepStar, for example, is helping the industry manage the risk and minimize the costs of producing oil and gas in deep water. In 1992, Texaco led DeepStar's formation as a technology consortium of oil and gas companies, vendors, contractors and government agencies. DeepStar's mission is joint technology development for producing hydrocarbon reserves in 3,000 to 6,000 feet of water.

We are applying DeepStar advances in drilling, subsea completion and production systems in developing prospects such as Gemini and Fuji - both in water depths greater than 3,300 feet. Following successful tests on the Gemini (60% Texaco) discovery well in 1996, we accelerated development plans, drawing heavily on DeepStar solutions to the problem of pushing oil and gas up a steep, underwater slope to existing production platforms in the Continental Shelf area. We began delineation drilling on Gemini in late 1996.

Just as DeepStar finds solutions to industry-wide deepwater challenges, our own Technology Division provides solutions when and where they are needed by our operating units. Technology solutions are shared and integrated across disciplines, across organizations and across the globe. For example, our deepwater exploration and development teams in the Gulf of Mexico draw on the technology and expertise of teams working in the U.K. North Sea and, in turn, share DeepStar solutions with their Texaco colleagues in the U.K.

At our 100-year-old Kern River field in California, advances in steamflood technology increased 1996 production to 94,000 barrels of oil a day, up nearly 15% in the last two years. And we continued to lower per-barrel operating expenses. Kern River exchanges technology applications with our affiliate-owned Duri field in Indonesia, where similar methods of enhanced oil recovery are expected to increase total production to 330,000 barrels a day by 1999. Texaco's share will be about 60,000 barrels daily.

We also apply upstream technologies in downstream units. Several years ago, Texaco engineers at Kern River designed and patented a device called the SpliTigatorTM to solve hydraulic problems in the field's steamflood operations. This system delivers the optimal amounts of steam to move Kern's heavy oil through the reservoir. In 1996, we applied this innovation to our Pembroke refinery in Wales. Here, the SpliTigatorTM solved a problem in distributing the flow of hydrogen and oil in the hydrotreater unit, thus avoiding costly alternatives.

FAST-TRACKING INTERNATIONAL PRODUCTION

ITEM A5
Major projects in the North Sea

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A5.]

ITEM A6
Net Production of Crude Oil and Natural Gas Liquids -- PNZ
THOUSANDS OF BARRELS A DAY

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A6.]

To reach our near-term growth objectives of increasing global oil and gas production by some 50% by 2001 and doubling Texaco's 1995 earnings by 2000, we are extracting maximum value from current core producing assets such as those in the North Sea, Indonesia and the Partitioned Neutral Zone (PNZ) between Saudi Arabia and Kuwait. We also are accelerating development of new fields and exercising continuous control over operating costs.

In the U.K. North Sea, we increased production up-time at our platforms, improved maintenance practices and formed strategic alliances with contractors and suppliers. As a result, we reduced per-barrel lifting costs from $7.70 in 1990 to $4.92 in 1996.

Cost efficiency and technology application drive our design of new projects such as the Captain field. We have applied technologies such as electric submersible pumps, horizontal drilling sections up to 6,000 feet, and a floating production, storage and offloading vessel to drive down costs.

Captain, with its accelerated development program begun in late 1994, came onstream in early 1997. We expect Captain to pump 60,000 barrels a day of total new production. The return on investment is expected to be about 25%.

Other projects are bringing new and increased production onstream:

o In the North Sea, Texaco's 50%-owned Erskine field uses technology we developed for producing natural gas under high-pressure/high-temperature conditions in the Gulf of Mexico. Erskine is slated to be onstream in the fourth quarter of 1997. We expect new total daily production of 85 million cubic feet of gas and 22,000 barrels of condensate, increasing to 95 million cubic feet of gas in 1998.

o An accelerated, phased revitalization program in the PNZ is raising production (50% Texaco) in this core asset area. We expect the overall program to increase total daily production of crude oil and natural gas liquids in the PNZ to 300,000 barrels by 1999.

o In Indonesia, our 50%-owned affiliate P.T. Caltex Pacific Indonesia (CPI) is using steamflood technology to increase the Duri field's total daily production from 280,000 barrels in 1996 to an anticipated 330,000 barrels in 1999.

o In the South China Sea, the CACT operating consortium - the China National Offshore Oil Company, Agip, Chevron and Texaco - raised 1996 production to 99,000 barrels a day, of which Texaco's share is 16%. In 1996, CACT also had a new oil discovery in the Huizhou area in the Pearl River Mouth Basin.

o Offshore Trinidad, we increased production and earnings in 1996. Coming onstream in the first quarter, the Dolphin field (50% Texaco), with its seven wells, was producing the daily contract rate of 87 million cubic feet of gas by year-end. Dolphin has 892 billion cubic feet of gas reserves, and we plan to

ITEM A7
1996 Capital and
Exploratory
Expenditures --
Upstream
MILLIONS OF DOLLARS

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A7.]

ITEM A8
1997 Planned Capital
and Exploratory
Expenditures --
Upstream
MILLIONS OF DOLLARS

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A8.]

ITEM A9
Major projects in Colombia, Trinidad and Venezula

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A9.]

produce at a total daily peak rate of 275 million cubic feet by 2003.

o Colombia's offshore Guajira gas fields (50% Texaco) also increased earnings and were producing 385 million cubic feet per day by year-end. In October, we completed construction of a second platform, Chuchupa-B, where we will leverage our expertise in horizontal drilling. Our partnership with the national oil company, Ecopetrol, produces 75% of Colombia's gas from the Guajira fields, and the second platform at Chuchupa allows us to increase production to meet growing demand.

o In West Africa, the addition of five new fields in Angola during 1996 brought total production from the offshore Angolan block that we operate (20% Texaco) to 95,000 barrels a day, up from 59,000. During 1996, a horizontal drilling program raised total daily production from our Nigerian interests (20% Texaco) from 54,000 barrels to 69,000.

Our longer-term strategies for growth include accelerating the development of discovered reserves in core areas, creating alliances and leveraging technologies.

Offshore northwest Australia, Texaco is a partner in the planned development of the giant Gorgon, Chrysaor and Dionysus gas fields, which are among the world's most significant recent natural gas discoveries. The three fields can supply a two-train liquefied natural gas (LNG) project to fuel the rapidly growing natural gas market in the Pacific Rim. In 1997, we will study and consider our options to join in the planned expansion of the Northwest Shelf joint venture's existing LNG project or to develop a grassroots facility to manufacture LNG from the three fields.

Our Mariner prospect in the U.K. North Sea contains reserves of heavy crude oil, similar to Captain, and is part of Texaco's corporate-wide initiative to commercialize our extensive reserves of heavy oil - crudes with high sulfur or acid content or very high viscosity, which require enhancement in the refining process.

In Venezuela, we are leveraging our heavy-oil expertise through a 20% interest in a partnership with ARCO, Phillips Petroleum and Corpoven - a subsidiary of the national oil company. In 1996, the partners agreed to pursue the development of extra-heavy crude oil in the Hamaca region of Venezuela's oil-rich Orinoco Belt. We anticipate initial production from the project in 1999. The partnership plans to transport Hamaca's production to a new upgrading plant on Venezuela's Caribbean coast, where it will be processed into a lighter crude and exported.

In Russia, the Timan Pechora Company (TPC), owned by Texaco, Amoco, Exxon and Norsk Hydro, moved closer to approval of a production-sharing agreement to develop reserves of the Timan Pechora Basin, about 1,100 miles northeast of Moscow. In December, TPC signed a protocol with the Russian Federation in advance of submitting a draft production-sharing agreement to national and local governments for final approval. TPC has also agreed to a Russian participation of 20%.

INVESTING IN HIGH-IMPACT
EXPLORATION

ITEM A10
Net Production of
Natural Gas Available
for Sale -- Latin America
MILLIONS OF CUBIC FEET A DAY

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A10.]

[Call-out language appears top of this page]
Texaco's global upstream
portfolio -- backed by our strong
balance sheet, financial
flexibility and focused strategies --
drives our value growth.

Our new global exploration unit is drilling wells, assessing discoveries and acquiring additional acreage in areas we believe hold the most potential for high-impact discoveries.

Increasingly, our focus is outside the U.S. We are raising our expenditures in exploration activities by almost $120 million in 1997 to $499 million, with about 55% earmarked for the international arena. Our 1997 drilling program will more than double the number of exploratory wells we drilled outside the U.S. in 1996. Highlights of our exploration program include:

o Appraisal of Arnold, our latest deepwater Gulf of Mexico discovery, which would add to our success at Fuji, Gemini and Petronius.

o An extensive drilling program in China and Southeast Asia, where we have acreage in the Gulf of Thailand and in Bohai Bay, offshore northeastern China. We are delineating our early 1997 gas discovery in the Gulf of Thailand and acquiring 3-D seismic data. Onshore China, we continue evaluating our holdings in the Tarim and Sichuan Basins.

o Continued exploration in our core area of West Africa, where we are delineating 1996 oil and gas discoveries in Namibia, Nigeria and Angola. We plan to use 3-D visualization techniques and deepwater drilling in the nearly two million acres we acquired offshore Nigeria and Namibia in 1996.

o Acceleration of our exploration program in Colombia and Trinidad, where we plan to drill an exploratory well in the Middle Magdalena Valley of Colombia, adjacent to recent discoveries. In Trinidad, we are exploring our existing acreage and enhancing our position near our currently producing Dolphin gas field.

o Evaluation of our acreage in the Atlantic Margin, west of Great Britain, an area with significant oil and gas discoveries that could become a major producing region.

MARKETING, MANUFACTURING
AND DISTRIBUTION

ITEM A11
Manufacturing, Marketing
and Distribution -- Total
Operating Earnings
MILLIONS OF DOLLARS

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A11.]

TEXACO'S DOWNSTREAM BUSINESSES turned in mixed results in 1996, while our midstream continued to make significant contributions. In 1997, we will redouble our efforts to create our own profitability. To meet our value growth objectives, we will pursue downstream alliances, become a low-cost refiner and marketer and keep a tight grip on expense control.

In late 1996, we restructured our downstream and midstream organizations to strengthen core businesses and to focus on growth opportunities. These realigned organizations - Texaco International Marketing and Manufacturing and Global Businesses - create value by forming alliances, leveraging our global brand and investing in new projects. The new structure allows the units to share ideas, technology and best practices in the execution of their strategies.

The Global Businesses unit will coordinate a range of Texaco's worldwide operations, which include our U.S. Downstream Operations, Caltex and Worldwide Lubricants. The unit's International Aviation Sales and Fuel and Marine Marketing groups supply marine and aviation products to customers worldwide.

RISING PROFITS IN THE U.S. DOWNSTREAM

Higher crude oil prices provided a significant challenge to our downstream business in 1996. But we achieved a 71% increase in 1996 domestic downstream earnings as a result of improved profits from refining and pipeline operations and increased sales of branded gasoline. Our U.S. operations, including our 50% joint venture, Star Enterprise, posted net operating income of $207 million in 1996, compared with $121 million the previous year.

In line with our alliance strategy, we are discussing with Shell Oil Company the formation of a venture that would operate a combination of both companies' domestic downstream assets. The potential arrangement is a growth opportunity that capitalizes on the strengths of each company and brings significant prospects for improved efficiency and productivity. We hope to conclude a letter of intent with Shell in the first quarter of 1997.

COMPETITIVE ADVANTAGE IN MANUFACTURING

With stronger U.S. refining margins during most of 1996, our California refineries gained from the introduction of a new gasoline formulation that meets California's 1996 specifications. Star Enterprise's refineries on the East and Gulf

ITEM A12
U.S. Refineries - Texaco--Star Enterprise

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A12.]

ITEM A13
Branded Gasoline
Sales -- U.S.
THOUSANDS OF BARRELS A DAY

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A13.]

Coasts benefited from their ability to convert heavy crude oil into high-value products, such as gasoline and diesel fuel.

Texaco's refineries have achieved gains from expense control, improved efficiency and increased throughput. Our per-barrel operating expense fell 7.5% between 1993 and year-end 1996. During 1996, Star's refineries identified more than $60 million a year in permanent savings, which they expect to realize beginning in 1997.

ADDING VALUE IN THE MIDSTREAM

Our midstream subsidiary, Texaco Trading and Transportation Inc. (TTTI), transports and markets crude oil and refined products for Texaco and third-party customers. Its 1996 net operating income rose 9% over 1995.

Over time, as U.S. onshore crude production declines, TTTI plans to move increased volumes of imported crude, expand its activities in the deepwater Gulf of Mexico, and establish new product pipeline systems.

TTTI is a partner in the Poseidon pipeline, one of the largest-capacity pipelines built to transport crude production from recent subsalt and deepwater discoveries in the Gulf. Scheduled for 1997 completion, Poseidon expands our transportation systems in the Gulf, adds value to our deepwater acreage position and offers growth opportunities through business with third-party producers.

TARGETING PREFERRED MARKETS

[Call-out language appears top of this page]
We believe that our downstream strategies -- and the steps we have taken to implement them -- will achieve competitive returns on our assets.

In the mature U.S. fuel market, total sales volumes of Texaco-branded gasoline rose 3% in 1996. In Texaco's marketing areas in the West, Southwest and Mid-Continent regions, sales increased 6.5% over 1995 levels. Sales revenues at convenience stores in Texaco's marketing system climbed 15% during 1996.

Our U.S. strategy for increasing market share and earnings focuses on expanding our retail system in preferred markets in high-growth areas. Typical of this program are 63 new and rebuilt retail outlets, scheduled for completion in 1997, in the growth area around Los Angeles. Each outlet features fueling facilities, a large Star Mart(R) convenience store and one or more quick-service restaurants.

Our Global Brand Initiative's goals for training in customer service techniques and operating standards are paying off. The 1996 American consumer satisfaction index, compiled by independent researchers, ranked Texaco number one in customer satisfaction in the gasoline brand category.

Texaco's alliance strategy helped build downstream value growth in 1996. A partnership among our retailers, wholesalers and Citibank is financing the building and revamping of Texaco retail locations and truck stops. We formed a joint venture with a Mid-Continent wholesaler to operate more cost-effectively some 60 convenience stores and other retail locations. And Texaco and Star continue to align the Texaco brand with such high-profile fast-food

ITEM A14
1996 Capital
Expenditures --
Downstream
MILLIONS OF DOLLARS

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A14.]

ITEM A15
1997 Planned Capital
Expenditures --
Downstream
MILLIONS OF DOLLARS

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A15.]

brands as Burger King(R), Taco Bell(R), and Subway(R) through retail site development.

SETTING THE STANDARD IN LUBRICANTS

Texaco Lubricants Company adds value to the Texaco brand with quality products: Havoline Formula3 motor oil, Ursa Premium TDX heavy-duty diesel oil, the additives that distinguish CleanSystem3 gasolines, and new Havoline Extended Life Anti-Freeze/Coolant(R).

During 1996, domestic sales of Texaco's extended-life coolant products for automobiles and heavy-duty vehicles increased our share of the U.S. coolant market to about 18%. These products - developed from original Texaco technology by our Fuels and Lubricants Technology Department in partnership with our lubricants businesses - have a useful life at least two to three times that of conventional products.

Texaco's teams collaborated to gain approval for these coolants from the worldwide auto industry and heavy-duty equipment manufacturers. Marketed as Havoline DEX-COOL(R), the product is the factory-installed coolant in all new General Motors automobiles and light trucks sold in the U.S.

INTERNATIONAL MANUFACTURING - MEETING GLOBAL CHALLENGES

In response to weak margins and oversupply in the international refining industry, we are rationalizing our assets, striving for top-quartile performance in operating efficiency, and creating alliances to increase financial returns.

Texaco has an equity interest in two European refineries - our wholly owned Pembroke plant in Wales and the Nerefco refinery in Rotterdam, in which Texaco's interest is 35%. We improved earnings in 1996 by better aligning our capacity with market demand and by continuing to cut expenses. Pembroke's 1996 per-barrel operating expense fell 15% against 1995 levels. Stronger margins in 1996 helped raise combined earnings from our European refineries by about $60 million over 1995.

At Pembroke, our purchase of another company's 35% throughput entitlement in the refinery's catalytic cracking complex will give us full control over the crude slates we run at the plant, thus allowing greater flexibility in producing reformulated gasoline for sale in the U.S. and Europe. The move also will prompt the shut-down of a nearby refinery.

Meanwhile, we are balancing Pembroke's gasoline production with an increase in Nerefco's production of middle distillates. During 1996, we accelerated plans with our partner British Petroleum to consolidate processing at Nerefco's two plants, Europoort and Pernis. Beginning in 1997, Pernis will phase out its processing to become a storage and distribution terminal. A hydrotreater will be built at Europoort to increase yields of aviation fuel and automotive diesel. It is projected that the consolidation will result in reductions of 27% in operating expenses and 55% in ongoing maintenance capital by 2000.

INTERNATIONAL MARKETING -- ALIGNED FOR GROWTH

Texaco markets refined products throughout Latin America and in regional markets in Europe and West Africa. Through our Caltex affiliate, we are actively engaged in the growth markets of Asia and the Pacific Rim.

With our newly aligned downstream business units, we can leverage one of our most valuable assets - Texaco's brand. As part of our Global Brand Initiative, new and rebuilt stations around the world are adopting the distinctive "Star 21" design, state-of-the-art retail technology and uniform operating standards.

ITEM A16
Refined Product Sales --
Latin America
THOUSANDS OF BARRELS A DAY

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A16.]

## LATIN AMERICA CAPTURES SALES AND MARKET SHARE

Texaco has a significant marketing presence throughout Central and South America and the Caribbean. At year-end 1996, sales in Latin America had increased 34% since 1993, far exceeding the region's robust 17% demand growth during that period. At the same time, operating expenses decreased by 6%.

Net operating income from marketing in Latin America increased 14% over 1995 and 90% since 1993. Our return on capital employed in the area is 22%. We hold a strong retail market share in areas where we operate - as high as 26% in the Caribbean and Central American regions.

The competitive Brazilian market represents our largest business in Latin America. During 1996, we expanded our retail system with more than 100 new service stations, capturing more than a full percentage point in additional market share and raising gasoline volume at year-end more than 39% above the 1993 level. Earnings in Brazil have doubled since 1993.

We are the number-one lubricants marketer in most of the Latin American countries where we operate, and our lubes business has given us access to new fuel markets, such as Ecuador and Peru. We expect Texaco's sales in those nations to grow to some seven million barrels a year by 2000.

## CREATING OUR MARGINS IN EUROPE'S CHANGING MARKETS

To address the weakness in Europe's refined product markets, we are moving quickly into new areas and leveraging our strength in lubricant sales. Our 50% Scandinavian joint venture company, Hydro Texaco, with an 18% share in its markets, is expanding into the neighboring Baltic countries. And we are increasing our presence in Poland, where we constructed our first three service stations in 1996 and added 20 new lubricants distributors.

In the U.K., our largest European market, a price war brought margins to a historic low in 1996. To improve performance, we are reducing our retail operating expenses, as well as overhead costs, and adding retail facilities in preferred markets to grow volumes.

## CALTEX -- A NEW RETAIL IMAGE

Caltex, our 50% joint venture with Chevron, operates in the expanding economies of Asia, the Pacific Rim and southern Africa. Faced with weak refining profits and increased competition in its Asian markets, Caltex is focusing on the strengths of its marketing operations. Caltex continues to assess its asset portfolio and reduce costs as it strives to become the preferred supplier in its markets.

In 1996, Caltex sold its 50% interest in Japan's Nippon Petroleum Refining Company, Limited, to Nippon Oil Company for $2 billion. And in early 1997, Caltex announced plans to sell its 40% interest in its refinery in Bahrain. Meanwhile, its recent refinery investments - such as its 64%-owned refinery in Thailand, completed in 1996 - will supply refined products to meet the region's demand growth for petroleum products.

During 1996, Caltex introduced a new retail image - including quick-service restaurants and convenience stores at its outlets - to attract the growing number of younger drivers and professionals such as truck and cab drivers. The company is expanding its retail networks in Korea and the Philippines, where it holds about a 30% market share, and is accelerating development of its lubricants business in China, India, Indonesia and Vietnam.

GLOBAL GAS
AND POWER

ITEM A17
Revenues from Licensed
Gasificaiton Technology
MILLIONS OF DOLLARS

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A17.]

THE NEWLY FORMED Global Gas and Power unit will leverage our strength in natural gas and our experience in private power generation to profit from the energy value chain. It will benefit from U.S. deregulation and growing global demand for clean power generation.

Our downstream gas activities support our U.S. daily production of 1.7 billion cubic feet of natural gas and 81,000 barrels of natural gas liquids. Our gas infrastructure and marketing services at the Gulf Coast Star Center and the Henry Hub serve third-party producers. Earnings from our gas and liquids businesses in 1996 increased over 1995.

Last year, we began work with our partner, MAPCO Inc., on the $300 million Discovery Project, which will gather new gas production from the Gulf of Mexico. The project includes a 150-mile pipeline and gathering system, a new onshore processing plant, and an expanded fractionator, which will process natural gas liquids.

Another profitable link in the energy value chain is Texaco's Ferndale Storage Terminal in Washington state. With a 750,000-barrel capacity for liquefied petroleum gas (LPG), it is the West Coast's only export terminal for LPG and serves markets in Latin America and the Pacific Rim.

We continue to apply our power generation expertise and our proprietary gasification technology to gain more value from our natural gas and liquids reserves. We operate 11 cogeneration facilities in the U.S., producing more than 1,200 megawatts of electricity for Texaco's producing fields and refineries, as well as low-cost power for sale to local utilities. These projects have reduced emissions and lowered operating costs.

In 1996, Florida's Tampa Electric Company began operating a 250-megawatt coal-based plant using our gasification technology. A new gasification/cogeneration plant at our El Dorado, Kan., refinery converts petroleum coke into electricity and steam, making the refinery energy self-sufficient and significantly reducing the cost of handling coke. The plant soon will convert refinery wastes and reduce waste-handling costs, as well.

In Thailand, we are working with partners to develop a 700-megawatt gas-fired combined cycle private power facility, slated for start-up in 2000.

On the island of Java, we are helping our Indonesian affiliate build that nation's growing geothermal energy industry by constructing power plants in Darajat.

ENVIRONMENT, HEALTH
AND SAFETY

ITEM A18
Lost-Time Incidence Rate
- -- U.S. and Worldwide
NUMBER OF INCIDENTS PER
200,000 HOURS WORKED

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A18.]

TEXACO'S SUCCESS as a unique and growing company depends in substantial measure on how well we meet our responsibility to protect the environment, health and safety of our employees and the communities in which we operate. By integrating sound EHS practices in our business operations, we gain a competitive advantage and improve shareholder value.

We reinforce our focus through our committed management team and the development and implementation of our Worldwide EHS Standards and Guidelines. We exercise environmental and safety oversight of our operations through our three-tiered EHS Auditing Program, which consultant Arthur D. Little, Inc., declared is "among the leaders in the petroleum industry." Our Product Stewardship program incorporates EHS concerns throughout the life cycle of our products. We identify potential EHS risks and design our facilities and programs to minimize or eliminate them. We train our employees and hold them accountable for sound EHS practices. And we benchmark our activities against industry's best practices.

While we know there is more to do, we are achieving measurable progress.

o Putting safety first. The lost-time incidence rate for our worldwide operations in 1996 was the lowest in company history and about 60% lower than it was in 1992. Our 1996 rate of 0.55 lost-time incidents per 200,000 hours worked is 7% better than our previous best performance in 1995. Still, we are not satisfied.

In our drive for worker safety, we are building loss-prevention practices into our operations. We have made safety a priority for all employees and contractors. Our ongoing reliability initiative is helping to eliminate operating incidents throughout the Texaco system.

o Reducing chemical releases. From 1989 through 1995, the last year for which complete data is available, our refineries have reduced by more than 80% the chemical releases reported to the U.S. Environmental Protection Agency (EPA) under its Toxics Release Inventory (TRI) reporting requirement. We have achieved most of these reductions by making refinery investments that improve product yields and increase operating efficiencies.

o Cutting emissions. By applying innovative technologies, we are lowering refinery emissions. Low NOx (nitrogen oxide) burners

ITEM A19
TRMI/Star Enterprise
TRI Releases to the
Environment
MILLION POUNDS PER YEAR

[GRAPHIC/IMAGE ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART A, ITEM A19.]

installed at our Pembroke refinery in Wales have reduced significantly emissions of both sulfur dioxide and NOx. Similar emission-control devices are expected to cut NOx emissions by more than 60% when installed at two of our cogeneration facilities in California.

o Emergency preparedness. Our worldwide emphasis on spill prevention - in oil production, transportation, manufacturing and marketing of refined products - - has helped reduce the number and volume of leaks and spills. Between 1991 and 1996, incidents of leaks and spills were down 37%, and the volume of these leaks and spills dropped 20%.

While prevention is our first priority, Texaco's worldwide emergency response teams are prepared to react quickly when a spill or other incident occurs. We are associated with more than 30 oil spill cooperatives, and we maintain response teams worldwide. By regularly conducting regional drills, we are well prepared to respond to an emergency. Within moments after the tanker Sea Empress ran aground near Milford Haven, Wales, in February 1996, trained Texaco employees were on the scene. Though the tanker was neither owned nor operated by Texaco, its cargo of crude oil was en route to our Pembroke refinery. Our rapid mobilization and ability to respond were reviewed favorably by the U.K. government.

CONSERVING RESOURCES AND MINIMIZING WASTE

[Call-out language appears top of page]
In our producing fields
and at our refineries, environmental
initiatives are improving the
efficiency and cost-effectiveness
of our operations.

Many of our environmental initiatives also increase the profitability of our operations. For example, we have made significant advances in managing the water generated during crude oil production. Several of our locations - including Caltex Pacific Indonesia's giant Minas field - have eliminated discharges of produced water by re-injecting it into underground reservoirs. At our Kern River field in Bakersfield, Calif., we have developed a project that reclaims millions of gallons daily of fresh produced water, which we sell for agricultural irrigation. The project makes wastewater disposal a profitable operation that is good for the environment.

In the downstream, we have reduced disposal needs by designing processes to convert refinery wastes, used motor oil and industrial oil into valuable products. Low NOx emission-control devices being retrofitted in our California cogeneration facilities are expected to eliminate waste acid at the source by 1999, thus avoiding the need for treatment or disposal of about 40,000 tons of waste per year.

We have designed, built and seeded a 90-acre wetland that helps our El Dorado, Kan., refinery meet its wastewater discharge limits, and provides a habitat for more than 50 species of birds, mammals and reptiles.

For a copy of the 1996 Texaco Inc. Environment, Health and Safety Review, please write to Texaco Inc., Investor Services, 2000 Westchester Avenue, White Plains, NY 10650-0001.

ITEM B1
Returns on Average Stockholders' Equity
[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B1.]

ITEM B2
Returns on Average Capital Employed
[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B2.]

Consolidated Highlights

| (Millions of dollars, except per share and ratio data) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Revenues from continuing operations | $45,500 | $36,787 | $33,353 |
| Net income from continuing operations before cumulative effect of accounting change | | | |
| Net income before special items | $ 1,665 | $ 1,152 | $ 915 |
| Special items | 353 | (424) | 64 |
| | 2,018 | 728 | 979 |
| Net loss on disposal of discontinued operations | -- | -- | (69) |
| Cumulative effect of accounting change | -- | (121) | -- |
| Net income | $ 2,018 | $ 607 | $ 910 |
| Stockholders' equity | $10,372 | $ 9,519 | $ 9,749 |
| Total assets | $26,963 | $24,937 | $25,505 |
| Total debt | $ 5,590 | $ 6,240 | $ 6,481 |
| Per common share (dollars) | | | |
| Net income from continuing operations before cumulative effect of accounting change | | | |
| Net income before special items | $ 6.17 | $ 4.20 | $ 3.19 |
| Special items | 1.35 | (1.63) | .24 |
| | 7.52 | 2.57 | 3.43 |
| Net loss on disposal of discontinued operations | -- | -- | (.26) |
| Cumulative effect of accounting change | -- | (.47) | -- |
| Net income | $ 7.52 | $ 2.10 | $ 3.17 |
| Cash dividends | $ 3.30 | $ 3.20 | $ 3.20 |
| Current ratio | 1.24 | 1.24 | 1.20 |
| Return on average stockholders' equity* | 20.4% | 7.5% | 9.8% |
| Return on average capital employed* | 14.9% | 6.9% | 8.0% |
| Total debt to total borrowed and invested capital | 33.6% | 38.0% | 38.5% |

* Returns exclude the 1995 cumulative effect of accounting change and discontinued operations.

Consolidated worldwide net income for the year 1996 was $2,018 million, or $7.52 per common share, compared with $607 million, or $2.10 per common share for the year 1995 and $910 million, or $3.17 per common share for the year 1994.

These results include special items, as well as discontinued chemical operations, as noted. Results for 1995 reflect the adoption of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121). The adoption of this Standard resulted in a non-cash after-tax charge of $639 million, and required the classification of a $121 million charge, previously recorded in the first quarter of 1995, as a cumulative effect of an accounting change.

Plan for Growth

Texaco's plan for growth, which was announced in July 1994, has continued to show significant progress in attaining its primary objectives of increasing earnings and stockholder value. By the end of 1996, the following achievements were attained:

o Solid total return to shareholders of 30% in 1996, led by a sharp rise in the market price of the company's common stock and higher dividends

o Significant growth in net income before special items to more than $1.6 billion in 1996, 45% higher than 1995 and 82% higher than 1994

o Strong returns on stockholders' equity of 20.4% and capital employed of 14.9% in 1996

o Capital expenditures of $3.4 billion in 1996, an increase of 10% over 1995

ITEM B3
Revenues
BILLIONS OF DOLLARS

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B3.]

ITEM B4
Costs and Expenses
BILLIONS OF DOLLARS

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B4.]

- Higher net oil and gas production in 1996, to 1.1 million barrels of oil equivalent per day, a 3% increase over 1995

- Realized cash proceeds of $2.4 billion since 1994 from sales of nonstrategic assets

- Greater financial flexibility demonstrated by a lower leverage ratio of 33.6%, down from 38.5% in 1994

- Increased additions to the oil and gas reserves base equal to 113% of production at a competitive finding and development cost

In addition, the following actions are targeted for 1997 and beyond:

- An aggressive capital expenditure program of $4.5 billion for 1997, an increase of more than 30% over 1996, the first year of a five year $24.3 billion program

- Net oil and gas production is expected to increase by more than 50% by the year 2001

- Ongoing negotiations with Shell Oil Company for a U.S. downstream alliance with a letter of intent anticipated during 1997. The proposed combination is expected to create a revitalized, dynamic, highly competitive business with improved performance and growth opportunities.

Results for Continuing Operations

The following analysis relates to Texaco's consolidated and functional results for continuing operations.

Revenues

Consolidated worldwide revenues from continuing operations were $45.5 billion in 1996 as compared to $36.8 billion in 1995 and $33.4 billion in 1994. Revenues for 1996 exceeded 1995 levels by 24%, two-thirds of which was attributable to increased sales revenues as a result of higher prices for crude oil, refined products and natural gas, which benefited results in the United States and abroad. Higher sales revenues also reflected substantial growth in crude oil and refined products sales volumes.

The increase in sales volumes included the impact of Texaco's aggressive strategy of marketing purchased crude oil, effectively utilizing the company's expansive trading and distribution network. Crude oil sales also reflected an increase in crude oil and NGL production volumes during 1996. Producing provinces in the Partitioned Neutral Zone, the U.S., Africa and China all reflected improvements over prior year production levels. Refined product sales also reflected significant increases with an improvement of 7% over 1995, principally in U. S. and Latin American markets, including higher branded gasoline sales. Natural gas sales in 1996 rose slightly over 1995 levels due to higher production in the U.S. and the Dolphin field in Trinidad, which came onstream during 1996.

Revenues in 1995 exceeded revenues in 1994 due to higher worldwide crude oil and refined product prices and volumes. Lower natural gas prices in the U.S. in 1995 more than offset the benefits to revenue related to higher natural gas sales volumes in the U.S. and Europe. In addition, revenues for 1995 also benefited from gains on asset sales.

Costs and Expenses

Purchases and other costs were $34.6 billion in 1996, $27.2 billion in 1995 and $23.9 billion in 1994. The increase in 1996 is primarily the result of higher worldwide prices and higher purchased volumes of crude oil and refined products, as well as increased natural gas prices in the United States. The 1995 increase in costs as compared to 1994 was due to higher worldwide prices for crude oil and refined products, as well as increased purchased volumes of crude oil, refined products and natural gas. Partially offsetting these increases were lower natural gas prices in the U.S. during 1995 as compared to 1994.

Over the past three years, Texaco has continually focused on containing expenses and improving operating efficiencies. These efficiencies are evident in the decrease in Texaco's operating expenses, excluding special items, of 2.5% during this three year period. This improvement has occurred notwithstanding the adverse, though somewhat moderating impact of a 7% inflation increase during this period. Operating expenses for the year 1996 versus 1995 reflected an increase of 6%, excluding special items in both periods, due to generally expanding operations. This increase reflects the company's aggressive exploratory and production activity in worldwide upstream operations, higher refinery utilization and increases in expenses associated with expanding marketing activities. Expenses also rose due to higher utilities resulting from increased fuel costs. Despite this increase in total operating expenses in 1996, further evidence of Texaco's cost-containment initiatives is exhibited in the less than 1% increase in Texaco's cash operating expenses on a per-barrel basis, approximately one-third of the general rise in inflation.

Depreciation, depletion and amortization expenses decreased in 1996 as compared to 1995 mainly due to the effects of the adoption of SFAS 121.

Income Taxes

Income tax expense was $965 million in 1996, $258 million in 1995 and $225 million in 1994. The year 1996 continued the three-year trend of higher taxable income from worldwide producing operations including the impact of international operations which are generally subject to higher statutory rates. The years 1996, 1995 and 1994 also included tax benefits associated with sales of a partial interest in a subsidiary of $188 million, $65 million and $189 million, respectively. The year 1995 also included significant deferred tax benefit effects from the adoption of SFAS 121.

| Net Income (Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Net income before special items and cumulative effect of accounting change | $ 1,665 | $ 1,152 | $ 915 |
| Special items: | | | |
| Gains on major asset sales | 194 | 232 | 23 |
| Tax benefits on asset sales | 188 | 65 | 189 |
| U.S. and international tax issues | 68 | -- | -- |
| Employee separation costs | (65) | (56) | (88) |
| Adoption of SFAS 121 | -- | (639) | -- |
| Other special items | (32) | (26) | (60) |
| Total special items | 353 | (424) | 64 |
| Net income before cumulative effect of accounting change | $ 2,018 | $ 728 | $ 979 |

Consolidated net income from continuing operations includes special items in addition to net income directly related to the current production, manufacturing, marketing and distribution of products and services of the company. Results for 1995 included benefits of $75 million for insurance recoveries, which were offset by charges to establish financial reserves for associated environmental remediation and other matters.

The schedules presented below provide net income on a functional basis before the cumulative effect of accounting change. Related explanations are provided on the pages that follow.

| Net income before special items (Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Exploration and Production | | | |
| United States | $ 1,123 | $ 674 | $ 438 |
| International | 451 | 343 | 269 |
| Total Exploration and Production | 1,574 | 1,017 | 707 |
| Manufacturing, Marketing and Distribution | | | |
| United States | 233 | 141 | 281 |
| International | 252 | 358 | 375 |
| Total Manufacturing, Marketing and Distribution | 485 | 499 | 656 |
| Total Petroleum and Natural Gas | 2,059 | 1,516 | 1,363 |
| Nonpetroleum | 16 | 32 | (3) |
| Corporate/Nonoperating | (410) | (396) | (445) |
| Total | $ 1,665 | $ 1,152 | $ 915 |

| Net income including special items (Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Exploration and Production | | | |
| United States | $ 1,123 | $ 293 | $ 414 |
| International | 478 | 340 | 253 |
| Total Exploration and Production | 1,601 | 633 | 667 |
| Manufacturing, Marketing and Distribution | | | |
| United States | 207 | 121 | 257 |
| International | 450 | 365 | 360 |
| Total Manufacturing, Marketing and Distribution | 657 | 486 | 617 |
| Total Petroleum and Natural Gas | 2,258 | 1,119 | 1,284 |
| Nonpetroleum | 16 | (28) | (32) |
| Corporate/Nonoperating | (256) | (363) | (273) |
| Total | $ 2,018 | $ 728 | $ 979 |

The Consolidated Financial Statements and related Notes should be read in conjunction with this financial review.

ITEM B5
Exploration and Production - Total Operating Earnings
MILLIONS OF DOLLARS

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B5.]

ITEM B6
Average U.S. Natural Gas Selling Price - Per Quarter
DOLLARS PER THOUSAND CUBIC FEET

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B6.]

Functional Analysis of Net Income

Worldwide net income from continuing operations is segregated between operating and corporate/nonoperating in the following tables. Operating results are further segregated functionally and geographically.

| Petroleum and Natural Gas<br>Exploration and Production<br>(Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| U.S. operating earnings before special items | $ 1,123 | $ 674 | $ 438 |
| Special items | -- | (381) | (24) |
| Total U. S. | 1,123 | 293 | 414 |
| International operating earnings before special items | 451 | 343 | 269 |
| Special items | 27 | (3) | (16) |
| Total International | 478 | 340 | 253 |
| Worldwide exploration and production earnings | $ 1,601 | $ 633 | $ 667 |

| Selected Operating Data<br>Net production of crude oil and NGL's (MBPD) | | | |
|---|---|---|---|
| U. S. | 388 | 381 | 407 |
| International | 399 | 381 | 376 |
| Worldwide | 787 | 762 | 783 |

| Net production of natural gas-available for sale (MMCFPD) | | | |
|---|---|---|---|
| U. S. | 1,675 | 1,619 | 1,716 |
| International | 382 | 373 | 319 |
| Worldwide | 2,057 | 1,992 | 2,035 |

| Natural gas sales (MMCFPD) | | | |
|---|---|---|---|
| U. S. | 3,176 | 3,153 | 3,092 |
| International | 477 | 435 | 337 |
| Worldwide | 3,653 | 3,588 | 3,429 |

U.S. Upstream operating earnings, before special items, were $1,123 million, $674 million and $438 million for the years 1996, 1995 and 1994, respectively. Results for 1996 achieved record levels and were 67% higher than 1995.

Increased crude oil, natural gas liquids and natural gas production for 1996, which in total is 2.5% higher than 1995, reflects the company's success in adding new production, most notably from the Gulf of Mexico, and enhancing production from existing fields, primarily at the Kern River, California, operations. This new production more than offsets declines from maturing fields and non-core asset sales, and is in contrast to U.S. oil industry statistics which indicate an overall decline in U. S. crude oil production. Slightly offsetting the impact of improved production was an increase in 1996 exploratory expenses of 63% reflecting higher activity on various new prospects.

Texaco's average crude oil price in 1996 was $17.93 per barrel, or $2.83 per barrel over the 1995 average price. These higher prices reflected increased demand, combined with historically low inventory levels in 1996, as well as the continued uncertainty in the market for most of the year regarding the possible resumption of Iraqi crude sales. In 1995, Texaco's average crude price of $15.10 per barrel represented an increase of $1.67 per barrel from the 1994 price.

In 1996, Texaco's average natural gas price of $2.19 per MCF represents an increase of $.54 per MCF from 1995. This higher average price was triggered by an upward movement in prices that commenced toward the end of 1995 due to unusually cold weather and led to an increase in industry demand to replenish depleted natural gas storage. Texaco's average natural gas price of $1.65 per MCF in 1995 was $.27 per MCF lower than 1994 and reflected a deterioration of average natural gas prices that adversely affected operating earnings for both 1995 and 1994.

Total U.S. operating earnings were $1,123 million, $293 million and $414 million for the years 1996, 1995 and 1994, respectively. Included in total operating earnings for 1995 were special items of $381 million, comprised of the write-down of assets associated with the adoption of SFAS 121 of $493 million and a gain of $125 million from the sale of non-core producing properties which was partly offset by reserves for environmental remediation on these properties of $13 million. Results for 1994 included special charges of $24 million related to employee separations.

International Upstream operating earnings, before special items, were $451 million, $343 million and $269 million for the years 1996, 1995 and 1994, respectively.

ITEM B7
Average Crude Oil Selling Prices - Per Quarter
DOLLARS PER BARREL

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B7.]

ITEM B8
Manufacturing, Marketing and Distribution - Total Operating Earnings
MILLIONS OF DOLLARS

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B8.]

Operating results in 1996 benefited from higher crude oil prices. Texaco's international average crude oil price of $19.55 per barrel in 1996 increased $3.26 per barrel over the 1995 level and continued a two-year upward trend in prices that also saw 1995 prices average $1.41 per barrel more than 1994 prices.

Crude oil production in 1996 increased primarily in Angola and the Partitioned Neutral Zone, while natural gas production increased in Trinidad and Colombia. In Angola, the production increase was the result of new offshore fields, as well as the resumption of onshore production early in 1996. Production increased in Trinidad and Colombia due to new fields and in the Partitioned Neutral Zone due to continuing development programs that have resulted in higher production levels starting in 1995. Lower production from maturing fields in the United Kingdom and Australia during 1996, as well as higher expenses associated with expanded exploration activities, partly offset the overall production improvements. In 1995, North Sea crude oil production slipped 3% from the high levels of 1994 mainly due to the natural decline in maturing fields and temporary interruptions for planned work.

Operating results for all three periods included non-cash currency translation impacts related to deferred income taxes due to the relationship of the Pound Sterling to the U.S. dollar. Results for 1996 and 1994 included charges of $38 million and $15 million, respectively, while 1995 included benefits of $2 million.

Total international operating earnings were $478 million, $340 million and $253 million for 1996, 1995 and 1994, respectively. Results for 1996 included a special non-cash gain of $27 million related to a Danish deferred tax benefit. Included in 1995 results was a special charge of $3 million related to the write-down of assets associated with the adoption of SFAS 121. Results for 1994 included special charges related to asset write-downs of $8 million and an additional charge of $8 million for employee separations.

| Manufacturing, Marketing and Distribution (Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| U.S. operating earnings before special items | $ 233 | $ 141 | $ 281 |
| Special items | (26) | (20) | (24) |
| Total U. S. | 207 | 121 | 257 |
| International operating earnings before special items | 252 | 358 | 375 |
| Special items | 198 | 7 | (15) |
| Total International | 450 | 365 | 360 |
| Worldwide manufacturing, marketing and distribution earnings | $ 657 | $ 486 | $ 617 |

| Selected Operating Data | 1996 | 1995 | 1994 |
|---|---|---|---|
| Refinery input (MBPD) | | | |
| U. S. | 724 | 693 | 673 |
| International | 762 | 788 | 780 |
| Worldwide | 1,486 | 1,481 | 1,453 |
| Refined product sales (MBPD) | | | |
| U. S. | 1,036 | 934 | 882 |
| International | 1,517 | 1,567 | 1,470 |
| Worldwide | 2,553 | 2,501 | 2,352 |

U.S. Downstream operating earnings, before special items, were $233 million for 1996, as compared with $141 million and $281 million for 1995 and 1994, respectively. The year 1996 results, as compared with 1995, benefited primarily from higher West Coast refinery margins that resulted from an increase in product prices due to shortages brought about by regional refining problems and new California gasoline formulation requirements during the first half of the year. Improved refinery operations throughout most of the year and continued cost containment efforts also contributed to the improved 1996 results. However, during the fourth quarter of 1996, both refinery and marketing margins, primarily on the West Coast, were depressed due to higher crude costs and competitive pressures in the marketplace. Additionally, refinery fires at Los

Angeles in November and Convent, Louisiana, in December adversely impacted 1996 results due to property damage and earnings losses associated with lower yields. Marketing margins for most refined products were lower in 1996 as compared with 1995; however, this was offset partially by the continued strength in gasoline and diesel sales volumes, with Texaco branded gasoline sales up 3% versus 1995 levels. Additionally, 1996 results benefited from improved profits in the distribution and transportation businesses.

Results in 1995 were lower than 1994 due to the impact of historically low refining margins that prevailed throughout the U.S. during the first four months of 1995. Rising crude costs could not be fully recovered through

ITEM B9
Refined Product Sales - U.S. by Principal Products
THOUSANDS OF BARRELS A DAY

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B9.]

ITEM B10
Refinery Input - U.S.
THOUSANDS OF BARRELS A DAY

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B10.]

product prices which remained relatively flat due to a surplus of products in the market. Operations on the East and Gulf Coasts also were impacted during 1995 by narrow light to heavy crude oil differentials that mitigated the benefits of refinery upgrades, as well as storm-related downtime and scheduled maintenance that impacted refinery performance. West Coast operations in 1995, as compared with 1994, benefited from expense containment, greater energy efficiency, improved refinery performance and higher sales volumes--all of which lessened the impact of depressed refining margins.

Total U.S. operating earnings were $207 million, $121 million and $257 million for the years 1996, 1995 and 1994, respectively. The year 1996 included special charges of $25 million related to the pending sale of Texaco's propylene oxide/methyl tertiary butyl ether (PO/MTBE) manufacturing site in Texas and $1 million for employee separations. Earnings in 1995 included special charges of $11 million for employee separations and $9 million related to the write-down of assets associated with the adoption of SFAS 121. Results for 1994 included special charges of $13 million related to asset write-downs and $11 million for employee separations.

International Downstream operating earnings, before special items, were $252 million, $358 million and $375 million for the years 1996, 1995 and 1994, respectively. Results for 1996, as compared with 1995, reflect the impact of lower margins in both the Europe and Caltex operating areas, partly offset by higher Latin American results. Marketing margins in Europe were significantly depressed from excess gasoline supply and a highly competitive market in the U.K., although both these factors were partially offset by improved refining operations and margins. In the Caltex operating markets, significantly lower margins in Australia, Korea, Thailand and Japan, primarily due to higher crude costs not fully recovered in the market, were somewhat offset by higher margins in Bahrain and Singapore. In Latin America, improved results in Brazil from increased volumes and higher product margins more than offset the impact of scheduled maintenance at the Panama refinery.

Results for both 1995 and 1994 reflect the impact of depressed refining margins, particularly in the U.K. These margins initially began to decline during 1994 due to rising feedstock costs and oversupply conditions. Operating earnings for 1994 were also negatively impacted by the Pembroke, Wales, refinery fire. In 1995 and 1994, areas served by Caltex, including most Pacific Rim countries and South Africa, were negatively impacted by lower refining margins. The year 1995 results for Caltex also were impacted by favorable foreign tax effects and both 1995 and 1994 results included benefits associated with inventory valuations. Strong margins and higher product volumes in most Latin America operating areas prevailed in both 1995 and 1994. However, downtime resulting from a 1995 refinery upgrade project in Panama and the 1994 impact of a fire at that plant lowered results for both years.

Operating results for all three periods included non-cash currency translation impacts related to deferred income taxes due to the relationship of the Pound Sterling to the U.S. dollar. Results for 1996 and 1994 included charges of $20 million and $16 million, respectively, while 1995 included benefits of $3 million.

Total international operating earnings were $450 million in 1996 compared with $365 million and $360 million in 1995 and 1994, respectively. Results for 1996 included a special gain of $219 million relating to the sale by Caltex of its interest in Nippon Petroleum Refining Company, Limited (NPRC). Results for 1995 included special charges of $31 million related to the write-down of assets associated with the adoption of SFAS 121. The year 1995 also included a net special gain of $80 million, principally related to the sale of land by a Caltex affiliate in Japan, and special charges of $13 million from restructuring in certain Caltex operations. Operating results for 1994 included a special gain of $23 million related to the sale of an interest in a downstream joint venture in Sweden, partly offset by special charges of $10 million related to the write-down of assets. Additionally, results for 1996, 1995 and 1994 included charges of $21 million, $29 million and $28 million, respectively, for employee separations.

Nonpetroleum

| (Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Operating earnings (losses) before special items | $ 16 | $ 32 | $ (3) |
| Special items | -- | (60) | (29) |
| Total operating earnings (losses) | $ 16 | $ (28) | $ (32) |

Nonpetroleum operating earnings, before special items, were $16 million for 1996 and $32 million for 1995, as compared to a loss of $3 million in 1994. Operating results for both 1996 and 1994 benefited from higher gasification licensing revenues, while 1995 results mainly reflected improved loss experience of insurance operations. Included in 1995 operating results was a special charge of $87 million for the write-down of assets associated with the adoption of SFAS 121 and a special gain of $27 million from the sale of the company's interest in Pekin Energy Company, a producer of ethanol. Results for 1994 included special charges of $29 million in the insurance operations related to property damages caused by fires at both the Pembroke, Wales, and the Panama refineries.

Corporate/Nonoperating

| (Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Corporate/nonoperating before special items | $ (410) | $ (396) | $ (445) |
| Special items | 154 | 33 | 172 |
| Total | $ (256) | $ (363) | $ (273) |

Corporate/nonoperating charges, before special items, were $410 million, $396 million and $445 million for the years 1996, 1995 and 1994, respectively. These results include interest expense and general corporate expenses, as well as interest income and other nonoperating income.

Results for 1996 reflect lower interest expense related to improved rates and lower debt levels. The year 1995 results included gains of $25 million, principally from the sales of equity securities held for investment by the insurance operations. Gains on such sales of securities in 1994 were lower than amounts realized in 1995. Additionally, 1995 results as compared to 1994 benefited from higher interest income and lower interest expense.

Corporate/nonoperating charges, including special items, were $256 million, $363 million and $273 million for 1996, 1995 and 1994, respectively. Results for all three years included special items related to the impact of current tax benefits realized and deferred tax benefits realizable due to sales of interests in a subsidiary. These benefits are realizable due to taxable gains on completed and announced sales of assets and amounted to $188 million, $65 million and $189 million for 1996, 1995 and 1994, respectively. Results for 1996, 1995 and 1994 also included special charges related to employee separations that amounted to $43 million, $16 million and $17 million, respectively. Additionally, results for 1996 included a benefit of $41 million resulting from lower than anticipated prior years' state tax exposures and charges of $32 million for additional financial reserves for various litigation matters, while 1995 results included special charges of $16 million related to the write-down of assets associated with the adoption of SFAS 121.

Discontinued Chemical Operations

In 1993, Texaco announced its intention to dispose of substantially all of its worldwide chemical operations, including its lubricant additives business. Texaco has since accounted for these operations as discontinued operations.

In 1993, Texaco entered into a memorandum of understanding with an affiliate of the Jon M. Huntsman Group of Companies for the sale of Texaco Chemical Company and related international chemical operations. On April 21, 1994, Texaco received from Huntsman Corporation $850 million, consisting of $650 million in cash and an 11-year subordinated note with a face amount of $200 million. The note was prepaid in January 1996.

On February 29, 1996, Texaco completed the disposition of its discontinued operations by completing the sale of its worldwide lubricant additives business, which included manufacturing facilities, as well as sales and marketing offices in various locations in the U.S. and abroad, to Ethyl Corporation, a fuel and lubricant additives manufacturer. Ethyl purchased this business for $196 million, comprised of $136 million in cash and a three-year note of $60 million.

Financial information on discontinued chemical operations can be found in Note 3 to the Consolidated Financial Statements on page 48 of this report.

Employee Severance Programs

On July 5, 1994, Texaco announced its plan for growth, which included a series of steps to increase competitiveness and profitability as well as to reduce overhead. This program was expected to result in the reduction of approximately 4,000 company employees worldwide by year-end 1996. An after-tax provision of $144 million was made to cover the cost of employee separations. This program has now been completed with reductions of about 4,400 employees worldwide. An adjustment of $9 million after tax was recorded in the fourth quarter of 1996 to increase reserves from previously estimated amounts. Charges against the reserve related to severance have totaled $133 million after tax through the end of 1996.

On October 30, 1996, Texaco announced a companywide realignment designed to enhance the company's ability to grow existing and new businesses. This realignment, coupled with other organizational enhancements such as the consolidation of operations, is designed to stimulate growth and improve efficiencies in both support and operating functions, rather than cut costs. However, it is expected that some overlapping activities will be eliminated resulting in the reduction of some 750 employees worldwide by the end of 1997. An after-tax provision of $56 million was recorded in the fourth quarter of 1996 to cover the costs of employee separations, including employees of affiliates. Through December 31, 1996, approximately 250 company employees have been terminated

ITEM B11
Environmental-Cash Expenditures
MILLIONS OF DOLLARS

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B11.]

ITEM B12
Environmental-Cash Expenditures by Geographic Location
MILLIONS OF DOLLARS

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B12.]

with a related commitment to severance payments of $11 million after-tax. Of this commitment, payments of $4 million have been made and charged against the reserve as of December 31, 1996.

Environmental Matters

Texaco continues to make substantial capital and operating expenditures for environmental protection and to comply with federal, state and local environmental, health and safety laws and regulations. Worldwide environmental spending in 1996 totaled $795 million for Texaco and its consolidated subsidiaries and its equity in affiliates. These expenditures relate to the control and abatement of pollutants into the air and water and to the appropriate recycling or disposal of wastes and also include costs associated with remediation obligations at company operated sites, previously operated sites and certain third-party sites.

The discussion that follows details environmental expenditures and reserve information relative to Texaco and its equity in affiliates.

Capital Expenditures

In 1996, Texaco's capital environmental expenditures totaled $185 million, or approximately 6.1% of Texaco's 1996 capital expenditure program, with $95 million expended in the United States. This compares with $275 million of capital environmental expenditures for the year 1995, of which $169 million was expended in the United States. This decrease is primarily attributable to lower downstream expenditures in the United States, reflecting the completion in 1995 of a number of projects equipping refineries to make reformulated fuels and low-sulfur diesel required by the 1990 Amendments to the Clean Air Act and to conform to stricter California fuel standards.

Capital expenditures projected for the company for 1997 and 1998 total $219 million and $252 million, respectively, with approximately 54% slated for operations in the United States.

Ongoing Activities

Texaco spent and expensed $451 million in 1996 associated with protecting the environment in the company's ongoing operations, the manufacture of cleaner-burning fuels and in the management of the company's environmental programs. Of this amount, approximately 61% was related to air quality.

Remediation Costs and Superfund Sites

Expenditures in 1996 relating to remediation amounted to $111 million. The company had financial reserves of $638 million at the end of 1996 for the estimated future costs of its environmental remediation programs. These reserves have been provided to the extent reasonably measurable, as it is not possible to project overall costs or a range of costs beyond that disclosed, due to uncertainty surrounding future developments in regulations and remediation exposure.

Since the enactment of the Comprehensive Environmental Response, Compensation and Liability Act (commonly referred to as Superfund), the Environmental Protection Agency (EPA) and other regulatory agencies and groups have identified Texaco as a potentially responsible party (PRP) for cleanup of hazardous waste sites. Texaco has determined that it may have potential exposure, though limited in certain cases, at about 216 multi-party hazardous waste sites, of which 80 sites are on the EPA's National Priority List. Although liability under Superfund is joint and several, the company is actively pursuing and/or participating in the sharing of Superfund costs with other identified PRP's on the basis of weight, volume and toxicity of the material contributed by the PRP's. The above referenced expenditures in 1996 relating to remediation include $12 million for multi-party waste sites. The financial reserves for environmental remediation include $56 million related to multi-party waste sites. This reserve is based on the company's analysis of the developments at these sites for which costs can reasonably be estimated. However, there are potential additional costs for waste sites for which a range of exposure cannot reasonably be estimated until further information develops. In many cases, the amounts and types of wastes are still under investigation by regulatory agencies.

ITEM B13
1996 Sources of Cash and Cash Equivalents
BILLIONS OF DOLLARS

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B13.]

ITEM B14
1996 Uses of Cash and Cash Equivalents
BILLIONS OF DOLLARS

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B14.]

Restoration and Abandonment

The company also provides financial reserves to cover the cost of restoration and abandonment of its oil and gas producing properties. These reserves at December 31, 1996, totaled $850 million. Expenditures in 1996 for restoration and abandonment amounted to $48 million.

o o o o o o

In summary, Texaco makes every effort to remain in full compliance with applicable governmental regulations. Changes in governmental regulations and/or Texaco's re-evaluation of its environmental programs may result in additional future costs to the company. It is assumed that any mandated future costs would be recoverable in the marketplace, since all companies within the industry would be facing similar requirements. However, it is not believed that such future costs will be material to the company's financial position nor to its operating results over any reasonable period of time.

Liquidity and Capital Resources

| (Millions of dollars, except ratio data) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Current ratio | 1.24 | 1.24 | 1.20 |
| Total debt | $ 5,590 | $ 6,240 | $ 6,481 |
| Minority interest in subsidiary companies | $ 658 | $ 667 | $ 610 |
| Stockholders' equity | $10,372 | $ 9,519 | $ 9,749 |
| Total debt to total borrowed and invested capital | 33.6% | 38.0% | 38.5% |

Texaco's liquidity strategy is to rely on cash from operations, including careful management of working capital to fund its cash requirements, including its capital, exploratory and dividend programs. This is complemented by the company's strong credit rating which allows ready access to global financial markets and provides the flexibility to take advantage of growth opportunities at low funding costs. Texaco also maintains a revolving credit facility which supports the company's commercial paper program. The facility, with commitments of $1.5 billion as of December 31, 1996 and $2.0 billion at year-end 1995, remains unused. Further solidifying Texaco's strong liquidity position is the company's debt profile. At year-end 1996, the company's debt had an average maturity in excess of 12 years and a weighted average interest rate of 7.5% including the effect of debt-related derivatives which is not significant. Also, the contractual annual maturities of long-term debt have been balanced to avoid disproportionate calls on cash in any one year.

Subsequent to December 31, 1996, Texaco issued $150 million of 7.09% noncallable Notes due 2007. Proceeds from this offering will be used for working capital, retirement of existing debt and other general corporate purposes.

The company's cash, cash equivalents and short-term investments totaled $552 million at year-end 1996 and $536 million at year-end 1995. Texaco's total cash provided by operating activities of $3.8 billion for the year 1996 reflected strong operational earnings and a net inflow of $375 million, primarily comprised of a cash dividend from Caltex (related to the sale of Caltex' interest in NPRC), proceeds from advanced payments on long-term natural gas sales agreements and the collection of nonrecurring receivables (primarily insurance recoveries relating to environmental matters), which were partially offset by payments related to litigation and other matters.

Cash from operating activities was supplemented by proceeds from the sales of discontinued operations and other nonstrategic assets and exceeded outlays of $2.9 billion relative to the company's capital and exploratory program and $1.0 billion for payment of dividends to common, preferred and minority interest shareholders and contributed to the reduction of debt and purchases of common stock. As of December 31, 1996, $163 million has been expended under the $500 million common stock repurchase program announced in 1995. The company will continue repurchasing shares from time to time based on market conditions. In the third quarter of 1996, Texaco increased its quarterly dividend on its common stock to 85 cents per share, from 80 cents per share, an increase of 6.25 percent.

During the first quarter of 1996, Texaco received $136 million in cash and a three-year note with a face amount of $60 million from the sale of its worldwide lubricant additives business to Ethyl Corporation and $208 million from the prepayment of the note received as part of the consideration for the 1994 sale of its chemical operations to Huntsman Corporation. Also in 1996, Texaco received $261 million from the sale of certain equipment leasehold interests in conjunction with a sale/leaseback arrangement. In the aggregate, through year-end 1996, Texaco has received $509 million for these leasehold interests. The company expects to repurchase the total interests for somewhat less than the proceeds received, after the related equipment is placed in service.

In November 1996, Texaco reached an agreement in principle to settle a purported class action filed against the company in 1994 for allegedly discriminating against salaried African-American employees, principally with respect to promotions. A definitive settlement agreement was filed with the United States District Court for the

ITEM B15
Total Debt to Total Borrowed and Invested Capital
PERCENT

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B15.]

ITEM B16
Total Production and Reserve Additions
MILLIONS OF BARRELS OF OIL EQUIVALENT

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B16.]

Southern District of New York in January 1997. As part of the settlement, in 1996, Texaco transferred $115 million into an escrow account which will be released to the plaintiffs upon approval of the settlement by the court. The $115 million payment is covered by litigation reserves and probable insurance recoveries anticipated to be received during 1997.

The company expects to complete the previously announced sale of a 15% interest in its U.K. North Sea Captain Field to an affiliate of Korea Petroleum Development Corporation for approximately $210 million in 1997. Texaco has agreed to sell its propylene oxide/methyl tertiary butyl ether (PO/MTBE) business to a Huntsman Corporation affiliate for cash and preferred stock. Cash proceeds at the closing will approximate $513 million, and will be used to substantially offset the cost of purchasing assets in connection with the termination of a related lease arrangement. Texaco will also receive preferred stock with a stated value of $65 million, which is mandatorily redeemable in eleven years. The company expects to complete this transaction in the first half of 1997. In addition, Texaco is negotiating with Associates First Capital Corporation, an indirect majority-owned subsidiary of the Ford Motor Company, for the sale of the company's credit card services unit, including its portfolio of proprietary credit card accounts receivable. As a result, Texaco would receive cash proceeds of approximately $300 million for its proprietary credit card accounts receivables and associated processing assets.

In October 1996, the United States Court of Appeals for the Fifth Circuit (Fifth Circuit) affirmed the 1993 U.S. Tax Court (Tax Court) decision in the so-called "Aramco Advantage" case and upheld Texaco's position in this dispute with the IRS. The IRS has filed a petition for certiorari with the United States Supreme Court, seeking review of the favorable decision by the Fifth Circuit. In March 1988, prior to the commencement of the Tax Court action, Texaco, as a condition of its emergence from Chapter 11 proceedings, made certain cash deposits to the IRS (Deposit Fund) in contemplation of potential tax claims. A portion of the Deposit Fund also will be applied to issues settled in the Tax Court litigation years. After satisfaction of all liabilities associated with settled issues, it is anticipated that in excess of $700 million will remain in the Deposit Fund and continue to accrue interest. If the company ultimately prevails on the appeal of the Aramco Advantage issue, the amount remaining in the Deposit Fund will be refunded to the company, with interest. In the event the Supreme Court denies certiorari, a significant portion of that amount is expected to be received in 1997.

As a global petroleum company, Texaco is exposed to commodity price, foreign exchange and interest rate risks. While these risks are primarily managed by the careful structuring of transactions, the company also uses certain derivative financial instruments as a cost-effective and efficient means for managing its risks. Derivative usage is subject to the company's risk management policies which prohibit speculative positions and restrict the amount of exposure on all derivative transactions through dollar, term and volumetric limits. The company's exposure in derivative transactions, in the aggregate, is not material. For more information related to derivative transactions, refer to Notes 7 and 15 to the Consolidated Financial Statements.

The company considers its financial position sufficient to meet its anticipated future financial requirements.

Reserves

Texaco's worldwide net proved reserves at year-end 1996, including equity in P. T. Caltex Pacific Indonesia (CPI), a 50% owned affiliate operating in Indonesia, totaled 3.7 billion barrels of oil equivalent, of which 53% are located in the United States. The worldwide reserves include 2.7 billion barrels of crude oil and natural gas liquids, and 6.0 trillion cubic feet of natural gas.

On a worldwide basis, including equity reserves and excluding purchases and sales, the company added new volumes to its reserve base equal to 113% of combined liquids and gas production in 1996, 129% in 1995 and 111% in 1994. During 1996, the company added new volumes to its reserve base equal to 83% of combined liquids and gas production in the United States and 154% outside the United States. The three-year worldwide reserve replacement average for 1994-1996 was 118% and the five-year replacement average for 1992-1996 was 112%.

Texaco's worldwide finding and development costs were $4.89 in 1996, $3.89 over the three-year period 1994-1996 and $4.04 over the five-year period 1992-1996.

See the "Supplemental Oil and Gas Information" section starting on page 71 for further information regarding Texaco's estimated proved reserves.

ITEM B17
Capital and Exploratory Expenditures - Geographical
BILLIONS OF DOLLARS

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B17.]

ITEM B18
Capital and Exploratory Expenditures - Functional
BILLIONS OF DOLLARS

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B18.]

Capital and Exploratory Expenditures

Worldwide capital and exploratory expenditures for continuing operations, including equity in such expenditures of affiliates, were $3.4 billion for the year 1996, of which $1.8 billion, or 52% was spent in international areas and $1.6 billion, or 48% was spent in the United States. Texaco continues to focus on key upstream exploration and development projects which represented 69% of total expenditures in 1996, as compared with 62% in 1995 and 58% in 1994. Solid opportunities internationally and in the U.S., especially in the Gulf of Mexico shelf and deepwater areas, have significant potential to build on Texaco's earnings growth, increase return to shareholders and produce a highly competitive return on capital employed. Utilizing the synergies of advanced technologies such as 3-D and vertical cable seismic, subsea completions and quadrilateral drilling, Texaco continues to add underground oil and gas reserves at a significant pace. Recent successes of bringing to development many new fields, enhanced recovery efforts at older fields and the increased focus of a newly created worldwide exploration unit with the potential to contribute significant discoveries, are expected to grow Texaco's production and reserves. Continued downstream investments are carefully scrutinized with capital allocated to those activities which will return favorable margins to Texaco. Such projects include strategic refinery upgrades and selected worldwide marketing initiatives which complement a cohesive investment program.

Exploration and Production

In the United States, capital and exploratory expenditures in 1996 focused on key projects in the Gulf of Mexico in both the continental shelf and deepwater areas. Investments reflect higher levels of rank wildcat drilling, continued revitalization of existing fields and an aggressive Federal lease acquisition program. Texaco brought into production the Shasta natural gas prospect in the Gulf of Mexico, successfully demonstrating an assortment of emerging technologies and innovative subsea development techniques. Appraisal wells also confirmed the commerciality of the Gemini and Petronius prospects, two significant 1995 deepwater discoveries. Facility design and construction for the Petronius project, which will utilize a unique compliant tower design, began in 1996. Work also began on the Discovery project, a major natural gas gathering and transmission pipeline and processing complex to be located onshore and offshore South Louisiana. In early 1997, a 50% interest in this project was sold to a third party. Additionally, Texaco continues to develop its heavy oil reserves in California using efficient and cost effective enhanced recovery techniques.

Internationally, upstream expenditures in 1996 increased over both 1995 and 1994. Development efforts continued in the North Sea, including the Erskine field, in the Partitioned Neutral Zone between Kuwait and Saudi Arabia, as well as for offshore projects in Australia and Nigeria. In addition, several new fields were brought into production during 1996 in Angola, Colombia and Trinidad. Also, the Captain field in the North Sea came onstream during the first quarter of 1997. In Indonesia, Texaco, through its affiliate P.T. Caltex Pacific Indonesia, continued the enhanced recovery programs at the vast Minas and Duri fields. The year 1996 also reflected generally higher exploratory activity both in the U.S.
and abroad.

Manufacturing, Marketing and Distribution

In the United States, refinery expenditures decreased as compared to 1995 and 1994 due to the completion of major refinery projects and upgrades for both Texaco and its affiliate, Star Enterprise. Marketing expenditures increased due to expanded joint marketing initiatives with quick service restaurants and lube outlets, as well as strategic service station site acquisitions and alliances. Also, construction continued on a strategic crude oil pipeline which will service new deepwater and subsalt oil production from the central Gulf of Mexico.

Internationally, overall downstream expenditures remained relatively constant over the three-year period 1994-1996. The lower level of refinery spending was primarily related to a refinery construction completion in Thailand and an upgrade in Singapore by Caltex and refinery upgrade completions and enhancements in Panama and the United Kingdom. Marketing investments increased, particularly in Latin American growth markets and selected European locations, as well as in high-growth areas of the Pacific Rim through Caltex.

## 1997 Capital and Exploratory Expenditures

Texaco's capital and exploratory spending levels, including equity in such expenditures of affiliates, are planned to approximate $4.5 billion during 1997, an increase of more than 30% over 1996 spending levels. Approximately $2.6 billion, or 58% of Texaco's investment program, is targeted for international areas and $1.9 billion, or 42%, for domestic initiatives. On a functional basis, 65% of the total program has been designated for upstream opportunities, 33% for downstream and 2% for other activities.

The 1997 program supports the company's aggressive financial and operational goals by investing in opportunities that will increase production and reserves, leverage our world-class technologies and the Texaco brand name, and support profitable strategic alliances. Expenditures in 1997 will maintain a balance between growth and strategic opportunities, and core businesses. The 1997 spending budget is the first year of a five year $24.3 billion capital and exploratory expenditures program.

Upstream investments will be directed to those opportunities that are expected to significantly increase existing production levels and expand Texaco's reserve base. In the deepwater U.S. Gulf of Mexico, the company will nearly double expenditures from 1996 levels. Building upon recent exploration successes and lease acquisitions, Texaco will maintain a solid rank wildcat drilling program in 1997, and accelerate the delineation of new discoveries and development efforts to bring discoveries onstream. Enhanced oil recovery techniques in the Partitioned Neutral Zone, Indonesia and onshore U.S. will increase oil and gas output from mature producing fields. Such techniques involve the use of advanced technologies, including 3-D seismic, steamflooding and carbon dioxide injection. Development projects will continue in the U.K. North Sea, where Texaco's Captain field produced first oil in early 1997 and where the Erskine field is expected to come onstream later in the year. Also, appraisal work will continue in 1997 for the Galley and Mariner projects in the North Sea. Participation in high-impact growth opportunities, including the Karachaganak venture in Kazakstan and a joint agreement to study and pursue the development of heavy crude oil in the Hamaca region of Venezuela, have the potential to significantly contribute to Texaco's production and reserve base. Additionally, exploration will continue in promising geological basins of West Africa, China and Southeast Asia which have the potential of becoming new core areas for the company.

In the downstream, expenditures will be directed primarily toward marketing activities. Texaco will enhance retail positions in Latin America and Caltex' operating areas throughout the Asia-Pacific region via new business ventures and the improvement of existing operations in these rapidly growing economic arenas. In the U.S., investments are targeted for core marketing areas in preferred markets in support of the company's global brand initiative, and expanding alliances with quick service restaurants and quick lubes. Also, expenditures are scheduled for the company's refining operations at the Nerefco complex in the Netherlands and the U.K. Pembroke plant, including the purchase of the remaining outside interest in the plant's cracking complex.

Other investments include cogeneration and gasification projects primarily in areas outside the United States.

Capital and Exploratory Expenditures
(Millions of dollars)

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Texaco Inc. and subsidiary companies: | | | |
| Exploration and production | | | |
| United States | | | |
| Exploratory expenses | $ 153 | $ 94 | $ 130 |
| Capital expenditures | 1,085 | 806 | 659 |
| International | | | |
| Exploratory expenses | 226 | 195 | 177 |
| Capital expenditures | 755 | 723 | 468 |
| Total exploration and production | 2,219 | 1,818 | 1,434 |
| Manufacturing, marketing and distribution | | | |
| United States | | | |
| Manufacturing | 94 | 154 | 164 |
| Marketing | 139 | 108 | 78 |
| Distribution | 31 | 43 | 29 |
| International | | | |
| Manufacturing | 55 | 92 | 72 |
| Marketing | 299 | 219 | 209 |
| Distribution | 1 | 6 | 11 |
| Total manufacturing, marketing and distribution | 619 | 622 | 563 |
| Other | | | |
| United States | 33 | 43 | 35 |
| International | 2 | 7 | 2 |
| Total other | 35 | 50 | 37 |
| Total Texaco Inc. and subsidiary companies | 2,873 | 2,490 | 2,034 |
| Equity in affiliates: | | | |
| Exploration and production | | | |
| United States | 5 | 4 | 1 |
| International | 154 | 115 | 150 |
| Total exploration and production | 159 | 119 | 151 |
| Manufacturing, marketing, distribution and other | | | |
| United States | | | |
| Manufacturing | 40 | 88 | 95 |
| Marketing | 38 | 46 | 43 |
| Distribution | 18 | 14 | 14 |
| International* | | | |
| Manufacturing | 67 | 165 | 235 |
| Marketing | 230 | 196 | 160 |
| Distribution | 6 | 9 | 6 |
| Other--United States | -- | 1 | 3 |
| Total manufacturing, marketing, distribution and other | 399 | 519 | 556 |
| Total equity in affiliates | 558 | 638 | 707 |
| Total continuing operations | 3,431 | 3,128 | 2,741 |
| Discontinued operations | -- | 2 | 22 |
| Total worldwide | $ 3,431 | $ 3,130 | $ 2,763 |

* Excludes expenditures of Caltex' affiliated companies, principally in Australia, Thailand, Korea and Japan.

## Industry Review

### Review of 1996

The world economy grew at a strong 3.8% rate in 1996. However, growth patterns were mixed among regions. Economic expansion in the industrialized world as a whole was relatively modest. While the pivotal U.S. economy enjoyed another year of steady advance, the adoption of fiscal austerity measures in Western Europe led to a slowing of economic expansion. A large increase in governmental spending in the first quarter boosted Japanese GDP growth

ITEM B19
Real GDP Growth - Worldwide
PERCENT

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B19.]

ITEM B20
Average West Texas Intermediate Spot Prices - Per Quarter
DOLLARS PER BARREL

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, PART B, ITEM B20.]

in 1996, but the recovery has yet to become deep-rooted. On the other hand, economic expansion in the developing world was generally robust, particularly in the Pacific Rim countries. One major disappointment in 1996 was the failure of the former Soviet bloc to turn around. Although some of the former Eastern European "satellite" countries enjoyed relatively strong growth, the Russian economy registered another decline, pulling down the region as a whole.

World demand for petroleum products continued to attain new highs in 1996, spurred by the global economic expansion and cold winter conditions early in the year. Oil consumption averaged 71.8 million BPD, an increase of 1.7 million BPD from the 1995 level. Growth in the industrialized nations rose sharply, up 900,000 BPD, boosted by the very cold winter weather across the Northern Hemisphere. In the developing countries, buoyant economic conditions, particularly in the Pacific Rim region, led to a robust increase of 1.2 million BPD in oil consumption. However, the contraction in the Russian economy offset gains in several Eastern European countries, leading to an overall 400,000 BPD demand decline for the former Soviet bloc.

| World Petroleum Demand (Millions of barrels a day) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Industrial nations | 41.2 | 40.3 | 40.0 |
| Developing nations | 24.9 | 23.7 | 22.6 |
| Former Soviet bloc | 5.7 | 6.1 | 6.2 |
| Total | 71.8 | 70.1 | 68.8 |

Crude oil supplies also rose sharply during the year. However, very ambitious gains that had been expected from non-OPEC sources did not materialize fully. In the North Sea, for example, extended field maintenance during the summer, underperformance by several old fields and delayed projects limited production increases. Even with these constraints, output from the North Sea contributed significantly to non-OPEC's near 1 million BPD gain from the 1995 level.

Latin America also posted significant increases, resulting from higher output levels from Argentina, Brazil, Colombia and Mexico. Likewise, there were significant gains from countries such as Angola, Australia and Canada, but these were partially offset by production losses from the former Soviet Union and the United States.

The step-up in world oil demand and lower than anticipated non-OPEC output combined to boost world requirements for OPEC oil during 1996, the first substantial output gain for the organization in several years. Crude oil production averaged 25.9 million BPD, a 900,000 BPD increase over its year-earlier level. Cash-strapped countries such as Nigeria and Venezuela substantially exceeded OPEC quotas and accounted for more than half of this increase. Iraqi exports remained embargoed until near year-end, when agreement was reached allowing so-called "oil-for-food" flows under U.N. Resolution 986.

World petroleum prices were surprisingly strong throughout 1996. Special factors, such as exceptionally cold weather early in 1996, the absence of Iraqi exports and the delayed start-up of new North Sea production, had a major impact. At the same time, crude oil and petroleum product stocks were lean by historical standards, thus contributing to price strength and volatility. The spot price of U.S. benchmark West Texas Intermediate (WTI) averaged $22.16 per barrel, which was $3.73 per barrel higher than the previous year and a level not seen since the Gulf War.

Refiners' margins during 1996 were higher than 1995's very depressed levels in key U.S. and European markets. Despite the run-up in underlying crude oil costs, special factors contributed to strong light-end product prices. For instance, the extreme cold winter within the Atlantic basin boosted heating oil prices and delayed the refinery switchover to gasoline, leading to low stock levels prior to the summer driving season. In addition, on the U.S. West Coast, refinery outages and dislocations resulting from the introduction of CARB reformulated gasoline also pushed up margins during the spring and summer. Marketing margins, however, decreased relative to 1995 due to intense competitive pressures and oversupply in the marketplace, especially in the U.S., the United Kingdom and the Asia-Pacific area.

Near-Term Outlook

World economic growth is projected to remain strong in 1997, as continued powerful expansion in the developing world and modest increases in the industrialized nations are reinforced by an anticipated turnaround in the former Soviet bloc. The United States is forecast to continue to enjoy modest growth in 1997, and economic expansion in Western Europe is expected to pick up. In Japan, growth should weaken somewhat from the artificially high rate created by the stimulative government spending in 1996. Within the developing world, expansion in Asia may also moderate somewhat, but will remain relatively strong. The former Soviet bloc as a whole is anticipated to register positive GDP growth for the first time in eight years, as the Russian economy shows signs of turning around.

Strong economic conditions should result in one of the highest rates of growth for world oil consumption witnessed over the last two decades. World demand is projected to average 73.8 million BPD, a 2.0 million BPD, or 2.8% increase over 1996 levels. Growth in the industrialized nations is expected to slow to 500,000 BPD in 1997, as normal winter conditions are projected. In the developing countries, demand is expected to rise by 1.4 million BPD, fueled by the ongoing economic expansion. Also, in the former Soviet bloc, demand is expected to rise by 100,000 BPD from the 1996 level, as consumption rises in Central Europe.

| Near-Term World Supply/Demand Balance (Millions of barrels a day) | 1997 | 1996 |
|---|---|---|
| Demand | 73.8 | 71.8 |
| Supply | | |
| Non-OPEC crude | 38.3 | 37.1 |
| OPEC crude | 26.7 | 25.9 |
| Other liquids | 9.3 | 9.0 |
| Total supply | 74.3 | 72.0 |
| Stock change | 0.5 | 0.2 |

Despite the strength in demand, anticipated increases in non-OPEC and OPEC production may actually run ahead of consumption, causing the global supply/demand balance to loosen and prices to weaken. Non-OPEC crude oil production has been on an uptrend over the last few years and, despite the somewhat disappointing performance in 1996, output in 1997 is expected to climb to 38.3 million BPD, a dramatic 1.2 million BPD gain. As in the past, the North Sea will be the major contributor, followed by Brazil, Mexico, Australia, India, Angola and some other African nations. By year-end, output from Colombia's giant Cusiana/Cupiagua fields is expected to rise significantly as the Ocensa pipeline nears completion. Even output from the former Soviet Union may increase after many years of decline. Among the major producers, only the United States will continue to slip, and very slowly, as declining production from Prudhoe Bay and other North Slope fields is offset by new flows from the Gulf of Mexico.

OPEC production is also expected to rise in 1997, given the resumption in Iraqi oil exports. The agreed partial lifting of the U.N. embargo will likely add about 600,000 BPD to the market. In addition, ongoing capacity expansions in Venezuela, Algeria and Nigeria may translate into a further increase in OPEC production. This could occur at a time when market fundamentals point toward weaker crude oil and product prices.

U.S. natural gas consumption in 1996 rose to over 22 trillion cubic feet (TCF), up 0.6 TCF from the prior-year level. The extreme cold weather and growing industrial usage boosted demand to a level that has not been experienced since the early 1970's. In 1997, demand should continue to grow, despite the assumption of more normal winter conditions.

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Forward-Looking Statements

The Management's Discussion and Analysis and other sections of this Annual Report may contain forward-looking statements that are based on current expectations, estimates and projections about the industries in which Texaco operates, management's beliefs and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, and are subject to the safe harbors created thereby. These statements are based on a number of assumptions that could ultimately prove inaccurate and, therefore, there can be no assurance that they will prove to be accurate. Factors which could affect performance include estimation of reserves, inaccurate seismic data, mechanical failures, unilateral cancellation of concessions by host governments, decreased demand for motor fuels, natural gas and other products, above-average temperatures, pipeline failures, oil spills, increasing price and product competition, higher or lower costs and expenses, domestic and foreign governmental and public policy changes including environmental regulations, the outcome of pending and future litigation and governmental proceedings and continued availability of financing. These are representative of factors which could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general domestic and international economic conditions including interest rate and currency exchange rate fluctuations and other factors. Texaco undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

STATEMENT OF CONSOLIDATED INCOME

Texaco Inc. and Subsidiary Companies

| (Millions of dollars) For the years ended December 31 | 1996 | 1995 | 1994 |
|---|---|---|---|
| **Revenues** | | | |
| Sales and services (includes transactions with significant affiliates of $3,867 million in 1996, $3,146 million in 1995 and $2,561 million in 1994) | $ 44,561 | $ 35,551 | $ 32,540 |
| Equity in income of affiliates, interest, asset sales and other | 939 | 1,236 | 813 |
| Total revenues | 45,500 | 36,787 | 33,353 |
| **Deductions** | | | |
| Purchases and other costs (includes transactions with significant affiliates of $2,048 million in 1996, $1,733 million in 1995 and $1,679 million in 1994) | 34,643 | 27,237 | 23,931 |
| Operating expenses | 2,978 | 2,907 | 3,069 |
| Selling, general and administrative expenses | 1,693 | 1,580 | 1,679 |
| Maintenance and repairs | 367 | 375 | 390 |
| Exploratory expenses | 379 | 289 | 307 |
| Depreciation, depletion and amortization | 1,455 | 2,385 | 1,735 |
| Interest expense | 434 | 483 | 498 |
| Taxes other than income taxes | 496 | 491 | 496 |
| Minority interest | 72 | 54 | 44 |
| | 42,517 | 35,801 | 32,149 |
| Income from continuing operations before income taxes and cumulative effect of accounting change | 2,983 | 986 | 1,204 |
| Provision for income taxes | 965 | 258 | 225 |
| Net income from continuing operations before cumulative effect of accounting change | 2,018 | 728 | 979 |
| Net loss on disposal of discontinued operations | -- | -- | (69) |
| Cumulative effect of accounting change | -- | (121) | -- |
| Net Income | $ 2,018 | $ 607 | $ 910 |
| Preferred stock dividend requirements | $ 58 | $ 60 | $ 91 |
| Net income available for common stock | $ 1,960 | $ 547 | $ 819 |
| **Net Income Per Common Share (dollars)** | | | |
| Net income (loss) before cumulative effect of accounting change | | | |
| Continuing operations | $ 7.52 | $ 2.57 | $3.43 |
| Discontinued operations | -- | -- | (.26) |
| Cumulative effect of accounting change | -- | (.47) | -- |
| Net income | $ 7.52 | $ 2.10 | $3.17 |
| Average Number of Common Shares Outstanding (for computation of earnings per share) (thousands) | 260,717 | 259,983 | 258,813 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

Texaco Inc. and Subsidiary Companies

| (Millions of dollars) As of December 31 | 1996 | 1995 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 511 | $ 501 |
| Short-term investments-at fair value | 41 | 35 |
| Accounts and notes receivable (includes receivables from significant affiliates of $299 million in 1996 and $240 million in 1995), less allowance for doubtful accounts of $34 million in 1996 and $28 million in 1995 | 5,195 | 4,177 |
| Inventories | 1,460 | 1,357 |
| Net assets of discontinued operations (see Note 3) | -- | 164 |
| Deferred income taxes and other current assets | 458 | 224 |
| Total current assets | 7,665 | 6,458 |
| Investments and Advances | 4,996 | 5,278 |
| Net Properties, Plant and Equipment | 13,411 | 12,580 |
| Deferred Charges | 891 | 621 |
| Total | $ 26,963 | $ 24,937 |
| **Liabilities and Stockholders' Equity** | | |
| **Current Liabilities** | | |
| Notes payable, commercial paper and current portion of long-term debt | $ 465 | $ 737 |
| Accounts payable and accrued liabilities (includes payables to significant affiliates of $144 million in 1996 and $123 million in 1995) | | |
| Trade liabilities | 3,472 | 2,396 |
| Accrued liabilities | 1,333 | 1,381 |
| Estimated income and other taxes | 914 | 692 |
| Total current liabilities | 6,184 | 5,206 |
| Long-Term Debt and Capital Lease Obligations | 5,125 | 5,503 |
| Deferred Income Taxes | 795 | 634 |
| Employee Retirement Benefits | 1,236 | 1,138 |
| Deferred Credits and Other Noncurrent Liabilities | 2,593 | 2,270 |
| Minority Interest in Subsidiary Companies | 658 | 667 |
| Total | 16,591 | 15,418 |
| **Stockholders' Equity** | | |
| Market Auction Preferred Shares | 300 | 300 |
| ESOP Convertible Preferred Stock | 474 | 495 |
| Unearned employee compensation and benefit plan trust | (378) | (437) |
| Common stock-274,293,417 shares issued | 1,714 | 1,714 |
| Paid-in capital in excess of par value | 630 | 655 |
| Retained earnings | 8,292 | 7,186 |
| Currency translation adjustment | (65) | 61 |
| Unrealized net gain on investments | 33 | 62 |
| | 11,000 | 10,036 |
| Less-Common stock held in treasury, at cost | 628 | 517 |
| Total stockholders' equity | 10,372 | 9,519 |
| Total | $ 26,963 | $ 24,937 |

See accompanying notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED CASH FLOWS

Texaco Inc. and Subsidiary Companies

| (Millions of dollars) For the years ended December 31 | 1996 | 1995 | 1994 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income | $ 2,018 | $ 607 | $ 910 |
| Reconciliation to net cash provided by (used in) operating activities | | | |
| Cumulative effect of accounting change | -- | 121 | -- |
| Loss on disposal of discontinued operations | -- | -- | 103 |
| Depreciation, depletion and amortization | 1,455 | 2,385 | 1,735 |
| Deferred income taxes | (20) | (102) | (213) |
| Exploratory expenses | 379 | 289 | 307 |
| Minority interest in net income | 72 | 54 | 44 |
| Dividends from affiliates, greater than (less than) equity in income | 167 | (103) | (79) |
| Gains on asset sales | (19) | (320) | (125) |
| Changes in operating working capital | | | |
| Accounts and notes receivable | (1,072) | (766) | 278 |
| Inventories | (104) | (29) | (60) |
| Accounts payable and accrued liabilities | 716 | (116) | (350) |
| Other-mainly estimated income and other taxes | 97 | (44) | 23 |
| Other-net | 73 | 146 | 286 |
| Net cash provided by operating activities | 3,762 | 2,122 | 2,859 |
| **Investing Activities** | | | |
| Capital and exploratory expenditures | (2,897) | (2,386) | (2,050) |
| Proceeds from sale of discontinued operations, net of cash and cash equivalents sold | 344 | -- | 645 |
| Proceeds from sales of assets | 125 | 1,150 | 328 |
| Sale of leasehold interests | 261 | 248 | -- |
| Purchases of investment instruments | (1,668) | (1,238) | (693) |
| Sales/maturities of investment instruments | 1,816 | 1,273 | 672 |
| Other-net | 70 | 12 | (7) |
| Net cash used in investing activities | (1,949) | (941) | (1,105) |
| **Financing Activities** | | | |
| Borrowings having original terms in excess of three months | | | |
| Proceeds | 307 | 313 | 660 |
| Repayments | (802) | (358) | (707) |
| Net decrease in other borrowings | (143) | (137) | (251) |
| Issuance of preferred stock by subsidiaries | -- | 65 | 112 |
| Redemption of Series C Preferred Stock | -- | -- | (267) |
| Purchases of common stock | (159) | (4) | (381) |
| Dividends paid to the company's stockholders | | | |
| Common | (859) | (832) | (830) |
| Preferred | (58) | (60) | (91) |
| Dividends paid to minority stockholders | (87) | (55) | (87) |
| Other-net | -- | (2) | (3) |
| Net cash used in financing activities | (1,801) | (1,070) | (1,845) |
| **Cash and Cash Equivalents** | | | |
| Effect of exchange rate changes | (2) | (14) | 7 |
| Increase (decrease) during year | 10 | 97 | (84) |
| Beginning of year | 501 | 404 | 488 |
| End of year | $ 511 | $ 501 | $ 404 |

See accompanying notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED STOCKHOLDERS' EQUITY — Texaco Inc. and Subsidiary Companies

| (Shares in thousands; amounts in millions of dollars) | Shares | Amount 1996 | Shares | Amount 1995 | Shares | Amount 1994 |
|---|---|---|---|---|---|---|
| **Preferred Stock** | | | | | | |
| par value $1; Shares authorized-30,000,000 | | | | | | |
| Series B ESOP Convertible Preferred Stock- | | | | | | |
| liquidation value of $600 per share | | | | | | |
| Beginning of year | 751 | $ 450 | 780 | $ 468 | 812 | $ 487 |
| Retirements | (31) | (18) | (29) | (18) | (32) | (19) |
| End of year | 720 | 432 | 751 | 450 | 780 | 468 |
| Series F ESOP Convertible Preferred Stock- | | | | | | |
| liquidation value of $737.50 per share | | | | | | |
| Beginning of year | 60 | 45 | 63 | 47 | 66 | 49 |
| Retirements | (3) | (3) | (3) | (2) | (3) | (2) |
| End of year | 57 | 42 | 60 | 45 | 63 | 47 |
| 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 C Variable Rate Cumulative Preferred Stock- | | | | | | |
| stated value of $50 per share | | | | | | |
| Beginning of year | -- | -- | -- | -- | 5,334 | 267 |
| Redemption | -- | -- | -- | -- | (5,334) | (267) |
| End of year | -- | -- | -- | -- | -- | -- |
| Series E Variable Rate Cumulative Preferred Stock- | | | | | | |
| stated value of $100,000 per share | | | | | | |
| Beginning of year | -- | -- | -- | -- | 4 | 381 |
| Redemption | -- | -- | -- | -- | (4) | (381) |
| End of year | -- | -- | -- | -- | -- | -- |
| **Unearned Employee Compensation** | | | | | | |
| (related to ESOP preferred stock and restricted stock awards) | | | | | | |
| Beginning of year | | (234) | | (282) | | (337) |
| Awards | | (22) | | (8) | | (5) |
| Amortization and other | | 81 | | 56 | | 60 |
| End of year | | (175) | | (234) | | (282) |
| **Benefit Plan Trust** | | | | | | |
| (common stock) | | | | | | |
| Beginning of year | 4,000 | (203) | -- | -- | | |
| Establishment | -- | -- | 4,000 | (203) | | |
| End of year | 4,000 | (203) | 4,000 | (203) | | |
| **Common Stock** | | | | | | |
| par value $6.25; Shares authorized-350,000,000 | | | | | | |
| Issued | 274,293 | 1,714 | 274,293 | 1,714 | 274,293 | 1,714 |
| **Common Stock Held in Treasury, at cost** | | | | | | |
| Beginning of year | 10,076 | (517) | 14,761 | (753) | 15,273 | (776) |
| Purchases of common stock | 1,757 | (159) | 51 | (4) | 6,107 | (381) |
| Preferred stock exchange | -- | -- | -- | -- | (6,107) | 381 |
| Other-mainly employee benefit plans | (1,238) | 48 | (4,736) | 240 | (512) | 23 |
| End of year | 10,595 | $ (628) | 10,076 | $ (517) | 14,761 | $ (753) |

See accompanying notes to consolidated financial statements.
(Continued on next page)

STATEMENT OF CONSOLIDATED STOCKHOLDERS' EQUITY

Texaco Inc. and Subsidiary Companies

| (Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| **Paid-in-Capital in Excess of Par Value** | | | |
| Beginning of year | $ 655 | $ 654 | $ 655 |
| Issuance and redemption of preferred stock, treasury stock transactions relating to investor services plan and employee compensation plans | (25) | 1 | (1) |
| End of year | 630 | 655 | 654 |
| **Retained Earnings** | | | |
| Balance at beginning of year | 7,186 | 7,463 | 7,463 |
| Add: | | | |
| Net income | 2,018 | 607 | 910 |
| Tax benefit associated with dividends on unallocated ESOP Convertible Preferred Stock | 5 | 8 | 11 |
| Deduct: Dividends declared on | | | |
| Common stock ($3.30 per share in 1996, $3.20 per share in 1995 and 1994) | 859 | 832 | 830 |
| Preferred stock | | | |
| Series B ESOP Convertible Preferred Stock | 42 | 43 | 45 |
| Series F ESOP Convertible Preferred Stock | 4 | 4 | 4 |
| Market Auction Preferred Shares (Series G, H, I and J) | 12 | 13 | 10 |
| Series C Variable Rate Cumulative Preferred Stock | -- | -- | 13 |
| Series E Variable Rate Cumulative Preferred Stock | -- | -- | 19 |
| Balance at end of year | 8,292 | 7,186 | 7,463 |
| **Currency Translation Adjustment** | | | |
| Beginning of year | 61 | 87 | 18 |
| Change during year | (126) | (26) | 69 |
| End of year | (65) | 61 | 87 |
| **Unrealized Net Gain On Investments** | | | |
| Beginning of year | 62 | 51 | 58 |
| Change during year | (29) | 11 | (7) |
| End of year | 33 | 62 | 51 |
| **Stockholders' Equity** | | | |
| End of year (including preceding page) | $ 10,372 | $ 9,519 | $ 9,749 |

See accompanying notes to consolidated financial statements.

## 1 Note One - Description of Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements consist of the accounts of Texaco Inc. and subsidiary companies owned directly or indirectly more than 50 percent. Intercompany accounts and transactions are eliminated.

The U.S. Dollar is the functional currency of all the company's operations and of a substantial portion of the operations of its 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

The preparation of Texaco's consolidated financial statements in accordance with generally accepted accounting principles requires the use of estimates and management's judgment. While all available information has been considered, actual amounts could differ from those reported as assets and liabilities and related revenues, costs and expenses and the disclosed amounts of contingencies.

### Cash Equivalents

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

### Inventories

Virtually all inventories of crude oil, petroleum products and petrochemicals are stated at cost, determined on the last-in, first-out (LIFO) method. Other merchandise inventories are stated at cost, determined on the first-in, first-out (FIFO) method. Materials and supplies are stated at average cost. Inventories are valued at the lower of cost or market.

### Investments and Advances

The equity method of accounting is used for investments in certain affiliates owned 50 percent or less, including corporate joint-ventures and partnerships. Under this method, equity in the pre-tax income or losses of partnerships and in the net income or losses of corporate joint-venture companies is reflected currently in Texaco's revenues, rather than when realized through dividends or distributions. Investments in the entities accounted for on this method generally reflect Texaco's equity in their underlying net assets.

The company's interest in the net income of affiliates accounted for at cost is reflected in net income when realized through dividends.

Investments in debt securities and in equity securities with readily determinable fair values are accounted for at fair value if classified as available-for-sale.

### Properties, Plant and Equipment and Depreciation, Depletion and Amortization

Texaco follows the "successful efforts" method of accounting for its oil and gas exploration and producing operations.

Lease acquisition costs related to properties held for oil, gas and mineral production are capitalized when incurred. Unproved properties with acquisition costs which are individually significant are assessed on a property-by-property basis, and a loss is recognized, by provision of a valuation allowance, when the assessment indicates an impairment in value. Unproved properties with acquisition costs which are not individually significant are generally aggregated and the portion of such costs estimated to be nonproductive, based on historical experience, is amortized on an average holding period basis.

Exploratory costs, excluding the costs of exploratory wells, are charged to expense as incurred. Costs of drilling exploratory wells, including stratigraphic test wells, are capitalized pending determination whether the wells have found proved reserves which justify commercial development. If such reserves are not found, the drilling costs are charged to exploratory expenses. Intangible drilling costs applicable to productive wells and to development dry holes, as well as tangible equipment costs and costs of injected carbon dioxide related to the development of oil and gas reserves, are capitalized.

As discussed in Note 2, Texaco adopted SFAS 121 in 1995. Commencing in 1995, for purposes of determining and recognizing permanent impairment of long-lived assets to be held and used, the applicable carrying value is tested against the undiscounted projection of net future pre-tax cash flows. In the case of productive oil and gas properties located in the United States, the test is performed on an individual field basis, including related depreciable investment. For similar properties located outside the United States, the test is performed on a field, concession or contract area basis, depending on the circumstances. For other depreciable investments, the applicable grouping of assets is based on the lowest practicable levels of identifiable cash flows, consistent with the manner in which those assets are managed. If an impairment exists, the carrying amount is adjusted to fair value.

Assets to be disposed of are generally accounted for at the lower of amortized cost or fair value less cost to sell.

The costs of productive leaseholds and other capitalized costs related to producing activities, including tangible and intangible costs, are amortized principally by field on the unit-of-production basis by applying the ratio of produced oil and gas to estimated recoverable proved oil and gas reserves. Estimated future restoration and abandonment costs are taken into account in determining amortization and depreciation rates.

Depreciation of properties, plant and equipment related to facilities other than producing properties is provided generally on the group plan, using the straight-line method, with depreciation rates based upon estimated useful life applied to the cost of each class of property. Assets not on the group plan are depreciated based on estimated useful lives using the straight-line method.

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

Periodic maintenance and repairs applicable to marine vessels and manufacturing facilities are accounted for on the accrual basis. Normal maintenance and repairs of all other properties, plant and equipment are charged to expense as incurred. Renewals, betterments and major repairs that materially extend the useful life of properties are capitalized and the assets replaced, if any, are retired.

When capital assets representing complete units of property are disposed of, the difference between the disposal proceeds and net book value is credited or charged to income. When miscellaneous business properties are disposed of, the difference between asset cost and salvage value is charged or credited to accumulated depreciation.

Environmental Expenditures

When remediation of a property is probable and the related costs can be reasonably estimated, environmentally-related remediation costs are expensed and recorded as liabilities. If recoveries of environmental costs from third parties are probable, a receivable is recorded. Other environmental expenditures, principally maintenance or preventive in nature, are recorded when expended and are expensed or capitalized as appropriate.

Deferred Income Taxes

Deferred income taxes are determined 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, nonproductive leases, merchandise inventories and certain liabilities. This approach gives immediate effect to changes in income tax laws upon enactment.

Provision is not made 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.

Net Income Per Common Share

Primary net income per common share is based on net income less preferred stock dividend requirements divided by the average number of common shares outstanding and common equivalents. Fully diluted net income per common share assumes full conversion of all convertible securities into common stock at the later of the beginning of the year or date of issuance (unless antidilutive).

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.

Reclassifications

Certain previously reported amounts have been reclassified to conform to current year presentation.

2 Note Two - Changes in Accounting Principles

During 1995, Texaco adopted Statement of Financial Accounting Standards, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121). Under SFAS 121, assets whose carrying amounts are not expected to be fully recovered by future use or disposition must be written down to their fair values.

Adoption of this Standard resulted in a non-cash after-tax charge of $639 million against fourth quarter 1995 earnings. Application of SFAS 121 to assets that the company intends to retain resulted in a pre-tax fourth quarter charge of $775 million, principally due to depreciation, depletion and amortization expense. On an after-tax basis, this charge amounted to $514 million and primarily reflected the write-down to their estimated fair values of certain of the company's producing properties in the United States which were evaluated for impairment on a field-by-field basis rather than in the aggregate. Fair values were based on estimated future discounted cash flows. To a large extent, the impairments resulted from acquisitions of U.S. upstream properties at times when price assumptions and reserve estimates were higher. Additionally, constraints on production and development in certain areas due to environmental concerns have curtailed originally projected production levels and increased costs to the point that original investments cannot be fully recovered. Also in the fourth quarter, certain non-core coal and marketing properties, surplus buildings and other properties and equipment that the company intends to abandon or dispose of pursuant to its plan for growth were written down by a $184 million charge, principally due to depreciation, depletion and amortization expense. Including estimated disposal costs, this charge to income was $125 million, net-of-tax. There were no material changes in the estimated fair values of assets to be disposed of subsequent to the determination of their impairment. At year-end 1996 and 1995, the carrying amounts of assets to be disposed of were not significant. Adoption of SFAS 121 by Star Enterprise and the Caltex group of companies, each owned 50% by Texaco, had no effect on 1995 net income.

In accordance with SFAS 121, a $121 million after-tax write-down of non-core domestic producing properties held for sale at January 1, 1995, previously recorded in the first quarter of 1995 in income from continuing operations, has been classified as the cumulative effect of an accounting change.

3 Note Three - Discontinued Operations

In 1993, Texaco announced its intention to dispose of substantially all of its worldwide chemical operations, including its lubricant additives business. Texaco has since accounted for these operations as discontinued operations.

On April 21, 1994, Texaco Inc. completed the sale of Texaco Chemical Company and related international chemical operations to Huntsman Corporation for $850 million, consisting of $650 million in cash and an 11-year subordinated note with a face value of $200 million. The note was prepaid in January 1996. On February 29, 1996, Texaco sold its worldwide lubricant additives business to Ethyl Corporation for $136 million in cash and a three year note with a face amount of $60 million.

The results of these operations have been classified as discontinued operations for all periods presented in the Statement of Consolidated Income. The assets and liabilities of the worldwide lubricant additives business are classified as "Net assets of discontinued operations" in the December 31, 1995 Consolidated Balance Sheet. Discontinued operations have not been segregated in the Statement of Consolidated Cash Flows and, therefore, amounts for certain captions will not agree with the respective Statement of Consolidated Income.

Purchase and sale transactions between the discontinued operations and Texaco's significant affiliates, as well as resultant receivables and payables, were immaterial for each period presented.

The summarized results of discontinued operations and related per common share effects are as follows:

| (Millions of dollars) For the years ended December 31 | 1996 | 1995 | 1994 |
|---|---|---|---|
| Revenues | $ 32 | $ 222 | $ 415 |
| Loss on disposal before income taxes* | $ -- | $ -- | $(103) |
| Benefit from income taxes | -- | -- | 34 |
| Net loss on disposal | $ -- | $ -- | $ (69) |

*1996 includes $3 million of losses, 1995 includes $11 million of income and 1994 includes $15 million of income during the phase-out period.

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Per common share (dollars) | | | |
| Net loss on disposal | $ -- | $ -- | $(.26) |

The net assets of discontinued operations of $164 million at December 31, 1995 consisted primarily of properties, plant and equipment of $130 million and working capital.

## 4 Note Four - Inventories

| (Millions of dollars) As of December 31 | 1996 | 1995 |
|---|---|---|
| Crude oil | $ 296 | $ 294 |
| Petroleum products and petrochemicals | 904 | 839 |
| Other merchandise | 58 | 27 |
| Materials and supplies | 202 | 197 |
| Total | $1,460 | $1,357 |

The excess of estimated current cost over the book value of inventories carried on the LIFO basis of accounting was approximately $398 million and $231 million at December 31, 1996 and 1995, respectively.

## 5 Note Five - Investments and Advances

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

| (Millions of dollars) As of December 31 | 1996 | 1995 |
|---|---|---|
| Affiliates accounted for on the equity method | | |
| Caltex group of companies | | |
| Exploration and production | $ 448 | $ 445 |
| Manufacturing, marketing and distribution | 1,679 | 2,035 |
| Total Caltex group of companies | 2,127 | 2,480 |
| Star Enterprise | 756 | 755 |
| Other affiliates | 928 | 850 |
| | 3,811 | 4,085 |
| Miscellaneous investments, long-term receivables, etc., accounted for at | | |
| Fair value | 544 | 682 |
| Cost, less reserve | 641 | 511 |
| Total | $4,996 | $5,278 |

Texaco's equity in the net income of affiliates accounted for on the equity method, adjusted to reflect income taxes for partnerships whose income is directly taxable to Texaco, is as follows:

| (Millions of dollars) For the years ended December 31 | 1996 | 1995 | 1994 |
|---|---|---|---|
| Equity in net income (loss) | | | |
| Caltex group of companies | | | |
| Exploration and production | $ 188 | $ 156 | $ 136 |
| Manufacturing, marketing and distribution | 347 | 294 | 210 |
| Total Caltex group of companies | 535 | 450 | 346 |
| Star Enterprise | 14 | (47) | 37 |
| Other affiliates | 120 | 121 | 111 |
| Total | $ 669 | $ 524 | $ 494 |
| Dividends received from these companies | $ 878 | $ 427 | $ 467 |

The undistributed earnings of these affiliates included in Texaco's retained earnings were $2,609 million, $2,768 million and $2,657 million as of December 31, 1996, 1995 and 1994, respectively.

Caltex Group

Texaco has 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, American Overseas Petroleum Limited and subsidiary and Caltex Petroleum Corporation and subsidiaries. This group of companies is engaged in the exploration for and production, transportation, refining and marketing of crude oil and products in Africa, Asia, the Middle East, Australia and New Zealand.

On April 2, 1996, Caltex Petroleum Corporation completed the sale of its 50% interest in Nippon Petroleum Refining Company, Limited (NPRC) to its partner, Nippon Oil Company, for approximately $2 billion. Caltex Petroleum Corporation's net income for 1996 includes a gain of $621 million associated with this sale. Texaco's results include a net gain of $219 million relating to this sale, comprised of its equity share of the gain, less an adjustment in the carrying value of its investment and further reduced by a tax on the dividend distributed to the shareholders.

Star Enterprise

Star Enterprise (Star) is a joint-venture partnership owned 50% by Texaco and 50% by the Saudi Arabian Oil Company. The partnership refines, distributes and markets certain Texaco-branded petroleum products, including gasolines, in 26 East and Gulf Coast states and the District of Columbia.

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The following table provides summarized financial information on a 100% basis for the Caltex group, Star and all other affiliates accounted for on the equity method, as well as Texaco's share. The net income of all partnerships, including Star, is net of estimated income taxes. The actual income tax liability is reflected in the accounts of the respective partners and not shown in the following table.

Star's assets at the respective balance sheet dates include the remaining portion of the assets which were originally transferred from Texaco to Star at the fair market value on the date of formation. Texaco's investment and equity in the income of Star, as reported in the consolidated financial statements, reflect the remaining unamortized historical carrying cost of the assets transferred to Star at formation. Additionally, Texaco's investment includes adjustments necessary to reflect contractual arrangements on the formation of this partnership, principally involving contributed inventories.

| (Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Caltex group | | | |
| For the years ended December 31: | | | |
| Gross revenues | $ 18,166 | $ 15,622 | $ 15,148 |
| Income before income taxes | $ 2,175 | $ 1,366 | $ 1,111 |
| Net income | $ 1,193 | $ 899 | $ 689 |
| As of December 31: | | | |
| Current assets | $ 2,565 | $ 2,323 | $ 2,421 |
| Noncurrent assets | 6,830 | 7,794 | 7,389 |
| Current liabilities | (2,999) | (3,223) | (3,072) |
| Noncurrent liabilities and deferred credits | (2,018) | (1,799) | (1,853) |
| Minority interest in subsidiary companies | (122) | (136) | (152) |
| Net assets | $ 4,256 | $ 4,959 | $ 4,733 |
| Star Enterprise | | | |
| For the years ended December 31: | | | |
| Gross revenues | $ 8,006 | $ 6,619 | $ 6,100 |
| Income (loss) before income taxes | $ 38 | $ (135) | $ 101 |
| Net income (loss) | $ 25 | $ (88) | $ 66 |
| As of December 31: | | | |
| Current assets | $ 816 | $ 832 | $ 928 |
| Noncurrent assets | 3,204 | 3,299 | 3,247 |
| Current liabilities | (704) | (745) | (748) |
| Noncurrent liabilities and deferred credits | (1,141) | (1,207) | (1,109) |
| Partners' equity | $ 2,175 | $ 2,179 | $ 2,318 |
| Other equity affiliates | | | |
| For the years ended December 31: | | | |
| Gross revenues | $ 3,940 | $ 3,662 | $ 3,058 |
| Income before income taxes | $ 697 | $ 691 | $ 639 |
| Net income | $ 451 | $ 440 | $ 410 |
| As of December 31: | | | |
| Current assets | $ 1,049 | $ 925 | $ 641 |
| Noncurrent assets | 3,853 | 3,622 | 3,351 |
| Current liabilities | (1,182) | (1,180) | (759) |
| Noncurrent liabilities and deferred credits | (1,845) | (1,703) | (1,835) |
| Net assets (or partners' equity) | $ 1,875 | $ 1,664 | $ 1,398 |
| Texaco's share | | | |
| For the years ended December 31: | | | |
| Gross revenues | $ 14,644 | $ 12,567 | $ 11,766 |
| Income before income taxes | $ 1,310 | $ 818 | $ 780 |
| Net income | $ 669 | $ 524 | $ 494 |
| As of December 31: | | | |
| Current assets | $ 1,913 | $ 1,739 | $ 1,711 |
| Noncurrent assets | 6,378 | 6,820 | 6,453 |
| Current liabilities | (2,329) | (2,420) | (2,213) |
| Noncurrent liabilities and deferred credits | (2,090) | (1,986) | (1,969) |
| Minority interest in subsidiary companies | (61) | (68) | (76) |
| Net assets (or partners' equity) | $ 3,811 | $ 4,085 | $ 3,906 |

## 6 Note Six - Properties, Plant and Equipment

As of December 31, 1996 and 1995, net exploration and production properties, plant and equipment totaled $5,258 million and $4,914 million, respectively, relating to U.S. operations and $2,474 million and $2,180 million, respectively, relating to international operations. As of December 31, 1996 and 1995, net manufacturing, marketing, and distribution properties, plant and equipment totaled $2,834 million and $2,856 million, respectively, relating to U.S. operations and $2,219 million and $2,040 million, respectively, relating to international operations.

| | Gross | Net | Gross | Net |
|---|---|---|---|---|
| (Millions of dollars) As of December 31 | | 1996 | | 1995 |
| Exploration and production | $24,786 | $ 7,732 | $24,015 | $ 7,094 |
| Manufacturing, marketing and distribution | | | | |
| Manufacturing | 3,476 | 2,097 | 3,370 | 2,115 |
| Marketing | 3,651 | 2,607 | 3,360 | 2,376 |
| Marine | 173 | 8 | 226 | 12 |
| Pipelines | 870 | 341 | 950 | 393 |
| Total manufacturing, marketing and distribution | 8,170 | 5,053 | 7,906 | 4,896 |
| Other | 1,032 | 626 | 982 | 590 |
| Total | $33,988 | $13,411 | $32,903 | $12,580 |
| Capital lease amounts included above | $ 450 | $ 111 | $ 559 | $ 60 |

Accumulated depreciation, depletion and amortization totaled $20,577 million and $20,323 million at December 31, 1996 and 1995, respectively. Interest capitalized as part of properties, plant and equipment was $12 million in 1996, $20 million in 1995 and $13 million in 1994.

## 7 Note Seven - 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 | 1996 | 1995 |
|---|---|---|
| Commercial paper | $ 326 | $ 609 |
| Notes payable to banks and others with originating terms of one year or less | 443 | 464 |
| Current portion of long-term debt and capital lease obligations | | |
| Indebtedness | 640 | 684 |
| Capital lease obligations | 13 | 27 |
| | 1,422 | 1,784 |
| Less short-term obligations intended to be refinanced | 957 | 1,047 |
| Total | $ 465 | $ 737 |

The weighted average interest rate of commercial paper and notes payable to banks at December 31, 1996 and 1995 was 6.1%.

Long-term debt and capital lease obligations

| (Millions of dollars) As of December 31 | 1996 | 1995 |
|---|---|---|
| Long-Term Debt | | |
| 6-7/8% Guaranteed notes, due 1999 | $ 200 | $ 200 |
| 6-7/8% Guaranteed debentures, due 2023 | 195 | 195 |
| 7-1/2% Guaranteed debentures, due 2043 | 198 | 198 |
| 7-3/4% Guaranteed debentures, due 2033 | 199 | 199 |
| 8% Guaranteed debentures, due 2032 | 147 | 147 |
| 8-1/4% Guaranteed debentures, due 2006 | 150 | 150 |
| 8-3/8% Guaranteed debentures, due 2022 | 198 | 198 |
| 8-1/2% Guaranteed notes, due 2003 | 199 | 199 |
| 8-5/8% Guaranteed debentures, due 2010 | 150 | 150 |
| 8-5/8% Guaranteed debentures, due 2031 | 199 | 199 |
| 8-5/8% Guaranteed debentures, due 2032 | 199 | 199 |
| 8.65% Guaranteed notes, due 1998 | 200 | 200 |
| 8-7/8% Guaranteed debentures, due 2021 | 150 | 150 |
| 9% Guaranteed notes, due 1996 | -- | 400 |
| 9% Guaranteed notes, due 1997 | 200 | 200 |
| 9% Guaranteed notes, due 1999 | 200 | 200 |
| 9-3/4% Guaranteed debentures, due 2020 | 250 | 250 |
| Medium-term notes, maturing from 1996 to 2043 (7.8%) | 568 | 573 |
| Revolving Credit Facility, due 1998-2002 - variable rate (5.6%) | 330 | 330 |
| Pollution Control Revenue Bonds, due 2012 - variable rate (3.5%) | 166 | 166 |
| Other long-term debt: | | |
| Texaco Inc. - Guarantee of ESOP Series B and F loans - fixed and variable rates (5.0%) | 145 | 213 |
| U.S. dollars (6.5%) | 374 | 295 |
| Other currencies (8.3%) | 59 | 38 |
| Total | 4,676 | 5,049 |
| Capital Lease Obligations (see Note 8) | 145 | 118 |
| | 4,821 | 5,167 |
| Less current portion of long-term debt and capital lease obligations | 653 | 711 |
| | 4,168 | 4,456 |
| Short-term obligations intended to be refinanced | 957 | 1,047 |
| Total long-term debt and capital lease obligations | $5,125 | $5,503 |

The percentages reflected for variable-rate debt are the interest rates at December 31, 1996. The percentages reflected for the categories "Medium-term notes" and "Other long-term debt" are the weighted average interest rates at year-end 1996. Where applicable, principal amounts reflected in the preceding schedule include unamortized premium or discount. Interest paid, net of amounts capitalized, amounted to $433 million in 1996, $482 million in 1995 and $500 million in 1994.

At December 31, 1996, Texaco was party to a revolving credit facility with commitments of $1.5 billion with a syndicate of major U.S. and international banks, available as support for the issuance of the company's commercial paper, as well as for working capital and for other general corporate purposes. Texaco has no amounts outstanding under this facility at year-end 1996. Texaco pays a facility fee on the $1.5 billion facility. The banks reserve the right to terminate the credit facility upon the occurrence of certain specific events, including change in control.

At December 31, 1996, Texaco's long-term debt included $957 million of short-term obligations scheduled to mature during 1997, which the company has both the intent and the ability to refinance on a long-term basis, through the use of its $1.5 billion revolving credit facility.

Contractual annual maturities of long-term debt, including sinking fund payments and other redemption requirements, for the five years subsequent to December 31, 1996 are as follows (in millions): 1997 - $640; 1998 - $326; 1999 - $546; 2000 - $169; and 2001 - $169. The preceding maturities are before consideration of short-term obligations intended to be refinanced and also exclude capital lease obligations.

Debt-related derivatives

Texaco seeks to maintain a balanced capital structure that will provide financial flexibility and support the company's strategic objectives while achieving a low cost of capital. This is achieved by balancing the company's liquidity and interest rate exposures. These exposures are managed primarily through the use of long-term and short-term debt instruments which are reported on the balance sheet. However, off-balance sheet derivative instruments, primarily interest rate swaps, are also used as a management tool in achieving the company's objectives. These instruments are used to manage identifiable exposures on a non-leveraged, non-speculative basis.

As part of its interest rate exposure management, the company seeks to balance the benefit of the lower cost of floating rate debt, with its inherent increased risk, with fixed rate debt having less market risk.

Summarized below are the carrying amounts and fair values of the company's debt and debt-related derivatives at December 31, 1996 and 1995. Derivative usage during the periods presented was limited to interest rate swaps, where the company 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) At December 31 | | Carrying Amount | Fair Value 1996 | | Carrying Amount | Fair Value 1995 |
|---|---|---|---|---|---|---|
| Notes Payable and Commercial Paper | | $ 769 | $ 769 | | $ 1,073 | $ 1,073 |
| Related Derivatives - (Receivable) Payable | | -- | (4) | | -- | 3 |
| Notional principal amount | $ 150 | | | $ 200 | | |
| Weighted average maturity (years) | 6.8 | | | 6.0 | | |
| Weighted average fixed pay rate | 7.06% | | | 7.35% | | |
| Weighted average floating receivable rate | 5.50% | | | 5.69% | | |
| Long-Term Debt, including current maturities | | $ 4,676 | $ 4,943 | | $ 5,049 | $ 5,626 |
| Related Derivatives - (Receivable) Payable | | -- | 1 | | -- | (6) |
| Notional principal amount | $ 583 | | | $ 596 | | |
| Weighted average maturity (years) | 1.5 | | | 2.7 | | |
| Weighted average fixed receivable rate | 5.08% | | | 5.78% | | |
| Weighted average floating pay rate | 4.93% | | | 5.63% | | |
| Unamortized net gain on terminated swaps | | $ 5 | | | $ 3 | |

During 1996, pay fixed rate swaps having an aggregate notional principal amount of $50 million matured. Also during 1996, pay floating rate swaps having an aggregate notional principal amount of $13 million were amortized or matured.

Fair values noted above are based upon quoted market prices, as well as rates currently available to the company for borrowings with similar terms and maturities. The fair value of swaps is the estimated 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.

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.

Since counterparties to the company's derivative transactions are major financial institutions with strong credit ratings, exposure to credit risk on the net interest differential on notional amounts is minimal. The notional amounts of derivative contracts do not represent cash flow and are not subject to credit risk. The company's counterparty credit exposure limits have been set based upon the maturity and notional amounts of these transactions.

## 8 Note Eight - Lease Commitments and Rental Expense

The company has leasing arrangements involving service stations, tanker charters, a manufacturing plant, crude oil production and processing equipment, and other facilities. Amounts due under capital leases are reflected in the company's balance sheet as obligations, while Texaco's interest in the related assets is principally reflected as properties, plant and equipment. The remaining lease commitments are operating leases, and payments on such leases are recorded as rental expense.

As of December 31, 1996, Texaco Inc. and its subsidiary companies had estimated minimum commitments for payment of rentals (net of noncancelable sublease rentals) under leases which, at inception, had a noncancelable term of more than one year, as follows:

| (Millions of dollars) | Operating leases | Capital leases |
|---|---|---|
| 1997 | $ 782 | $ 29 |
| 1998 | 131 | 27 |
| 1999 | 125 | 22 |
| 2000 | 116 | 21 |
| 2001 | 394 | 31 |
| After 2001 | 602 | 72 |
| Total lease commitments | $2,150 | $202 |
| Less amounts representing | | |
| Executory costs | | 28 |
| Interest | | 75 |
| Add noncancelable sublease rentals netted in capital lease commitments above | | 46 |
| Present value of total capital lease obligations | | $145 |

Included in operating lease commitments above is $510 million on the lease of a manufacturing plant, which expires in 1997. It is expected that an option to purchase this plant will be exercised in conjunction with the anticipated sale of the plant in 1997.

In 1995, Texaco as lessee entered into a lease agreement for equipment related to the production and processing of crude oil from the Captain Field in the United Kingdom sector of the North Sea. The equipment is principally comprised of a movable drilling and production platform and a floating production storage offloading vessel. The lease has an initial noncancelable term of five years with renewal options for an additional six years. The agreement also provides for residual value guarantees if a renewal option or purchase option is not exercised by Texaco. Both the lease payment amounts and residual value guarantee for this operating lease are dependent upon the final construction costs of the equipment. Construction was completed in early 1997. The above table of operating lease commitments includes the estimated amounts based upon construction costs paid by the lessor through December 31, 1996. Lease payments are expected to begin in 1997.

Rental expense (excluding discontinued operations) 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) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Rental expense | | | |
| Minimum lease rentals | $259 | $224 | $205 |
| Contingent rentals | 10 | 16 | 15 |
| Total | 269 | 240 | 220 |
| Less rental income on properties subleased to others | 53 | 43 | 40 |
| Net rental expense | $216 | $197 | $180 |

## 9 Note Nine - Preferred Stock and Rights

### Series B ESOP Convertible Preferred Stock

An amendment to Texaco Inc.'s Employees Thrift Plan created an Employee Stock Ownership Plan (ESOP) feature. In 1988, the ESOP purchased 833,333 1/3 shares of Series B ESOP Convertible Preferred Stock (Series B) from the company for $600 per share, or an aggregate purchase price of $500 million. Texaco Inc. guaranteed a $500 million variable-rate loan made to the ESOP which was used to acquire the shares of Series B. Subsequently, in 1991, Texaco Inc. refinanced approximately $103 million of the outstanding balance through a Grantor Trust structure at a fixed interest rate. The current fixed interest rate is 6.13%.

Dividends on each share of Series B are cumulative and are payable semiannually at the rate of $57 per annum. Dividends on Series B totaled $42 million for 1996, $43 million for 1995 and $45 million for 1994.

Participants may partially convert their Series B holdings into common stock beginning at age 55, and may elect full conversion upon retirement or separation from service with the company. The conversion ratio and number of votes per share of Series B are subject to adjustment under certain conditions. At present, each share of Series B entitles a participant to 12.9 votes, voting together with the holders of common stock, and is convertible into 12.868 shares of common stock. As an alternative to conversion, a participant can elect to receive $600 per share of Series B, payable in cash or common stock. If the participant elects to receive common stock, the company provides shares of common stock to the plan trustee, who then transmits the shares to the participant. Should the participant elect to receive cash, it is the intent of the company to provide the plan trustee with shares of common stock, so that the trustee can sell such shares in the open market and have sufficient cash to transmit to the participant. The outstanding shares of Series B may be redeemed by Texaco Inc. at $611.40 and $605.70 per share through December 19, 1997 and 1998, respectively, and at $600 per share on or after December 20, 1998. Also, Texaco Inc. may be required to redeem all outstanding shares of Series B under certain circumstances.

Series D Junior Participating Preferred Stock and Rights

In 1989, the company declared a dividend distribution of one Right for each outstanding share of common stock. Under certain circumstances, each Right may be exercised to purchase from the company a unit consisting of 1/100th of a share (Unit) of Series D Junior Participating Preferred Stock (Series D), par value $1.00 per share, at a purchase price of $150 per Unit (the Purchase Price), subject to adjustment.

The Rights may be exercised only after a person has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of the company's common stock other than pursuant to a Qualifying Offer, or has commenced a tender offer that would result in that person owning 20% or more of the common stock.

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 expire on April 3, 1999, or sooner, upon the acquisition of the company pursuant to a Qualifying Offer, and may be redeemed by the company at a price of $.01 per Right at any time prior to 10 days after the Rights become exercisable.

In the event that a person becomes the beneficial owner of 20% or more of the common stock other than pursuant to a Qualifying Offer, each Right will thereafter entitle the holder to receive, upon exercise of the Right, in lieu of the Series D, a number of shares of common stock, property, cash or other securities having a formula value equal to two times the exercise price of the Right.

In the event that the company is acquired in a transaction in which the company is not the surviving corporation, or in the event 50% or more of the company's assets or earning power is sold or transferred, each holder of a Right thereafter has the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the Right.

Until a Right is exercised, the holder thereof, as such, has no rights as a stockholder of the company, including the rights to vote or to receive dividends.

As of December 31, 1996, there were 3,000,000 shares designated as Series D with a liquidation value of $100 per share. In general, the terms of the Series D have been designed so that each Unit of Series D should be substantially the economic equivalent of one share of common stock. The Series D will, if issued, be junior to any other series of Preferred Stock which may be authorized and issued, unless the terms of such other series provide otherwise. Each share of the Series D which may be issued will entitle the holder to receive a quarterly dividend equal to the greater of (i) $5.00 per share or (ii) 100 times the quarterly dividend declared per share of common stock, subject to adjustment.

In the event of liquidation of the company, the holders of the Series D will be entitled to receive a preferred liquidation payment of $100 per share plus accrued and unpaid dividends to the date of payment, but in no event less than an amount equal to 100 times the payment made per share of common stock, if greater. The Series D will be redeemable as a whole, or in part, at any time, or from time to time, at the option of the company at a redemption price per share equal to 100 times the then market price of a share of common stock, plus accrued and unpaid dividends through the redemption date. Each share of the Series D will have 100 votes, voting together with the common stock.

In the event of any merger, consolidation or other transaction in which the shares of common stock are exchanged, each share of the Series D will entitle the holder thereof to receive 100 times the amount received per share of common stock.

If dividends on the Series D are in arrears in an aggregate amount equal to six quarterly dividends, the number of directors of the company will be increased by two, and the holders of the Series D outstanding at the time of such dividend arrearage, voting separately as a class with any other series of preferred stock likewise qualified to vote, will be entitled at the next annual meeting to elect two directors. The Series D will also have a separate class vote on certain matters which would adversely affect the rights and preferences of the Series D.

The Purchase Price payable and the number of Units of Series D or other securities or property issuable upon exercise of the Rights are subject to adjustment from time to time in certain events to prevent dilution.

Series F ESOP Convertible Preferred Stock

An amendment to Texaco Inc.'s Employees Savings Plan created an Employee Stock Ownership Plan (ESOP) feature. In 1990, the ESOP purchased 67,796.61 shares of Series F ESOP Convertible Preferred Stock (Series F) from the company for $737.50 per share, or an aggregate purchase price of $50 million. Texaco Inc. guaranteed a $50 million variable-rate loan made to the ESOP which was used to acquire the shares of Series F.

Dividends on each share of Series F are cumulative and are payable semiannually at the rate of $64.53 per annum. Annual dividends on Series F totaled $4 million for 1996, 1995 and 1994.

Participants may partially convert their Series F holdings into common stock beginning at age 55, and may elect full conversion upon retirement or separation from service with the company. The conversion ratio and number of votes per share of Series F are subject to adjustment under certain conditions. At present, each share of Series F entitles a participant to 10 votes, voting together with the holders of common stock, and is convertible into 10 shares of common stock. As an alternative to conversion, a participant can elect to receive $737.50 per share of Series F, in cash or common stock. If the participant elects to receive common stock, the company provides shares of common stock to the plan trustee, who then transmits the shares to the participant. Should the participant elect to receive cash, it is the intent of the company to provide the plan trustee with shares of common stock, so that the trustee can sell such shares in the open market and have sufficient cash to transmit to the participant. The outstanding shares of Series F may be redeemed by Texaco Inc. at $756.86, $750.41 and $743.95 per share through February 12, 1998, 1999 and 2000, respectively, and at $737.50 per share on or after February 13, 2000. Also, Texaco Inc. may be required to redeem all outstanding shares of Series F under certain circumstances.

Market Auction Preferred Shares

In 1992, the company issued 1,200 shares of cumulative variable rate preferred stock, called Market Auction Preferred Shares (MAPS) in a private placement, for an aggregate purchase price of $300 million. The MAPS are grouped into four series (300 shares each of Series G, H, I and J) of $75 million each.

The dividend rates for each series are determined by Dutch auctions conducted at seven-week intervals. The length of the dividend periods can be changed at each auction. Alternatively, the dividend rate and the dividend period can be negotiated with potential investors.

During 1996, the annual dividend rate for the MAPS ranged between 3.90% and 4.19% and dividends totaled $12 million ($9,510, $11,043, $11,009 and $11,015 per share for series G, H, I and J, respectively).

For 1995, the annual dividend rate for the MAPS ranged between 4.22% and 4.65% and dividends totaled $13 million ($12,255, $10,558, $10,521 and $10,531 per share for Series G, H, I and J, respectively). For 1994, the annual dividend rate for the MAPS ranged between 2.48% and 4.57% and dividends totaled $10 million ($7,784, $8,057, $9,156 and $9,356 per share for Series G, H, I and J, respectively).

The company 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 certain limited circumstances.

Series C and Series E Variable Rate Cumulative Preferred Stock

On September 30, 1994, the company redeemed in cash and retired all outstanding shares of Series C. For 1994, dividends on the Series C totaled $13 million ($2.43 per share).

On November 8, 1994, the company exchanged 6.1 million shares of its common stock held in treasury, which were acquired during the year, for all the issued and outstanding shares of Series E, which were then retired. For 1994, dividends on the Series E totaled $19 million ($4,850 per share).

10 Note Ten - Foreign Currency

Currency translations from continuing operations resulted in a pre-tax loss of $60 million in 1996, compared to a gain of $23 million in 1995 and a loss of $18 million in 1994. After applicable taxes, the loss in 1996 was $66 million, compared to a gain in 1995 of $30 million and a loss in 1994 of $49 million. These amounts include Texaco's equity in such gains and losses of affiliates accounted for on the equity method of accounting.

Currency exchange impacts for the years 1994 through 1996 were primarily due to the effects of SFAS 109 "Accounting for Income Taxes" with respect to the Pound Sterling on deferred income taxes, as well as the impact of strong inflationary factors within developing countries and the Caltex area.

Currency translation adjustments reflected in the separate stockholders' equity account result from translation items pertaining to certain affiliates of Caltex. During the year 1996, losses of $66 million resulted from these adjustments, as well as the reversal of a $60 million existing deferred gain due to the sale by Caltex of its investment in NPRC. As a result, a $60 million gain was included in Texaco's net income as part of the gain on this sale. During the year 1995, losses of $26 million in stockholders' equity resulted from the effects of currency translation adjustments.

11 Note Eleven - Taxes

| (Millions of dollars) | United States | Foreign | Total 1996 | United States | Foreign | Total 1995 | United States | Foreign | Total 1994 |
|---|---|---|---|---|---|---|---|---|---|
| Direct taxes | | | | | | | | | |
| Provision (benefit) for income taxes | | | | | | | | | |
| Current | | | | | | | | | |
| U.S. Federal and foreign | $ 359 | $ 642 | $1,001 | $ 34 | $ 357 | $ 391 | $ (68) | $ 296 | $ 228 |
| U.S. state and local | (16) | -- | (16) | (31) | -- | (31) | 36 | -- | 36 |
| Deferred | 13 | (33) | (20) | (90) | (12) | (102) | (33) | (6) | (39) |
| Total provision (benefit) for income taxes | 356 | 609 | 965 | (87) | 345 | 258 | (65) | 290 | 225 |
| Taxes other than income taxes | | | | | | | | | |
| Oil and gas production | 112 | 2 | 114 | 91 | 3 | 94 | 101 | 8 | 109 |
| Sales and use | -- | 82 | 82 | -- | 73 | 73 | -- | 55 | 55 |
| Property | 105 | 14 | 119 | 109 | 18 | 127 | 111 | 18 | 129 |
| Payroll | 72 | 48 | 120 | 72 | 44 | 116 | 78 | 39 | 117 |
| Other | 29 | 32 | 61 | 63 | 18 | 81 | 38 | 48 | 86 |
| Total taxes other than income taxes | 318 | 178 | 496 | 335 | 156 | 491 | 328 | 168 | 496 |
| Import duties and other governmental levies | 38 | 4,127 | 4,165 | 43 | 3,914 | 3,957 | 53 | 3,939 | 3,992 |
| Total direct taxes | 712 | 4,914 | 5,626 | 291 | 4,415 | 4,706 | 316 | 4,397 | 4,713 |
| Taxes collected from consumers for governmental agencies | 1,413 | 1,824 | 3,237 | 1,266 | 1,803 | 3,069 | 1,313 | 2,124 | 3,437 |
| Total | $2,125 | $6,738 | $8,863 | $1,557 | $6,218 | $7,775 | $1,629 | $6,521 | $8,150 |

All information in this note excludes discontinued operations.

The deferred income tax assets and liabilities included in the Consolidated Balance Sheet as of December 31, 1996 and 1995 amounted to $242 million and $99 million, respectively, as net current assets and $795 million and $634 million, respectively, as net noncurrent liabilities. The table that follows shows deferred income tax assets and liabilities by category. Deferred income taxes are not recorded on differences between financial reporting and tax bases of investments in stock of subsidiary companies, unless realization of the effect is probable in the foreseeable future. Certain potential deferred tax asset amounts for which possibility of realization is deemed extremely remote have been eliminated and are therefore excluded from the following table:

| (Millions of dollars) As of December 31 | (Liability) Asset 1996 | 1995 |
|---|---|---|
| Depreciation | $ (947) | $ (912) |
| Depletion | (271) | (327) |
| Intangible drilling costs | (655) | (501) |
| Other deferred tax liabilities | (502) | (343) |
| Total | (2,375) | (2,083) |
| Employee benefit plans | 523 | 524 |
| Tax loss carryforwards | 955 | 907 |
| Tax-related reserves | 26 | 36 |
| Tax credit carryforwards | 351 | 388 |
| Environmental reserves | 176 | 211 |
| Other deferred tax assets | 614 | 383 |
| Total | 2,645 | 2,449 |
| Total before valuation allowance | 270 | 366 |
| Valuation allowance | (823) | (901) |
| Total - net | $ (553) | $ (535) |

The following schedule reconciles the differences between the U.S. Federal income tax rate and the effective income tax rate:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| 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 | (5.5) | (17.1) | (10.5) |
| Aggregate earnings and losses from international operations | 12.7 | 18.5 | 11.1 |
| Sales of stock of subsidiaries | (6.3) | (6.6) | (15.7) |
| Energy credits | (1.9) | (3.3) | (2.4) |
| Other | (1.6) | (.4) | 1.2 |
| Effective income tax rate | 32.4% | 26.1% | 18.7% |

For companies operating in the United States, pre-tax earnings from continuing operations before cumulative effect of accounting change aggregated $1,783 million in 1996, $40 million in 1995 and $402 million in 1994. For companies with operations located outside the United States, pre-tax earnings on that basis aggregated $1,200 million in 1996, $946 million in 1995 and $802 million in 1994.

Income taxes paid, net of refunds, amounted to $917 million, $554 million and $329 million in 1996, 1995 and 1994, respectively.

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, 1996 amounted to $1,302 million and $2,124 million, respectively. The corresponding amounts at December 31, 1995 were $1,262 million and $2,308 million, respectively. Recording of deferred income taxes on these undistributed earnings is not required relative to foreign companies and pre-1993 earnings of domestic companies when the earnings have been permanently reinvested. These amounts would be subject to possible U.S. taxation only if remitted as dividends. The determination of the hypothetical amount of unrecognized deferred U.S. taxes on undistributed earnings of foreign entities is not practicable. For domestic entities, such unrecorded deferred income taxes were not material.

For the year 1996, a benefit of $54 million was recorded for the utilization of loss carryforwards in the 1995 U.S. Federal income tax return. For the years 1995 and 1994 there was no utilization of loss carryforwards recorded for U.S. Federal income taxes. For the years 1996, 1995 and 1994, the utilization of loss carryforwards resulted in income tax benefits of $16 million, $13 million and $57 million in foreign income taxes, respectively.

At December 31, 1996, Texaco had worldwide tax basis loss carryforwards of approximately $2,347 million, including $1,044 million which do not have an expiration date. The remainder expire at various dates through 2012.

Foreign tax credit carryforwards available for U.S. Federal income tax purposes amounted to approximately $223 million at December 31, 1996, expiring at various dates through 2001. Alternative minimum tax and other tax credit carryforwards available for U.S. Federal income tax purposes were $351 million at December 31, 1996, of which $347 million have no expiration date. The remaining credits expire at various dates through 2011. The credits that are not utilized by the expiration dates may be taken as deductions for U.S. Federal income tax purposes. In 1996, tax credit carryforwards of $43 million were utilized for U.S. Federal income tax purposes.

## 12 Note Twelve - 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, reserves 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.

The discussion of employee benefit plans that follows is for total plan activity, including benefits and amounts applicable to employees of the discontinued operations. Amounts relative to the discontinued operations are not material for any of the years discussed.

### Employee Stock Ownership Plans (ESOP)

Texaco recorded ESOP expense of $15 million in 1996, $28 million in 1995 and $20 million in 1994. Company contributions to the Employees Thrift Plan of Texaco Inc. and the Employees Savings Plan of Texaco Inc. (the Plans) amounted to $26 million in 1996, $17 million in 1995 and $20 million in 1994. These Plans are designed to provide participants with a benefit of approximately 6% of base pay. Included in the 1996 and 1995 ESOP expense is $9 million and $11 million, respectively, for an employee incentive award program. Award payments were made in early 1996 to individual participants' ESOP accounts.

In 1996, 1995 and 1994, the company paid $46 million, $47 million and $49 million, respectively, in dividends on Series B and Series F stock. The dividends are applied by the trustee to fund interest payments which amounted to $10 million, $14 million and $13 million for 1996, 1995 and 1994, respectively, as well as to reduce principal on the ESOP loans. Dividends on the shares of Series B and Series F used to service debt of the Plans are tax deductible to the company.

Reflected in Texaco's long-term debt are the Plans' ESOP loans which are guaranteed by Texaco Inc. Commensurate with each repayment on the ESOP loans and as a result of the allocation of the Series B and Series F stock by the trustee of the Plans to the individual participating employees, there is a reduction in the remaining ESOP-related unearned employee compensation included as a component of stockholders' equity.

Benefit Plan Trust

During 1995, Texaco established a benefit plan trust (Trust) for funding company obligations under certain benefit plans. Texaco transferred four million shares of treasury stock to the Trust. The company intends to continue to pay its obligations under its 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 not paid by the company. The shares held in the Trust will be voted by the trustee 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.

Pension Plans

The company sponsors pension plans that cover the majority of employees. Generally, these plans provide defined pension benefits based on years of service and final average pay. However, the level of benefits and terms of vesting vary among plans. Amounts charged to pension expense, as well as amounts funded, are generally based on actuarial studies. Pension plan assets are administered by trustees and are principally invested in equity and fixed income securities and deposits with insurance companies.

The total worldwide expense for all employee pension plans of Texaco, including pension supplementations and the smaller non-U.S. plans, was $91 million in 1996, $86 million in 1995 and $109 million in 1994.

The following data are provided for U.S. plans and principal non-U.S. plans:

Components of Pension Expense

| | United States Plans | | | Non-U.S. Plans | | |
|---|---|---|---|---|---|---|
| (Millions of dollars) | 1996 | 1995 | 1994 | 1996 | 1995 | 1994 |
| Benefits earned during the year | $ 57 | $ 48 | $ 69 | $ 16 | $ 16 | $ 22 |
| Actual investment return on plan assets, (gain) loss | (226) | (279) | 27 | (102) | (123) | 33 |
| Interest cost on projected benefit obligations | 117 | 114 | 125 | 81 | 81 | 74 |
| Amortization of net deferred amounts | 104 | 158 | (145) | 38 | 64 | (104) |
| Total | $ 52 | $ 41 | $ 76 | $ 33 | $ 38 | $ 25 |

The assumed long-term return on plan assets for U.S. plans was 10% for 1996 and 1995, and 9% for 1994; for non-U.S. plans the weighted average rate was 8.7% for 1996 and 1995, and 8.5% for 1994.

Funded Status of Pension Plans

| United States Plans | | | | |
|---|---|---|---|---|
| (Millions of dollars) As of December 31 | Assets Exceed Accumulated Benefits 1996 | Accumulated Benefits Exceed Assets 1996 | Assets Exceed Accumulated Benefits 1995 | Accumulated Benefits Exceed Assets 1995 |
| Present value of the estimated pension benefits to be paid in the future | | | | |
| Vested benefits | $(1,097) | $ (97) | $(1,132) | $ (83) |
| Nonvested benefits | (94) | (2) | (105) | (3) |
| Accumulated benefit obligations (ABO) | (1,191) | (99) | (1,237) | (86) |
| Effect of projected future salary increases | (353) | (14) | (394) | (21) |
| Total projected benefit obligations (PBO) | (1,544) | (113) | (1,631) | (107) |
| Plan assets at fair value | 1,483 | -- | 1,361 | -- |
| Assets less than PBO | (61) | (113) | (270) | (107) |
| Net transition (asset) liability | (37) | 7 | (47) | 10 |
| Unrecognized net prior-service costs | 62 | 14 | 70 | 15 |
| Unrecognized net (gains) and losses | 2 | (7) | 179 | (4) |
| Net pension liability recorded in Texaco's Consolidated Balance Sheet | $ (34) | $ (99) | $ (68) | $ (86) |

| Non-U.S. Plans | | | | |
|---|---|---|---|---|
| (Millions of dollars) As of December 31 | Assets Exceed Accumulated Benefits 1996 | Accumulated Benefits Exceed Assets 1996 | Assets Exceed Accumulated Benefits 1995 | Accumulated Benefits Exceed Assets 1995 |
| Present value of the estimated pension benefits to be paid in the future | | | | |
| Vested benefits | $ (436) | $ (274) | $ (388) | $ (260) |
| Nonvested benefits | (21) | (32) | (19) | (22) |
| Accumulated benefit obligations (ABO) | (457) | (306) | (407) | (282) |
| Effect of projected future salary increases | (19) | (19) | (19) | (22) |
| Total projected benefit obligations (PBO) | (476) | (325) | (426) | (304) |
| Plan assets at fair value | 789 | 40 | 677 | 36 |
| Assets in excess of (less than) PBO | 313 | (285) | 251 | (268) |
| Net transition (asset) liability | (39) | 7 | (46) | 11 |
| Unrecognized net prior-service costs | 23 | 32 | 22 | 33 |
| Unrecognized net (gains) and losses | (25) | (20) | 11 | (21) |
| Net pension (liability) asset recorded in Texaco's Consolidated Balance Sheet | $ 272 | $ (266) | $ 238 | $ (245) |

Weighted Average Rate Assumptions Used in Estimating Pension Benefit Obligations

| | United States Plans 1996 | United States Plans 1995 | Non-U.S. Plans 1996 | Non-U.S. Plans 1995 |
|---|---|---|---|---|
| Discount rate | 7.5% | 7.0% | 12.0% | 11.5% |
| Rate of increase in compensation levels | 4.0% | 4.0% | 7.4% | 7.9% |

Other Postretirement Benefits

Texaco sponsors postretirement plans in the U.S. that provide health care and life insurance for retirees and eligible dependents. The company's U.S. health insurance obligation is its fixed dollar contribution. The plans are unfunded, and the costs are shared by the company and its employees and retirees.

The determination of the company's obligation is based on the terms of the life and health insurance plans, along with applicable actuarial assumptions. The company continues to fund these benefit costs on a pay-as-you-go basis, with retirees paying the excess over the company's fixed dollar contribution for health insurance. For employees who retire from Texaco between age 55 and 65, most will be eligible to receive health care benefits, similar to those available to active employees, as well as life insurance benefits. The company's cost to provide these postretirement benefits for health insurance is currently equal to the company's cost for an active employee. After attaining age 65, the retirees' health care coverage is coordinated with available Medicare benefits.

Fixed dollar contributions for health care benefits are determined annually by the company. For measurement purposes, no increase is expected in the per capita company contribution in 1997. Commencing in 1998, the fixed dollar contribution is expected to increase

by 4% per annum for both pre-age 65 and post-age 65 retirees for all future years. The assumed fixed dollar contributions do not necessarily represent an obligation of the company.

Assuming a 1% increase in the annual rate of increase in the fixed dollar contribution for health insurance, the accumulated postretirement benefit obligation and annual expense would increase by approximately $49 million and $5 million, respectively.

Certain of the company's non-U.S. subsidiaries have postretirement benefit plans. However, most retirees outside the U.S. are covered by government sponsored and administered programs, the cost of which is not significant to the company.

The following tables provide information on the status of the principal postretirement plans:

Components of Other Postretirement Benefit Expense

| | Health Care | Life Insurance | Total | Health Care | Life Insurance | Total | Health Care | Life Insurance | Total |
|---|---|---|---|---|---|---|---|---|---|
| (Millions of dollars) | | | 1996 | | | 1995 | | | 1994 |
| Benefits earned during the year | $ 9 | $ 3 | $ 12 | $ 7 | $ 2 | $ 9 | $ 12 | $ 4 | $ 16 |
| Interest cost on accumulated postretirement benefit obligations | 30 | 21 | 51 | 33 | 21 | 54 | 38 | 20 | 58 |
| Amortization of net deferred amounts | (1) | -- | (1) | (3) | (1) | (4) | -- | -- | -- |
| Total | $ 38 | $ 24 | $ 62 | $ 37 | $ 22 | $ 59 | $ 50 | $ 24 | $ 74 |

Funded Status of Other Postretirement Plans

| | Health Care | Life Insurance | Total | Health Care | Life Insurance | Total |
|---|---|---|---|---|---|---|
| (Millions of dollars) As of December 31 | | | 1996 | | | 1995 |
| Accumulated unfunded postretirement benefit obligations | | | | | | |
| Retirees | $266 | $239 | $505 | $272 | $242 | $514 |
| Fully eligible active participants | 31 | 1 | 32 | 33 | 1 | 34 |
| Other active plan participants | 102 | 60 | 162 | 125 | 67 | 192 |
| Total accumulated unfunded postretirement benefit obligations | 399 | 300 | 699 | 430 | 310 | 740 |
| Unrecognized net gain | 110 | 27 | 137 | 72 | 5 | 77 |
| Net other postretirement benefit liability recorded in Texaco's Consolidated Balance Sheet | $509 | $327 | $836 | $502 | $315 | $817 |

Weighted Average Rate Assumptions Used in Estimating Other Postretirement Benefit Oblitations

| | 1996 | 1995 |
|---|---|---|
| Discount rate | 7.5% | 7.0% |
| Rate of increase in compensation levels | 4.0% | 4.0% |

## 13 Note Thirteen - Stock Incentive Plan

Under the company's stock incentive plan (the Plan) approved by stockholders, stock options and restricted stock may be granted to executives and certain key employees. The total number of shares available each year for issuance under the Plan through December 31, 2002 is eight-tenths of one percent (0.8%) of the aggregate number of shares of common stock issued and outstanding on December 31 of the previous year, adjusted for certain plan activity. Shares not issued in the current year are available for future grant. The option price per share cannot be less than the fair market value of a share of common stock on the date granted unless adjusted as provided in the Plan.

The following table summarizes the number of shares at December 31, 1996, 1995 and 1994 available for awards during the subsequent year:

| (Shares) As of December 31 | 1996 | 1995 | 1994 |
|---|---|---|---|
| To all participants | 3,513,505 | 2,851,983 | 1,981,129 |
| To those participants not officers or directors | 966,398 | 687,089 | 552,915 |
| Total | 4,479,903 | 3,539,072 | 2,534,044 |

During 1996, Texaco adopted the disclosure provision versus fair value method of accounting for stock-based compensation associated with the Statement of Financial Accounting Standards "Accounting for Stock-Based Compensation" (SFAS 123). Consistent with this adoption, the company has elected to continue to account for stock options by applying the guidelines of Accounting Principles Board Opinion "Accounting for Stock Issued to Employees" (APB 25). Had stock options been accounted for based on the fair value method of SFAS 123, the impact on net income would not be material and, therefore, no pro forma disclosures are provided. Stock options granted under the Plan extend for 10 years from the date of grant and become 50% exercisable on the first anniversary. These options are fully exercisable on the second anniversary, except for the January 1990 awards, which became fully exercisable on the fourth anniversary of the award.

The Plan permits the company to grant restored options to a participant in the Plan who has previously been granted stock options. This feature enables a participant, who exercises an option by exchanging previously acquired common stock or who has shares withheld by the company to satisfy tax withholding obligations, to receive new options, exercisable at the then market value, for the same number of shares as were exchanged or withheld. Under existing regulations, restored options are fully exercisable six months after the date of grant.

Option activity during 1996, 1995 and 1994 is summarized in the following table:

| (Stock Options) | 1996 | 1995 | 1994 | Price Range Per Share |
|---|---|---|---|---|
| Outstanding January 1 | 4,667,644 | 3,964,098 | 3,368,949 | $ 46.78-$79.94 |
| Granted | 1,020,265 | 945,367 | 643,985 | 59.69- 85.72 |
| Exercised | (4,044,020) | (2,177,630) | (732,286) | 46.78- 86.31 |
| Restored | 3,135,860 | 1,935,809 | 683,450 | 61.25-105.19 |
| Canceled | (61,546) | -- | -- | 61.63- 84.88 |
| Outstanding December 31 | 4,718,203 | 4,667,644 | 3,964,098 | 46.78-105.19 |
| Exercisable December 31 | 1,426,618 | 2,148,743 | 2,671,225 | 46.78- 87.81 |

## 14 Note Fourteen - Other Financial Information and Commitments

### Environmental Reserves

Texaco Inc. and subsidiary companies have financial reserves relating to environmental remediation programs which the company believes are sufficient for known requirements. At December 31, 1996, reserves for future environmental remediation costs amounted to $591 million and reserves relative to the future cost of restoring and abandoning existing oil and gas properties were $813 million. Texaco's significant affiliates also have recorded reserves for environmental remediation and restoration and abandonment costs.

Texaco has provided, to the extent reasonably measurable, financial reserves for its probable environmental remediation liabilities. The recording of these obligations is based on technical evaluations of the currently available facts, interpretation of the regulations and the company's experience with similar sites. Additional financial reserve requirements relative to existing and new remediation sites may be necessary in the future when more facts are known. The potential also exists for further legislation to 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 due to uncertainty surrounding future developments, both in relation to remediation exposure and to regulatory initiatives. However, while future environmental expenditures that will be incurred by the petroleum industry are expected to be significant in the absolute, they will be a cost of doing business that will have to be recovered in the marketplace. Moreover, it is not believed that such future costs will be material to the company's financial position nor to its operating results over any reasonable period of time.

### Preferred Stock of Subsidiary Companies

At December 31, 1996 and 1995, minority holders owned $602 million of preferred stock of subsidiary companies. Such amounts are reflected as minority interest in subsidiary companies in the Consolidated Balance Sheet.

In October 1993, a wholly owned subsidiary, MVP Production Inc., issued variable rate cumulative preferred stock in a private placement for an aggregate purchase price of $75 million. The shares have voting rights in the subsidiary and are redeemable on September 30, 2003. Annual dividends on these shares totaled $4 million for both 1996 and 1995 and $3 million for 1994.

In November 1993, a wholly owned subsidiary, Texaco Capital LLC, issued 14 million shares of Cumulative Guaranteed Monthly Income Preferred Shares, Series A (Series A), in a public offering, for an aggregate purchase price of $350 million. In June 1994, Texaco Capital LLC issued 4.5 million shares of Cumulative Adjustable Rate Monthly Income Preferred Shares, Series B (Series B), in a public offering for an aggregate purchase price of $112 million. In December 1995, Texaco Capital LLC issued 3.6 million shares of Deferred Preferred Shares, Series C (Series C) in Canadian dollars, in a public offering, for an aggregate purchase price of $65 million. Texaco Capital LLC's sole assets are notes receivable from Texaco Inc.

The fixed dividend rate for Series A is 67/8% per annum. The dividend rate for Series B averaged 5.9% per annum for 1996 and 6.26% for 1995. The initial dividend rate for Series B was 6.4% per annum from June, 1994 through September 30, 1994 and 6.75% per annum for the fourth quarter of 1994. The dividend rate on Series B is reset quarterly and is equal to 88% of the highest of three U.S. Treasury maturities (three-month, ten-year and thirty-year), but in no event less than 4.5% per annum nor greater than 10.5% per annum. The payment of dividends and payments on liquidation or redemption with respect to Series A and Series B are guaranteed by Texaco Inc. Dividends on Series A and Series B are paid monthly. Dividends on Series A for 1996, 1995 and 1994 totaled $24 million for each year. Annual dividends on Series B totaled $7 million for both 1996 and 1995 and $4 million for 1994.

Series A and Series B are redeemable, at the option of Texaco Capital LLC (with Texaco Inc.'s consent) in whole or in part, from time to time, at $25 per share on or after October 31, 1998 for Series A and June 30, 1999 for Series B, plus, in each case, accrued and unpaid dividends to the date fixed for redemption. In addition, under certain circumstances, Texaco Capital LLC (with Texaco Inc.'s consent) can redeem Series A and Series B at any time, in whole or in part, at $25 per share plus accrued and unpaid dividends.

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. The payment of dividends and payments on liquidation or redemption of Series C are guaranteed by Texaco Inc. The par value and dividends payable in Canadian dollars have been hedged by a swap contract to eliminate foreign currency risk.

Series A, Series B and Series C are non-voting, except under certain limited circumstances.

The above preferred stock issues currently require annual dividend payments of approximately $35 million. The company is 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. Texaco has the ability to extend the required redemption dates for the $112 million and $350 million of preferred stock beyond 2024 and 2043, respectively.

Financial Guarantees

The company has guaranteed the payment of certain debt and other obligations of third parties and affiliate companies. These guarantees totaled $246 million and $206 million at December 31, 1996 and 1995, respectively.

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 have entered into certain long-term agreements wherein they have committed either to ship through affiliated pipeline companies and an offshore oil port, or to refine at an affiliated refining company a 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. Additionally, Texaco has entered into long-term purchase commitments with third parties for take or pay gas transportation. At December 31, 1996 and 1995 the company's maximum exposure to loss was estimated to be $629 million and $713 million, respectively.

However, based on Texaco's right of counterclaim against third parties in the event of nonperformance, Texaco's net exposure was estimated to be $489 million and $546 million at December 31, 1996 and 1995, respectively.

No losses are anticipated as a result of these obligations.

Other Commitments

In 1995 and 1996, Texaco sold leasehold interests in certain equipment not yet in service and received British pound payments totaling $509 million. Additional British pound payments will be received in 1997, contingent upon the amount of future costs of the equipment prior to the in-service date. Under a related agreement, Texaco as lessee will lease back these leasehold interests. The lease provides that collateral or third party security in specified forms is required as a guarantee of the lease payments. Texaco intends to satisfy this requirement by a British pound payment in 1997, resulting in the release of Texaco from future lease commitments under this agreement. This payment will effectively repurchase the leasehold interests previously sold.

15 Note Fifteen Financial Instruments

In the normal course of its business, the company utilizes various types of financial instruments. These instruments include recorded assets and liabilities, and also items which principally involve off-balance sheet risk. Information about the company's financial instruments, including derivatives, is presented below.

Cash and cash equivalents - Fair value approximates cost as reflected in the Consolidated Balance Sheet at December 31, 1996 and 1995 because of the short-term maturities of these instruments. Cash equivalents are classified as held-to-maturity. The amortized cost of cash equivalents was as follows:

| (Millions of dollars) As of December 31 | 1996 | 1995 |
|---|---|---|
| Time deposits and certificates of deposit | $ 62 | $111 |
| Commercial paper and other | 197 | 155 |
| | $259 | $266 |

Short-term and long-term investments - Fair value is primarily based on quoted market prices and valuation statements obtained from major financial institutions. Information concerning investments held at December 31, 1996 and 1995 in short-term and long-term debt securities and in publicly-traded equity securities that are classified as available-for-sale is shown in the tables that follow. Excluded from the tables is a $4 million investment in a time deposit at December 31, 1996 and 1995, which the company intends to hold to its maturity in the year 2001.

| | Amortized Cost | Gross unrealized Gains | Gross unrealized Losses | Estimated Fair Value | Amortized Cost | Gross unrealized Gains | Gross unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|---|---|---|---|
| (Millions of dollars) As of December 31 | | | | 1996 | | | | 1995 |
| U.S. government securities | $141 | $1 | $2 | $140 | $156 | $ 4 | $ 1 | $159 |
| Foreign government securities | 189 | 9 | 2 | 196 | 212 | 13 | 7 | 218 |
| Corporate and other debt securities | 160 | 2 | 1 | 161 | 246 | 5 | -- | 251 |
| Equity securities | 64 | 28 | 4 | 88 | 59 | 32 | 2 | 89 |
| | $554 | $40 | $9 | $585 | $673 | $54 | $10 | $717 |

Proceeds from sales of available-for-sale securities were $1,503 million in 1996, $1,175 million in 1995 and $610 million in 1994. These sales resulted in gross realized gains of $51 million in 1996, $81 million in 1995 and $19 million in 1994, and, gross realized losses of $17 million, $27 million, and $14 million, respectively.

At December 31, 1996, available-for-sale debt securities had the following scheduled maturities:

| (Millions of dollars) As of December 31 | Amortized Cost | Estimated Fair Value 1996 |
|---|---|---|
| Due in one year or less | $ 41 | $ 41 |
| Due after one year through five years | 230 | 233 |
| Due after five years | 219 | 223 |
| | $490 | $497 |

The estimated fair value of other long-term investments not included above, for which it is practicable to estimate fair value, approximated the December 31, 1996 and 1995 carrying values of $192 million and $133 million, respectively.

Short-term debt, long-term debt and related derivatives - Shown below are the carrying amounts and fair values of Texaco's debt and related derivatives as of year-end 1996 and 1995.

| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
|---|---|---|---|---|
| (Millions of dollars) As of December 31 | | 1996 | | 1995 |
| Short-term and long-term debt | $ 5,445 | $ 5,712 | $ 6,122 | $ 6,699 |
| Debt-related derivatives-(receivables) | $ -- | $ (3) | $ -- | $ (3) |

Refer to Note 7 for additional information concerning debt and related derivatives outstanding at December 31, 1996 and 1995.

Forward Exchange and Option Contracts - As an international company, Texaco is exposed to currency exchange risk. To hedge against adverse changes in foreign currency exchange rates, the company 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.

| | Buy | Sell | Buy | Sell |
|---|---|---|---|---|
| (Millions of dollars) As of December 31 | | 1996 | | 1995 |
| Australian dollars | $ 284 | $ 18 | $ 272 | $ 4 |
| British pounds* | 1,030 | 54 | 570 | 10 |
| Danish krone | 173 | 2 | 151 | 29 |
| Dutch guilders | 228 | 29 | 177 | -- |
| Other European currencies | 114 | 201 | 143 | 181 |
| Other currencies | 197 | 39 | 43 | 61 |
| | $2,026 | $343 | $1,356 | $285 |

* Including British pound buy contracts hedging the commitment to repurchase leasehold interests - See Note 14 "Other Commitments"

Market risk exposure on these contracts is essentially limited to currency rate movements. At year-end 1996, there were $39 million unrealized gains and $2 million unrealized losses related to these contracts. At year-end 1995, unrealized gains and losses related to these contracts were immaterial, since the contractual forward rates approximated year-end spot rates. The company's exposure to credit risk on forward exchange and option contracts is minimal, since the counterparties are major financial institutions with strong credit ratings. The company does not anticipate nonperformance by any of the various counterparties.

The company uses forward exchange contracts to buy foreign currencies primarily to hedge the net monetary liability position of its European and Australian 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 income currently as other costs. At year-end 1996 and 1995, hedges of foreign currency commitments principally involve capital projects requiring expenditure of British pounds and Danish krone. Approximately 68% of planned British pound expenditures and 49% Danish krone expenditures were hedged at year-end 1996. At year-end 1995, approximately one-third of the planned Danish krone and British pound expenditures were hedged. 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 1996 and 1995, net hedging gains of $84 million and $23 million, respectively, had yet to be amortized.

Contracts to sell foreign currencies are primarily related to a separately managed program to hedge the value of the company's investment portfolio denominated in foreign currencies. The company's strategy is to hedge the full value of this portion of its investment portfolio and to close out forward contracts upon the sale or maturity of the corresponding investments. These contracts are valued at market based on the foreign exchange rates in effect on the balance sheet dates. Changes in the value of these contracts are recorded as part of the carrying amount of the related investments. Related gains and losses are recorded, net of applicable income taxes, to stockholders' equity until the underlying investments are sold or mature.

At year-end 1996, there were open option contracts to sell Brazilian real for $40 million which hedged a net monetary asset position in the company's Brazilian operations. There were no unrealized gains at year-end 1996 related to these options.

Interest Rate and Currency Swap - In connection with the December 1995 sale of Series C preferred stock by Texaco Capital LLC, Texaco entered into an interest rate and currency swap contract that matures in the year 2005.

Over the life of the interest rate swap component of the contract, Texaco will make LIBOR-based floating rate interest payments based on a notional principal amount of $65 million. Canadian dollar interest will accrue to Texaco 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 Texaco to exchange $65 million for Cdn. $170 million, which includes Cdn. $87 million plus accrued interest on the contract's maturity date. The carrying amount of this contract represents the Canadian dollar accrued interest receivable by Texaco. At year-end 1996, the carrying amount and the fair value of this transaction were not material.

Commodity Hedging - The company hedges a portion of the market risks associated with its crude oil, natural gas and petroleum product purchases, sales and exchange activities. 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 the company's delegations of authorities. Company policy does not permit speculative position taking using derivative financial instruments.

The company uses established petroleum futures exchanges, as well as "over-the-counter" hedge instruments, including forwards, options, swaps and other derivative products. These hedge tools are used to reduce the company's exposure to price volatility by establishing margins, costs or revenues on designated transactions as well as for planned future purchases and sales, inventory, production and processing. In carrying out its hedging programs, the company analyzes its 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, a determination is made as to 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.

Over-the-counter hedge positions expose the company to counterparty credit risk. However, because the hedge contracts are placed with parties whose creditworthiness has been pre-determined in accordance with the company's credit policy, non-performance by any counterparty is not anticipated. Such over-the-counter commodity contracts do not expose the company to any concentrations of credit risk because of the dollar limits incorporated in risk management policies.

At December 31, 1996 and 1995, there were open derivative commodity contracts required to be settled in cash, consisting mostly of swaps. Notional contract amounts, excluding unrealized gains and losses, were $1,327 million and $868 million, respectively, at year-end 1996 and 1995. 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 the company's business activities, generally for the next twelve months. Unrealized gains and losses on contracts outstanding at year-end 1996 were $63 million and $48 million, respectively. At year-end 1995, unrealized gains and losses were $28 million and $67 million, respectively.

## 16 Note Sixteen - Contingent Liabilities

### Internal Revenue Service Claims

In 1989, Texaco commenced an action in the United States Tax Court (Tax Court) to challenge an Internal Revenue Service (IRS) claim that, during the 1979-1981 years, Texaco should be taxed as if it had resold Saudi crude oil at prices higher than those mandated by the Saudi Arab Government (Aramco Advantage issue).

In 1993, the Tax Court issued an opinion upholding the company's position on the Aramco Advantage issue. The Tax Court held that the IRS was barred from taxing the company on income never received, and which could only have been received by violating Saudi law. Finding that the Saudi Arab Government's mandate represented the sovereign law of that country, the Tax Court determined that the company was required to comply with the Saudi Arab Government's mandate and did in fact observe it. The IRS appealed, in November 1995, to the United States Court of Appeals for the Fifth Circuit (Fifth Circuit). The Fifth Circuit affirmed, in October 1996, the favorable Tax Court opinion. In January 1997, the IRS petitioned for a writ of certiorari to the United States Supreme Court, seeking reversal of the favorable Fifth Circuit opinion.

In 1988, prior to the commencement of the Tax Court action, the company, as a condition of its emergence from Chapter 11 proceedings, agreed to make certain cash deposits with the IRS in contemplation of potential tax claims (Deposit Fund). From time to time, the company has applied Deposit Fund amounts to final liabilities agreed upon by the company and the IRS for income tax and windfall profit tax years of Texaco and Getty not involved in the Tax Court litigation. A portion of the Deposit Fund also will be applied to issues settled in the Tax Court litigation years. After satisfaction of all liabilities associated with settled issues, it is anticipated that in excess of $700 million will remain in the Deposit Fund and continue to accrue interest. If the company ultimately prevails on the appeal of the Aramco Advantage issue, the amount remaining in the Deposit Fund will be refunded to the company, with interest.

### Other Matters

Texaco and approximately fifty other oil companies are defendants in fourteen purported class actions in which the plaintiffs allege that the defendants undervalued oil produced from properties leased from the plaintiffs by establishing artificially low selling prices, thereby underpaying to plaintiffs royalties or severance taxes based on those prices. The actions are pending in Texas, New Mexico, Oklahoma, Louisiana, Utah and Alabama. Plaintiffs seek to recover royalty underpayments and interest and in some cases severance taxes and treble and punitive damages.

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In the company's opinion, while it is impossible to ascertain the ultimate legal and financial liability with respect to the above-mentioned and other contingent liabilities and commitments, including lawsuits, claims, guarantees, taxes and regulations, the aggregate amount of such liability in excess of financial reserves, together with deposits and prepayments made against disputed tax claims, is not anticipated to be materially important in relation to the consolidated financial position or results of operations of Texaco Inc. and its subsidiaries.

## 17 Note Seventeen - Financial Data by Geographic Area

Texaco Inc. and its subsidiary companies, together with affiliates, represent a vertically integrated enterprise principally engaged in the worldwide exploration for and production, transportation, refining and marketing of crude oil, natural gas and petroleum and other processed products, as well as nonpetroleum operations such as insurance and alternate energy activities. These products and services are sold and provided to various purchasers including wholesale and retail distributors, utilities, industrial end users and governmental agencies throughout the world. Operations and investments in some foreign areas are subject to political and business risks, the nature of which varies from country to country and from time to time. At year-end 1996, net assets located outside the United States amounted to $1,159 million, $3,249 million and $2,771 million in Other Western Hemisphere, Europe and Other Eastern Hemisphere areas, respectively.

Operating profit represents total sales and services as shown on the Statement of Consolidated Income less operating costs and expenses, net of income taxes. Corporate/nonoperating includes interest income and expense, general corporate expenses and other nonoperating items, net of income taxes. Equity in income or losses of partnership joint-venture companies is reflected net of taxes, since this income is directly taxable to Texaco.

Intergeographic sales and services shown are based on prices which are generally representative of market prices or arm's-length negotiated prices.

Identifiable assets are those from continuing operations which can be directly identified or associated with operations which have been geographically segregated. Net assets of discontinued operations (see Note 3) are reflected in corporate/nonoperating to conform to the presentation of net loss from discontinued operations. Investments in affiliates pertain to those affiliates which are accounted for on the equity method. Corporate assets include cash and cash investments, as well as receivables, properties, plant and equipment and other assets which are corporate in nature.

| (Millions of dollars) | United States | Other Western Hemisphere | Europe | Other Eastern Hemisphere | Corporate/ Nonoperating* | Consolidated |
|---|---|---|---|---|---|---|
| **Year 1996** | | | | | | |
| Sales and services | | | | | | |
| Outside | $ 23,320 | $ 6,486 | $ 10,258 | $ 4,497 | $ -- | $ 44,561 |
| Intergeographic | 838 | 31 | 502 | 28 | (1,399) | -- |
| Total sales and services | $ 24,158 | $ 6,517 | $ 10,760 | $ 4,525 | $ (1,399) | $ 44,561 |
| Net income (loss) | | | | | | |
| Operating profit | $ 1,229 | $ 179 | $ 93 | $ 104 | $ -- | $ 1,605 |
| Equity in income of affiliates | 114 | 1 | 16 | 538 | -- | 669 |
| Corporate/nonoperating | -- | -- | -- | -- | (256) | (256) |
| Total net income (loss) | $ 1,343 | $ 180 | $ 109 | $ 642 | $ (256) | $ 2,018 |
| Identifiable assets | $ 12,477 | $ 2,047 | $ 4,861 | $ 1,628 | $ -- | $ 21,013 |
| Investments in affiliates | 1,098 | 28 | 543 | 2,142 | -- | 3,811 |
| Corporate assets | -- | -- | -- | -- | 2,139 | 2,139 |
| Total assets | $ 13,575 | $ 2,075 | $ 5,404 | $ 3,770 | $ 2,139 | $ 26,963 |
| **Year 1995** | | | | | | |
| Sales and services | | | | | | |
| Outside | $ 17,302 | $ 5,440 | $ 8,906 | $ 3,903 | $ -- | $ 35,551 |
| Intergeographic | 410 | 40 | 228 | 59 | (737) | -- |
| Total sales and services | $ 17,712 | $ 5,480 | $ 9,134 | $ 3,962 | $ (737) | $ 35,551 |
| Net income (loss) | | | | | | |
| Operating profit | $ 291 | $ 166 | $ 32 | $ 78 | $ -- | $ 567 |
| Equity in income of affiliates | 45 | 6 | 21 | 452 | -- | 524 |
| Corporate/nonoperating | -- | -- | -- | -- | (363) | (363) |
| Net income (loss) before cumulative effect of accounting change | 336 | 172 | 53 | 530 | (363) | 728 |
| Cumulative effect of accounting change | -- | -- | -- | -- | (121) | (121) |
| Total net income (loss) | $ 336 | $ 172 | $ 53 | $ 530 | $ (484) | $ 607 |
| Identifiable assets | $ 11,068 | $ 1,800 | $ 4,480 | $ 1,386 | $ -- | $ 18,734 |
| Net assets of discontinued operations | -- | -- | -- | -- | 164 | 164 |
| Investments in affiliates | 1,042 | 24 | 540 | 2,479 | -- | 4,085 |
| Corporate assets | -- | -- | -- | -- | 1,954 | 1,954 |
| Total assets | $ 12,110 | $ 1,824 | $ 5,020 | $ 3,865 | $ 2,118 | $ 24,937 |
| **Year 1994** | | | | | | |
| Sales and services | | | | | | |
| Outside | $ 15,936 | $ 4,710 | $ 8,479 | $ 3,415 | $ -- | $ 32,540 |
| Intergeographic | 335 | 198 | 764 | 43 | (1,340) | -- |
| Total sales and services | $ 16,271 | $ 4,908 | $ 9,243 | $ 3,458 | $ (1,340) | $ 32,540 |
| Net income (loss) | | | | | | |
| Operating profit | $ 522 | $ 104 | $ 65 | $ 67 | $ -- | $ 758 |
| Equity in income of affiliates | 134 | 6 | 1 | 353 | -- | 494 |
| Corporate/nonoperating | -- | -- | -- | -- | (273) | (273) |
| Net income (loss) before discontinued operations | 656 | 110 | 66 | 420 | (273) | 979 |
| Discontinued operations | -- | -- | -- | -- | (69) | (69) |
| Total net income (loss) | $ 656 | $ 110 | $ 66 | $ 420 | $ (342) | $ 910 |
| Identifiable assets | $ 11,851 | $ 1,587 | $ 4,641 | $ 1,180 | $ -- | $ 19,259 |
| Net assets of discontinued operations | -- | -- | -- | -- | 195 | 195 |
| Investments in affiliates | 1,144 | 26 | 370 | 2,366 | -- | 3,906 |
| Corporate assets | -- | -- | -- | -- | 2,145 | 2,145 |
| Total assets | $ 12,995 | $ 1,613 | $ 5,011 | $ 3,546 | $ 2,340 | $ 25,505 |

*Includes intergeographic sales and services eliminations.

The consolidated financial statements are the responsibility of the management of Texaco Inc. They were prepared in accordance with generally accepted accounting principles and are, in part, based on certain estimates and judgments, as required. Other information contained in this Annual Report is presented on a basis consistent with the financial statements.

To meet these responsibilities, it is Texaco's long-established corporate policy to maintain a control conscious environment and an effective internal control system throughout its worldwide operations. Included in this system are Corporate Conduct Guidelines which require that all employees maintain the highest level of ethical standards. The internal control system provides reasonable assurance that assets are safeguarded against unauthorized acquisition, use or disposition, and that financial records are accurately and objectively maintained, thus serving as a reliable basis for the preparation of financial statements. This system is augmented by written policies and procedures and an organizational structure that provides for an appropriate division of responsibility. Management personnel are required to formally certify each year that an effective internal control system is maintained. The internal controls are complemented by Texaco's internal auditors who conduct regular and extensive internal audits throughout the company. In addition, the independent public accounting firm of Arthur Andersen LLP is engaged to provide an objective, independent audit of the company's financial statements. Their accompanying report is based on an audit conducted in accordance with generally accepted auditing standards, which included obtaining a sufficient understanding of the company's internal controls to plan their audit and determine the nature, timing and extent of audit tests to be performed. In conducting their audits, the auditors have access to the minutes of all meetings of the company's Board of Directors. The appointment of the independent auditors is presented to the stockholders for approval at each Annual Meeting of the Stockholders.

The Board of Directors of Texaco Inc. maintains an Audit Committee which has been in place since 1939. This Committee, currently comprised of six non-employee Directors, met two times in 1996. Depending on the nature of the matters under review, the independent auditors, as well as certain officers and employees of the company, may attend all or part of a meeting. The Committee reviews and evaluates the company's accounting policies and reporting practices, internal auditing, internal controls, security procedures and other matters deemed appropriate. The Audit Committee also reviews the performance of Arthur Andersen LLP in their audit of Texaco's financial statements and evaluates their independence and professional competence, as well as the scope of their audit. Both the internal and independent auditors have unrestricted access to the Audit Committee to discuss the results of their audits and the quality of the company's financial reporting and internal control system.

| | | |
|---|---|---|
| /s/ Peter I. Bijur | /s/ Patrick J. Lynch | /s/ Robert C. Oelkers |
| Peter I. Bijur | Patrick J. Lynch | Robert C. Oelkers |
| Chairman of the Board and | Senior Vice President and | Vice President and |
| Chief Executive Officer | Chief Financial Officer | 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, 1996 and 1995, and the related statements of consolidated income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 1996. 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 generally accepted auditing standards. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

As explained in Note 2 to the Consolidated Financial Statements, in 1995 the company changed its method of accounting for long-lived assets to be held and used and long-lived assets to be disposed of.

Arthur Andersen LLP

February 27, 1997
New York, N.Y.

The following information for Texaco Inc. and consolidated subsidiaries, as well as Texaco's equity in P.T. Caltex Pacific Indonesia (CPI), a 50%-owned affiliate operating in Other Eastern Hemisphere areas, is presented in accordance with Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities" (SFAS 69).

## Estimated Proved Reserves

Volumes reported for proved liquid and gas reserves are based upon reasonable estimates. These estimates are consistent with current knowledge of the characteristics and production history of the reserves. Although they are based upon sound geological and engineering principles, by their very nature, such estimates are subject to upward and downward revision as additional information about producing fields and technology becomes available. Reported volumes include only such reserves as can reasonably be classified as proved. Net reserves represent the volumes estimated to be available after deduction of the royalty interests of others from gross reserves. In addition to reported reserves, Texaco has a large inventory of potential reserves that will add to the company's proved reserve base as future investments are made in exploration and development programs.

CPI's estimated liquid reserves include volumes projected to be recovered as reimbursement for a portion of costs incurred. Accordingly, these volumes will fluctuate annually with the price of crude oil. CPI's natural gas production is all consumed in its operations.

Annually, Texaco Inc. provides information concerning oil and gas reserves to the U.S. Department of Energy and to certain governmental bodies. Such information is consistent with the information presented in this Annual Report.

During 1996, reserve increases, including equity and excluding purchases and sales, replaced 113% of worldwide combined oil and gas production. Of such reserve replacements, 87% were additions comprised of new fields, new sands, new plants, extensions, and improved recovery, and 13% were comprised of revisions to previous estimates. Texaco recognizes only those reserves where it is reasonably certain that such reserves can be economically produced. Subsequent revisions naturally result as new information is obtained from development drilling, production profiles, and changes in economic factors. During the three-year period 1994-1996, Texaco's reserve increases were 118% of worldwide production. During this period, additions accounted for 80% of reserve increases and revisions accounted for 20%. During the five-year period 1992-1996, Texaco's reserve increases were 112% of worldwide production. During this period, additions accounted for 72% of reserve increases and revisions accounted for 28%. Increases in proved reserves during 1996 were primarily due to the following:

In the United States, liquid and gas reserves were added from drilling that extended the productive limits of existing fields, such as the Carthage field in Texas. Other drilling-related liquid and gas reserve increases resulted from the discovery of new productive formations in California, Texas and onshore and offshore Louisiana. Liquid reserve increases also resulted from improved recovery in fields in Texas, Utah and New Mexico and at steamflood operations in California as a result of expanding the steamflood. Extension of contracts at plants in New Mexico and Oklahoma, plus the addition of a $CO_2$ plant in New Mexico, added liquid reserves.

Outside the United States, in the Other Western Hemisphere area, significant gas reserves were added from the discovery of a new productive formation in a gas field offshore Trinidad. Substantial volumes of new gas were added from offshore platform drilling that extended the size of a producing field in Colombia. In Europe, increases in liquid and gas reserves were from extensions in an offshore field in the United Kingdom sector of the North Sea. Additional volumes of liquids and gas reserves were added from a new field in the Danish sector of the North Sea along with improved performance from the North Sea fields, Roar (Danish sector) and Britannia (U.K.). In the Other Eastern Hemisphere area, significant liquid reserves were added from extensions as a result of additional drilling at a field in the Partitioned Neutral Zone between Saudi Arabia and Kuwait. In China, new liquid reserves were added from the discovery of new production fields. Affiliate liquid reserves in Indonesia were improved significantly due to expanding of the world's largest steamflood project to new areas.

During 1997, Texaco expects that net production of natural gas will approximate 2.3 billion cubic feet per day. This estimate is based upon past performance and on the assumption that such gas quantities can be produced under operating and economic conditions existing at December 31, 1996. Possible future changes in prices or world economic conditions were not factored into this estimate. These expected production volumes, together with normal related supply arrangements, are sufficient to meet anticipated delivery requirements under contractual arrangements. Approximately 34% of Texaco's proved natural gas reserves in the United States as of December 31, 1996, 31% at December 31, 1995 and 33% at December 31, 1994 were covered by long-term sales contracts. These agreements are primarily priced at market.

Estimated Net Proved Developed and Undeveloped Reserves of Crude Oil

| (Millions of barrels) | Texaco Inc. and Consolidated Subsidiaries United States | Other Western Hemisphere | Europe | Other Eastern Hemisphere | Total | Equity Affiliate-Other Eastern Hemisphere | Worldwide |
|---|---|---|---|---|---|---|---|
| As of December 31, 1993 | 1,278 | 74 | 285 | 380 | 2,017 | 456 | 2,473 |
| Increase (decrease) attributable to: | | | | | | | |
| Extensions, discoveries and other additions | 29 | 2 | 66 | 71 | 168 | -- | 168 |
| Improved recovery | 21 | -- | 7 | 7 | 35 | 24 | 59 |
| Revisions of previous estimates | 5 | 5 | 4 | 10 | 24 | 16 | 40 |
| Sales of minerals-in-place | (9) | (2) | (5) | -- | (16) | -- | (16) |
| Production | (119) | (7) | (41) | (41) | (208) | (57) | (265) |
| As of December 31, 1994* | 1,205 | 72 | 316 | 427 | 2,020 | 439 | 2,459 |
| Increase (decrease) attributable to: | | | | | | | |
| Extensions, discoveries and other additions | 30 | -- | 32 | 71 | 133 | 1 | 134 |
| Improved recovery | 51 | -- | 15 | -- | 66 | 45 | 111 |
| Revisions of previous estimates | 56 | (2) | (2) | 25 | 77 | 2 | 79 |
| Purchases of minerals-in-place | 1 | -- | -- | -- | 1 | -- | 1 |
| Sales of minerals-in-place | (98) | (11) | -- | -- | (109) | -- | (109) |
| Production | (110) | (6) | (39) | (48) | (203) | (55) | (258) |
| As of December 31, 1995* | 1,135 | 53 | 322 | 475 | 1,985 | 432 | 2,417 |
| Increase (decrease) attributable to: | | | | | | | |
| Extensions, discoveries and other additions | 49 | 4 | 80 | 29 | 162 | 1 | 163 |
| Improved recovery | 20 | -- | -- | -- | 20 | 81 | 101 |
| Revisions of previous estimates | 44 | 2 | (23) | 20 | 43 | (3) | 40 |
| Purchases of minerals-in-place | 8 | -- | 3 | -- | 11 | -- | 11 |
| Sales of minerals-in-place | (28) | -- | -- | (1) | (29) | -- | (29) |
| Production | (113) | (4) | (39) | (58) | (214) | (54) | (268) |
| As of December 31, 1996* | 1,115 | 55 | 343 | 465 | 1,978 | 457 | 2,435 |
| *Includes net proved developed reserves | | | | | | | |
| As of December 31, 1994 | 947 | 68 | 152 | 365 | 1,532 | 356 | 1,888 |
| As of December 31, 1995 | 928 | 51 | 133 | 413 | 1,525 | 344 | 1,869 |
| As of December 31, 1996 | 905 | 49 | 158 | 417 | 1,529 | 348 | 1,877 |

Estimated Net Proved Developed and Undeveloped Reserves of Natural Gas Liquids

| (Millions of barrels) | Texaco Inc. and Consolidated Subsidiaries United States | Other Western Hemisphere | Europe | Other Eastern Hemisphere | Total | Equity Affiliate-Other Eastern Hemisphere | World-wide |
|---|---|---|---|---|---|---|---|
| As of December 31, 1993 | 180 | 1 | 26 | -- | 207 | 5 | 212 |
| Increase (decrease) attributable to: | | | | | | | |
| Extensions, discoveries and other additions | 32 | -- | 3 | -- | 35 | -- | 35 |
| Revisions of previous estimates | 12 | -- | 1 | -- | 13 | 1 | 14 |
| Sales of minerals-in-place | (4) | -- | -- | -- | (4) | -- | (4) |
| Production | (29) | -- | (3) | -- | (32) | -- | (32) |
| As of December 31, 1994* | 191 | 1 | 27 | -- | 219 | 6 | 225 |
| Increase (decrease) attributable to: | | | | | | | |
| Extensions, discoveries and other additions | 28 | -- | 5 | -- | 33 | -- | 33 |
| Improved recovery | 5 | -- | -- | -- | 5 | -- | 5 |
| Revisions of previous estimates | 22 | -- | (1) | -- | 21 | -- | 21 |
| Sales of minerals-in-place | (11) | -- | -- | -- | (11) | -- | (11) |
| Production | (29) | -- | (3) | -- | (32) | -- | (32) |
| As of December 31, 1995* | 206 | 1 | 28 | -- | 235 | 6 | 241 |
| Increase (decrease) attributable to: | | | | | | | |
| Extensions, discoveries and other additions | 33 | -- | -- | -- | 33 | -- | 33 |
| Revisions of previous estimates | -- | -- | 29 | 1 | 30 | -- | 30 |
| Sales of minerals-in-place | (3) | -- | -- | -- | (3) | -- | (3) |
| Production | (29) | -- | (3) | -- | (32) | -- | (32) |
| As of December 31, 1996* | 207 | 1 | 54 | 1 | 263 | 6 | 269 |
| *Includes net proved developed reserves | | | | | | | |
| As of December 31, 1994 | 182 | 1 | 11 | -- | 194 | 5 | 199 |
| As of December 31, 1995 | 197 | 1 | 9 | -- | 207 | 6 | 213 |
| As of December 31, 1996 | 195 | 1 | 7 | 1 | 204 | 6 | 210 |
| Grand Total Reserves of Crude Oil and Natural Gas Liquids | | | | | | | |
| As of December 31, 1994 | 1,396 | 73 | 343 | 427 | 2,239 | 445 | 2,684 |
| As of December 31, 1995 | 1,341 | 54 | 350 | 475 | 2,220 | 438 | 2,658 |
| As of December 31, 1996 | 1,322 | 56 | 397 | 466 | 2,241 | 463 | 2,704 |

Estimated Net Proved Developed and Undeveloped Reserves of Natural Gas

| (Billions of cubic feet) | Texaco Inc. and Consolidated Subsidiaries: United States | Other Western Hemisphere | Europe | Other Eastern Hemisphere | Total | Equity Affiliate-Other Eastern Hemisphere | Worldwide |
|---|---|---|---|---|---|---|---|
| As of December 31, 1993 | 4,329 | 722 | 875 | 44 | 5,970 | 140 | 6,110 |
| Increase (decrease) attributable to: | | | | | | | |
| Extensions, discoveries and other additions | 522 | 17 | 71 | -- | 610 | 26 | 636 |
| Improved recovery | 2 | -- | 2 | 1 | 5 | -- | 5 |
| Revisions of previous estimates | 260 | 22 | 15 | 4 | 301 | (5) | 296 |
| Purchases of minerals-in-place | -- | 9 | -- | 1 | 10 | -- | 10 |
| Sales of minerals-in-place | (61) | (1) | (20) | -- | (82) | -- | (82) |
| Production | (645) | (57) | (66) | (3) | (771) | (11) | (782) |
| As of December 31, 1994* | 4,407 | 712 | 877 | 47 | 6,043 | 150 | 6,193 |
| Increase (decrease) attributable to: | | | | | | | |
| Extensions, discoveries and other additions | 397 | 100 | 164 | 6 | 667 | 6 | 673 |
| Improved recovery | 21 | -- | -- | -- | 21 | -- | 21 |
| Revisions of previous estimates | 103 | 103 | (15) | 39 | 230 | 14 | 244 |
| Purchases of minerals-in-place | 26 | -- | -- | -- | 26 | -- | 26 |
| Sales of minerals-in-place | (287) | (6) | (2) | (1) | (296) | -- | (296) |
| Production | (605) | (62) | (80) | (4) | (751) | (15) | (766) |
| As of December 31, 1995* | 4,062 | 847 | 944 | 87 | 5,940 | 155 | 6,095 |
| Increase (decrease) attributable to: | | | | | | | |
| Extensions, discoveries and other additions | 436 | 263 | 34 | 3 | 736 | 15 | 751 |
| Improved recovery | 8 | -- | -- | -- | 8 | 1 | 9 |
| Revisions of previous estimates | (99) | (1) | 58 | 13 | (29) | -- | (29) |
| Purchases of minerals-in-place | 5 | -- | -- | -- | 5 | -- | 5 |
| Sales of minerals-in-place | (58) | (7) | -- | 1 | (64) | -- | (64) |
| Production | (626) | (71) | (75) | (4) | (776) | (18) | (794) |
| As of December 31, 1996* | 3,728 | 1,031(a) | 961 | 100 | 5,820(a) | 153 | 5,973(a) |
| *Includes net proved developed reserves | | | | | | | |
| As of December 31, 1994 | 3,899 | 558 | 465 | 44 | 4,966 | 133 | 5,099 |
| As of December 31, 1995 | 3,666 | 522 | 452 | 84 | 4,724 | 140 | 4,864 |
| As of December 31, 1996 | 3,360 | 893 | 452 | 96 | 4,801 | 136 | 4,937 |

(a) In addition to proved reserves at December 31, 1996, there is approximately 458 billion cubic feet of natural gas in the Other Western Hemisphere which will be available from production during the period 2005-2016 under a long-term purchase arrangement associated with a field operated by Texaco under a service agreement.

Capitalized Costs

Capitalized costs represent cumulative expenditures for proved and unproved properties and support equipment and facilities used in oil and gas exploration and producing operations together with related accumulated depreciation, depletion and amortization (including aggregate provisions for restoration and abandonment costs, net of such costs expended to date).

| | Texaco Inc. and Consolidated Subsidiaries | | | | | Equity | |
|---|---|---|---|---|---|---|---|
| (Millions of dollars) | United States | Other Western Hemisphere | Europe | Other Eastern Hemisphere | Total | Affiliate-Other Eastern Hemisphere | Worldwide |
| As of December 31, 1996 | | | | | | | |
| Proved properties | $ 17,450 | $ 603 | $ 4,102 | $ 1,372 | $ 23,527 | $ 1,018 | $ 24,545 |
| Unproved properties | 370 | 15 | 81 | 210 | 676 | 293 | 969 |
| Support equipment and facilities | 432 | 32 | 38 | 185 | 687 | 548 | 1,235 |
| Gross capitalized costs | 18,252 | 650 | 4,221 | 1,767 | 24,890 | 1,859 | 26,749 |
| Accumulated depreciation, depletion and amortization | (13,158) | (308) | (2,739) | (1,012) | (17,217) | (903) | (18,120) |
| Net capitalized costs | $ 5,094 | $ 342 | $ 1,482 | $ 755 | $ 7,673 | $ 956 | $ 8,629 |
| As of December 31, 1995 | | | | | | | |
| Proved properties | $ 17,384 | $ 505 | $ 3,551 | $ 1,279 | $ 22,719 | $ 900 | $ 23,619 |
| Unproved properties | 383 | 11 | 125 | 116 | 635 | 320 | 955 |
| Support equipment and facilities | 381 | 28 | 47 | 133 | 589 | 494 | 1,083 |
| Gross capitalized costs | 18,148 | 544 | 3,723 | 1,528 | 23,943 | 1,714 | 25,657 |
| Accumulated depreciation, depletion and amortization | (13,298) | (291) | (2,520) | (905) | (17,014) | (793) | (17,807) |
| Net capitalized costs | $ 4,850 | $ 253 | $ 1,203 | $ 623 | $ 6,929 | $ 921 | $ 7,850 |

Costs Incurred

Costs Incurred represent amounts capitalized or charged against income as expended. Property acquisition costs include costs to purchase or lease proved and unproved properties. Exploration costs include the costs of geological and geophysical work, carrying and retaining undeveloped properties and drilling and equipping exploratory wells. Development costs include expenditures to drill and equip development wells; to provide improved recovery systems; to construct facilities for extraction, treating, gathering and storing liquids and natural gas; and to maintain producing facilities for existing developed reserves. Exploration and development costs include applicable depreciation of support equipment and facilities used in those activities, rather than the expenditures to acquire such assets. Development costs incurred in Europe during 1994 for the Captain Field include $59 million which was recovered during 1995 in a sale of incomplete construction on property to be leased by Texaco. (See Note 8.)

| | Texaco Inc. and Consolidated Subsidiaries | | | | | Equity | |
|---|---|---|---|---|---|---|---|
| (Millions of dollars) | United States | Other Western Hemisphere | Europe | Other Eastern Hemisphere | Total | Affiliate-Other Eastern Hemisphere | Worldwide |
| For the year ended December 31, 1996 | | | | | | | |
| Proved property acquisition | $ 56 | $ -- | $ -- | $ -- | $ 56 | $ -- | $ 56 |
| Unproved property acquisition | 91 | 5 | -- | 20 | 116 | -- | 116 |
| Exploration | 356 | 18 | 90 | 225 | 689 | 9 | 698 |
| Development | 827 | 107 | 384 | 113 | 1,431 | 144 | 1,575 |
| Total | $1,330 | $ 130 | $ 474 | $ 358 | $2,292 | $ 153 | $2,445 |
| For the year ended December 31, 1995 | | | | | | | |
| Proved property acquisition | $ 7 | $ 31 | $ -- | $ -- | $ 38 | $ -- | $ 38 |
| Unproved property acquisition | 35 | 3 | 2 | 11 | 51 | -- | 51 |
| Exploration | 151 | 48 | 76 | 117 | 392 | 11 | 403 |
| Development | 845 | 66 | 207 | 105 | 1,223 | 99 | 1,322 |
| Total | $1,038 | $ 148 | $ 285 | $ 233 | $1,704 | $ 110 | $1,814 |
| For the year ended December 31, 1994 | | | | | | | |
| Proved property acquisition | $ 5 | $ 2 | $ -- | $ -- | $ 7 | $ -- | $ 7 |
| Unproved property acquisition | 13 | 2 | -- | 33 | 48 | -- | 48 |
| Exploration | 165 | 19 | 58 | 110 | 352 | 9 | 361 |
| Development | 729 | 43 | 253 | 108 | 1,133 | 129 | 1,262 |
| Total | $ 912 | $ 66 | $ 311 | $ 251 | $1,540 | $ 138 | $1,678 |

Results of Operations - Oil and Gas Exploration and Producing Activities

The results below solely relate to Texaco's exploration for and net production of liquids and natural gas reserves. They exclude special items (including the effect associated with the adoption of SFAS 121, which resulted in a net-of-tax non-cash charge against 1995 earnings of $496 million, principally in the United States) and operating earnings related to the sale of purchased oil and gas, equity earnings of certain affiliates, liquids and gas trading activity, general overhead, and miscellaneous operating income. Related estimated income tax expense was computed by applying the statutory income tax rates, including state and local income taxes, to the pre-tax results of operations and reflects applicable credits and allowances.

| | Texaco Inc. and Consolidated Subsidiaries | | | | | Equity | |
|---|---|---|---|---|---|---|---|
| (Millions of dollars) | United States | Other Western Hemisphere | Europe | Other Eastern Hemisphere | Total | Affiliate-Other Eastern Hemisphere | Worldwide |
| For the year ended December 31, 1996 | | | | | | | |
| Gross revenues from: | | | | | | | |
| Sales and transfers to affiliates and to divisions and subsidiaries within Texaco | $ 3,383 | $ -- | $ 524 | $ 863 | $ 4,770 | $ 648 | $ 5,418 |
| Sales to unaffiliated entities | 310 | 140 | 475 | 181 | 1,106 | 45 | 1,151 |
| Production costs | (937) | (54) | (321) | (215) | (1,527) | (183) | (1,710) |
| Exploration expenses | (196) | (27) | (57) | (150) | (430) | (8) | (438) |
| Depreciation, depletion and amortization | (652) | (24) | (310) | (107) | (1,093) | (110) | (1,203) |
| Other expenses | (241) | (1) | (1) | (40) | (283) | 8 | (275) |
| Results before estimated income taxes | 1,667 | 34 | 310 | 532 | 2,543 | 400 | 2,943 |
| Estimated income taxes | (534) | (26) | (112) | (417) | (1,089) | (212) | (1,301) |
| Net results | $ 1,133 | $ 8 | $ 198 | $ 115 | $ 1,454 | $ 188 | $ 1,642 |
| For the year ended December 31, 1995 | | | | | | | |
| Gross revenues from: | | | | | | | |
| Sales and transfers to affiliates and to divisions and subsidiaries within Texaco | $ 2,652 | $ -- | $ 394 | $ 613 | $ 3,659 | $ 583 | $ 4,242 |
| Sales to unaffiliated entities | 291 | 127 | 485 | 131 | 1,034 | 35 | 1,069 |
| Production costs | (951) | (45) | (314) | (198) | (1,508) | (169) | (1,677) |
| Exploration expenses | (87) | (35) | (79) | (96) | (297) | (9) | (306) |
| Depreciation, depletion and amortization | (682) | (20) | (293) | (109) | (1,104) | (94) | (1,198) |
| Other expenses | (254) | (6) | -- | (24) | (284) | (13) | (297) |
| Results before estimated income taxes | 969 | 21 | 193 | 317 | 1,500 | 333 | 1,833 |
| Estimated income taxes | (295) | (14) | (74) | (260) | (643) | (177) | (820) |
| Net results | $ 674 | $ 7 | $ 119 | $ 57 | $ 857 | $ 156 | $ 1,013 |
| For the year ended December 31, 1994 | | | | | | | |
| Gross revenues from: | | | | | | | |
| Sales and transfers to affiliates and to divisions and subsidiaries within Texaco | $ 2,672 | $ -- | $ 336 | $ 491 | $ 3,499 | $ 514 | $ 4,013 |
| Sales to unaffiliated entities | 403 | 129 | 448 | 113 | 1,093 | 24 | 1,117 |
| Production costs | (1,100) | (41) | (325) | (198) | (1,664) | (163) | (1,827) |
| Exploration expenses | (115) | (17) | (53) | (115) | (300) | (9) | (309) |
| Depreciation, depletion and amortization | (934) | (29) | (295) | (96) | (1,354) | (74) | (1,428) |
| Other expenses | (249) | (8) | -- | (27) | (284) | (27) | (311) |
| Results before estimated income taxes | 677 | 34 | 111 | 168 | 990 | 265 | 1,255 |
| Estimated income taxes | (217) | (31) | (43) | (130) | (421) | (131) | (552) |
| Net results | $ 460 | $ 3 | $ 68 | $ 38 | $ 569 | $ 134 | $ 703 |

Average Sales Prices and Production Costs - Per Unit

Average sales prices per unit are based upon the gross revenues reported in the Results of Operations - Oil and Gas Exploration and Producing Activities table. Average production costs per composite barrel include related depreciation, depletion and amortization of support equipment and facilities. It also includes cash lifting costs, excluding payments for royalties and income taxes. However, users of this information are cautioned that such income taxes and royalties substantially add to the total cost of producing operations and substantially reduce the profitability and cash flow from such operations.

| | Average sales prices | | | | | | Average production costs (per composite barrel) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Crude oil and natural gas liquids per barrel | Natural gas per thousand cubic feet | Crude oil and natural gas liquids per barrel | Natural gas per thousand cubic feet | Crude oil and natural gas liquids per barrel | Natural gas per thousand cubic feet | | | |
| | 1996 | | 1995 | | 1994 | | 1996 | 1995 | 1994 |
| United States | $16.97 | $2.10 | $14.25 | $1.62 | $12.81 | $1.87 | $3.82 | $3.97 | $4.33 |
| Other Western Hemisphere | 16.80 | .96 | 13.34 | .87 | 10.94 | .87 | 3.44 | 2.92 | 2.66 |
| Europe | 20.37 | 2.47 | 16.57 | 2.50 | 15.24 | 2.17 | 5.95 | 6.08 | 6.01 |
| Other Eastern Hemisphere | 18.61 | 3.20 | 15.90 | 2.61 | 14.58 | 2.70 | 4.07 | 4.30 | 4.92 |
| Affiliate - Other Eastern Hemisphere | 16.11 | -- | 14.05 | -- | 11.96 | -- | 3.71 | 3.37 | 3.13 |

Standardized Measure of Discounted Future Net Cash Flows

The following table shows estimated future net cash flows from future production of net developed and undeveloped proved reserves of crude oil, natural gas liquids and natural gas (including amounts applicable to a long-term purchase and operating service arrangement); therefore, reserves exclude the royalty interests of others. As prescribed by SFAS 69, such future net cash flows were estimated using year-end prices, costs, and tax rates, and a 10% annual discount factor. Future production costs are based upon current year costs used uniformly throughout the life of the reserves. Future development costs include restoration and abandonment costs, net of residual salvage value. Estimated future income taxes were computed by applying the statutory income tax rates, including state and local taxes, to the future pre-tax net cash flows less appropriate tax deductions, giving effect to tax credits. Effective tax rates were used for certain foreign areas.

Texaco is presenting this information in accordance with the requirements of SFAS 69 and has exercised all due care in developing the data. It is necessary to caution investors and other users of the information to avoid its simplistic use. While the intent of this disclosure is to provide a common benchmark to help financial statement users project future cash flows and compare companies, users should note the following: data in this table excludes the effect of future changes in prices, costs, and tax rates which past experience indicates will occur. Such future changes could significantly impact the disclosed discounted net cash flows. The data also excludes the estimated net cash flows from reserves that are yet to be proved. Extensive judgment is used to estimate the timing of production and future costs over the remaining life of the reserves utilized in developing this disclosure. Values can be distorted by the use of year-end prices that may reflect seasonal factors or unpredictable distortions from wars and other significant world events. For all the preceding reasons, this disclosure is not necessarily indicative of Texaco's perception of the future cash flows to be derived from underground reserves.

Standardized Measure of Discounted Future Net Cash Flows

| (Millions of dollars) | United States | Other Western Hemisphere | Europe | Other Eastern Hemisphere | Total | Equity Affiliate- Other Eastern Hemisphere | Worldwide |
|---|---|---|---|---|---|---|---|
| | Texaco Inc. and Consolidated Subsidiaries | | | | | | |
| As of December 31, 1996 | | | | | | | |
| Future cash inflows from sale of oil & gas, and service fee revenue | $ 41,807 | $ 2,863 | $ 11,242 | $ 9,261 | $ 65,173 | $ 6,632 | $ 71,805 |
| Future production costs | (8,080) | (894) | (2,368) | (1,993) | (13,335) | (1,776) | (15,111) |
| Future development costs | (2,790) | (141) | (2,094) | (551) | (5,576) | (740) | (6,316) |
| Future income tax expense | (10,444) | (758) | (1,946) | (5,099) | (18,247) | (2,181) | (20,428) |
| Net future cash flows before discount | 20,493 | 1,070 | 4,834 | 1,618 | 28,015 | 1,935 | 29,950 |
| 10% discount for timing of future cash flows | (8,602) | (458) | (1,740) | (489) | (11,289) | (695) | (11,984) |
| Standardized measure: discounted future net cash flows | $ 11,891 | $ 612 | $ 3,094 | $ 1,129 | $ 16,726 | $ 1,240 | $ 17,966 |
| As of December 31, 1995 | | | | | | | |
| Future cash inflows from sale of oil & gas, and service fee revenue | $ 28,603 | $ 2,144 | $ 8,753 | $ 7,820 | $ 47,320 | $ 5,357 | $ 52,677 |
| Future production costs | (8,232) | (628) | (2,150) | (2,210) | (13,220) | (1,448) | (14,668) |
| Future development costs | (2,618) | (181) | (1,352) | (439) | (4,590) | (515) | (5,105) |
| Future income tax expense | (5,505) | (573) | (1,457) | (3,862) | (11,397) | (1,799) | (13,196) |
| Net future cash flows before discount | 12,248 | 762 | 3,794 | 1,309 | 18,113 | 1,595 | 19,708 |
| 10% discount for timing of future cash flows | (4,988) | (375) | (1,502) | (418) | (7,283) | (553) | (7,836) |
| Standardized measure: discounted future net cash flows | $ 7,260 | $ 387 | $ 2,292 | $ 891 | $ 10,830 | $ 1,042 | $ 11,872 |
| As of December 31, 1994 | | | | | | | |
| Future cash inflows from sale of oil & gas | $ 26,545 | $ 1,568 | $ 6,933 | $ 6,006 | $ 41,052 | $ 4,664 | $ 45,716 |
| Future production costs | (9,374) | (609) | (2,434) | (2,567) | (14,984) | (1,393) | (16,377) |
| Future development costs | (3,011) | (134) | (1,372) | (354) | (4,871) | (193) | (5,064) |
| Future income tax expense | (3,968) | (361) | (966) | (2,229) | (7,524) | (1,632) | (9,156) |
| Net future cash flows before discount | 10,192 | 464 | 2,161 | 856 | 13,673 | 1,446 | 15,119 |
| 10% discount for timing of future cash flows | (4,313) | (155) | (814) | (271) | (5,553) | (554) | (6,107) |
| Standardized measure: discounted future net cash flows | $ 5,879 | $ 309 | $ 1,347 | $ 585 | $ 8,120 | $ 892 | $ 9,012 |

Changes in the Standardized Measure of Discounted Future Net Cash Flows

| | Texaco Inc. and Consolidated Subsidiaries - Total | | | Worldwide Including Equity in Affiliate - Other Eastern Hemisphere | | |
|---|---|---|---|---|---|---|
| (Millions of dollars) | 1996 | 1995 | 1994 | 1996 | 1995 | 1994 |
| Standardized measure - Beginning of year | $ 10,830 | $ 8,120 | $ 6,181 | $ 11,872 | $ 9,012 | $ 6,727 |
| Sales of minerals-in-place | (458) | (679) | (104) | (458) | (679) | (104) |
| | 10,372 | 7,441 | 6,077 | 11,414 | 8,333 | 6,623 |
| Changes in ongoing oil and gas operations: | | | | | | |
| Sales and transfers of produced oil and gas, net of production costs during the period | (4,349) | (3,185) | (2,932) | (4,859) | (3,634) | (3,307) |
| Net changes in prices, production and development costs | 8,407 | 4,265 | 3,024 | 8,820 | 4,564 | 3,707 |
| Extensions, discoveries and improved recovery, less related costs | 2,950 | 1,770 | 1,355 | 3,182 | 1,891 | 1,479 |
| Development costs incurred during the period | 1,431 | 1,223 | 1,133 | 1,575 | 1,322 | 1,262 |
| Timing of production and other changes | (209) | (733) | (618) | (251) | (677) | (648) |
| Revisions of previous quantity estimates | 563 | 988 | 537 | 527 | 990 | 626 |
| Purchases of minerals-in-place | 138 | 42 | 7 | 138 | 42 | 7 |
| Accretion of discount | 1,731 | 1,238 | 907 | 1,952 | 1,428 | 1,023 |
| Net change in discounted future income taxes | (4,308) | (2,219) | (1,370) | (4,532) | (2,387) | (1,760) |
| Standardized measure - End of year | $ 16,726 | $ 10,830 | $ 8,120 | $ 17,966 | $ 11,872 | $ 9,012 |

SELECTED FINANCIAL DATA

Texaco Inc. and Subsidiary Companies

Selected Quarterly Financial Data

| (Millions of dollars) | First Quarter 1996 | Second Quarter 1996 | Third Quarter 1996 | Fourth Quarter 1996 | First Quarter 1995 | Second Quarter 1995 | Third Quarter 1995 | Fourth Quarter 1995 |
|---|---|---|---|---|---|---|---|---|
| Revenues | | | | | | | | |
| Sales and services | $10,059 | $10,817 | $10,901 | $12,784 | $8,585 | $9,031 | $8,621 | $ 9,314 |
| Equity in income of affiliates, interest, asset sales and other | 212 | 444 | 196 | 87 | 482 | 228 | 193 | 333 |
| | 10,271 | 11,261 | 11,097 | 12,871 | 9,067 | 9,259 | 8,814 | 9,647 |
| Deductions | | | | | | | | |
| Purchases and other costs | 7,782 | 8,345 | 8,399 | 10,117 | 6,526 | 6,980 | 6,556 | 7,175 |
| Operating expenses | 684 | 700 | 721 | 873 | 731 | 696 | 713 | 767 |
| Selling, general and administrative expenses | 400 | 399 | 406 | 488 | 371 | 377 | 411 | 421 |
| Maintenance and repairs | 88 | 90 | 88 | 101 | 88 | 96 | 88 | 103 |
| Exploratory expenses | 69 | 90 | 84 | 136 | 55 | 59 | 66 | 109 |
| Depreciation, depletion and amortization | 350 | 354 | 364 | 387 | 397 | 348 | 346 | 1,294 |
| Interest expense, taxes other than income taxes and minority interest | 234 | 252 | 253 | 263 | 265 | 256 | 248 | 259 |
| | 9,607 | 10,230 | 10,315 | 12,365 | 8,433 | 8,812 | 8,428 | 10,128 |
| Income (loss) from continuing operations before income taxes | 664 | 1,031 | 782 | 506 | 634 | 447 | 386 | (481) |
| Provision for (benefit from) income taxes | 278 | 342 | 348 | (3) | 216 | 176 | 96 | (230) |
| Net income (loss) from continuing operations | 386 | 689 | 434 | 509 | 418 | 271 | 290 | (251) |
| Cumulative effect of accounting change | -- | -- | -- | -- | (121) | -- | -- | -- |
| Net income (loss) | $ 386 | $ 689 | $ 434 | $ 509 | $ 297 | $ 271 | $ 290 | $ (251) |
| Per common share (dollars) | | | | | | | | |
| Net income (loss) from continuing operations | $ 1.42 | $ 2.59 | $ 1.61 | $ 1.90 | $ 1.55 | $ .99 | $ 1.06 | $ (1.02) |
| Cumulative effect of accounting change | -- | -- | -- | -- | (.47) | -- | -- | -- |
| Net income (loss) | $ 1.42 | $ 2.59 | $ 1.61 | $ 1.90 | $ 1.08 | $ .99 | $ 1.06 | $ (1.02) |

Fourth quarter 1995 results include a pre-tax charge of $959 million, primarily to depreciation, depletion and amortization, due to the adoption of SFAS 121. (Refer to Note 2 - Changes in Accounting Principles for further details.) On an after-tax basis, this charge amounted to $639 million.

See accompanying notes to consolidated financial statements.

SELECTED FINANCIAL DATA

Texaco Inc. and Subsidiary Companies

Five-Year Comparison of Selected Financial Data

| (Millions of dollars) | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| For the Year: | | | | | |
| Revenues from continuing operations | $45,500 | $36,787 | $33,353 | $34,071 | $36,530 |
| Net income (loss) before cumulative effect of accounting changes | | | | | |
| Continuing operations | $ 2,018 | $ 728 | $ 979 | $ 1,259 | $ 1,038 |
| Discontinued operations | -- | -- | (69) | (191) | (26) |
| Cumulative effect of accounting changes | -- | (121) | -- | -- | (300) |
| Net income | $ 2,018 | $ 607 | $ 910 | $ 1,068 | $ 712 |
| Per common share (dollars) | | | | | |
| Net income (loss) before cumulative effect of accounting changes | | | | | |
| Continuing operations | $ 7.52 | $ 2.57 | $ 3.43 | $ 4.47 | $ 3.63 |
| Discontinued operations | -- | -- | (.26) | (.73) | (.10) |
| Cumulative effect of accounting changes | -- | (.47) | -- | -- | (1.16) |
| Net income | $ 7.52 | $ 2.10 | $ 3.17 | $ 3.74 | $ 2.37 |
| Dividends | $ 3.30 | $ 3.20 | $ 3.20 | $ 3.20 | $ 3.20 |
| Total cash dividends paid on common stock | $ 859 | $ 832 | $ 830 | $ 828 | $ 828 |
| At End of Year: | | | | | |
| Total assets | $26,963 | $24,937 | $25,505 | $26,626 | $25,992 |
| Debt and capital lease obligations | | | | | |
| Short-term | $ 465 | $ 737 | $ 917 | $ 669 | $ 140 |
| Long-term | 5,125 | 5,503 | 5,564 | 6,157 | 6,441 |
| Total debt and capital lease obligations | $ 5,590 | $ 6,240 | $ 6,481 | $ 6,826 | $ 6,581 |

See accompanying notes to consolidated financial statements.

INVESTOR INFORMATION

Texaco Inc.

## 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

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

## Common Stock Market and Dividend Information

Texaco Inc. common stock (symbol TX) is traded principally on the New York Stock Exchange. As of February 27, 1997, there were 195,680 shareholders of record. Texaco's common stock price reached a high of $107.13 during October 1996 and closed at $98.13. The stock appreciation, plus a quarterly dividend increase of 6.25%, provided a total return to Texaco shareholders of 30% for the year.

Common Stock Price Range

| | High | Low | High | Low | Dividends | |
|---|---|---|---|---|---|---|
| | | 1996 | | 1995 | 1996 | 1995 |
| First Quarter | $ 88.75 | $75.50 | $66.75 | $59.75 | $.80 | $.80 |
| Second Quarter | 88.50 | 78.88 | 69.63 | 64.25 | .80 | .80 |
| Third Quarter | 96.13 | 83.13 | 67.63 | 62.75 | .85 | .80 |
| Fourth Quarter | 107.13 | 91.50 | 80.50 | 64.00 | .85 | .80 |

Stock Transfer Agent
Texaco Inc.
Investor Services
2000 Westchester Avenue
White Plains, NY 10650-0001
Phone: 1-800-283-9785
Fax: (914) 253-6286

NY Drop Agent
Chase Mellon Shareholder Services
120 Broadway - 13th Floor
New York, NY 10271
Phone: (212) 374-2500
Fax: (212) 571-0871

Co-Transfer Agent
Montreal Trust Company
151 Front Street West - 8th Floor
Toronto, Ontario, Canada M5J 2N1
Phone: 1-800-663-9097
Fax: (416) 981-9507

## Annual Meeting

Texaco Inc.'s Annual Shareholders Meeting will be held at the Rye Town Hilton, Rye Brook, NY, on Tuesday, May 13, 1997. A formal notice of the meeting, together with a proxy statement and proxy form, is being mailed to shareholders with this Report.

## 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 all investors may make initial investments directly through the company. The Plan features dividend reinvestment, optional cash investments and custodial service for stock certificates. Texaco's Investor Services Plan is an excellent way to start an investment program for friends or family members. For a complete informational package, including a Plan prospectus, call 1-800-283-9785, or visit Texaco's Internet home page: http://www.texaco.com.

## Publications for Shareholders

In addition to the Annual Report, Texaco issues several financial and informational publications which are available free of charge to interested shareholders on request from Investor Services at the above address:

Texaco Inc.'s 1996 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

Financial and Operational Supplement - Comprehensive data on Texaco's 1996 activities.

Texaco Foundation 1996 Annual Report - Information on charitable contributions to select tax-exempt organizations in the U.S.

Equal Opportunity and Texaco: A Report - A description of Texaco's programs that foster equal employment opportunity.

1996 Environment, Health and Safety Review - A report on Texaco's programs, policies and results in the areas of corporate responsibility.

EXHIBIT 21
Subsidiaries of Registrant
1996

Parents of Registrant
None

Registrant
Texaco Inc.

The significant subsidiaries included in the consolidated financial statements of the Registrant are as follows:

| | Organized under the laws of |
|---|---|
| Four Star Oil and Gas Company | Delaware |
| Heddington Insurance Ltd. | Bermuda |
| MVP Production Inc. | Delaware |
| Refineria Panama, S.A. | Panama |
| S.A. Texaco Belgium N.V. | Belgium |
| Saudi Arabian Texaco Inc. | Delaware |
| TEPI Holdings Inc. | Delaware |
| TRMI Holdings Inc. | Delaware |
| Texaco Brazil S.A. - Produtos de Petroleo | Brazil |
| Texaco Britain Limited | England |
| Texaco Canada Petroleum Inc. | Canada |
| Texaco Caribbean Inc. | Delaware |
| Texaco Chemical Inc. | Delaware |
| Texaco Cogeneration Company | Delaware |
| Texaco Denmark Inc. | Delaware |
| Texaco Exploration and Production Inc. | Delaware |
| Texaco International Trader Inc. | 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 Oil Development Company | Delaware |
| Texaco Overseas Holdings Inc. | Delaware |
| Texaco Overseas (Nigeria) Petroleum Company, Unlimited | Nigeria |
| Texaco Overseas Petroleum Company | Delaware |
| Texaco Panama Inc. | Panama |
| Texaco Pipeline Inc. | 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 Trading and Transportation Inc. | Delaware |
| Texaco Trinidad Inc. | 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.

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated February 27, 1997 incorporated by reference in Texaco Inc.'s Form 10-K for the year ended December 31, 1996, into the following previously filed Registration Statements:

| | | |
|---|---|---|
| 1. | Form S-3 | File Number 2-37010 |
| 2. | Form S-3 | File Number 33-31148 |
| 3. | Form S-8 | File Number 2-67125 |
| 4. | Form S-8 | File Number 2-76755 |
| 5. | Form S-8 | File Number 2-90255 |
| 6. | Form S-8 | File Number 33-34043 |
| 7. | Form S-3 | File Number 33-40309 |
| 8. | Form S-8 | File Number 33-45952 |
| 9. | Form S-8 | File Number 33-45953 |
| 10. | Form S-3 | File Number 33-63996 |
| 11. | Form S-3 | File Number 33-50553 and 33-50553-01 |
| 12. | Form S-8 | File Number 333-11019 |

Arthur Andersen LLP

New York, N.Y.
March 27, 1997

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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 his 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, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 22nd day of January, 1997.

PETER I. BIJUR
--------------

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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.

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IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 13th day of January, 1997.

ALLEN J. KROWE
--------------

EXHIBIT 24.3

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, an officer of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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.

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IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 13th day of January, 1997.

PATRICK J. LYNCH
----------------
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 24.4

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, an officer of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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.

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IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 31st day of January, 1997.

ROBERT C. OELKERS
-----------------
Vice President and Comptroller
(Principal Accounting Officer)

EXHIBIT 24.5

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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.

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IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 14th day of January, 1997.

ROBERT A. BECK
--------------

EXHIBIT 24.6

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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 his 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, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 28th day of February, 1997.

JOHN BRADEMAS
-------------

EXHIBIT 24.7

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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.

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IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 29th day of January, 1997.

WILLARD C. BUTCHER
------------------

EXHIBIT 24.8

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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 his 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, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 15th day of January, 1997.

EDMUND M. CARPENTER
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# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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 his 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, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 17th day of January, 1997.

MICHAEL C. HAWLEY
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EXHIBIT 24.10

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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 his 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, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 29th day of January, 1997.

FRANKLYN G. JENIFER
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EXHIBIT 24.11

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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 his 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, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 31st day of January, 1997.

THOMAS S. MURPHY
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EXHIBIT 24.12

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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 his 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, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 14th day of January, 1997.

CHARLES H. PRICE, II
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EXHIBIT 24.13

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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 his 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, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set her name as of the 15th day of January, 1997.

ROBIN B. SMITH
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EXHIBIT 24.14

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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 his 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, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 30th day of January, 1997.

WILLIAM C. STEERE, JR.
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EXHIBIT 24.15

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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 his 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, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 4th day of February, 1997.

THOMAS A. VANDERSLICE
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EXHIBIT 24.16

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful 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, par value $6.25 per share, and preferred stock, par value $1.00 per share, 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 for the year ended December 31, 1996, 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 his 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, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 30th day of January, 1997.

WILLIAM WRIGLEY
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM TEXACO INC.'S 1996 ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

YEAR
DEC-31-1996
JAN-1-1996
DEC-31-1996
511
41
5,229
34
1,460
7,665
33,988
20,577
26,963
6,184
5,125
0
629
1,483
8,260
26,963
44,561
45,500
34,643
37,621
4,462
0
434
2,983
965
2,018
0
0
0
2,018
7.52
7.36