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, 1998 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 White Plains, New York	10650
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $3.125	New York Stock Exchange Chicago Stock Exchange The Stock Exchange, London Antwerp and Brussels Exchanges Swiss Stock Exchange
Rights to Purchase Series D Junior Participating Preferred Stock	New York Stock Exchange
Cumulative Adjustable Rate Monthly Income Preferred Shares, Series B*	New York Stock Exchange
6 7/8% Cumulative Guaranteed Monthly Income Preferred Shares, Series A*	New York Stock Exchange
81/2% Notes, due February 15, 2003**	New York Stock Exchange
8 5/8% Debentures, due June 30, 2010**	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 (5 1/2% to June 1, 1999)**	New York Stock Exchange
Extendible Notes, due March 1, 2000 (9.45% to March 1, 2000)**	New York Stock Exchange

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

** Issued by Texaco Capital Inc. and unconditionally guaranteed by Texaco Inc.

The Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

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

The aggregate market value of the voting common stock of Texaco Inc. held by non-affiliates at the close of business on February 26, 1999 based on the New York Stock Exchange composite sales price, was approximately $24,946,000,000. 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 26, 1999, was approximately $762,849,000.

As of February 26, 1999, there were 536,018,730 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 1998................................	I, II
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PART I
TEXACO INC.

Items 1 and 2. Business and Properties

DEVELOPMENT AND DESCRIPTION OF BUSINESS

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

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

INDUSTRY REVIEW OF 1998

Introduction

Crude oil prices have a major effect on our financial performance. The price of crude oil is determined in the international market by the often complex interaction of worldwide petroleum demand and supply. In 1998, crude oil prices were driven down by several factors which influenced demand and supply. These included economic activity, weather patterns and actions of the Organization of Petroleum Exporting Countries (OPEC). For 1998, West Texas Intermediate (WTI) crude oil prices averaged $14.39 per barrel, or about 30% below the 1997 average.

Review of 1998

In 1998, the world experienced a severe economic crisis. Global economic growth averaged a meager 1.6%, significantly below the 4% growth recorded in 1997 and 1996.

Economic activity varied widely among regions, with many Asian countries hit the hardest. Japan, the world's second-largest economy, experienced its worst downturn in the post-war period, caused by a collapse in consumer and investor confidence and severe banking problems. Several of developing Asia's key economies, including Indonesia, Hong Kong, Korea, Malaysia, Singapore and Thailand also plunged into recession, crippled by a regional financial crisis which began in July 1997.

The financial turbulence eventually spread to Russia and Latin America. Russia's economy registered a steep decline. In Latin America, the heightened financial uncertainty ultimately pushed the large Brazilian economy into recession, and slowed growth in other Latin American countries. Moreover, weak commodity prices--attributable in part to the slowdown in Asia--curtailed economic growth in other areas, particularly the oil producing countries of the Middle East and Africa.

In sharp contrast to the areas experiencing economic recession or stagnation, the U.S. and Western Europe enjoyed favorable economic conditions. U.S. growth remained robust as the economy benefited from lower interest rates, and Western Europe showed an improvement because of higher consumer spending.

Economic activity has a major effect on petroleum consumption. The deterioration in major portions of the global economy resulted in a substantial reduction in oil demand growth, which increased by only about 400,000 barrels per day (BPD) or 0.5% during 1998. This represents a dramatic slowing from the roughly 2 million BPD growth which occurred in both 1997 and 1996. Demand in Asia suffered the largest decline, about 500,000 BPD. This was a significant development, since growth in Asia had accounted for about half of the total worldwide increase in recent years. Moreover, warm weather at both the beginning and end of 1998 constrained oil consumption in the U.S. and Western Europe.

Crude oil prices were further weakened by significant increases in petroleum supplies early in 1998. Specifically:

- OPEC countries set new, higher production quotas in late 1997 and proceeded to exceed them
- U.N.-sanctioned crude oil exports from Iraq increased sharply
- Production from non-OPEC countries also increased.

These actions led to a large increase in worldwide petroleum inventories. By mid-1998, OPEC, Mexico and a few other non-OPEC producers agreed to reduce their combined oil production by about 3 million BPD. Yet, in the face of lower demand, this attempt to improve the growing market imbalance did not prevent a further slide in world oil prices. The market price of WTI crude oil slipped from an average of about $16.70 per barrel in January to $11.30 per barrel during December. In addition to lower worldwide crude oil prices, warmer than normal weather and excess capacity caused natural gas prices in the U.S. to decline almost 20%.

Near-Term Outlook

We are beginning to see signs of strengthening in the international petroleum market. On March 23, 1999, OPEC announced that it would enact further significant cuts in crude oil production in order to support higher prices. Together with some non-OPEC producers, the intent is to remove about two million BPD from the market. While world oil inventories are currently high by historical standards, a supply curtailment of this magnitude could tighten the supply/demand balance.

At the same time, there are indications that the world economy may well be stabilizing, and growth is likely to pick up in the latter part of the year. Several economic developments seem to support this:

- The U.S. economy remains robust, with few signs of slowing
- Japan continues to spur its economy with massive fiscal stimulus and a dramatic easing in monetary policy
- Benefiting from an inflow of foreign capital and a trade surplus, Korea expects to enjoy positive growth in real Gross Domestic Product this year
- Brazil is continuing to enact fiscal reforms required for International Monetary Fund support.

As the world economy picks up, so too will growth in oil demand. Consumption during 1999 is expected to rise by 800,000 BPD -about double the increase of last year. This higher demand, balanced against lower supplies resulting from the OPEC and non-OPEC production accord, suggests a firmer market in 1999.

WORLDWIDE OPERATIONS

Our worldwide operations encompass three main businesses:

- Upstream (exploration and production)
- Downstream (manufacturing, marketing and distribution)
- Global Gas Marketing.

In the following pages, we discuss each of these businesses, along with our Global Gas and Power and Technology units.

UPSTREAM

Our upstream results were significantly reduced by the lowest crude oil prices in over 20 years. Despite low prices, we achieved our key operational goals. In 1998:

- Production was up some 9% over 1997
- Exploration success was highlighted by finds in Nigeria, Trinidad, and the Partitioned Neutral Zone (PNZ) between Saudi Arabia and Kuwait
- Our worldwide reserve replacement of 166% enabled us to achieve our highest year-end reserve total since 1985
- Our finding and development cost was an extremely competitive $3.45 per barrel of oil equivalent (BOE).

Exploration

The year 1998 was a very successful year in exploration, highlighted by key discoveries in Nigeria, Trinidad and the PNZ. In addition, we continued to add to our deepwater Gulf of Mexico position and added new blocks in Angola and Colombia. During the year, we continued to focus our exploration efforts on West Africa, the deepwater Gulf of Mexico, Trinidad and Colombia, while withdrawing from several less productive areas such as Italy, Vietnam and Thailand.

West Africa

Our significant oil discovery in Nigeria Block OPL-216, named Agbami, could potentially contain several hundred million barrels. Located in the central Niger Delta approximately 70 miles offshore, the discovery well was drilled in 4,700 feet of water -- a current industry record for Nigeria -- and it encountered 420 net feet of oil pay in multiple zones.

In March 1999, we and our partner Statoil announced a discovery on the nearby block OPL-218. Preliminary data indicates the reservoirs of Block 218 (46.15% Texaco share) could contain up to several hundred million barrels of recoverable oil.

Our acreage holdings in the deepwater off Nigeria are approximately 1.2 million acres. We are well positioned to expand reserve finds in this developing "hot spot" for exploration.

In Angola, we acquired a 50% interest in Block 1, which is located west of Texaco's producing Block 2/85. Block 1, covering almost one million acres, is the third Texaco-operated exploration block that we acquired in Angola over the past two years. During 1998, we signed a Production Sharing Agreement with Sonangol, Angola's state-owned oil company, for Blocks 9 and 22, in which we acquired 40% interests in 1997.

Gulf of Mexico

We were an active participant in both the Western and Central Gulf of Mexico lease sales in 1998, adding 92 new blocks to our already strong inventory of deepwater prospects. These blocks added slightly over 500,000 gross acres to our total Gulf acreage. With 2.4 million gross acres, we have the third largest holdings in the deepwater Gulf of Mexico.

South America/Caribbean

Texaco Trinidad Inc. and our partner, British Gas, announced two discoveries in Trinidad during 1998. The Dolphin Deep discovery, located in 650 feet of water, approximately 60 miles off Galeota Point, southeast of Trinidad, encountered 430 feet of gas pay in three zones and tested at a rate of 36 million cubic feet of gas per day and 370 barrels of condensate per day.

Following on from the Dolphin Deep discovery, the partnership (Texaco share 50%) announced the Starfish discovery late in the year. The Starfish discovery was drilled in 427 feet of water on the border between Blocks E and 5a. The well encountered 501 feet of natural gas pay in four zones and tested at a constrained rate of 16.2 million cubic feet of natural gas per day.

In Colombia, Texas Petroleum Company, together with Shell, signed two new exploration contracts with Ecopetrol, Colombia's state-owned oil company, to explore two large offshore blocks. Texaco and Shell each hold a 25% share in the two blocks in which we will be the operator. The blocks encompass more than 12 million acres.

Partitioned Neutral Zone

Saudi Arabian Texaco Inc., together with Kuwait Oil Company, announced the Humma discovery during 1998 (50% Texaco share). The discovery well is located approximately 16 miles southwest of Wafra Field in the PNZ. The well encountered 726 feet of gross crude oil pay and tested at a combined rate of 3,400 barrels of oil per day.

Production

Strong production growth was the highlight for 1998 as we increased our worldwide production by 9% to 1.3 million barrels of oil equivalent per day. U.S. production accounted for some 55% of worldwide production or 713,000 BOE per day and was up by 5% over 1997. International production was up by 14% over 1997 to 588,000 BOE per day.

The worldwide production increase came primarily from the North Sea and California. However, there were also success stories in the PNZ, Kazakhstan and the Gulf of Mexico.

Gulf of Mexico

Three new fields began producing in 1998: Barite South, Arnold and Oyster. The Barite South field (60% Texaco share) began producing in April from a 12-slot conventional platform with two wells. Several new wells were added during the course of the year. Barite South was followed in May by the Arnold field (37.5% Texaco share) and the Oyster field (33.3% Texaco share). Both of these developments have Marathon as a partner. These three new developments helped offset production declines in other Gulf fields, allowing total Gulf of Mexico production to remain as one of our strongest upstream assets.

California

In 1998, we had our first full year of production from the properties acquired from Monterey Resources in November of 1997. Production in California was up by some 42,000 barrels of oil equivalent per day due primarily to the increased production associated with the 1997 acquisition. Since the acquisition, we have been successful at reducing field operating costs by over $1 per barrel for the acquired Monterey fields, while increasing production by applying our experience in heavy-oil technology.

United Kingdom

The U.K. sector of the North Sea provided the most significant increase in our production profile, accounting for some 44,000 barrels of oil equivalent per day of increased production. Galley field, located in Block 15/23a, achieved first production in March 1998. Our 67.4% share of the field's production amounted to just under 17,000 barrels of oil equivalent per day for the full year. In addition, 1998 saw the first full year of production from both the Captain and Erskine fields.

Middle East and Caspian Area

In 1998, Saudi Arabian Texaco (SAT) achieved a production increase for the sixth consecutive year in the PNZ. Continued development of the three key fields operated by SAT, and partner Kuwait Oil Company, drove our share of production to a record 108,000 barrels of oil per day.

In Kazakhstan, the Karachaganak field added new production for us in 1998 following the signing of the Production Sharing Agreement in November 1997. Texaco (20% share), together with partners BG, Agip and Lukoil, saw production limited from the field due to economic constraints. However, the potential exists for significant production increases following completion of the Caspian Pipeline Consortium pipeline or other equivalent outlets for crude oil from the Karachaganak field.

Also in Kazakhstan, we acquired a 65% operating interest in the North Buzachi oil field from Nimir Petroleum Company. The field is located 120 miles north of the Caspian port city of Aktau. A pilot work program will determine the viability of developing the field.

Indonesia

P.T. Caltex Indonesia (CPI), an exploration and production company, is owned 50% each by Texaco and Chevron. CPI holds a Production Sharing Contract in Central Sumatra through the year 2021. CPI also acts as operator in Sumatra for seven other petroleum contract areas, with 33 fields. Exploration is pursued through an area comprising approximately 16 million acres with production established in the giant Minas and Duri fields, along with smaller fields. Gross production from fields operated by CPI for 1998 was over 760,000 barrels of crude oil per day.

China

During 1998, Texaco China B.V. and ARCO China Inc. signed a new petroleum contract with the Chinese National Offshore Oil Corporation to develop QHD 32-6 field, China's second largest offshore oil field. Discovered in 1995, QHD 32-6 is located approximately 155 miles southeast of Beijing in Bohai Bay. The field is located in 65 feet of water and we hold a 24.5% interest.

Also in 1998, we signed the first contract with the China United Coalbed Methane Corporation. The contract will allow us to explore for coalbed methane in two blocks covering 2,663 square kilometers in China's Anhui Province. Successful exploration will allow us to apply the expertise we have gained in our U.S. operations.

Reserves

We increased our worldwide reserve base to nearly 4.7 billion BOE by year-end 1998. Approximately 54% (2.5 billion BOE) of these reserves are located in the United States. U.S. reserves are up by 3% over year-end 1997 with the majority of the increase associated with additions in California. International reserves (2.2 billion BOE) were up 15% over year-end 1997. The primary contributors to this increase were Indonesia and the PNZ.

Excluding sales and purchases, our 1998 reserve replacement was 166%. Over the past three years, worldwide reserve replacement averaged 150%. Over the past five years, our worldwide reserve replacement averaged 138%.

Capital and Exploratory Expenditures

Our upstream capital and exploratory expenditures during 1998 of $2.7 billion were down slightly from 1997, excluding the $1.4 billion acquisition of Monterey Resources in 1997. Texaco's expenditures in 1998 reflect the deferral of certain projects due to the low-price environment. We spent approximately $1.4 billion in the U.S. and $1.3 billion internationally. Our worldwide finding and development costs in 1998 were a very competitive $3.45 per BOE, down from $3.79 in 1997. Our finding and development costs in 1998 were $4.41 per BOE in the U.S. and were $2.64 per BOE internationally.

Spending for 1999 on upstream projects is expected to be $2.3 billion. Even in the current low-price environment, we feel it is important to continue to prudently allocate capital resources to projects which often have long lead times and which will generate attractive returns in the future. However, we continue to carefully assess investment projects given the current and projected industry environment.

Development spending will be directed towards projects in the U.S. deepwater Gulf of Mexico, the U.K. North Sea and Denmark. Major exploration projects will include Nigeria, Angola and Trinidad.

SUPPLEMENTARY EXPLORATION AND PRODUCTION INFORMATION

The following tables provide supplementary information concerning the oil and gas exploration, development and production activities of Texaco Inc. and consolidated subsidiaries, as well as our equity in CPI, a 50%-owned affiliate operating in Other Eastern Hemisphere. Supplemental oil and gas information required by Statement of Financial Accounting Standards No. 69, Disclosures About Oil and Gas Producing Activities, is incorporated herein by reference from pages 70 through 75 of our 1998 Annual Report to Stockholders.

Reserves Reported to Other Agencies

We provide information concerning recoverable, proved oil and gas reserve quantities to the U.S. Department of Energy and to other governmental bodies annually. Such information is consistent with the reserve quantities presented in Table I, Net Proved Reserves, beginning on page 70 of our 1998 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 74 of our 1998 Annual Report to Stockholders.

Delivery Commitments

During 1999, we expect that our net production of natural gas will approximate 2.3 billion cubic feet per day. This estimate is based upon our past performance and on our assumption that such gas quantities can be produced under operating and economic conditions existing at December 31, 1998. We did not factor possible future changes in prices or world economic conditions into this estimate. These expected production volumes, together with the normal related supply arrangements, are sufficient to meet our anticipated delivery requirements under contractual arrangements. Approximately 34% of our proved natural gas reserves in the U.S. as of December 31, 1998, 1997 and 1996 were covered by long-term sales contracts. These agreements are primarily priced at market.

Oil and Gas Acreage

Thousands of acres	As of December 31, 1998 Gross	Net
Producing		
Texaco Inc. and Consolidated Subsidiaries		
United States	3,200	1,792
Other Western Hemisphere	110	53
Europe	146	53
Other Eastern Hemisphere	645	156
Total	4,101	2,054
Equity in Affiliate	210	105
Total worldwide	4,311	2,159
Undeveloped		
Texaco Inc. and Consolidated Subsidiaries		
United States	8,820	6,091
Other Western Hemisphere	13,948	3,597
Europe	6,690	2,784
Other Eastern Hemisphere	57,494	28,663
Total	86,952	41,135
Equity in Affiliate	1,745	873
Total worldwide	88,697	42,008
Total oil and gas acreage	93,008	44,167

Number of Wells Capable of Producing*

	As of December 31, 1998 Gross	Net
Oil wells		
Texaco Inc. and Consolidated Subsidiaries		
United States	33,876	18,033
Other Western Hemisphere	326	109
Europe	258	75
Other Eastern Hemisphere	1,775	652
Total	36,235	18,869
Equity in Affiliate	4,744	2,372
Total worldwide**	40,979	21,241
Gas wells		
Texaco Inc. and Consolidated Subsidiaries		
United States	7,363	3,233
Other Western Hemisphere	33	17
Europe	36	10
Other Eastern Hemisphere	34	6
Total	7,466	3,266
Equity in Affiliate	47	24
Total worldwide**	7,513	3,290

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* 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 140 gross and 54 net multiple completion oil wells and 8 gross and 6 net multiple completion gas wells.

Oil, Gas and Dry Wells Completed

	For the years ended December 31,								
	1998			1997			1996		
	Oil	Gas	Dry	Oil	Gas	Dry	Oil	Gas	Dry
Net exploratory wells*									
Texaco Inc. and Consolidated Subsidiaries									
United States	14	14	26	32	22	35	29	28	29
Other Western Hemisphere	--	2	2	1	--	1	--	3	1
Europe	--	--	1	4	--	1	3	--	1
Other Eastern Hemisphere	4	4	2	1	3	5	1	2	2
Total	18	20	31	38	25	42	33	33	33
Equity in Affiliate	3	--	--	2	--	--	--	--	--
Total worldwide	21	20	31	40	25	42	33	33	33
Net development wells									
Texaco Inc. and Consolidated Subsidiaries									
United States	937	106	14	883	165	23	283	191	44
Other Western Hemisphere	109	3	--	107	1	3	33	8	--
Europe	21	2	--	6	3	--	1	--	1
Other Eastern Hemisphere	38	27	--	45	1	--	44	--	1
Total	1,105	138	14	1,041	170	26	361	199	46
Equity in Affiliate	271	--	--	143	1	--	259	1	--
Total worldwide	1,376	138	14	1,184	171	26	620	200	46

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

Additional Well Data

	As of December 31, 1998			
	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	40	31	390	--
Other Western Hemisphere	3	2	1	--
Europe	6	1	13	--
Other Eastern Hemisphere	17	6	13	1
Total	66	40	417	1
Equity in Affiliate	6	3	7	--
Total worldwide	72	43	424	1

DOWNSTREAM

Texaco International Marketing and Manufacturing

Our Texaco International Marketing and Manufacturing (TIMM) unit conducts business in some 60 countries throughout Latin America, the Caribbean, Europe and West Africa. The main lines of business for this unit are fuel and lubricants sales, both retail and commercial, and petroleum refining.

We are a market leader in the Caribbean and Central and South America with significant fuels market shares, as high as 25% in most Caribbean and Central American countries. One-fourth of our worldwide lubricants sales are in Latin America. Our largest business is in Brazil, where sales are over 50 million barrels per year and our market share is 13.5% in retail fuels and 23% in lubricants. In Brazil, the addition of over 200 branded retail stations in 1998 brings our total retail stations to more than 3,200.

In the Andean Region, comprising Colombia, Ecuador, Peru, Panama and Venezuela, we have almost 1,000 service stations. In Venezuela, which is expected to become a major retail market in this region, we are positioned to match our growing lubricants market share with an expanded retail development program. This should occur as soon as the timing and economics related to the privatization of that sector are developed further.

In early 1999, our business in Brazil and the Andean countries has been impacted by economic slowdown and currency devaluation. We are taking prompt actions, such as significant reductions in capital expenditures and expenses, to mitigate the effects of these problems. In addition, we are taking steps to reduce our overall exposure.

In the Caribbean and Central America, we operate in 32 countries through a network of 1,250 service stations. Petroleum demand growth is projected to be about 3% a year. In this region, we have built on our excellent market share and presence to continue growth by investing in areas with the greatest potential. We will continue to grow by aligning ourselves with suppliers, major industrial customers, and other oil companies where we can capture infrastructure efficiencies.

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

Latin America and West Africa refined product sales for 1998 increased 13% as compared with 1997 sales, reflecting the continuing leverage of our strong position in these markets. Our 1998 cost containment initiatives have also decreased controllable expenses by $.23 a barrel compared with 1997.

The Latin America manufacturing segment consists of two equity refineries, one in Escuintla, Guatemala, with a crude capacity of 16,500 barrels per day, and the other in Bahia Las Minas, Panama, with a crude capacity of 60,000 barrels per day. The refinery at Panama refines oils and wholesales finished products for local sales, canal sales, and export markets, while the Guatemala refinery supplies only internal country requirements.

In Europe, we are in regional markets, with our assets concentrated in the UK, Ireland and the Benelux. We also have a 50% interest in Hydro Texaco, a Scandinavian marketing joint venture with Norsk Hydro, as well as fuels and lubricants marketing companies in Greece and Poland. We market lubricants in all other major European countries, ranking among the top 10 lubricant marketers. We are also the number one supplier of lubricants and coolants to original equipment manufacturers in Europe.

In 1998, the UK market recovered somewhat from the effects of price wars triggered by the aggressive growth of hypermarkets. With the stabilization of margins, we are growing our market share, primarily through the acquisition of dealers. There are 286 more Texaco-branded retail outlets in the UK now than there were at the end of 1997. Our commercial sales business has expanded 50% and now shows a more balanced portfolio of end-users, equity distributors, authorized distributors, resellers and spot sales. Our lubricants division has made similar progress with a 41% increase in volume since 1997. A major factor in this increase is that 50% of all vehicles leaving UK assembly lines are being filled with Texaco lubricants. All of our progress is the result of focused strategy, organizational efficiencies, reduced costs and customer focus.

In Ireland and the Benelux, we have double-digit market share, and we continue to improve our cost structure to be more effective in these highly competitive markets.

In European manufacturing, we have an interest in two refineries with a total capacity for Texaco of 308,000 barrels per day. We own the Pembroke refinery in Wales, UK, which has the largest Fluid Catalytic Cracker and Alkylation units in Europe. It is one of the most modern and advanced refineries in Europe with very high motor gasoline yields and qualities. This refinery supplies our marketing requirements in the UK and Ireland, and also exports its high-quality gasoline to other parts of the world. It has a highly skilled, talented and innovative workforce, which provides competitive strength in the areas of health and safety performance and overall plant reliability. Pembroke is also well situated to economically comply with the European Union's new fuel specifications for the year 2000 and beyond.

We also own a 31% interest in the 380,000-barrel-per-day Nerefco refinery in Rotterdam, a joint venture with British Petroleum. This refinery provides the main supply to our Netherlands marketing operations and, due to its excellent location in Rotterdam harbor, is a key supplier to the Rotterdam fuel market and to the German light products market. The consolidation of the Nerefco refinery to one site was successfully completed in September 1998 with the start-up of a new 40,000 barrels per day hydrotreater. The project was completed three months ahead of schedule and 8% below target cost. We expect that annual reductions of 27% in operating expenses and 55% in maintenance capital will result from this project.

U.S. Downstream Alliances

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

The combination of Equilon and Motiva is estimated to be the largest retail gasoline marketer in the U.S., having an approximate 15% share of the domestic gasoline market. The two companies have 10 refineries with a combined capacity of about 1.7 million barrels per day, interests in about 31,000 miles of pipelines and distribute gasoline through about 23,600 retail outlets.

Equilon Enterprises LLC

On January 1, 1998, Equilon was formed as a joint venture between Texaco and Shell. Equilon, which is headquartered in Houston, Texas, combines major elements of Texaco's and Shell's western and midwestern U.S. refining and marketing businesses and their nationwide transportation and lubricants businesses. We own 44% and Shell owns 56% of the company.

Equilon refines and markets gasoline and other petroleum products under both the Texaco and Shell brand names in all or parts of 32 states. Equilon is estimated to be the seventh largest refining company in the U.S. with six refineries located in:

- Anacortes, Washington
- Bakersfield, California
- El Dorado, Kansas
- Martinez, California
- Los Angeles, California
- Wood River, Illinois.

Equilon owns or has interest in 66 crude oil and product terminals. It is estimated to be the fifth largest retail gasoline marketer in the U.S., distributing products through approximately 9,400 service stations. Equilon has an estimated 7.4% share of the national gasoline market and an estimated 14.3% share of the gasoline market in its geographic area.

The year 1998 was a year of organization and transition for Equilon. About 9,000 positions in Equilon were identified and staffed using a staff selection process designed to fill each position with the best qualified person. There was about a 20% reduction from the previous employee level in areas outside of refinery and retail operations.

Pursuant to consent agreements with the Federal Trade Commission and certain state governments, Equilon divested itself of Shell's Anacortes, Washington, refinery, certain marketing assets in Southern California, and pipeline interests. In mid-March 1999, Equilon completed the sale of certain marketing assets in Hawaii.

Equilon began early in 1998 to combine the operations of the two companies. For example, it closed one refinery and targeted three lubricant blending plants for closing or sale. It also eliminated numerous contract blending locations. In transportation, product and crude movements were shifted into the new Equilon system where other pipelines had previously been utilized. Sales offices were consolidated and many offices were closed. A common enterprise-wide accounting system is being developed that will replace the multitude of systems previously used.

Capturing synergies from the formation of Equilon was a high priority in 1998. After deducting start-up expenses associated with the new company, savings were greater than expected.

Equilon will implement plans which it developed in 1998 to restructure and strengthen its retail marketing system over the next several years. It began a major initiative to improve supply chain management and to leverage the combined strength of Equilon and Motiva in supply acquisition.

Motiva Enterprises LLC

On July 1, 1998, we formed Motiva as a joint venture among Shell, Texaco and Saudi Refining, Inc., a corporate affiliate of Saudi Aramco. Motiva combines Texaco's and Saudi Aramco's interests and major elements of Shell's eastern and Gulf Coast U.S. refining and marketing businesses. We and Saudi Refining, Inc., each owns 32.5% and Shell owns 35% of Motiva. Texaco's and Saudi Aramco's interests in these businesses were previously conducted by Star Enterprise, a joint-venture partnership owned 50% by Texaco and 50% by Saudi Refining, Inc.

Motiva refines and markets gasoline and other petroleum products under the Shell and Texaco brand names in all or part of 26 states and the District of Columbia, providing product to 14,200 Shell- and Texaco-branded retail outlets. The company owns and operates 610 retail outlets--45 Shell-branded and 565 Texaco-branded. Motiva owns and leases 2,325 retail outlets--1,705 Shell-branded and 620 Texaco-branded -- and has 645 independent wholesale marketers and 400 open retailers. Motiva has an estimated 7.5% share of the national gasoline market and an estimated 15.5% market share in its geographic area.

Motiva is the eighth largest refiner in the U.S., capable of refining about 819,000 barrels a day. Motiva's refineries are located in:

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

Motiva also owns or has interests in 47 product terminals.

In 1998, Motiva undertook actions to identify and capture synergies. Some of the major synergies captured included the hydrotreater realignment at the Convent, Louisiana refinery, a gasoline additives synergy, consolidation of the marketing staff and the reduction of insurance expense.

Equiva Trading Company

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

Equiva Services LLC

Equilon and Motiva also jointly own Equiva Services. Equiva Services was established to provide common services to both Equilon and Motiva. Equiva Services provides services in areas such as brand management, retail operations, accounting, tax, treasury, information technology, safety, health and environment. Combining these common services, rather than having a separate service organization for each company, is one way that Equilon and Motiva are capturing the synergies of combination despite different ownership.

Caltex Corporation

Caltex Corporation (formerly known as Caltex Petroleum Corporation) is jointly owned 50% each by Texaco and Chevron. Caltex operates in more than 60 countries in the Asia-Pacific region, Africa, the Middle East, New Zealand and Australia. Caltex refines crude oil and markets petroleum and convenience products through its subsidiaries and affiliates, and is also involved in distribution, shipping, storage, marketing, supply and trading operations.

Caltex has interests in 13 fuel refineries with equity refining capacity of 978,000 barrels per day. Additionally, it has interests in two lubricant refineries, six asphalt plants, 17 lubricating oil blending plants and more than 500 ocean terminals and depots. Caltex continues to be a major supplier of refined products through its large refineries in South Korea, Singapore and Thailand, where its Star refinery is being integrated with the nearby Shell refinery. Its trading organization provides 24-hour service to the Caltex system and to third parties that require crude oil, feedstocks, base oils and refined products.

Refining margins in 1998 were at their lowest level in more than 10 years, due to worldwide oversupply of capacity, which was partly a result of the economic disruption in many Asian countries. By focusing on full utilization of assets, cost reductions, cost-effective investments and initiatives to improve efficiency and maintain the integrity of the refining assets, the operating performance of Caltex' refineries has continued to improve, mitigating the effect of low margins to the extent possible.

Caltex and its affiliates maintain a strong marketing presence through a network of 8,000 retail outlets, of which 4,700 are branded as Caltex. It also operates over 425 Star Mart convenience stores. Caltex sales of crude oil and petroleum products were 1.5 million barrels per day in 1998.

In 1998, Caltex reorganized by changing from a geographic to a functional organizational structure. The new structure is flatter, and has improved channels of communication to manage and allocate resources more effectively. Additionally, Caltex is relocating its executive leadership team from Dallas, Texas, to Singapore to be closer to its main operating area.

Caltex' business strategies are to:

- improve the financial performance of its established business operations
- selectively grow in emerging countries
- increase non-fuel earnings through convenience stores
- continue with the retail reimaging program in preferred marketing areas
- pursue initiatives to further reduce operating expenses and boost margins
- achieve top competitive performance in each market.

In addition to the retail initiatives, Caltex has created specialized business units that are helping Caltex' operating companies position themselves for larger shares of the high-growth markets for lubricating oils and greases, aviation fuels, and LPG. Caltex conducts international crude oil and petroleum product logistics and trading operations from a subsidiary in Singapore. Affiliates in South Korea and Japan are active in the petrochemicals business. Their plants convert lower-value refinery output into products such as polypropylene, benzene and paraxylene, thus providing Caltex with the opportunity to market a wider range of higher value products.

Caltex has been an active participant in the Asia-Pacific region for many years. This region is comprised of mature and growth markets. Caltex has followed strategies to compete aggressively in mature markets, such as Japan, Hong Kong, Singapore, Australia, New Zealand and South Africa. Caltex is also active in such developing countries as Malaysia, Thailand, the Philippines and South Korea. Caltex is also actively pursuing opportunities in less developed countries where demand growth is expected to strengthen, such as Vietnam, Laos, Cambodia, Sri Lanka, India, and portions of Central and East Africa.

Caltex refines, markets, transports and trades crude oil and products in the Middle East and eastern and South Africa. In South Africa, Caltex has been the brand leader in gasoline sales for many years, with about 1,100 retail outlets. Caltex operates a wholly-owned 112,000 BPD refinery in Capetown.

GLOBAL GAS MARKETING

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

The majority of TNG's assets are strategically located in the U.S. Gulf Coast area. TNG owns and operates one of the largest producer-owned gas pipeline systems in the U.S. consisting of more than 1,600 miles of pipe with over 50 interconnects to other intrastate and interstate pipelines. The system is made up of three pipeline companies: Sabine Pipeline Company, Bridgeline Gas Distribution LLC, and Discovery Gas Transmission LLC.

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

Bridgeline Gas Distribution LLC is an intrastate pipeline system that extends across South Louisiana from Lake Charles to New Orleans. Bridgeline connects distribution companies, electric utilities, and over 60 industrial end-users and satisfies more than 34% of Louisiana's natural gas demand through sales, transportation, and storage services. It also connects to 10 major interstate and four intrastate pipelines in the region, providing open-access transportation and storage services. Bridgeline access allows customers the flexibility to take their gas to the highest value markets. Attached to the Bridgeline system is a natural gas storage cavern with over 3 billion cubic feet of working capacity. Bridgeline's Sorrento Storage Facility acts as a "shock absorber" in the Gulf Coast to help balance supply and demand, enabling TNG to meet a variety of customers' needs on short notice. An additional 3 billion cubic feet of working capacity will be available for lease beginning in 2000.

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

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

TNG also has substantial natural gas liquid (NGL) assets in the state of Louisiana. Texaco Expanded NGL Distribution System (TENDS) is currently being constructed to further leverage our strategic position in South Louisiana to take advantage of the increasing volumes of rich gas coming on shore over the next few years from deepwater developments. This system integrates newly constructed and purchased pipelines with our existing assets. The result is an integrated bi-directional natural gas liquid pipeline, fractionation, and underground storage system with a combined pipeline length of about 500 miles, extending from Lake Charles to Alliance, Louisiana. The TENDS project has already provided a platform for expansion of our Louisiana infrastructure through numerous new connections and opportunities. One example is the recently announced joint venture with Dynegy Inc. to combine certain pipeline assets. These combined assets will provide the first avenue to move NGLs from a saturated market in Louisiana to Mont Belvieu, Texas, 290 miles to the west, thus allowing producers to receive higher value for their products.

The NGL Marketing Group transports and markets NGLs throughout the world, although its primary focus is in North America. With sales averaging nearly 400,000 barrels a day, TNG is one of the largest marketers of NGLs in the industry. Marketing of propane to wholesale customers in the U.S. has been a large contributor to the bottom line of this business for many years.

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

The NGL Marketing Group markets 3.8 billion cubic feet per day of equity and third party gas to major North American utilities, industrial customers, and other marketing/trading companies. TNG ensures that Texaco receives the highest netback price for its equity production as well as making sure that the gas can flow. This unit provides customized and comprehensive risk management and other financial tools to enable customers and suppliers to structure deals consistent with their specialized needs. TNG also leases natural gas storage in strategic locations to take advantage of price arbitrage as well as handle production fluctuations. Further, TNG provides fuels management services to a number of the cogeneration partnerships in which we have interests.

Internationally, we exited our UK wholesale gas marketing business in late 1998. Also, during March 1999, we completed the sale of our UK retail gas marketing business.

GLOBAL GAS AND POWER

Our Texaco Global Gas & Power unit develops, designs, markets, engineers, finances, owns and operates cogeneration, private power and integrated combined-cycle (IGCC) projects for the electric power, refining and chemical industries worldwide. We can leverage our expertise in all aspects of fuels management and power project development and operation to bring forward projects utilizing a wide array of fuels.

Gasification

Our gasification technology converts hydrocarbon feedstocks into a synthesis gas (syngas) that is comprised of hydrogen and carbon monoxide. The syngas can be used as a feedstock
for other chemical processes or as a fuel to a gas turbine to produce power. We license this technology, develop and own power and chemical projects using the technology, and operate gasification facilities.

Recognized as a world leader in gasification technology, our proprietary Texaco Gasification Process (TGP) is in operation or under construction at 68 plants in the refining, chemical and power generation sectors worldwide. Syngas production at these facilities exceeds 5.1 billion standard cubic feet per day. TGP projects that have recently been, or are soon to be, completed include:

- In Florida, Tampa Electric Company is licensing our IGCC technology for its 250-megawatt coal-fired power plant.

- In China, there are currently nine TGP plants in operation and three under construction, each producing syngas for chemical production. TGP's success in China has led to the signing of a multi-plant agreement with Sinopec and the former Ministry of Chemical Industry to retrofit an additional nine plants that are currently using competitive technology.

- The $350 million Delaware Clean Power Project at Motiva's Delaware City Refinery will use TGP in the world's cleanest process for producing power (steam and electricity) from petroleum coke.

- Three Italian refineries are constructing large, world-class IGCC power plants (we have taken a 24% equity interest in one of them). These TGP units will enable the refineries to convert high-sulfur residues into higher-value products such as hydrogen, electricity and steam that are used within the refineries or sold, if surplus to the refineries' needs. TGP will provide these refineries with wider flexibility with respect to crude selection, which can provide substantial financial savings, while minimizing wastes at these plants.

- In countries around the world, TGP is proving to be an ideal solution for the beneficial use of many waste materials and a significantly more attractive option than incineration or landfilling.

Power Generation

Our power business includes conventional power generation and cogeneration of power and steam from a single facility. We also develop, operate and invest in power projects.

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

To date, our largest U.S. cogeneration operations have burned natural gas to produce heat for steamflooding our Kern River oil field in California while simultaneously generating electricity. We are now adding to the list of 10 cogeneration facilities we presently operate with our partners in the U.S. These facilities, in combination, produce enough electricity to power more than one million homes. Including projects under construction or development in which we have an equity share, our cogeneration portfolio exceeds 2,000 megawatts. The new projects include:

- San Pascual Cogeneration, a 50-50 joint venture with Edison Mission Energy, will build the largest cogeneration plant in the Philippines. The $400 million, 304-megawatt facility will supply steam to an adjacent Caltex refinery and an industrial complex owned by United Coconut Chemicals Inc., and sell electricity to a Philippine utility company.

- P.T. Caltex Pacific Indonesia, our joint venture with Chevron, and a private partner are building the largest cogeneration plant of its kind in Indonesia. The $190 million, 300-megawatt gas-fired plant will supply power and steam for use in steamflooding the Duri field in Indonesia's Central Sumatra.

Through our gasification and cogeneration businesses, we are currently involved in power projects, either directly or indirectly, that will produce over 8,200 megawatts of power.

International Marketing & Business Development

Our International Marketing & Business Development division was formed in 1996 to pursue natural gas related opportunities in emerging markets throughout the world. Initially, the division focused its activities around equity gas and the need for viable commercialization solutions. While the original mission has not changed, it has broadened to include the pursuit of midstream and downstream market-driven gas and power initiatives.

Three strategies provide a basis for the pursuit of energy opportunities around the globe. First and foremost is the desire to commercialize and successfully market our equity gas reserves. Areas of focus include Colombia, Kazakhstan, Angola, Trinidad, Venezuela, Poland and Australia. Since many of these reserves are in remote locations, our challenge is to maximize the profitability of the gas, through pipeline transportation, electric power, or enhanced gas processing technology.

Highlights from 1998 include our completion of a study to determine an alternative to flaring Nigerian gas reserves. We also finalized fully integrated gas and power business plans for our reserves in Colombia and Trinidad.

Our second strategy is to apply combined midstream expertise to create new market outlets for natural gas and electric power. Key targeted markets are Brazil, Southeast Asia, Mexico and Saudi Arabia. In 1998, we and our partners were awarded a competitive bid to build, own and operate a 240-megawatt power plant in northeast Brazil.

Our final strategy is to deliver and enhance gas-related technologies, specifically gas-to- liquids technology, to increase value to the corporation. To do so, we have undertaken the strategic initiative to commercialize remote gas reserves as well as add value to heavy oil producing and refining operations through deployment of Fisher-Tropsch technology. In 1998, a significant and exclusive licensing agreement was executed with Rentech Inc., which will allow us to produce environmentally friendly transportation fuels and supply specialty petroleum products. Additionally, the Rentech agreement creates more opportunities for commercial deployment of our gasification process.

In a low-price crude oil environment, our gas-to-liquids strategy is to promote commercial deployment of the best technology options through cooperative efforts with the other technology companies. Potential areas for commercial deployment include Latin America, the West Coast of Africa, Eurasia and the Middle East.

TECHNOLOGY

Technology is changing our industry -- and we are leading this change and capturing greater value. Below are a few key examples of how we are leveraging our technologies to create increased value.

Three-Dimensional Visualization

In 1998, we used our industry-leading three-dimensional (3D) visualization seismic technology to help us make a major discovery offshore Nigeria. The same technology enabled us to reduce the cycle time for this well to approximately 1.5 years from lease awarding to discovery. Separately, we found a way to leverage our 3D technology to manage heat in steamflood operations to increase production while reducing costs. In the Kern River oil field in California, we expect that this technology application will lead to increased reserves and higher value for us. The same technology is planned for our Duri Field in Indonesia. We have expanded this competitive advantage and now have two specially built centers in Bakersfield, California, and Bellaire, Texas. We are also building two other centers in Rumbai and Duri, Indonesia.

Texaco Energy and Environmental Multispectral Imaging Spectrometer (TEEMS)

TEEMS is an airborne, hyperspectral sensor with unique capability for identification and mapping of substances on the ground, including natural oil seeps, soil types, vegetation types, rock types, minerals, soil moisture and water quality. We couple the optical system with imaging radar for high-resolution mapping of surface structure and surface texture. The TEEMS system is installed in a twin-engine aircraft with worldwide operational capability. The result is a world leading capability for our exploration and environmental business needs.

Surface structure mapping with TEEMS provides insights into subsurface geometry, allowing rapid structural highgrading of prospective trends and efficient seismic program planning. A major driving force behind TEEMS' development, now a proven capability, is the system's ability to detect very minor concentrations of natural hydrocarbons disseminated in rock, soil, and vegetation. Such natural "microseeps," invisible to the human eye and undetectable by any other known remote sensing system, are valuable clues to the location of oil and gas reservoirs. In environmental applications, TEEMS provides unparalleled detail about surface conditions for establishing environmental baselines, monitoring production operations, and managing pipelines.

We have completed two projects using TEEMS in 1998 -- the first in Colombia, the second in the PNZ. In Colombia, the use of TEEMS resulted in $28 million cost savings. In the PNZ, we used TEEMS data to identify and high-grade exploration leads and to plan our seismic programs.

TEEMS also is proving to be a highly effective "technology currency" in establishing us as a preferred partner, as we seek new upstream relationships and business opportunities. Governments view TEEMS as a very valuable technology available only from Texaco. Potential industry partners view TEEMS as a mechanism for cost savings and as a competitive advantage in defining prospective trends.

Vertical Cable Seismic Technology

Adapting a technology that has its roots in submarine tracking systems used during the Cold War, we are using our proprietary vertical cable seismic technology to find hydrocarbons and cut our field development costs in complex geological formations from the North Sea to the Gulf of Mexico. The data from these formations can be translated into 3D images that are much more accurate than those derived from the best conventional techniques. The collection of this data is also cheaper than competing technologies. In fact, vertical cable technology is currently enabling us to develop a field with the potential of 70 million to 100 million barrels in the deepwater Gulf of Mexico that would not have been identified with the best alternative seismic technology. As the application of this technology evolves, we will continue to increase our chances of finding hydrocarbons, use people and equipment more effectively and reduce costs of field development.

Multilateral Drilling

Our involvement in the MoBpTeCh (Mobil, BP, Texaco and Chevron) Cooperative is yielding major advances in multilateral drilling opportunities, which we are applying in offshore West Africa. Multilateral drilling enables us to extract oil and gas from all levels of a multiple reservoir, boosting our production while drilling fewer holes and reducing costs and risks. Through collaborations such as MoBpTeCh, we are able to solve very formidable technological problems at a reduced cost and share scarce, high-quality resources.

Technology Leadership Recognition

Our technology programs received two prestigious awards in the past year. The first recognized our leadership in the formation and operation of the DeepStar Consortium. This consortium has participants from all major offshore upstream companies and service organizations. The collaboration provided by DeepStar has led to a fundamental understanding of the impediments to fluid flow and the effects of temperature on the process of moving oil from subsea wells to a processing platform many miles away in more shallow water. This understanding not only accelerates the development of Gulf of Mexico opportunities, but can be applied to deepwater prospects in the waters off Great Britain, Brazil and Nigeria. Texaco's team is being recognized by the offshore industry at the next Offshore Technology Conference.

For the second award, our creativity and innovation were recognized by Harts Publications. We received this recognition for the development and application of unique technologies that improve the economics of oil production by reducing the production of associated water. We developed and applied a system that separates the oil and water in the wellbore and disposes of the water before it reaches the surface. Simultaneously, it produces the oil to the surface, thereby reducing the treating and handling expenses. The results to date have improved our profitability and provided us with an environmental advantage.

Technology at Work in the Downstream

Our commitment to advances in our downstream business is exemplified by the success of our extended-life motor-vehicle coolants. These products, which our scientists formulated from mixtures of carboxylic acids, have increased protection capability for heavy-duty vehicles by up to 600,000 miles and keep cars going strong for at least 150,000 miles without a change. Today, our extended-life coolants are in new cars built by General Motors in the U.S., Ford and Renault in Europe, and in Caterpillar heavy-duty engines worldwide.

ADDITIONAL INFORMATION CONCERNING OUR BUSINESS

Research Expenditures

Worldwide expenditures of Texaco Inc. and subsidiary companies for research, development and technical support amounted to approximately $138 million in 1998, $147 million in 1997 and $139 million in 1996.

Environmental Expenditures

Information regarding capital environmental expenditures of Texaco Inc. and subsidiary companies, including equity in affiliates, during 1998, and projections for 1999 and 2000, for air, water and solid waste pollution abatement, and related environmental projects and facilities, is incorporated herein by reference from pages 38 and 39 of Texaco Inc.'s 1998 Annual Report to Stockholders.

Employees

The number of employees of Texaco Inc. and subsidiary companies as of December 31, 1998 totaled 24,628 and, as of December 31, 1997 totaled 29,313.

In January 1998, approximately 4,300 employees, mostly service station employees, were transferred to Equilon (see page 12). Further, during the second quarter of 1999, we expect to transfer to Equilon about 4,100 operating and support employees.

Sales to Significant Affiliates

Sales by Texaco Inc. and subsidiary companies to significant affiliates totaled $4,169 million in 1998, $3,633 million in 1997 and $3,867 million in 1996.

Geographical Financial Data

Information regarding geographical financial data of Texaco Inc. and subsidiary companies appears in Note 1, Segment Information, on pages 49 and 50 of Texaco Inc.'s 1998 Annual Report to Stockholders.

Incorporation by Reference

We have incorporated some data and information appearing in our 1998 Annual Report to Stockholders into Items 1, 2, 3, 5, 6, 7, 8 and 14 of this Form 10-K. No other data and information in our Annual Report to Stockholders is incorporated by reference into, or filed as part of, this Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT OUR BUSINESS

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

Business Risks

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

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

- 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 and concessions by host governments
- expropriation of property
- divestiture of operations
- foreign exchange rate changes and restrictions as to convertibility of currencies
- tariffs and other international trade restrictions.

Year 2000 Compliance. Factors that could affect our ability to be Year 2000 compliant by the end of 1999, include:

- the failure of our customers, suppliers, governmental entities and others to achieve compliance and the inaccuracy of certifications received from them
- our inability to identify and remediate every possible problem
- a shortage of necessary programmers, hardware and software.

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

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

We have no obligation to publicly update our forward-looking statements, whether they become inaccurate as a result of new information, future events or otherwise.

Item 3. Legal Proceedings

Litigation--We have provided information about legal proceedings pending against Texaco Inc. and subsidiary companies in Note 16, "Other Financial Information, Commitments and Contingencies - Litigation" on page 68 of our 1998 Annual Report to Stockholders. Note 16 is incorporated here by reference.

The Securities and Exchange Commission ("SEC") requires us to report proceedings that were instituted or contemplated by governmental authorities against us under laws or regulations relating to the protection of the environment. None of these proceedings is material to our business or financial condition. Following is a brief description of those proceedings that were either pending as of December 31, 1998, or settled during the fourth quarter of 1998.

- On June 9, 1992, the U.S. Environmental Protection Agency ("EPA"), Region VI, served an administrative complaint on Texaco Chemical Company ("TCC"). The complaint alleges that TCC violated the State Implementation Plan at its Port Neches, Texas chemical plant. We sold TCC to Huntsman Corporation on April 21, 1994, and, by agreement, we retained obligations applicable to events occurring at the plant prior to the closing date. The EPA is seeking civil penalties of $149,000.We are contesting liability.

- On December 28, 1992, the EPA, Region VI served an administrative complaint on TCC. The complaint alleged hazardous waste, PCB, release notification and reporting violations at TCC's Port Neches chemical plant. The EPA is seeking civil penalties of $3.8 million and corrective action. We are contesting liability and agreed with the EPA to consolidate this complaint with the June 9, 1992 complaint, described above. The consolidated matter is pending before an EPA administrative law judge.

- On February 22, 1996, the Los Angeles Air Quality Management District issued a notice of violation of air quality regulations to Texaco Refining and Marketing Inc. ("TRMI"), a wholly-owned subsidiary, in connection with refrigerant use and maintenance at the Los Angeles refinery owned by TRMI prior to TRMI's transfer of the refinery to Equilon.
  Penalties may exceed $100,000.

- In March 1998, the U.S. Department of Justice ("DOJ") filed a complaint against us regarding spills of oil and produced water at the Aneth Producing Field in Utah in violation of the Clean Water Act. The DOJ is seeking a penalty of approximately $2.3 million. We are contesting liability.

- We settled with the DOJ a suit filed by the DOJ against Texaco Trading and Transportation Inc., a wholly-owned subsidiary, in connection with spills along pipelines in Kansas in 1991.

- We settled with the EPA a September 1996 notice of violation from the EPA. The notice alleged that TRMI violated the Clean Air Act New Source Performance Standard and Emergency Planning and Right-To-Know Act at the Bakersfield Plant owned by TRMI prior to TRMI's transfer of the Plant to Equilon.

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

Not applicable.

Executive Officers of Texaco Inc.

The executive and other elected officers of Texaco Inc. as of March 1, 1999 are:

Name	Age	Position
Peter I. Bijur	56	Chairman of the Board and Chief Executive Officer
C. Robert Black	63	Senior Vice President
Patrick J. Lynch	61	Senior Vice President and Chief Financial Officer
John J. O'Connor	52	Senior Vice President
Glenn F. Tilton	50	Senior Vice President
Stephen M. Turner	59	Senior Vice President
William M. Wicker	49	Senior Vice President
Clarence P. Cazalot, Jr.	48	Vice President
Eugene G. Celentano	60	Vice President
Claire S. Farley	40	Vice President
James R. Metzger	51	Vice President
Robert C. Oelkers	54	Vice President and Comptroller
Deval L. Patrick	42	Vice President and General Counsel
Elizabeth P. Smith	49	Vice President
Robert A. Solberg	53	Vice President
Janet L. Stoner	50	Vice President
Kjestine M. Anderson	45	Secretary
Michael N. Ambler	62	General Tax Counsel
James F. Link	54	Treasurer

For more than five years, each of the above listed officers of Texaco Inc., except for Messrs. Wicker, O'Connor and Patrick, has been actively engaged in the business of Texaco Inc. or one of its subsidiary or affiliated companies.

Effective August 1, 1997, Mr. Wicker joined Texaco as a Senior Vice President of Texaco Inc. for Corporate Development. During the eight years prior to joining Texaco, Mr. Wicker had been with First Boston and Credit Suisse First Boston, most recently as the Managing Director and Co-Head of the Global Energy Group for Credit Suisse First Boston. Prior to this, Mr. Wicker served as Senior Vice President of Kidder Peabody & Co.'s Energy Group and from 1983 to 1987 as a consultant with McKinsey & Co.'s energy practice.

Effective January 1, 1998, Mr. O'Connor joined Texaco as a Senior Vice President of Texaco Inc. and President of Worldwide Exploration and Production. Prior to joining Texaco, Mr. O'Connor, since 1994, was Chief Executive Officer of BHP Petroleum in Melbourne, Australia, the oil and gas exploration division of Broken Hill Proprietary Company, Ltd. Mr. O'Connor also was a Director of Broken Hill Proprietary Company, Ltd. Prior to joining BHP, Mr. O'Connor was with Mobil Oil Corporation for 26 years.

Effective February 8, 1999, Mr. Patrick joined Texaco as Vice President and General Counsel. Prior to joining Texaco, Mr. Patrick had been a partner with the Boston law firm of Day Berry & Howard LLP since 1997. Mr. Patrick was also Assistant Attorney General of the United States and chief of the U.S. Justice Department's Civil Rights Division from 1994-97, where he was responsible for enforcing federal laws prohibiting discrimination.

Effective April 1, 1999, Mr. Oelkers will become President of Texaco International Trader Inc., while remaining a Vice President of Texaco Inc. Also effective April 1, 1999, Mr. George J. Batavick will become Comptroller of Texaco Inc. Effective May 1, 1999, Mr. Black will retire from Texaco.

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

PART II

The following information, contained in Texaco Inc.'s 1998 Annual Report to Stockholders, is incorporated herein by reference. Page references are to the paper document version of Texaco Inc.'s 1998 Annual Report to Stockholders, as provided to stockholders:

Form 10-K Item		Texaco Inc. 1998 Annual Report to Stockholders Page Reference
Item 5.	Market for the Registrant's Common Equity and Related Stockholder Matters	81 (a)
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Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	Not applicable.

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

PART III

The following information, contained in Texaco Inc.'s Proxy Statement dated March 16, 1999 relating to our 1999 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 this Proxy Statement are deemed to be filed as part of this Annual Report on Form 10-K. Page references are to the paper document version of Texaco Inc.'s 1999 Proxy Statement, as provided to stockholders:

	Form 10-K Item	Texaco Inc. March 16, 1999 Proxy Statement Page Reference
Item 10.	Directors and Executive Officers of the Registrant	
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PART IV

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

The following information, contained in Texaco Inc.'s 1998 Annual Report to Stockholders, is incorporated herein by reference. Page references are to the paper document version of Texaco Inc.'s 1998 Annual Report to Stockholders, as provided to stockholders:

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

1. Financial Statements (incorporated by reference from the indicated pages of Texaco Inc.'s 1998 Annual Report to Stockholders):	Texaco Inc. 1998 Annual Report to Stockholders Page Reference
Description of Significant Accounting Policies	41-42
Statement of Consolidated Income for the three years ended December 31, 1998	43
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2. Financial Statement Schedules

We have included on page 31 of this Annual Report on Form 10-K Financial Statement Schedule II, Valuation and Qualifying Accounts.

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

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

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

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

3. Exhibits

-- (3.1) Copy of Restated Certificate of Incorporation of Texaco Inc., as amended to and including March 2, 1999, including Certificate of Designations, Preferences and Rights of Series B ESOP Convertible Preferred Stock, Series D Junior Participating Preferred Stock and Series G, H, I and J Market Auction Preferred Shares.

-- (3.2) Copy of By-Laws of Texaco Inc., as amended to and including July 26, 1998.

-- (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)) Form of severance agreement between Texaco Inc. and elected officers of Texaco Inc.

-- (10(iii)(b)) Employment agreement dated December 30, 1997, between Texaco Inc. and Mr. John J. O'Connor, Senior Vice President of Texaco Inc.

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

1. October 21, 1998
   Item 5. Other Events -- reported that Texaco issued an Earnings Press Release for the third quarter and first nine months of 1998.

2. November 30, 1998
   Item 5. Other Events -- reported that Texaco and Shell Europe Oil Products announced the termination of discussions aimed at forming an alliance of their European oil products marketing and manufacturing activities.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders, Texaco Inc.:

We have audited in accordance with generally accepted auditing standards, the financial statements included in Texaco Inc. and subsidiary companies' annual report to stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 25, 1999. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in Item 14 is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

New York, N.Y.
February 25, 1999

Texaco Inc. and Subsidiary Companies
Schedule II - Valuation and Qualifying Accounts
For the Years Ended December 31, 1998, 1997 and 1996
(In Millions of Dollars)

Description	Balance at Beginning of Year	Additions-Charged to Costs and Expenses	Deductions	Balance at End of Year
Year ended December 31, 1998				
1998 Restructuring Program	$ --	$115	$ 15	$100
1996 Restructuring Program	$ 20	$ --	$ 8	$ 12
Year ended December 31, 1997				
1996 Restructuring Program	$ 72	$ 10	$ 62	$ 20
Year ended December 31, 1996				
1996 Restructuring Program	$ --	$ 78	$ 6	$ 72

NOTE: Represents expense accruals, payments for employee separations and special termination benefits, and curtailment costs.

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 25th day of March, 1999.

TEXACO INC.
(Registrant)

By KJESTINE M. ANDERSON

(KJESTINE M. ANDERSON)
Secretary

Attest:

By R. E. KOCH

(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:

A. CHARLES BAILLIE
PETER I. BIJUR
JOHN BRADEMAS
MARY K. BUSH
WILLARD C. BUTCHER
EDMUND M. CARPENTER
MICHAEL C. HAWLEY
FRANKLYN G. JENIFER
SAM NUNN
CHARLES H. PRICE, II
CHARLES R. SHOEMATE
ROBIN B. SMITH
WILLIAM C. STEERE, JR.
THOMAS A. VANDERSLICE

By R. E. KOCH

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

March 25, 1999

CALTEX GROUP OF COMPANIES
COMBINED FINANCIAL STATEMENTS

December 31, 1998

CALTEX GROUP OF COMPANIES
COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1998

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

CALTEX GROUP OF COMPANIES
GENERAL INFORMATION

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

- Caltex Corporation (formerly Caltex Petroleum Corporation), a company incorporated in Delaware that, through its many subsidiaries and affiliates, conducts refining, transporting, trading, and marketing activities in the Eastern Hemisphere;
- P. T. Caltex Pacific Indonesia, an exploration and production company incorporated and operating in Indonesia; and,
- American Overseas Petroleum Limited, a company incorporated in the Bahamas, 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.

A brief description of each company's operations and other items follows:

Caltex Corporation (Caltex)

Through its subsidiaries and affiliates, Caltex operates in approximately 60 countries, principally in Africa, Asia, the Middle East, New Zealand and Australia. Caltex is involved in all aspects of the downstream business: refining, distribution, shipping, storage, marketing, supply and trading operations. At year-end 1998, Caltex had over 7,900 employees, of which approximately 2% were located in the United States.

The majority of refining and certain marketing operations are conducted through joint ventures. Caltex has equity interests in 13 refineries with equity refining capacity of approximately 978,000 barrels per day. It continues to improve its refineries with investments designed to provide higher yields and meet environmental regulations. Additionally, it has interests in two lubricant refineries, six asphalt plants, 17 lubricant blending plants and more than 500 ocean terminals and depots. Caltex also has an interest in a fleet of vessels and owns or has equity interests in numerous pipelines. Its sales of crude oil and petroleum products were in excess of 1.5 million barrels per day in 1998. Caltex conducts international crude oil and petroleum product logistics and trading operations from a subsidiary in Singapore, and is also active in the petrochemical business, particularly in Japan and Korea.

Marketing

Caltex and its affiliates maintain a strong marketing presence through a network of 8,000 retail outlets, of which 4,700 are branded as Caltex. It also operates 425 Star Mart convenience stores, many of which anchor high-volume station locations. Many stations include new ancillary revenue centers such as quick-service restaurants, auto lube bays and brushless car washes. A significant portion of the $1.8 billion that Caltex plans to invest over the next three years is targeted to stimulate retail growth and continue the roll-out of its new corporate and retail image introduced in 1996, focussing on preferred marketing areas where the expenditures will provide the greatest benefit to the business. Under-performing stations with poor prospects for improvement are being eliminated.

During 1998, in response to major changes in the petroleum business, increased competition, and partly due to the challenges created by the currency and economic crisis in the Asia Pacific region, Caltex announced a change in organizational structure from geographic to one modeled along functional business lines, namely: marketing, refining, lubricants, trading, aviation, new business development and business support. At the same time that it is emphasizing managing its costs and improving its capital investment returns, Caltex will use this functional focus to build or rebuild brand strength, increase emphasis on convenience retailing, and maximize emerging business opportunities. The new structure will position Caltex to seize opportunities that will provide higher returns and strong long-term growth, focus on its mission and respond to market developments more quickly, as well as place it in a better position to serve customers, partners and suppliers more effectively. The functional management structure is effective January 1, 1999.

Refining

Refining margins in 1998 were at their lowest level in more than ten years due to worldwide oversupply of capacity, partly as a result of the economic disruption in many of the Asian economies. By focusing on full utilization of assets, cost reductions, cost-effective investment and initiatives to improve efficiency and maintain the integrity of the refining assets, the operating performance of the Group's refineries has continued to improve, mitigating to some extent the effect of low margins.

During 1997, Caltex's 64% owned Thailand affiliate, Star Petroleum Refining Company, Ltd. (SPRC), and Rayong Refining Company (RRC), an affiliate of the Royal Dutch Petroleum Company, entered into a Memorandum of Understanding to combine the operations of the two nearby refineries in order to achieve significant economic benefits through increased efficiency and cost reduction. During 1998, SPRC and RRC evaluated various proposed structures and synergies, and conducted discussions with lenders to ensure proper approvals were obtained. Tentative agreement has been reached to form a new entity, Alliance Refining Company (ARC), which will be owned 32% each by Caltex and Shell and 36% by the Petroleum Authority of Thailand (PTT) - a government entity. ARC will operate the refineries and be responsible for ongoing maintenance and new construction. Significant economic benefits are expected from this arrangement. Pending lender and Thai cabinet approvals, binding agreements are expected to be signed and operations commenced by ARC in the first half of 1999.

Over the period 1992-1996, SPRC capitalized certain start-up costs, primarily organizational and training, related to refinery construction. These costs were considered part of the effort required to prepare the refinery for operations. With the issuance in 1998 of the American Institute of Certified Public Accountants Statement of Position 98-5 - "Reporting on the Costs of Start-up Activities", these costs would be accounted for as period expenses. The Group has elected early adoption of this pronouncement effective January 1, 1998 and, accordingly, recorded a cumulative effect charge to income as of January 1, 1998 of $50 million representing the Group's share of these costs.

Corporate

Effective January 1, 1999, Caltex eliminated "Petroleum" from its name to become Caltex Corporation. The change reflects the broader scope of activities it is pursuing, particularly the rapidly growing Star Mart convenience stores and other related services provided to its customers.

Concurrently, Caltex announced the relocation of its corporate senior leadership team from Dallas, Texas, to Singapore. The leadership team will reside within the primary operational area and be closer to its customers to achieve a more timely and effective process of corporate governance. The relocation will be completed during the first half of 1999.

Caltex recorded a charge to income of $86 million in 1998 for restructuring and other related reorganization costs including special voluntary and involuntary severance benefits (see Note 13 of Notes to Combined Financial Statements).

P. T. Caltex Pacific Indonesia (CPI)

CPI holds a Production Sharing Contract in Central Sumatra through the year 2021. CPI also acts as operator in Sumatra for eight other petroleum contract areas, with 33 fields, which are jointly held by Chevron and Texaco. Exploration is pursued over an area comprising 18.3 million acres with production established in the giant Minas and Duri fields, along with smaller fields. Gross production from fields operated by CPI for 1998 was over 760,000 barrels per day. CPI entitlements are sold to its stockholders, who use them in their systems or sell them to third parties. At year-end 1998, CPI had approximately 5,900 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 geothermal and power generation projects for Texaco's and Chevron's interests in Indonesia. At year-end, AOPL had approximately 279 employees, of which 6% were located in the United States.

Economic Overview and Outlook

During the second half of 1997, many of the countries in the Pacific Rim experienced major devaluations in their currencies compared to the U.S. dollar, resulting in economic slowdowns throughout the area during 1998. The weak economic conditions have negatively affected oil consumption. Although most of the region is still experiencing economic contraction, the currencies themselves have strengthened during 1998. There are some signs emerging of a general stabilization in the economies of the region and there are indications of economic recovery in some countries. The Group has significant operations (either subsidiary or affiliate) in many of the affected countries (Korea, Philippines, Singapore, Thailand, Malaysia, and Indonesia) which are material to the Group's net income, cash flows and capital.

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 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, 1998, the Group, including its equity share of affiliates, incurred total costs of approximately $138 million, consisting of capital costs of $70 million and nonremediation related operating expenses of $68 million. The major component of the Group's expenditures is for the prevention of air and water pollution. As of December 31, 1998, the Group, including its equity share of affiliates, had accrued $135 million for various known remediation activities, including $114 million relating to the future cost of restoring and abandoning existing oil and gas properties.

While the Group has provided for known environmental obligations that are probable and reasonably estimable, the amount of future costs may be material to results of operations in the period in which they are recognized. However, the Group believes that future environmental expenditures will not materially affect its financial position or liquidity.

Year 2000 Compliance

The Problem

The year 2000 problem (Y2K) relates to the inability of some computer systems and other equipment ("systems") with embedded microchip technology to correctly interpret and process date-sensitive data at certain key dates before, during or after the year 2000. This could result in systems failures or miscalculations, which could cause business disruptions. Due to the widespread nature of this problem, the Group could be affected not only by failures of its own systems, but also by failures of the systems of its customers, suppliers, utilities and government entities that provide it with essential services.

Our state of readiness

Individual operating location (including major affiliates) Y2K teams and a corporate level team were established in 1997 and early 1998. The corporate team monitors and supports the individual locations and also evaluates progress against the milestones outlined below. Y2K progress reports are presented regularly to the Group management and the Stockholders.

A common rigorous process has been employed to identify, test, and remediate systems affected by the Y2K problem and to achieve Y2K readiness. The process consists of the following (in many cases overlapping) steps:

(1) Inventory - a list all systems and embedded microchip technology that may have date-sensitive components - computer hardware and software, as well as other embedded microchip systems.

(2) Business risk assessment - an assessment to determine the importance of each system to the business including financial, operational, environmental and safety impact.

(3) Y2K risk assessment - a determination of whether or not systems or system components are Y2K compliant, firstly by obtaining vendor compliance statements for all systems, then evaluating more detailed vendor test results (for medium risk systems), and conducting our own on site end-to-end tests (for high risk systems).

(4) Remediation and testing - remediation, testing and comprehensive contingency plan preparation for high-risk systems.

The Group has essentially completed the inventory and business risk assessments in its major operating areas. Most of the Y2K risk assessments are also complete. Approximately 25-30% of the remediation and on site end-to-end testing of high-risk systems has been performed as at February 1999, and it is estimated that this will be completed between June - September 1999. This includes major internal business support systems and various equipment (process control etc) with embedded microchips. It also includes the readiness of critical business chain partners (third party suppliers, and customers). High-risk systems found to be Y2K non-compliant are being corrected primarily by software/hardware upgrades and/or implementation of new systems. The Group expects the remediation of high risk business systems will be essentially complete by the end of 1999, however, remediation of lower risk systems may continue into the year 2000 and beyond.

The determination of Y2K readiness of critical business chain partners has proven to be the most challenging aspect of the Y2K program. While system suppliers have been responsive to requests for compliance information, obtaining responses from business chain partners on their state of readiness has been more difficult. The Group representatives are meeting with those business chain partners that have been identified as important to the business to determine their state of readiness. If any critical business chain partners do not have effective programs in place, additional contingency plans will be put in place as necessary before the end of 1999.

Costs

The Group is using both dedicated internal and external resources in its Y2K initiative. The total cost to address its Y2K issues is estimated at approximately $57 million, of which approximately $15 million had been spent by the end of 1998. These figures include work being undertaken to make compliant some older financial and accounting systems, but do not include costs incurred on system implementations or modifications where the primary reasons for such are other than Y2K compliance. The Y2K project costs also include the corporate project team, external contractors and consultants. Other internal costs such as salaries, travel expenses, and other out of pocket costs of the operating company teams are not included in this total.

Contingency Plans

Due to both the uncertain nature of the Y2K problem, and its inflexible/absolute deadline, a strong emphasis has been placed on contingency planning and preparation. Generally, in the normal course of business, the Group has developed contingency plans to respond to equipment failures, emergencies and business interruptions. However the Y2K issue increases the complexity of such planning. Therefore, the Group is enhancing existing plans where possible, and developing plans where necessary, specifically designed to mitigate the financial and other impacts of potential high risk system Y2K related failures and to allow it to carry on business despite possible failures. The Group expects to complete and test, where appropriate, its contingency plans, with particular emphasis on any unremediated (or remediated but untested) high risk systems prior to the year 2000.

Risks

Certain risks related to the Y2K problem that could have a material adverse effect on the Group's results of operations, liquidity and financial condition include, but are not limited to, the failure to identify and remediate significant Y2K problems; the failure to successfully implement contingency plans in a timely manner; and failures by customers, suppliers, utilities and government entities that provide essential services to correct their Y2K problems. The dispersion of the Group's downstream operations in over 60 countries is expected to mitigate the risk of any potential widespread disruption to its operations. The Group's upstream operations are located in Indonesia, primarily on the islands of Sumatra and Java. Due to the isolated and self sufficient nature of these operations, the potential risk of widespread disruption to its exploration and production operations is also well mitigated. The Group does not expect any unusual risks to public safety or the environment resulting from potential Y2K related incidents at its facilities and operations.

The Group believes that the impact of any Y2K related failure in any of its systems will most likely be localized and limited to specific facilities and operations. Interruptions caused by such a failure could delay the Group in being able to explore for, produce or transport hydrocarbons or steam, or manufacture and deliver refined products to its customers for a short period. The Group would not expect this to have a significant impact on its ability to pursue its primary business objectives. While not expected, a worst case scenario involving failure to address multiple high risk Y2K issues, including failures to implement contingency plans in a timely manner, could materially affect the Group's results of operations or liquidity in any one period. The Group is currently unable to predict the aggregate financial or other consequence of such potential interruptions.

The foregoing disclosure is based on the Group's current expectation, estimates and projections, which could ultimately prove to be inaccurate. Because of uncertainties, the actual effects of Y2K issues on the Group may be different from its current assessment.

Supplemental Market Risk Disclosures
- -----------------------------------

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

Debt and debt-related derivatives

The Group is exposed to interest rate risk on its short-term and long-term debt with variable interest rates (approximately $2.0 billion and $1.9 billion, before the effects of related net interest rate swaps of $0.5 billion and $0.4 billion, at December 31, 1998 and 1997, respectively). The Group seeks to balance the benefit of lower cost variable rate debt, having inherent increased risk, with more expensive, but less risky fixed rate debt. This is accomplished through adjusting the mix of fixed and variable rate debt, as well as the use of derivative financial instruments, principally interest rate swaps.

Based on the overall interest rate exposure on variable rate debt and interest rate swaps at December 31, 1998 and 1997, a hypothetical change in the interest rates of 2% would change interest expense by approximately $30 million each year.

Crude oil and petroleum product hedging

The Group hedges a portion of the market risks associated with its crude oil and petroleum product purchases and sales. The Group uses established petroleum futures exchanges, as well as "over-the-counter" hedge instruments, including futures, options, swaps, and other derivative products which reduce the Group's exposure to price volatility in the physical markets.

As a sensitivity, a hypothetical 10% change in crude oil and petroleum product prices would not result in a material loss on the outstanding derivatives at the end of 1998 or 1997, in terms of the Group's financial position, results of operations or liquidity.

Currency-related derivatives

The Group is exposed to foreign currency exchange risk in the countries in which it operates. To hedge against adverse changes in foreign currency exchange rates against the U.S. dollar, the Group sometimes enters into forward exchange and options contracts. Depending on the exposure being hedged, the Group either purchases or sells selected foreign currencies. The Group had net foreign currency purchase contracts of approximately $370 million at December 31, 1998 and $417 million at December 31, 1997, to hedge certain specific transactions or net exposures including foreign currency denominated debt. A hypothetical 10% change in exchange rates against the U.S. dollar would not result in a net material change in the Group's operating results or cash flows from the derivatives and their related underlying hedged positions in 1998 or 1997.

Hedging Activities - New Accounting Standards
- --

Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities", was issued by the Financial Accounting Standards Board in 1998 and is effective for the Group beginning January 1, 2000. SFAS No. 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Changes in the fair value of derivatives are to be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of exposure being hedged. The Group believes the adoption of this standard will not have a material effect on its results of operations or financial position.

Emerging Issues Task Force (EITF) 98-10, "Accounting for Energy Trading and Risk Management Activities", is effective for 1999, and covers contracts related to the purchase and sale of energy commodities prior to the effective date of SFAS No. 133. This EITF consensus requires that energy contracts related to trading activities should be marked to market with the gains and losses included currently in net income. The Group believes adoption of this EITF consensus will not have a material effect on its results of operations or financial condition.

[logo] KPMG LLP

200 Crescent Court
Suite 300
Dallas, TX 75201-1885

Independent Auditors' Report

To the Stockholders
The Caltex Group of Companies:

We have audited the accompanying combined balance sheets of the Caltex Group of Companies as of December 31, 1998 and 1997, and the related combined statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. 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, 1998 and 1997 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

As discussed in Note 12 to the combined financial statements, the Group changed its method of accounting for start-up costs in 1998 to comply with the provisions of the AICPA's Statement of Position 98-5 - "Reporting on the Costs of Start-up Activities".

KPMG LLP

Dallas, Texas
February 8, 1999

CALTEX GROUP OF COMPANIES
COMBINED BALANCE SHEET

ASSETS

	As of December 31, (Millions of dollars) 1998	1997
Current assets:		
Cash and cash equivalents, including time deposits of $17 in 1998 and $69 in 1997	$ 178	$ 282
Marketable securities	106	82
Accounts and notes receivable, less allowance for doubtful accounts of $31 in 1998 and $21 in 1997:		
Trade	629	808
Affiliates	256	368
Other	194	360
	1,079	1,536
Inventories:		
Crude oil	167	127
Petroleum products	418	437
Materials and supplies	26	28
	611	592
Deferred income taxes	-	29
Total current assets	1,974	2,521
Investments and advances:		
Equity in affiliates	2,254	2,035
Miscellaneous investments and long-term receivables, less allowance of $21 in 1998 and $13 in 1997	109	116
Total investments and advances	2,363	2,151
Property, plant, and equipment, at cost:		
Producing	4,386	4,058
Refining	1,319	1,272
Marketing	3,125	2,892
Other	15	13
	8,845	8,235
Accumulated depreciation, depletion and amortization	(3,747)	(3,393)
Net property, plant and equipment	5,098	4,842
Prepaid and deferred charges	223	200
Total assets	$ 9,658	$ 9,714

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) 1998	1997
Current liabilities:		
Short-term debt	$ 1,475	$ 1,554
Accounts payable:		
Trade and other	1,005	1,053
Stockholders	28	102
Affiliates	39	60
	1,072	1,215
Accrued liabilities	181	138
Deferred income taxes	25	-
Estimated income taxes	86	84
Total current liabilities	2,839	2,991
Long-term debt	930	770
Employee benefit plans	122	106
Deferred credits and other noncurrent liabilities	1,130	1,050
Deferred income taxes	208	190
Minority interest in subsidiary companies	31	15
Total	5,260	5,122
Stockholders' equity:		
Common stock	355	355
Capital in excess of par value	2	2
Retained earnings	4,151	4,342
Accumulated other comprehensive loss	(110)	(107)
Total stockholders' equity	4,398	4,592
Total liabilities and stockholders' equity	$ 9,658	$ 9,714

See accompanying notes to combined financial statements.

CALTEX GROUP OF COMPANIES
COMBINED STATEMENT OF INCOME

	Year ended December 31, (Millions of dollars)		
	1998	1997	1996
Revenues:			
Sales and other operating revenues(1)	$ 16,969	$ 17,920	$ 16,895
Gain on sale of investment in affiliate	-	-	1,132
Income in equity affiliates	108	390	51
Dividends, interest and other income	97	47	88
Total revenues	17,174	18,357	18,166
Costs and deductions:			
Cost of sales and operating expenses(2)	15,210	15,909	14,774
Selling, general and administrative expenses	676	580	532
Depreciation, depletion and amortization	431	421	407
Maintenance and repairs	147	143	134
Foreign exchange - net	16	(55)	6
Interest expense	172	146	140
Minority interest	3	3	(2)
Total costs and deductions	16,655	17,147	15,991
Income before income taxes	519	1,210	2,175
Provision for income taxes	326	364	982
Income before cumulative effect of accounting change	193	846	1,193
Cumulative effect of accounting change (no tax benefit)	(50)	-	-
Net income	$ 143	$ 846	$ 1,193

	1998	1997	1996
(1) Includes sales to:			
Stockholders	$1,437	$1,695	$1,711
Affiliates	2,253	3,018	2,841
(2) Includes purchases from:			
Stockholders	$1,337	$2,174	$2,634
Affiliates	1,485	1,813	1,297

CALTEX GROUP OF COMPANIES
COMBINED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31, (Millions of dollars)		
	1998	1997	1996
Net income	$ 143	$ 846	$ 1,193
Other comprehensive income:			
Currency translation adjustments:			
Change during the year	(10)	(84)	(146)
Reclassification to net income for sale of investment in affiliate	-	-	(240)
Unrealized gains/(losses) on investments:			
Change during the year	8	(23)	(40)
Reclassification of gains included in net income	-	(3)	(35)
Related income tax (expense) benefit	(1)	14	35
Total other comprehensive loss	(3)	(96)	(426)
Comprehensive income	$ 140	$ 750	$ 767

See accompanying notes to combined financial statements.

CALTEX GROUP OF COMPANIES
COMBINED STATEMENT OF STOCKHOLDERS' EQUITY

	Year ended December 31, (Millions of dollars)		
	1998	1997	1996
Common stock and capital in excess of par value	$ 357	$ 357	$ 357
Retained earnings:			
Balance at beginning of year	$ 4,342	$ 3,910	$ 4,187
Net income	143	846	1,193
Cash dividends	(334)	(414)	(1,470)
Balance at end of year	$ 4,151	$ 4,342	$ 3,910
Accumulated other comprehensive loss:			
Cumulative translation adjustments:			
Balance at beginning of year	$ (120)	$ (36)	$ 350
Change during the year	(10)	(84)	(146)
Reclassification to net income for sale of investment in affiliate	-	-	(240)
Balance at end of year	$ (130)	$ (120)	$ (36)
Unrealized holding gain on investments, net of tax:			
Balance at beginning of year	$ 13	$ 25	$ 65
Change during the year	7	(11)	(23)
Reclassification of gains included in net income	-	(1)	(17)
Balance at end of year	$ 20	$ 13	$ 25
Accumulated other comprehensive loss - end of year	$ (110)	$ (107)	$ (11)
Total stockholders' equity - end of year	$ 4,398	$ 4,592	$ 4,256

See accompanying notes to combined financial statements.

CALTEX GROUP OF COMPANIES
COMBINED STATEMENT OF CASH FLOWS

	Year ended December 31, (Millions of dollars)		
	1998	1997	1996
Operating activities:			
Net income	$ 143	$ 846	$1,193
Reconciliation to net cash provided by operating activities:			
Depreciation, depletion and amortization	431	421	407
Dividends (less) more than income in equity affiliates	(8)	(347)	38
Net losses on asset disposals/writedowns	50	16	10
Deferred income taxes	92	(51)	36
Prepaid charges and deferred credits	59	103	38
Changes in operating working capital	316	(150)	(7)
Gain on sale of investment in affiliate	-	-	(1,132)
Other	35	(13)	(12)
Net cash provided by operating activities	1,118	825	571
Investing activities:			
Capital expenditures	(761)	(905)	(741)
Investments in and advances to affiliates	(211)	(10)	(30)
Purchase of investment instruments	(114)	(39)	(56)
Sale of investment instruments	90	73	1
Proceeds from sale of investment in affiliate	-	-	1,984
Proceeds from asset sales	9	156	95
Net cash (used for) provided by investing activities	(987)	(725)	1,253
Financing activities:			
Debt with terms in excess of three months :			
Borrowings	849	845	1,112
Repayments	(701)	(628)	(1,351)
Net (decrease) increase in other debt	(22)	323	(53)
Funding provided by minority interest	17	-	-
Dividends paid, including minority interest	(334)	(414)	(1,490)
Net cash (used for) provided by financing activities	(191)	126	(1,782)
Effect of exchange rate changes on cash and cash equivalents	(44)	(150)	(2)
Cash and cash equivalents:			
Net change during the year	(104)	76	40
Beginning of year balance	282	206	166
End of year balance	$ 178	$ 282	$ 206

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 Corporation and subsidiaries, American Overseas Petroleum Limited and subsidiary, and P.T.Caltex Pacific Indonesia. Intercompany transactions and balances have been eliminated. Subsidiaries include companies owned directly or indirectly more than 50% except cases in which control does not rest with the Group. The Group's accounting policies are in accordance with U.S. generally accepted accounting principles.

Translation of foreign currencies The U.S. dollar is the functional currency for all principal subsidiary and affiliate operations. Effective October 1, 1997, the Group changed the functional currency for its affiliates in Japan and Korea from the local currency to the U.S. dollar. The change in functional currency was applied on a prospective basis.

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.

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

Inventories Inventories are valued at the lower of cost or current market, except as noted below. Crude oil and petroleum product 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. Certain trading related inventory, which is highly transitory in nature, is marked-to-market.

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

Property, plant and equipment Exploration and production activities are accounted for under the successful efforts method. 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.

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.

Long-lived assets, including proved developed oil and gas properties, are assessed for possible impairment by comparing their carrying values to the undiscounted future net before-tax cash flows. Impaired assets are written down to their fair values. Impairment amounts are recorded as incremental depreciation expense in the period when the event occurred.

Note 1 - Summary of significant accounting policies - continued

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

Comprehensive Income On January 1, 1998, the Group adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 established standards for reporting and presentation of comprehensive income and its components. Comprehensive income consists of net income, currency translation adjustments and unrealized gains/(losses) on investments and is presented in a separate statement. SFAS No. 130 requires only additional disclosure, and does not affect the Group's financial position or results of operations.

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

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

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

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

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

Note 1 - Summary of significant accounting policies - continued

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

Reclassifications Certain reclassifications have been made to prior year amounts to conform to the 1998 presentation.

Note 2 - Asset Sale

In 1997 Caltex Trading and Transport Corporation, a subsidiary of the Group, sold for cash its 40% interest in its Bahrain refining joint venture plus related assets at net book value of approximately $140 million.

Note 3 - Inventories

The reported value of inventory at December 31, 1998 approximated its current cost. At December 31, 1997, the excess of current cost over the reported value of inventory maintained on the LIFO basis was approximately $28 million. Certain inventories were recorded at market, which was lower than the LIFO carrying value. Adjustments to market reduced earnings $18 million in 1998 and $36 million in 1997. Earnings increased $29 million in 1996 due to recovery of market values over previous years' write-downs.

During the periods presented, inventory quantities valued on the LIFO basis were reduced at certain locations. Inventory reductions decreased net income by $4 million and $5 million (net of related market valuation adjustments of $1 million and $14 million in 1998 and 1997, respectively), and increased net income $4 million in 1996.

Trading inventories are recorded on a mark-to-market basis due to their highly transitory nature. At December 31, 1998 the value of these inventories was approximately $3 million, which approximated cost.

Note 4 - Equity in affiliates

Investments in affiliates at equity include the following:

		As of December 31 (Millions of Dollars)	
	Equity %	1998	1997
Caltex Australia Limited	50%	$ 324	$ 300
Koa Oil Company, Limited	50%	298	353
LG-Caltex Oil Corporation	50%	1,170	999
Star Petroleum Refining Company, Ltd.	64%	304	228
All other	Various	158	155
		$ 2,254	$ 2,035

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

Effective April 1, 1996, the Group sold its 50% investment in Nippon Petroleum Refining Company, Limited for 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 the purchaser of approximately $0.5 billion in the first quarter of 1996.

Note 4 - Equity in affiliates - continued

On December 31, 1997, Caltex Australia Limited (CAL), then a subsidiary of the Group, acquired the remaining 50% of Australian Petroleum Pty. Limited (APPL) from a subsidiary of Pioneer International Limited, for approximately $186 million in cash plus the issuance of an additional 90 million shares of CAL stock. As a result of this transaction, the Group's equity in CAL declined from 75% to 50% and its indirect equity in APPL increased to 50% from 37.5%. This transaction was recorded as a purchase. CAL is now classified as an affiliate and the individual assets and liabilities are excluded from the Group's consolidated financial statements.

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 provide for active participation of the minority shareholder in routine business operating decisions. The agreement also mandates reduction in Group ownership to a minority position by the year 2001; however, it is likely that this will be delayed in view of the current economic difficulties in the region.

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

	100%		Equity Share	
	1998	1997	1998	1997
Current assets	$ 3,689	$ 4,768	$ 1,855	$ 2,400
Other assets	7,689	7,345	4,004	3,867
Current liabilities	3,547	4,740	1,795	2,411
Other liabilities	3,505	3,483	1,866	1,879
Net worth	$ 4,326	$ 3,890	$ 2,198	$ 1,977

	100%			Equity Share		
	1998	1997	1996	1998	1997	1996
Operating revenues	$ 11,811	$ 14,669	$ 15,436	$ 5,968	$ 7,452	$ 7,751
Operating income	1,101	1,078	749	539	532	364
Net income	193	853	133	58	390	51

Cash dividends received from these affiliates were $50 million, $43 million, and $89 million in 1998, 1997 and 1996, respectively.

The above summarized combined financial information includes the cumulative effect of the accounting change in 1998 as described in note 12.

Retained earnings as of December 31, 1998 and 1997, includes $1.4 billion which represents 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, 1998 and 1997 were 7.3% and 7.9%, respectively. Unutilized lines of credit available for short-term financing totaled $1.3 billion as of December 31, 1998.

Note 6 - Long-term debt

Long-term debt, with related interest rates for 1998 and 1997 consist of the following:

	As of December 31, (Millions of dollars) 1998	1997
U.S. dollar debt:		
Variable interest rate loans with average rates of 5.5% and 6.2%, due 2002-2010	$ 454	$ 348
Fixed interest rate term loans with average rates of 6.4% and 6.4% due 2001-2003	130	100
Australian dollar debt:		
Fixed interest rate loan with 11.2% rate due 2001	211	218
New Zealand dollar debt:		
Variable interest rate loans with average rates of 5.0% and 5.7%, due 2001-2004	78	63
Fixed interest rate loan with 8.09% rate due 2000	5	6
Malaysian ringgit debt:		
Fixed interest rate loan with average rates of 9.16% and 8.56%, due 2000-2001	33	21
South African rand debt:		
Fixed interest rate loan with 17.8% rate due 2003	8	9
Other - variable interest rate loans with average rates of 5.8% and 6.5%, due 2000-2003	11	5
	$ 930	$ 770

Aggregate maturities of long-term debt by year are as follows (in millions of dollars): 1999 - $40 (included in short-term debt); 2000 - $115; 2001- $454; 2002 - $243; 2003 - $82; and thereafter - $36.

Note 7 - Operating leases

The Group has operating leases involving various marketing assets for which net rental expense was $103 million, $105 million, and $92 million in 1998, 1997 and 1996, 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): 1999 - $64; 2000 - $53; 2001 - $46; 2002 - $31, 2003 - $23, and 2004; and thereafter - $37.

Note 8 - Employee benefit plans

Effective January 1, 1998, the Group adopted SFAS No. 132, "Employers' Disclosures about Pension and Other Post-retirement Benefits". SFAS No. 132 revises employers' disclosures about pension and other post-retirement benefit plans, but does not change the method of accounting for such plans. The Group has various retirement plans, including defined benefit pension plans covering substantially all of its employees. The benefit levels, vesting terms and funding practices vary among plans.

Note 8 - Employee Benefit plans - continued

The following provides a reconciliation of benefit obligations, plan assets, and funded status of the various plans, primarily foreign, and inclusive of affiliates at equity.

	As of December 31, (Millions of dollars)			
	Pension Benefits		Other Post-retirement Benefits	
	1998	1997	1998	1997
Change in benefit obligations:				
Benefit obligation at January 1,	$ 405	$ 523	$ 64	$ 58
Service cost	19	26	2	2
Interest cost	31	44	6	6
Actuarial loss	32	7	11	3
Benefits paid	(72)	(37)	(4)	(4)
Settlements and curtailments	(26)	-	5	-
Foreign exchange rate changes	11	(158)	(5)	(1)
Benefit obligation at December 31,	$400	$ 405	$ 79	$ 64
Change in plan assets:				
Fair value at January 1,	$ 322	$ 399	$ -	$ -
Actual return on plan assets	47	41	-	-
Group contribution	62	15	4	4
Benefits paid	(72)	(37)	(4)	(4)
Settlements	(26)	-	-	-
Foreign exchange rate changes	-	(96)	-	-
Fair value at December 31,	$ 333	$ 322	$ -	$ -
Accrued benefit costs:				
Funded status	$ (67)	$ (83)	$ (79)	$ (64)
Unrecognized net transition liability	4	3	-	-
Unrecognized net actuarial losses	11	32	23	14
Unrecognized prior service costs	9	9	-	-
Accrued benefit cost	$ (43)	$ (39)	$ (56)	$ (50)
Amounts recognized in the Combined Balance Sheet:				
Prepaid benefit cost	$ 27	$ 28	$ -	$ -
Equity in affiliates	(30)	(40)	-	-
Accrued benefit liability	(40)	(27)	(56)	(50)
Prepaid (accrued) benefit cost	$ (43)	$ (39)	$ (56)	$ (50)
Weighted average rate assumptions:				
Discount rate	7.6%	8.4%	10.0%	10.3%
Rate of increase in compensation	5.4%	6.4%	4.0%	4.2%
Expected return on plan assets	9.6%	9.4%	n/a	n/a

Note 8 - Employee Benefit plans - continued

	As of December 31, (Millions of dollars)	
	1998	1997
Pension plans with accumulated benefit obligations in excess of assets		
Projected benefit obligation	$ 184	$ 112
Accumulated benefit obligation	157	93
Fair value of assets	87	46

	Year ended December 31, (Millions of dollars)		
	1998	1997	1996
Components of Pension Expense			
Service cost	$ 19	$ 26	$ 26
Interest cost	31	44	46
Expected return on plan assets	(28)	(36)	(37)
Amortization of prior service cost	1	3	3
Recognized net actuarial loss	5	3	4
Curtailment/settlement loss	21	-	-
Total	$ 49	$ 40	$ 42
Components of Other Post-retirement Benefits			
Service cost	$ 2	$ 2	$ 1
Interest cost	6	6	5
Special termination benefit recognition	3	-	-
Curtailment recognition	3	-	-
	$ 14	$ 8	$ 6

Other post-retirement benefits are comprised of contributory healthcare and life insurance plans. A one percentage point change in the assumed health care cost trend rate of 9.1% would change the post-retirement benefit obligation by $9 million and would not have a material effect on aggregate service and interest components.

Note 9 - Commitments and contingencies

In 1997, Caltex received a claim from the U.S. Internal Revenue Service (IRS) for $292 million in excise tax, along with penalties and interest, bringing the total to approximately $2 billion. The IRS claim relates to crude oil sales to Japanese customers beginning in 1980. Prior to this time, Caltex directly supplied crude oil to its Japanese customers, however, in 1980, a Caltex subsidiary also became a contractual supplier of crude oil.
The IRS position is that the additional supplier constituted a transfer of property, and was thus taxable. Caltex is challenging the claim since the addition of another supplying company was not a taxable event. Additionally, Caltex believes the claim is based on an overstated value. Finally, Caltex disagrees with the imposition and calculation of interest and penalties. Caltex believes the underlying excise tax claim is wrong. Caltex also believes the related claim for penalties is wrong and the IRS claim for interest is flawed.

To litigate this claim, Caltex has been required to maintain a letter of credit ($2.5 billion at February 8, 1999, including interest for 1998 and 1999). The Stockholders have guaranteed this letter of credit. For excise taxes, unlike income taxes, the taxpayer is required to pay a portion of the tax liability to gain access to the courts. Caltex has made a payment of $12 million in order to progress this claim.

Note 9 - Commitments and contingencies - continued

Caltex also is involved in IRS tax audits for years 1987-1993. While no claims by the IRS are outstanding for these years, in the opinion of management, adequate provision has been made for income taxes for all years either under examination or subject to future examination.

Caltex and certain of its subsidiaries are named as defendants, along with privately held Philippine ferry and shipping companies and the shipping company's insurer, in various lawsuits filed in the U.S. and the Philippines on behalf of at least 3,350 parties, who were either survivors of, or relatives of persons who allegedly died in, a collision in Philippine waters on December 20, 1987. One vessel involved in the collision was carrying products for Caltex (Philippines) Inc. (a subsidiary of Caltex) in connection with a contract of affreightment. Although Caltex had no direct or indirect ownership in or operational responsibility for either vessel, various theories of liability have been alleged against Caltex. The major suit filed in the U.S. (Louisiana State Court) does not mention a specific monetary recovery although the pleadings contain 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 at this time. Caltex sought to preclude the plaintiffs from pursuing the Louisiana litigation on various federal and procedural grounds. Having pursued these remedies in the federal court system without success (including a denial of a writ of certiorari by the U.S. Supreme Court), Caltex management intends to continue to contest all of the foregoing litigation vigorously on various substantive and procedural 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.

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

A Caltex subsidiary has a contractual commitment, until 2007, to purchase petroleum products in conjunction with the financing of a refinery owned by an affiliate. Total future estimated commitments under this contract, based on current pricing and projected growth rates, are approximately $800 million per year. Purchases (in billions of dollars) under this and other similar contracts were $0.8, $1.0 and $0.8 in 1998, 1997 and 1996, respectively.

Caltex is contingently liable for sponsor support funding for a maximum of $278 million in connection with an affiliate's project finance obligations. While the project is operational, the requirements for the plant physical completion test, which were to have been completed by June 30, 1998, have not been fully satisfied. Thus, while an event of default exists in terms of the financing agreement, the secured lenders have agreed not to enforce their rights and remedies until June 30, 1999, since the affiliate was able to satisfy certain conditions in the loan documentation. The affiliate is currently addressing the outstanding issues to remedy the default conditions and expects to meet all completion conditions by the agreed date.

During 1998, Caltex contributed $218 million as additional equity in the above affiliate to meet sponsor support requirements. The other sponsor similarly provided its proportionate share of equity under the sponsor support agreement. In addition, during 1998, Caltex and the other sponsor provided temporary short-term extended trade credit related to crude oil supply with an outstanding balance owing to Caltex at December 31, 1998 of $31 million. The possible requirement for further post-construction support is largely dependent on refining margins and the affiliate's ability to service its secured debt.

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)	
	1998	1997
Interest rate swaps - Pay Fixed, Receive Floating	$653	$ 591
Interest rate swaps - Pay Floating, Receive Fixed	202	209
Commitments to purchase foreign currencies	395	467
Commitments to sell foreign currencies	25	50

The Group enters into interest rate swaps in managing its interest risk, and their effects are recognized in the statement of income at the same time as the interest expense on the debt to which they relate. The swap contracts have remaining maturities of up to eleven years. Net unrealized (losses) and gains on contracts outstanding at December 31, 1998 and 1997 were ($7 million) and $6 million, respectively.

The Group enters into forward exchange contracts to hedge against some of its foreign currency exposure stemming from existing liabilities and firm commitments. Contracts to purchase foreign currencies (principally Australian, Hong Kong, and Singapore dollars) hedging existing liabilities have maturities of up to three years. Net unrealized losses applicable to outstanding forward exchange contracts at December 31, 1998 and 1997 were $23 million and $16 million, respectively.

The Group hedges a portion of the market risks associated with its crude oil and petroleum product purchases and sales. Established petroleum futures exchanges are used, as well as "over-the-counter" hedge instruments, including futures, options, swaps, and other derivative products which reduce the Group's exposure to price volatility in the physical markets. The derivative positions are marked-to-market for valuation purposes. Gains and losses on hedges are deferred and recognized concurrently with the underlying commodity transactions. Derivative gains and losses not considered to be a hedge are recognized currently in income. Unrealized gains on commodity-based derivative hedging contracts outstanding as of December 31, 1998 and 1997 were $14 million and $3 million, respectively.

The Group's long-term debt of $930 million and $770 million as of December 31, 1998 and 1997, respectively, had fair values of $896 million and $731 million as of December 31, 1998 and 1997, respectively. The fair value estimates were based on the present value of expected cash flows discounted at current market rates for similar obligations. The reported amounts of financial instruments such as cash and cash equivalents, marketable securities, notes and accounts receivable, and all current liabilities approximate fair value because of their short maturities.

The Group had investments in debt securities available-for-sale at amortized costs of $105 million and $82 million at December 31, 1998 and 1997, respectively. The fair value of these securities at December 31, 1998 and 1997 approximates amortized costs. As of December 31, 1998 and 1997, investments in debt securities available-for-sale had maturities less than ten years. As of December 31, 1998 and 1997, the Group's carrying amount for investments in affiliates accounted for at equity included $19 million and $12 million, respectively, for after tax unrealized net gains on investments held by these companies.

Note 10 - Financial Instruments - continued

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 their high credit ratings. Other financial instruments exposed to credit risk consist primarily of trade receivables. These receivables are dispersed among the countries in which the Group operates, thus limited concentration of such risks. 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)		
	1998	1997	1996
Taxes other than income taxes (International):			
Duties, import and excise taxes	$ 1,218	$ 1,409	$ 1,349
Other	17	19	18
Total taxes other than income taxes	$ 1,235	$ 1,428	$ 1,367
Income taxes:			
U.S. taxes :			
Current	$ 6	$ 8	$ 455
Deferred	23	(2)	19
Total U.S.	29	6	474
International taxes:			
Current	$ 228	$ 407	$ 491
Deferred	69	(49)	17
Total International	297	358	508
Total provision for income taxes	$ 326	$ 364	$ 982

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,		
	1998	1997	1996
Computed "expected" tax rate	35.0%	35.0%	35.0%
Effect of recording equity in net income of affiliates on an after tax basis	(7.3)	(11.3)	(0.7)
Effect of dividends received from subsidiaries and affiliates	(0.3)	(0.3)	(0.5)
Income subject to foreign taxes at other than U.S. statutory tax rate	26.0	5.2	8.1
Effect of sale of investment in affiliate	-	-	3.6
Deferred income tax valuation allowance	8.7	1.4	0.5
Other	0.7	-	(0.8)
Effective tax rate	62.8%	30.0%	45.2%

The increase in the effective tax rate in 1998 is primarily due to the larger proportion of earnings from higher tax rate foreign jurisdictions, and the effect of foreign currency translation on pre-tax income.

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

	As of December 31, (Millions of dollars)	
	1998	1997
Depreciation	$ 316	$ 314
Miscellaneous	38	22
Deferred tax liabilities	354	336
Investment allowances	(62)	(74)
Tax loss carry-forwards	(63)	(50)
Foreign exchange	(8)	(33)
Retirement benefits	(48)	(30)
Miscellaneous	(12)	(15)
Deferred tax assets	(193)	(202)
Valuation allowance	72	27
Net deferred taxes	$ 233	$ 161

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

Note 11 - Taxes - continued

Undistributed earnings of subsidiaries and affiliates, for which no U.S. deferred income tax provision has been made, approximated $3.4 billion as of December 31, 1998 and December 31, 1997, respectively. Such earnings have been or are intended to be indefinitely reinvested, and become taxable in the U.S. only upon remittance as dividends. It is not practical to estimate the amount of tax that may be payable on the eventual remittance of such earnings. Upon remittance, certain foreign countries impose withholding taxes which, subject to certain limitations, are available for use as tax credits against the U.S. tax liability. Excess U.S. foreign income tax credits are not recorded until realized.

Note 12 - Accounting change

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

Note 13 - Restructuring/Reorganization

Caltex recorded a charge to income for $86 million in 1998 for various restructuring and reorganization activities undertaken to realign the company along functional lines and reduce redundant operating activities. The charge includes severance and other termination benefits (for a total of 500 employees) of $52 million for U.S. headquarter and expatriate operating staff ($26 million severance and other termination benefits, and $26 million for employee benefit curtailment/settlements) and $8 million for various foreign staff, and $10 million for asset and lease commitment write-offs. Other reorganization costs were $16 million. Approximately $53 million remained as recorded liabilities as of December 31, 1998, which will mostly be paid during 1999. These charges were included in selling, general and administrative expenses in the combined statement of income.

Note 14 - Combined statement of cash flows

Changes in operating working capital consist of the following:

	Year ended December 31, (Millions of dollars)		
	1998	1997	1996
Accounts and notes receivable	$ 404	$ 33	$ (235)
Inventories	(28)	85	(16)
Accounts payable	(105)	(252)	210
Accrued liabilities	41	1	18
Estimated income taxes	4	(17)	16
Total	$ 316	$ (150)	$ (7)

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

	Year ended December 31, (Millions of dollars)		
	1998	1997	1996
Interest paid (net of capitalized interest)	$ 182	$ 138	$ 137
Income taxes paid	$ 237	$ 440	$ 865

Note 14 - Combined statement of cash flows - continued

The deconsolidation of Caltex Australia Limited as of December 31, 1997, as described in Note 4, resulted in a non-cash reduction in the following combined balance sheet captions for 1997, which have not been included in the combined statement of cash flows:

Net working capital	$ 60
Equity in affiliates	94
Long-term debt	45
Minority interest	109

No significant non-cash investing or financing transactions occurred in 1998 and 1996.

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 15 - 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.

EQUILON ENTERPRISES LLC

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1998

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EQUILON ENTERPRISES LLC

REPORT OF MANAGEMENT

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

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

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

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

James M. Morgan	David C. Crikelair	David C. Cable
President and Chief Executive Officer	Chief Financial Officer	Controller

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS OF EQUILON ENTERPRISES LLC:

We have audited the accompanying consolidated balance sheets of Equilon Enterprises LLC ("Equilon") and its subsidiaries as of December 31, 1998 and January 1, 1998, and the related statements of consolidated income, owners' equity, and cash flows for the year ended December 31, 1998. These financial statements are the responsibility of Equilon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Equilon Enterprises LLC and its subsidiaries as of December 31, 1998, and January 1, 1998 and the results of their operations and their cash flows for the year ended December 31, 1998, in conformity with generally accepted accounting principles.

PRICEWATERHOUSECOOPERS LLP	ARTHUR ANDERSEN LLP
Houston, Texas	Houston, Texas
March 5, 1999	March 5, 1999

EQUILON ENTERPRISES LLC

Statement of Consolidated Income
For the year ended December 31, 1998
(Millions of dollars)

REVENUES	
Sales and services	$21,835
Equity in income of affiliates, interest, asset sales and other	411
Total revenues	22,246
COSTS AND EXPENSES	
Purchases and other costs	17,540
Operating expenses	2,274
Selling, general and administrative expenses	1,251
Depreciation and amortization	543
Interest expense	134
Minority interest	2
Total costs and expenses	21,744
NET INCOME	$ 502

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

EQUILON ENTERPRISES LLC

Consolidated Balance Sheets
(Millions of dollars)

	December 31, 1998	January 1, 1998
ASSETS		
Current Assets		
Cash and cash equivalents	$ 11	$ 1
Accounts and notes receivable (less allowance for doubtful accounts of $14 million at December 31 and January 1)	1,672	1,652
Accounts receivable from affiliates	157	--
Inventories	699	737
Other current assets	109	78
Total current assets	2,648	2,468
Investments and Advances	467	572
Property, Plant and Equipment, net	7,052	6,977
Deferred Charges and other noncurrent assets	239	220
Total Assets	$10,406	$ 10,237
LIABILITIES AND OWNERS' EQUITY		
Current Liabilities		
Notes payable, commercial paper, and current portion of long term debt	$ 2,155	$ 317
Accounts payable-- trade	696	1,229
Accounts payable to owners	563	256
Accrued liabilities and other payables	644	398
Formation payable to owners	--	1,613
Total current liabilities	4,058	3,813
Long-term Debt and Capital Lease Obligations	160	162
Long-term Liabilities, Deferred Credits, and Minority Interest	222	140
Total Liabilities	4,440	4,115
OWNERS' EQUITY	5,966	6,122
Total Liabilities and Owners' Equity	$10,406	$ 10,237

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

EQUILON ENTERPRISES LLC

Statement of Consolidated Cash Flows
For the year ended December 31, 1998
(Millions of dollars)

OPERATING ACTIVITIES:	
Net Income	$ 502
Reconciliation to net cash provided by operating activities	
Depreciation and amortization	543
Dividends from affiliates less than equity in income	(41)
Gains on asset sales	(118)
Changes in working capital	
Accounts and notes receivable	(20)
Accounts receivable from affiliates	(157)
Inventories	26
Accounts payable-- trade	(533)
Accounts payable to owners	307
Accrued liabilities and other payables	246
Other-- net	(29)
Net cash provided by operating activities	726
INVESTING ACTIVITIES:	
Capital expenditures	(651)
Proceeds from asset sales	409
Net cash used in investing activities	(242)
FINANCING ACTIVITIES:	
Repayments of borrowings having original terms in excess of three months	(9)
Repayment of formation costs	(1,613)
Net increase in other short-term borrowings	1,846
Distributions paid to owners	(698)
Net cash used in financing activities	(474)
CASH AND CASH EQUIVALENTS:	
Increase in cash during year	10
Balance at beginning of year	1
Balance at end of year	$ 11

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

EQUILON ENTERPRISES LLC

Statement of Owners' Equity
(Millions of dollars)

Owners' Equity balance at January 1, 1998	$ 6,122
Net Income	502
Distributions paid	(698)
Contribution adjustment	40
Owners' Equity balance at December 31, 1998	$ 5,966

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

NOTE 1 -- ORGANIZATION

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

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

Equilon manufactures, distributes and markets petroleum products under both the Shell and Texaco brands through wholesalers and its network of company owned and contract operated service stations. Products are manufactured at six refineries located in Puget Sound, Washington; Bakersfield, Los Angeles, and Martinez, California; Wood River, Illinois, and El Dorado, Kansas.

Under the terms of consent agreements with the Federal Trade Commission and certain state governments, Equilon was to divest itself of Shell's Anacortes, Washington refinery, certain marketing assets in southern California and Hawaii, and certain terminal and pipeline interests. With the exception of certain assets in Hawaii, these actions were substantially complete by year-end 1998.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements

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

Use of Estimates

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

New Accounting Standard

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". For Equilon, SFAS No. 133 will be adopted January 1, 2000. Equilon has not yet determined the impact that the adoption of SFAS No. 133 in year 2000 will have on its earnings or statement of financial position.

Revenues

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

Cash Equivalents

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

Inventories

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

Investments and Advances

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

The cost method is used to account for Equilon's interest in the net income of affiliates with an ownership interest of less than twenty percent. Income from these investments is realized through dividends.

Property, Plant and Equipment

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

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

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

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

The evaluation of impairment for property, plant and equipment is based on comparisons of carrying values against undiscounted future net pre-tax cash flows. If an impairment is identified, the asset's carrying

amount is adjusted to fair value. Assets to be disposed of are generally valued at the lower of net book value or fair value less cost to sell.

Derivatives

Equilon, through its affiliate, Equiva Trading Company, utilizes futures, options and swaps to hedge the effects of fluctuations in the prices of crude oil and refined products. Equiva Trading Company also conducts petroleum-related commodity trading activities, the results of which are marked to market, with gains and losses recorded in operating revenue.

Fair Market Value of Financial Instruments

The estimated fair value of long-term debt is disclosed in Note 8 to the financial statements. The carrying amount of long-term debt with variable rates of interest approximates fair value at both January 1, and December 31, 1998, because borrowing terms equivalent to the stated rates were available in the marketplace. Fair value for long-term debt with a fixed rate of interest is determined based on discounted cash flows using estimated prevailing interest rates.

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

Contingencies

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

If the assessment of a contingency indicates that it is probable that a material liability 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.

Environmental Expenditures

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

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

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

Other environmental expenditures, principally maintenance or preventive in nature, are expensed or capitalized as appropriate.

NOTE 3 -- INTEREST COSTS

Interest costs were as follows:

	For the year ended December 31, 1998
	(millions of dollars)
Interest incurred	$ 134
Interest paid	95

NOTE 4 -- INVENTORIES

	As of	
	December 31, 1998	January 1, 1998
	(millions of dollars)	
Crude oil	$ 292	$ 304
Petroleum products	304	325
Other merchandise	17	13
Materials and supplies	86	95
Total	$ 699	$ 737

The excess of estimated market value over the book value of inventories carried at cost on the LIFO basis of accounting was approximately $353 million at January 1, 1998 and $135 million at December 31, 1998.

NOTE 5 -- PROPERTY, PLANT AND EQUIPMENT

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

	As of			
	December 31, 1998		January 1, 1998	
	Gross	Net	Gross	Net
	(millions of dollars)			
Manufacturing	$ 7,106	$ 3,847	$ 6,962	$ 3,995
Marketing	2,757	2,032	2,599	2,052
Transportation	2,098	1,051	1,970	881
Other	181	122	115	49
Total	$ 12,142	$ 7,052	$11,646	$ 6,977
Capital lease amounts included above	$ 65	$ 20	$ 66	$ 23

Accumulated depreciation and amortization totaled $4,669 million at January 1, 1998 and $ 5,090 million at December 31, 1998. Interest capitalized as part of property, plant and equipment during 1998 was $1 million.

Long-Lived Assets

During its first year of operation, Equilon recognized the impairment of surplus assets resulting from the consolidation and optimization of assets contributed by Shell and Texaco under the provisions of SFAS No. 121 "Accounting For the Impairment of Long Lived Assets and For Long Lived Assets to be Disposed of." Impairments from this activity totaled over $77 million, including the write-off of abandoned assets at the Odessa refinery, shut down in October 1998, and the write-down to estimated realizable value of three lubricant blending plants either closed in 1998 or expected to be sold in 1999. The impairments were primarily reflected in increased depreciation expense on the income statement.

NOTE 6 -- INVESTMENTS AND ADVANCES

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

	As of	
	December 31, 1998	January 1, 1998
	(millions of dollars)	
Investments in affiliates accounted for on the equity method		
Pipeline affiliates	$ 378	$ 329
Other affiliates	52	37
Total equity method affiliates	430	366
Other investments and advances	37	206
Total investments and advances	$ 467	$ 572

Undistributed earnings of equity companies included in Equilon's accumulated earnings as of December 31, 1998 were $41 million. Summarized financial information for these investments and Equilon's equity share thereof is as follows:

	As of	
	December 31, 1998	January 1, 1998
	(millions of dollars)	
Equity Companies at 100%		
Current assets	$ 373	$ 342
Noncurrent assets	2,750	2,603
Current liabilities	(530)	(515)
Noncurrent liabilities and deferred credits	(1,684)	(1,767)
Net assets	$ 909	$ 663

	For the year ended December 31, 1998
	(millions of dollars)
Revenues	$1,500
Income before income taxes	519
Net income	362

	As of	
	December 31, 1998	January 1, 1998
	(millions of dollars)	
Equity Companies at Equilon's Percentage Ownership		
Current assets	$ 115	$ 91
Noncurrent assets	842	763
Current liabilities	(136)	(126)
Noncurrent liabilities and deferred credits	(384)	(412)
Net assets	$ 437	$ 316

	For the year ended December 31, 1998
	(millions of dollars)
Revenues	$ 430
Income before income taxes	123
Net income	109
Dividends received	$ 68

NOTE 7 -- LEASE COMMITMENTS AND RENTAL EXPENSE

Equilon has leasing arrangements involving service stations and other facilities. Renewal and purchase options are available on certain of these leases in which Equilon is lessee. Equilon has a one year lease agreement for a cogeneration plant at its El Dorado, Kansas refinery. This lease may be renewed each year until 2016 at Equilon's option. The lease has been renewed with a minimum lease rental of $11 million for 1999. Equilon has guaranteed a minimum recoverable residual value to the lessor of $73 million, if the lease is not renewed for the year 2000. Rental expense relative to operating leases, including contingent rentals, is provided in the table below:

	For the year ended December 31, 1998
	(millions of dollars)
Rental Expense:	
Minimum lease rentals	$ 178
Contingent rentals	7
Total	185
Less rental income on properties subleased to others	54
Net rental expense	$ 131

As of December 31, 1998, Equilon had estimated minimum commitments for payment of rentals under leases that, at inception, had a non-cancelable term of more than one year, as follows:

	Operating leases	Capital leases
	(millions of dollars)	
1999	$ 75	$ 11
2000	47	12
2001	43	12
2002	36	12
2003	37	11
After 2003	274	9
Total	512	67
Less sublease rental income	85	
Total lease commitments	$ 427	
Less amounts representing interest		23
Add noncancelable sublease rentals netted in capital lease commitments above		10
Present value of total capital lease obligations		54
Less current portion of capital lease obligations		7
Present value of long-term portion of capital lease obligations		$ 47

NOTE 8 -- DEBT

Equilon has revolving credit facilities with commitments of $1,875 million, as support for the company's commercial paper, as well as for working capital and other general purposes. The maximum amount outstanding during 1998 under these facilities was $1,013 million. Equilon pays a nominal quarterly facility fee for the $1,875 million availability with no amounts outstanding at year-end.

NOTES PAYABLE, COMMERCIAL PAPER, AND CURRENT PORTION OF LONG TERM DEBT

	As of	
	December 31, 1998	January 1, 1998
	(millions of dollars)	
Notes Payable	$ --	$ 6
Commercial Paper	1,846	--
Anacortes Pollution Control Bonds	34	34
Butler County Industrial Revenue Bonds	25	25
California Pollution Control Bonds due 2000 through 2024	185	185
Southwestern Illinois Industrial Revenue Bonds due 2021 through 2025	58	58
Current portion of long term debt and capital lease obligations		
Indebtedness	--	3
Capital Lease Obligations	7	6
Total	$ 2,155	$ 317
Average interest rate of short term debt	5.01%	3.36%

LONG TERM DEBT AND CAPITAL LEASE OBLIGATIONS

	As of	
	December 31, 1998	January 1, 1998
	(millions of dollars)	
Bakersfield-CA Pollution 1978 Series A (Revenue) 7.0% due 2009	$ 6	$ 6
Bakersfield-CA Pollution 1978 Series A (Industrial) 7.0% due 2008	1	1
Butler County Tax Abatement Bonds 7.38 to 9.75% due 2020	101	101
First Farmers Bank & Trust 7.625% due 2006 through 2008	4	--
Other 8.000% due 2007	1	--
Total long-term debt	113	108
Capital lease obligations (see Note 7)	47	54
Total long-term debt and capital lease obligations	$ 160	$ 162
Fair market value of the company's long-term debt	$ 114	$ 108

Certain debt and capital lease obligations as of January 1, 1998 were assumed from Shell and Texaco. The Pollution Control Bonds outstanding at December 31, 1998 shown above consisted of two issues assumed from Shell and three from Texaco. The Industrial Revenue Bonds outstanding at December 31, 1998 consisted of three issues from Shell and one from Texaco. Interest rates are currently reset on a periodic basis for these issues and the bonds may be converted from time to time to other modes. Bondholders have the right to tender their bonds under certain conditions, including on interest rate resets. The Tax Abatement Bonds outstanding at December 31, 1998 were assumed from Texaco. Pursuant to the terms of the underlying indentures, Shell and Texaco retain liability for debt service on the issues assumed by Equilon in the event that Equilon fails to perform on its obligations. All other Equilon borrowings are unsecured general obligations of Equilon and not guaranteed by any other entity.

NOTE 9 -- FORMATION PAYABLES

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

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

NOTE 10 -- TRANSACTIONS WITH RELATED PARTIES

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

The aggregate amount of such transactions was as follows:

	For the year ended December 31, 1998
	(millions of dollars)
Sales and other operating revenue	$1,368
Purchases and transportation costs	4,900
Service and technology expense	794

NOTE 11 -- TAXES

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

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

	For the year ended December 31, 1998
	(millions of dollars)
Direct taxes	
Property	$ 41
Licenses and permits	5
Other	26
Total direct taxes	$ 72

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

NOTE 12 -- EMPLOYEE BENEFITS

In accordance with certain joint venture agreements related to human resources matters, employees performing duties supporting Equilon remain employees of the owner companies and affiliates who currently charge their services to Equilon. It is expected that Equilon or one of its affiliates will directly employ most personnel necessary for ongoing operations beginning April 1, 1999. Since Equilon and most of its consolidated affiliates had no directly employed personnel at December 31, 1998, there are no liabilities related to such on the balance sheet. Equilon does have a majority interest in a pipeline company that employs its own personnel. The following information is applicable to the benefit plans of that consolidated affiliate:

Pension Plans

Sponsorship for the Texas-New Mexico Pipeline Company retirement and group pension plans was transferred from Texaco Inc. to Equilon in 1998. The remaining benefits such as health and life insurance

remained with Texaco Inc. and will be transferred in fiscal year 1999. At December 31, 1998, there were 74 participants in the retirement plan, and 80 participants in the pension plan.

The plan is accounted for as a defined benefit plan; therefore employees will receive a defined amount upon retirement based on their number of years of service and final average compensation. Actuarial studies provide the amounts for inclusion in the audited financial statements.

At year-end 1998, the plans' assets of $20 million exceeded the accumulated benefit obligation of $9 million. The weighted-average discount rate used in determining the present value of the projected benefit obligation was 6.75% for fiscal 1998. For compensation based plans, the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation and service cost was based upon an experience-related table and approximated 4% on current salaries through 1998, in accordance with plan terms. The expected long-term rate of return on plan assets was 10% for 1998. The majority of plan assets are invested in a diversified portfolio of insurance company deposits, fixed income securities and equities.

Employee Termination Benefits

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

The formation of Equilon and Motiva is expected to result in the termination of 1,535 employees. Of this total, 869 employees have been terminated through December 31, 1998. The remaining separations will be substantially completed by mid-year 1999. In 1998 Equilon recorded a charge of $61 million for its share of reimbursable severance and other benefit costs. Equilon has reimbursed the employer companies $7 million in termination benefits through December 31, 1998, and will make reimbursement for the remaining benefits in future periods in accordance with the joint venture agreements.

NOTE 13 -- DERIVATIVES

Equilon utilizes futures, options and swaps to hedge the effects of fluctuations in the prices of crude oil and refined products. These transactions meet the requirements for hedge accounting, including designation and correlation. The resulting gains or losses, measured by quoted market prices, are accounted for as part of the transactions being hedged. On the balance sheet, deferred gains and losses are included in current assets and liabilities.

At December 31, 1998, open derivative instruments held for hedging purposes consisted mostly of futures. Notional contract amounts, excluding unrealized gains and losses, were $59 million at year-end 1998. These amounts principally represent future values of contract volumes over the remaining duration of the outstanding futures contracts at the respective dates. These contracts hedge a small fraction of the company's business activities, generally for the next twelve months.

Equilon also entered into a relatively small number of petroleum-related derivative transactions for trading purposes. The results of derivative trading activities are marked to market, with gains and losses recorded in operating revenue. All derivative instruments are straightforward futures, swaps and options, with no leverage or multiplier features. At December 31, 1998, the open derivative instruments held for trading

purposes consisted primarily of futures and swaps. The notional contract amounts of these derivative instruments, excluding unrealized gains and losses, were $3 million at year-end 1998.

The earnings impact of positions closed in 1998 and the unrealized gains and losses on open positions at December 31, 1998 were not material.

NOTE 14 -- CONTINGENT LIABILITIES

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

Equilon, along with other oil companies, is working in cooperation with regulatory and governmental agencies to investigate the presence and potential sources of methyl tertiary butyl ether ("MTBE") and other gasoline constituents in groundwater production wells that formerly provided water to the City of Santa Monica, California. Equilon has also been named as a defendant or a potentially responsible party in several other contamination matters and has certain obligations for remediation of adverse environmental conditions related to certain of its operating assets under existing laws and regulations.

On November 25, 1998, a fire occurred at the Equilon Puget Sound Refinery in Anacortes, Washington, which resulted in six worker fatalities -- four employees of a contractor and two Texaco employees working on behalf of Equilon. Regulatory and governmental investigations are ongoing and wrongful death lawsuits have been filed.

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

NOTE 15 -- SUBSEQUENT EVENTS

On February 1, 1999, Equilon and Motiva sold the Shell proprietary Credit Card Program to Associates First Capital Corporation. The proceeds from the sale were assigned to Equilon and Motiva based on the outstanding receivable balances at the time of the sale. The credit card receivables sold that were applicable to Equilon amounted to $142 million.

MOTIVA ENTERPRISES LLC

FINANCIAL STATEMENTS
December 31, 1998

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MOTIVA ENTERPRISES LLC

REPORT OF MANAGEMENT

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

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

The independent accounting firms of PricewaterhouseCoopers LLP, Deloitte & Touche LLP and Arthur Andersen LLP are 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 includes a review and evaluation of the effectiveness of the Company's internal controls. This review establishes a basis for their reliance thereon in determining the nature, timing and scope of their audit.

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

L. Wilson Berry Jr.	W. M. Kaparich	Randy J. Braud
President and Chief Executive Officer	Chief Financial Officer	Controller

REPORT OF INDEPENDENT ACCOUNTANTS

THE BOARD OF DIRECTORS OF MOTIVA ENTERPRISES LLC:

We have audited the accompanying balance sheets of Motiva Enterprises LLC (the "Company") as of December 31, 1998 and July 1, 1998 and the related statements of income, owners' equity and cash flows for the period from inception (July 1, 1998) to December 31, 1998. 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 Motiva Enterprises LLC as of December 31, 1998 and July 1, 1998 and the results of its operations and its cash flows for the period from inception (July 1, 1998) to December 31, 1998 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

DELOITTE & TOUCHE LLP

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
March 5, 1999

MOTIVA ENTERPRISES LLC

Statement of Income
For the period from inception (July 1, 1998) to December 31
(Millions of dollars)

	1998
REVENUES	
Sales and other revenue	$5,371
COSTS AND EXPENSES	
Purchases and other costs	4,079
Operating expenses	783
Selling, general and administrative expenses	193
Depreciation and amortization	174
Interest expense	43
Taxes other than income taxes	21
Total costs and expenses	5,293
Net Income	$ 78

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

MOTIVA ENTERPRISES LLC

Balance Sheets
(Millions of dollars)

	December 31, 1998	July 1, 1998
ASSETS		
Current Assets		
Cash and cash equivalents	$ 25	$ --
Accounts and notes receivable, less allowance for doubtful accounts of $9 million at December 31 and July 1	661	639
Inventories	692	653
Other current assets	57	48
Total current assets	1,435	1,340
Investments and Advances	54	52
Property, Plant and Equipment		
At cost	7,187	7,095
Less accumulated depreciation	2,112	2,056
Net Property, Plant and Equipment	5,075	5,039
Deferred Charges and Other Noncurrent Assets	177	163
Total Assets	$ 6,741	$ 6,594
LIABILITIES AND OWNERS' EQUITY		
Current Liabilities		
Commercial paper and current portion of long-term debt	$ 441	$ 909
Accounts payable and accrued liabilities	611	561
Accrued taxes	196	312
Total current liabilities	1,248	1,782
Long-Term Debt and Capital Lease Obligation	1,425	590
Accrued Environmental Remediation Liability	232	229
Deferred Credits and Other Noncurrent Liabilities	8	--
Total Liabilities	2,913	2,601
Owners' Equity	3,828	3,993
Total Liabilities and Owners' Equity	$ 6,741	$ 6,594

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

MOTIVA ENTERPRISES LLC

Statement of Cash Flows
For the period from inception (July 1, 1998) to December 31
(Millions of dollars)

	1998
OPERATING ACTIVITIES	
Net Income	$ 78
Reconciliation to net cash provided by operating activities:	
Depreciation and amortization	174
Loss on sale of assets	1
Changes in operating working capital	
Accounts and notes receivable	(22)
Inventories	(39)
Other current assets	(9)
Accounts payable and accrued liabilities	(66)
Other-- net	(47)
Net cash provided by operating activities	70
INVESTING ACTIVITIES	
Capital expenditures	(182)
Proceeds from sale of assets	13
Net cash used in investing activities	(169)
FINANCING ACTIVITIES	
Proceeds from borrowings	1,278
Repayment of debt	(911)
Distributions to owners	(243)
Net cash provided by financing activities	124
CASH AND CASH EQUIVALENTS	
Increase during the period	25
Beginning of period	--
End of period	$ 25
Supplemental cash flow information:	
Interest paid during the period	$ 43

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

MOTIVA ENTERPRISES LLC

Statement of Owners' Equity
(Millions of dollars)

Initial Owners' Capital Contribution, July 1, 1998	$ 3,993
Net Income	78
Distributions	(243)
Balance at December 31, 1998	$ 3,828

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

MOTIVA ENTERPRISES LLC

NOTES TO FINANCIAL STATEMENTS

NOTE 1 -- ORGANIZATION

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

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

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

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Use of Estimates

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

New Accounting Standard

In June, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 is effective for fiscal years beginning after January 1, 2000. The Company has not determined the impact that the adoption of SFAS 133 will have on its financial position or results of operations.

Revenues

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

Cash Equivalents

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

Inventories

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

Property, Plant and Equipment

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

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

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

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

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

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

Investments and Advances

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

Environmental Expenditures

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

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

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

Derivatives

The Company uses interest rate swap derivative financial transactions to minimize its borrowing cost. Amounts receivable or payable based on the interest rate differentials of interest rate swaps are accrued monthly and are reflected in interest expense.

The Company uses futures, options and swaps to hedge the effects of fluctuations in the prices of crude oil and refined products. Unrealized gains and losses on such transactions are deferred and recognized in income when the transactions and cash are settled.

Fair Value of Financial Instruments

The estimated fair value of long-term debt is disclosed in Note 7 to the financial statements. The carrying amount of long-term debt with variable rates of interest approximates fair value at December 31, 1998 because borrowing terms equivalent to the stated rates were available in the marketplace. Fair value for long-term debt with a fixed rate of interest and interest rate swaps is determined based on discounted cash flows using estimated prevailing interest rates.

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

Contingencies

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

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 the owners or others.

NOTE 3 -- TRANSACTIONS WITH RELATED PARTIES

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

The aggregate amounts of such transactions were as follows:

	For the period from inception (July 1, 1998) to December 31, 1998
	(millions of dollars)
Sales and other operating revenue	$ 857
Purchases and transportation costs	2,642
Service and technology expense	297

Accounts receivable from related parties and accounts payable to related parties were $73 million and $175 million, respectively, at December 31, 1998.

NOTE 4 -- SALE OF RECEIVABLES

At December 31, 1998 the Company had a third-party accounts receivable agreement under which it has the right to sell up to $200 million of trade accounts receivable on a continuing basis subject to limited recourse. Receivables sold under this facility totaled $569 million for the six months ended December 31, 1998. At December 31, 1998, $90 million of trade receivables sold remained uncollected. The discount recorded on sales of trade receivables amounted to $1 million for the six months ended December 31, 1998.

NOTE 5 -- INVENTORIES

	December 31, 1998	July 1, 1998
	(millions of dollars)	
Crude oil and petroleum products	$ 597	$ 569
Other merchandise	13	12
Materials and supplies	82	72
Total	$ 692	$ 653

Due to declines in prices, December 31, 1998 crude oil and petroleum products inventories have been reduced to estimated market value, reflecting a $23 million valuation adjustment to the LIFO carrying value of such inventories at December 31, 1998. At July 1, 1998, the excess of current cost over the LIFO carrying value of crude oil and petroleum products inventories was approximately $71 million.

NOTE 6 -- PROPERTY, PLANT AND EQUIPMENT

	December 31, 1998		July 1, 1998	
	Gross	Net	Gross	Net
	(millions of dollars)			
Refining	$ 4,383	$ 2,972	$4,326	$ 2,941
Marketing	2,794	2,098	2,760	2,094
Other	10	5	9	4
Total	$ 7,187	$ 5,075	$7,095	$ 5,039
Capital lease amounts included above	$ 24	$ 12	$ 24	$ 13

Interest expense capitalized as part of property, plant and equipment was $4 million for the six months ended December 31, 1998.

NOTE 7 -- DEBT

Debt and capital lease obligation as of July 1, 1998 were assumed from Star and Shell pursuant to the terms of the Asset Transfer and Liability Assumption Agreement, one of the joint venture agreements forming the Company.

Short-Term

Debt due within one year from the dates indicated below consisted of the following:

	December 31, 1998	July 1, 1998
	(millions of dollars)	
Commercial paper	$ 1,211	$ --
Pollution control revenue bonds	277	210
Bank loans	--	254
Parent company note	--	316
	1,488	780
Current maturities of long-term debt and capital lease obligation	1	129
	1,489	909
Less: Short-term obligations intended to be refinanced:		
Commercial paper	900	--
Pollution control revenue bonds	148	--
Total short-term debt	$ 441	$ 909

The weighted average interest rate for the commercial paper outstanding at December 31, 1998 was 5.42%.

The pollution control revenue bonds outstanding at December 31, 1998 shown above consisted of five individual issues totaling $129 million assumed from Shell, three issues totaling $81 million assumed from Star, and $67 million issued by the Company. For the issues assumed from Shell, interest rates are currently reset on a daily basis for four of the issues and on a weekly basis for the remaining issue; the bonds may be converted from time to time to other modes. The weighted average interest rates for these issues at December 31, 1998 and July 1, 1998 were 5.02% and 3.61%, respectively. The bonds mature between 2005 and 2023, although bondholders have the right to tender their bonds under certain conditions, including on

interest rate resets. Pursuant to the terms of the underlying indentures, Shell retains liability for debt service on the issues the Company assumed from Shell in the event that the Company fails to perform its obligations.

Interest rates are currently reset on a weekly basis for the issues assumed from Star and the bonds issued by the Company, although these bonds may also be converted from time to time to other modes. Weighted average interest rates at December 31, 1998 and July 1, 1998 were 4.0% and 3.65%, respectively, for the issues assumed from Star; the weighted average interest rate at December 31, 1998 was 5.35% for the bonds issued by the Company. The bonds assumed from Star are currently supported by an irrevocable bank letter of credit, for which the Company pays a fee based on the face amount of the letter of credit. The bonds mature between 2014 and 2018, although bondholders have the right to tender their bonds under certain conditions, including on interest rate resets. These bonds, as well as $900 million of the Company's other short-term obligations scheduled to mature in 1999, are reclassified to long-term debt at December 31, 1998 recognizing the Company's intent and ability to refinance those issues on a long-term basis, if necessary through the use of its $1.5 billion revolving credit facility.

The weighted average interest rate for the bank loans outstanding at July 1, 1998 which were assumed from Star, was 6.07%. The parent company note outstanding at July 1, 1998 represented an amount due Shell in connection with its asset contribution to the Company; its interest rate at that date was 6.02%. Both the bank loans and the parent company note were repaid during the period with proceeds from the Company's commercial paper program.

Long-Term

Long-term debt as of the dates indicated below consisted of the following:

	December 31, 1998	July 1, 1998
	(millions of dollars)	
Private placements	$ 360	$ 400
Bank loans	--	300
Capital lease obligation	18	19
	378	719
Less: Amounts due within one year	1	129
	377	590
Add: Short-term obligations intended to be refinanced:		
Commercial paper	900	--
Pollution control revenue bonds	148	--
Total long-term debt	$ 1,425	$ 590

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

Private placements of $360 million at December 31, 1998 (originally $400 million at July 1, 1998) were assumed from Star, and consist of $110 million and $250 million issued to various insurance companies in 1991 and 1992, respectively. All of the notes carry fixed interest rates; the weighted average interest rates were 8.6% for the 1991 issue and 7.6% for the 1992 issue. These notes have varying maturities lasting until the year 2009.

A term bank loan facility was also assumed from Star on July 1, 1998 at which time its weighted average interest rate was 6.05%. This facility was repaid in full and terminated during the period with proceeds from the Company's commercial paper program.

All Company borrowings are unsecured and with the exception of the pollution control revenue bonds assumed from Shell, are non-recourse to the owners. Long-term debt borrowing agreements include financial covenants regarding net worth, leverage and liens. As of December 31, 1998 the Company was in compliance with all covenants.

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

Fair Value of Financial Instruments

The estimated fair values, at the dates indicated below, of the Company's long-term debt and related derivative financial instruments were as follows:

	December 31, 1998		July 1, 1998	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(millions of dollars)			
Long-term debt..................	$ 1,425	$ 1,472	$ 590	$ 626
Interest rate swaps............	--	1.6	--	0.4

NOTE 8 -- DERIVATIVES

Debt-Related Derivatives

Many of the Company's interest bearing liabilities reflected on its balance sheet are floating rate instruments. To reduce the impact of changes in interest rates on this floating rate debt, the Company assumed certain interest rate swap agreements in the notional amount of $100 million previously entered into by Star. All such interest rate swaps require the counterparty of the swap to pay to the Company a floating rate of interest on notional amounts of principal, and for the Company to pay to the counterparty a fixed rate of interest on the same amounts of notional principal. In all cases, the Company remains obligated to pay the variable rate owing to the holder of the underlying obligations. These interest rate swaps effectively convert $100 million of floating rate debt to a fixed rate of 6% through the year 2000.

Each party to any interest rate swap agreement is exposed to credit risk for nonperformance of the other party. The Company has such exposure, but since the counterparties are major financial institutions, does not anticipate nonperformance by counterparties.

Commodity Derivatives

The Company utilizes futures, options and swaps to hedge the effects of fluctuations in the prices of crude oil and refined products. These transactions meet the requirements for hedge accounting, including designation and correlation. The resulting gains or losses, measured by quoted market prices, are accounted for as part of the transactions being hedged. On the balance sheet, deferred gains and losses are included in current assets and liabilities.

At December 31, 1998, the Company had open derivative commodity contracts required to be settled in cash, consisting mostly of futures. Notional contract amounts, excluding unrealized gains and losses, were $101 million at December 31, 1998. These amounts principally represent future values of contract volumes

over the remaining duration of outstanding futures contracts at the respective dates. These contracts hedge a small fraction of the company's business activities, generally for the next two months.

Unrealized losses on open positions at December 31, 1998 were $5 million. The earnings impact of closed positions for the six months ended December 31, 1998 was not material.

NOTE 9 -- LEASE COMMITMENTS AND RENTAL EXPENSE

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

The Company has a one-year lease agreement for a cogeneration plant being constructed in proximity to the Company's Delaware City refinery. The lease commences upon completion of the facility's construction, which is estimated to be in the first quarter of 2000. The lease may be renewed at the Company's option for seventeen consecutive one-year terms. The minimum lease commitment for the first year (year 2000) is expected to be approximately $20 million (not included in the table below). The Company, as construction agent for the project, is obligated to reimburse the lessor for approximately 89 percent of the project's construction cost if certain agreed-upon requirements are not met. The accumulated expenditures to date at December 31, 1998 were $168 million. At the end of the first one-year lease, if not renewed, the Company has guaranteed a minimum recoverable residual value to the lessor of approximately 89 percent of the total project construction cost.

As of December 31, 1998, the Company had estimated minimum commitments for payment of rentals under leases which, at inception, had a noncancelable term of more than one year, as follows:

	Operating Leases	Capital Lease
	(millions of dollars)	
1999	$ 47	$ 4
2000	38	4
2001	30	4
2002	21	4
2003	18	4
After 2003	51	13
Total lease commitments	$ 205	33
Less amounts representing interest		15
Present value of total capital lease obligation		18
Less current portion of capital lease obligation		1
Present value of long-term portion of capital lease obligation		$ 17

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

	For the period from inception (July 1, 1998) to December 31, 1998
	(millions of dollars)
Rental expense:	
Minimum lease rentals	$ 52
Contingent rentals	5
Total	57
Less rental income on properties subleased to others	25
Net rental expense	$ 32

NOTE 10 -- EMPLOYEE BENEFIT PLANS

In accordance with certain joint venture agreements related to human resources matters, employees performing duties supporting the Company remain employees of Shell, Texaco and Star, who currently charge their services to the Company. It is expected that the Company or one of its affiliates will directly employ the personnel necessary for continued support on April 1, 1999. Since the Company has no directly employed personnel at December 31, 1998, there are no liabilities related to such on the balance sheet. Pensions and other post employment benefits costs are not separately identified in billings for employee services from Shell, Texaco and Star, and therefore are not disclosed.

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

The formation of the Company and Equilon is expected to result in the termination of 1,535 employees. Of this total, 869 employees have been terminated through December 31, 1998. The remaining separations will be substantially completed by mid-year 1999. In 1998 the Company recorded a charge of $30 million for its share of reimbursable severance and other benefit costs. The Company has reimbursed the employer companies $3 million in termination benefits through December 31, 1998, and will make reimbursement for the remaining benefits in future periods in accordance with the joint venture agreements.

NOTE 11 -- CONTINGENT LIABILITIES

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

While it is impossible to ascertain the ultimate legal and financial liability with respect to many contingent liabilities and commitments (including lawsuits, claims, guarantees, federal regulations, environmental issues, etc.), the Company has accrued amounts related to certain such liabilities. The Company does not expect that the aggregate amount of commitments and contingent liabilities in excess of amounts accrued at December 31, 1998, if any, will have a material effect on the financial position or results of operations of the Company.

NOTE 12 -- TAXES

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

Excise taxes collected from consumers for governmental agencies that are not included in revenues or expenses were $2,062 million for the six month period ended December 31, 1998.

NOTE 13 -- SUBSEQUENT EVENT

On February 1, 1999 the Company and Equilon sold the Shell Proprietary Credit Card Program to Associates First Capital Corporation. The proceeds from the sale were assigned to the Company and Equilon based on the outstanding receivable balances at the time of the sale. The credit card receivables sold that were applicable to the Company amounted to $108 million.

APPENDIX

DESCRIPTION OF GRAPHIC/IMAGE/ILLUSTRATION MATERIAL INCLUDED IN EXHIBIT 13 - TEXACO INC.'S 1998 ANNUAL REPORT TO STOCKHOLDERS

The following information is depicted in graphic/image/illustration form in Texaco Inc.'s 1998 Annual Report to Stockholders filed as Exhibit 13 to Texaco Inc.'s 1998 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 1998 Annual Report to Stockholders as provided to Texaco Inc.'s stockholders:

This Appendix describes the graphic material contained in the portion of Texaco Inc.'s 1998 Annual Report to Stockholders which is incorporated by reference into Texaco Inc.'s 1998 Annual Report on Form 10-K, in response to Form 10-K, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

1. The first graph is located on Page 26. The bar graph is entitled "Texaco's U.S. Realized Crude Oil Price Per Barrel" and is reflected in dollars. The U.S. realized crude oil price per barrel, in dollars, for each year are depicted as follows:

1996	$17.93
1997	$17.34
1998	$10.60

Below the graph a footnote appears which states, "Prices in 1998 fell to historically low levels."

2. The second graph is located on Page 27. The bar graph is entitled "Cash Expenses Per Barrel" and is reflected in dollars. A note above the graph appears which states, "Excludes operations now in Equilon and special items." The cash expenses per barrel, in dollars, for each year are depicted as follows:

1996	$3.93
1997	$4.08
1998	$3.74

Below the graph a footnote appears which states, "Tight controls on expenses led to an 8% reduction per barrel in 1998."

3. The third graph is located on Page 29. The bar graph is entitled "U.S. Production" and is reflected in thousands of barrels of oil equivalent a day. The U.S. production, in thousands of barrels of oil equivalent a day, for each year are depicted as follows:

	Crude Oil	Natural Gas	Total
1996	388	279	667
1997	396	284	680
1998	433	280	713

Below the graph a footnote appears which states, "Growth of 5% in 1998 due to higher production in California and the Gulf of Mexico."

4. The fourth graph is located on Page 30. The bar graph is entitled "U.S. Production Costs Per Barrel" and is reflected in dollars. The U.S. production costs per barrel, in dollars, for each year are depicted as follows:

1996	$3.82
1997	$3.94
1998	$4.07

Below the graph a footnote appears which states, "Slight rise due to higher lifting costs of acquired Monterey properties."

5. The fifth graph is located on Page 31. The bar graph is entitled "International Production" and is reflected in thousands of barrels of oil equivalent a day. The International production, in thousands of barrels of oil equivalent a day, for each year are depicted as follows:

	Crude Oil	Natural Gas	Total
1996	399	64	463
1997	437	79	516
1998	497	91	588

Below the graph a footnote appears which states, "Production grew by 14% in 1998 due to continuing development in the North Sea, Indonesia and the Middle East."

6. The sixth graph is located on Page 31. The bar graph is entitled "International Exploratory Expenses" and is reflected in millions of dollars. The International exploratory expenses, in millions of dollars, for each year are depicted as follows:

1996	$226
1997	$282
1998	$204

Below the graph a footnote appears which states, "Reduction in 1998 spending due to low-price environment."

7. The seventh graph is located on Page 31. The bar graph is entitled "International Production Costs Per Barrel" and is reflected in dollars. The International production costs per barrel, in dollars, for each year are depicted as follows:

1996	$4.47
1997	$4.30
1998	$3.74

Below the graph a footnote appears which states, "Lower lifting costs per barrel through operating efficiencies and increased production."

8. The eighth graph is located on Page 34. The bar graph is entitled "International Refinery Input" and is reflected in thousands of barrels a day. The International refinery input, in thousands of barrels a day, for each year and geographical location are depicted as follows:

	Europe	Caltex	LA/WA	Total
1996	340	364	58	762
1997	336	408	60	804
1998	350	417	65	832

Below the graph a footnote appears which states, "Texaco's refinery system supplies key markets."

9. The ninth graph is located on Page 37. The bar graph is entitled "Capital and Exploratory Expenditures - Geographical" and is reflected in billions of dollars. Capital and exploratory expenditures, in billions of dollars, for each year and geographical location are depicted as follows:

	United States	International	Acquisition of Monterey Resources	Total
1996	$1.6	$1.8	$ -	$3.4
1997	$2.3	$2.2	$1.4	$5.9
1998	$2.0	$2.0	$ -	$4.0

Below the graph a footnote appears which states, "Balanced spending on a worldwide portfolio of projects."

10. The tenth graph is located on Page 37. The bar graph is entitled "Capital and Exploratory Expenditures - Functional" and is reflected in billions of dollars. Capital and exploratory expenditures, in billions of dollars, for each year and function are depicted as follows:

	Exploration and production	Global gas marketing	Manufacturing, marketing, distribution and other	Acquisition of Monterey Resources	Total
1996	$2.3	$0.1	$1.0	$ -	$3.4
1997	$3.0	$0.2	$1.3	$1.4	$5.9
1998	$2.7	$0.1	$1.2	$ -	$4.0

Below the graph a footnote appears which states, "Continued emphasis on exploration and production projects."

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 March 2, 1999, including Certificate of Designations, Preferences and Rights of Series B ESOP Convertible Preferred Stock, Series D Junior Participating Preferred Stock and Series G, H, I and J Market Auction Preferred Shares.	
(3.2)	Copy of By-Laws of Texaco Inc., as amended to and including July 26, 1998.	
(10(iii)(a))	Form of severance agreement between Texaco Inc. and elected officers of Texaco Inc.	
(10(iii)(b))	Employment agreement dated December 30, 1997, between Texaco Inc. and Mr. John J. O'Connor, Senior Vice President of Texaco Inc.	
(10(iii)(c))	Employment agreements dated July 18, 1997, between Texaco Inc. and Mr. William M. Wicker, Senior Vice President of Texaco Inc.	
(10(iii)(d))	Texaco Inc.'s 1997 Stock Incentive Plan, incorporated herein by reference to Appendix A, pages 39 through 44 of Texaco Inc.'s proxy statement dated March 27, 1997.	*
(10(iii)(e))	Texaco Inc.'s 1997 Incentive Bonus Plan, incorporated herein by reference to Appendix A, pages 45 and 46 of Texaco Inc.'s proxy statement dated March 27, 1997.	*
(10(iii)(f))	Texaco Inc.'s Stock Incentive Plan, incorporated herein by reference to pages A-1 through A-8 of Texaco Inc.'s proxy statement dated April 5, 1993.	*
(10(iii)(g))	Texaco Inc.'s Stock Incentive Plan, incorporated herein by reference to pages IV-1 through IV-5 of Texaco Inc.'s proxy statement dated April 10, 1989 and to Exhibit A of Texaco Inc.'s proxy statement dated March 29, 1991.	*
(10(iii)(h))	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)(i))	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)(j))	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)(k))	Description of Texaco Inc.'s Revised Incentive Compensation Plan, incorporated herein by reference to pages 10 and 11 of Texaco Inc.'s proxy statement dated March 13, 1969.	*
(12.1)	Computation of Ratio of Earnings to Fixed Charges of Texaco on a Total Enterprise Basis.	
(12.2)	Definitions of Selected Financial Ratios.	
(13)	Copy of those portions of Texaco Inc.'s 1998 Annual Report to Stockholders that are incorporated herein by reference into this Annual Report on Form 10-K.	

(21) Listing of significant Texaco Inc. subsidiary companies and the name of the state or other jurisdiction in which each subsidiary was organized.

(23.1) Consent of Arthur Andersen LLP.

(23.2) Consent of KPMG LLP.

(23.3) Consent of Independent Accountants of Equilon Enterprises LLC.

(23.4) Consent of Independent Accountants of Motiva Enterprises LLC.

(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 3.1

CERTIFICATE OF INCORPORATION
OF
TEXACO INC.
(as amended to and including March 2, 1999)

A Restated Certificate of Incorporation was duly adopted by the Board of Directors of Texaco Inc. on April 27, 1990, pursuant to Section 245 of the General Corporation Law of the State of Delaware and was amended on December 22, 1992, November 9, 1994, September 10, 1997 and March 2, 1999. This document only restates and integrates the provisions of the Company's Restated Certificate of Incorporation as heretofore amended or supplemented.

The Company was incorporated under the laws of Delaware on August 26, 1926, as The Texas Corporation.

I.

The name of this Company is TEXACO INC.

II.

Its principal office in the State of Delaware is located at 32 Loockerman Square, Suite L-100, in the City of Dover, County of Kent, and the name of its resident agent is The Prentice-Hall Corporation System, Inc., whose address is 32 Loockerman Square, Suite L-100, Dover, Delaware.

III.

The objects or purposes for which the Company is formed and the nature of the business to be carried on, any one or all of which it may pursue in the United States of America and the states, districts, territories and possessions thereof and in foreign countries, are as follows:

A. to engage in and carry on the petroleum business and the various branches thereof, including the extraction, production, storage, transportation, purchase and sale of oil and gas, natural gas liquids, shale and other hydrocarbon substances and their products and by-products, and refining, treating, applying, compounding, processing and otherwise preparing them for market;

B. to engage in and carry on any other business, without limit as to kind and whether or not related to, similar to or different from, the petroleum business, including but not limited to, the businesses of mining, manufacturing, processing, storage, construction, service, transportation and merchandising;

C. to acquire, own, hold, enjoy, lease, deal in, operate, dispose of and convey real and personal property of every kind and description, rights and interests therein, and the business, property, assets and good will of any person, partnership, association, firm, corporation or other entity;

D. to acquire, own, hold, enjoy, deal in and sell, transfer or otherwise dispose of stock, bonds, notes and other securities, as well as accounts, contracts and evidences of indebtedness of any person, partnership, association, firm, corporation or other entity, in whatsoever business or activity engaged and whether private or public in character, and to exercise all rights in respect thereto;

E. to make secured and unsecured loans, with or without interest, to assume or guarantee the stock, bonds, and obligations of, or otherwise to assist, any person, partnership, association, firm, corporation or other entity, in whatsoever business or activity engaged and whether public or private in character, when so doing, in the opinion of the Board of Directors, would tend to promote the business of this Company;

F. to acquire, own, hold, enjoy, grant, deal in, transfer, sell or otherwise dispose of intangible property of every kind and description, including, without limitation, patents, patent rights, trademarks, trade names, copyrights, licenses, formulae and chooses in action of any kind;

G. to do all and everything useful in or incidental to the accomplishment of the objects and purposes herein stated, as principal, agent, contractor, trustee, or otherwise, either alone or in association with others, to the same extent and as fully as could natural persons.

No enumeration of specific objects, purposes or powers, or particular description of business in this article shall be held to limit or restrict in any manner those enumerations or descriptions which are general in their character, and the objects, powers and descriptions of one section shall in no wise be limited or restricted by reference to or inference from the terms of any other section.

IV.

The total number of shares of all classes of stock which the Company shall have authority to issue is 730,000,000 shares, consisting of 30,000,000 shares of Preferred Stock of the par value of $1.00 each and 700,000,000 shares of Common Stock of the par value of $3.125 each.

The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions of the Preferred Stock and the Common Stock are as follows:

(A) The Preferred Stock may be issued from time to time in one or more

series. Subject to the limitations set forth herein and any limitations prescribed by law, the Board of Directors is expressly authorized, prior to issuance of any series of Preferred Stock, to fix by resolution or resolutions providing for the issue of any series the number of shares included in such series and the designation, relative powers, preferences and rights, and the qualifications, limitations or restrictions of such series. Pursuant to the foregoing general authority vested in the Board of Directors, but not in limitation of the powers conferred on the Board of Directors thereby and by the General Corporation Law of the State of Delaware, the Board of Directors is expressly authorized to determine with respect to each series of Preferred Stock:

1. the designation or designations of such series and the number of shares (which number from time to time may be decreased by the Board of Directors, but not below the number of such shares of such series then outstanding, or may be increased by the Board of Directors unless otherwise provided in creating such series) constituting such series;

2. the rate or amount and times at which, and the preferences and conditions under which, dividends shall be payable on shares of such series, the status of such dividends as cumulative or

non-cumulative, the date or dates from which dividends, if cumulative, shall accumulate, and the status of such as participating or non-participating after the payment of dividends as to which such shares are entitled to any preference;

3. the rights and preferences, if any, of the holders of shares of such series upon the liquidation, dissolution or winding up of the affairs of, or upon any distribution of the assets of, the Company, which amount may vary depending upon whether such liquidation, dissolution or winding up is voluntary or involuntary and, if voluntary, may vary at different dates, and the status of the shares of such series as participating or non-participating after the satisfaction of any such rights and preferences;

4. the full or limited voting rights, if any, to be provided for shares of such series, in addition to the voting rights provided by law;

5. the times, terms and conditions, if any, upon which shares of such series shall be subject to redemption, including the amount the holders of shares of such series shall be entitled to receive upon redemption (which amount may vary under different conditions or at different redemption dates) and the amount, terms, conditions and manner of operation of any purchase, retirement or sinking fund to be provided for the shares of such series;

6. the rights, if any, of holders of shares of such series to convert such shares into, or to exchange such shares for, shares of any other class or classes or of any other series of the same class, the prices or rates of conversion or exchange, and adjustments thereto, and any other terms and conditions applicable to such conversion or exchange;

7. the limitations, if any, applicable while such series is outstanding on the payment of dividends or making of distributions on, or the acquisition or redemption of, Common Stock or any other class of shares ranking junior, either as to dividends or upon liquidation, to the shares of such series;

8. the conditions or restrictions, if any, upon the issue of any additional shares (including additional shares of such series or any other series or of any other class) ranking on a parity with or prior to the shares of such series either as to dividends or upon liquidation; and

9. any other relative powers, preferences and participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of shares of such series;

in each case, so far as not inconsistent with the provisions of this Certificate of Incorporation or the General Corporation Law of the State of Delaware as then in effect. All shares of Preferred Stock shall be identical and of equal rank except in respect to the particulars that may be fixed by the Board of Directors as provided above, and all shares of each series of Preferred Stock shall be identical and of equal rank except as to the times from which cumulative dividends, if any, thereon shall be cumulative.

B. Pursuant to the authority conferred upon the Board of Directors by the Restated Certificate of Incorporation, the Board of Directors has created the following series of Preferred Stock, with the following voting powers, preferences and relative, participating, optional or other special rights, and the following qualifications, limitations or restrictions.

Series B ESOP Convertible Preferred Stock

SECTION 1. Designation and Amount; Special Purpose Restricted Transfer Issue.

(A) The shares of such series shall be designated as "Series B ESOP Convertible Preferred Stock" ("Series B Preferred Stock") and the number of shares constituting such series shall be 833,333 1/3.

(B) Shares of Series B Preferred Stock shall be issued only to State Street Bank and Trust Company, as trustee (the "Trustee") of the employee stock ownership plan feature of the Employees Thrift Plan of the Company (the "Plan"). All references to the holder of shares of Series B Preferred Stock shall mean the Trustee or any successor trustee under the Plan. In the event of any transfer of record ownership of shares of Series B Preferred Stock to any person other than any successor trustee under the Plan, the shares of Series B Preferred Stock so transferred, upon such transfer and without any further action by the Company or the holder thereof, shall be automatically converted into shares of Common Stock on the terms otherwise provided for the conversion of shares of Series B Preferred Stock into shares of Common Stock pursuant to Section 5 hereof and no such transferee shall have any of the voting powers, preferences and relative, participating, optional or special rights ascribed to shares of Series B Preferred Stock hereunder but, rather, only the powers and rights pertaining to the Common Stock into which such shares of Series B Preferred Stock shall be so converted. In the event of such a conversion, the transferee of the shares of Series B Preferred Stock shall be treated for all purposes as the record holder of the shares of Common Stock into which such shares of Series B Preferred Stock have been automatically converted as of the date of such transfer. Certificates representing shares of Series B Preferred Stock shall bear a legend to reflect the foregoing provisions. Notwithstanding the foregoing provisions of this paragraph (B) of Section 1, shares of Series B Preferred Stock (i) may be converted into shares of Common Stock as provided by Section 5 hereof and the shares of Common Stock issued upon such conversion may be transferred by the holder thereof as permitted by law and (ii) shall be redeemable by the Company upon the terms and conditions provided by Sections 6, 7 and 8 hereof.

SECTION 2. Dividends and Distribution.

(A) Subject to the provisions for adjustment hereinafter set forth, the holders of shares of Series B Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefor, cash dividends ("Preferred Dividends") in an amount per share equal to $57.00 per share per annum, and no more, payable semiannually in arrears, one-half on the 20th day of December and one-half on the 20th day of June of each year (each a "Dividend Payment Date") commencing on June 20, 1989, to holders of record at the start of business on such Dividend Payment Date. In the event that any Dividend Payment Date shall fall on any day other than a "Business Day" (as hereinafter defined), the dividend payment due on such Dividend Payment Date shall be paid on the Business Day immediately preceding such Dividend Payment Date. Preferred Dividends shall begin to accrue on outstanding shares of Series B Preferred Stock from the date of issuance of such shares of Series B Preferred Stock. Preferred Dividends shall accrue on a daily basis whether or not the Company shall have earnings or surplus at the time, but Preferred Dividends accrued after issuance on the shares of Series B Preferred Stock for any period less than a full semiannual period between Dividend Payment Dates shall be computed on the basis of a 360-day year of 30-day months. Accrued but unpaid Preferred Dividends shall cumulate as of the Dividend Payment Date on which they first become payable, but no interest shall accrue on accumulated but unpaid Preferred Dividends.

(B) So long as any shares of Series B Preferred Stock shall be outstanding, no dividend shall be declared or paid or set apart for payment on any other series of stock ranking on a parity with the Series B Preferred Stock as to dividends, unless there shall also be or have been declared and paid or set apart for payment on the Series B Preferred Stock, dividends for all dividend payment periods of the Series B Preferred Stock ending on or before the Dividend Payment Date of such parity stock, ratably in proportion to the respective amounts of dividends accumulated and unpaid through such dividend period on the Series B Preferred Stock and accumulated and unpaid on such parity stock through the dividend payment period on such parity stock next preceding such Dividend Payment Date. In the event that full cumulative dividends on the Series B Preferred Stock have not been declared and paid or set apart for payment when due, the Company shall not declare or pay or set apart for payment any dividends or make any other distributions on, or make any payment on account of the purchase, redemption or other retirement of any other class of stock or series thereof of the Company ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding up of the Company, junior to the Series B Preferred Stock until full cumulative dividends on the Series B Preferred Stock shall have been paid or declared and set apart for payment; provided, however, that the foregoing shall not apply to (i) any dividend payable solely in any shares of any stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding up of the Company, junior to the Series B Preferred Stock or (ii) the acquisition of shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding up of the Company, junior to the Series B Preferred Stock in exchange solely for shares of any other stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding up of the Company, junior to the Series B Preferred Stock.

SECTION 3. Voting Rights.

The holders of shares of Series B Preferred Stock shall have the following voting rights:

(A) The holders of Series B Preferred Stock shall be entitled to vote on all matters submitted to a vote of the stockholders of the Company, voting together with the holders of Common Stock as one class. The holder of each share of Series B Preferred Stock shall be entitled to a number of votes equal to the number of shares of Common Stock into which such share of Series B Preferred Stock could be converted on the record date for determining the stockholders entitled to vote, rounded to the nearest one-tenth of a vote; it being understood that whenever the "Conversion Price" (as defined in Section 5 hereof) is adjusted as provided in Section 9 hereof, the voting rights of the Series B Preferred Stock shall also be similarly adjusted.

(B) Except as otherwise required by law or set forth herein, holders of Series B Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for the taking of any corporate action; provided, however, that the vote of at least 66 2/3% of the outstanding shares of Series B Preferred Stock, voting separately as a series, shall be necessary to adopt any alteration, amendment or repeal of any provision of the Restated Certificate of Incorporation of the Company, as amended, or this Resolution (including any such alteration, amendment or repeal effected by any merger or consolidation in which the Company is the surviving or resulting corporation), if such amendment, alteration or repeal would alter or change the powers, preferences or special rights of the shares of Series B Preferred Stock so as to affect them adversely.

SECTION 4. Liquidation, Dissolution or Winding Up.

(A) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of Series B Preferred Stock shall be entitled to receive out of assets of the Company which remain after satisfaction in full of all valid claims of creditors of the Company and which are available for payment to stockholders, and subject to the rights of the holders of any stock of the Company ranking senior to or on a parity with the Series B Preferred Stock in respect of distributions upon liquidation, dissolution or winding up of the Company, before any amount shall be paid or distributed among the holders of Common Stock or any other shares ranking junior to the Series B Preferred Stock in respect of distributions upon liquidation, dissolution or winding up of the Company, liquidating distributions in the amount of $600 per share, plus an amount equal to all accrued and unpaid dividends thereon to the date fixed for distribution, and no more. If upon any liquidation, dissolution or winding up of the Company, the amounts payable with respect to the Series B Preferred Stock and any other stock ranking as to any such distribution on a parity with the Series B Preferred Stock are not paid in full, the holders of the Series B Preferred Stock and such other stock shall share ratably in any distribution of assets in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount to which they are entitled as provided by the foregoing provisions of this paragraph 4(A), the holders of shares of Series B Preferred Stock shall not be entitled to any further right or claim to any of the remaining assets of the Company.

(B) Neither the merger or consolidation of the Company with or into any other corporation, nor the merger or consolidation of any other corporation with or into the Company, nor the sale, lease, exchange or other transfer of all or any portion of the assets of the Company, shall be deemed to be a dissolution, liquidation or winding up of the affairs of the Company for purposes of this Section 4, but the holders of Series B Preferred Stock shall nevertheless be entitled in the event of any such merger or consolidation to the rights provided by Section 8 hereof.

(C) Written notice of any voluntary or involuntary liquidation, dissolution or winding up of the Company, stating the payment date or dates when, and the place or places where, the amounts distributable to holders of Series B Preferred Stock in such circumstances shall be payable, shall be given by first-class mail, postage prepaid, mailed not less than twenty (20) days prior to any payment date stated therein, to the holders of Series B Preferred Stock, at the address shown on the books of the Company or any transfer agent for the Series B Preferred Stock.

SECTION 5. Conversion into Common Stock.

(A) A holder of shares of Series B Preferred Stock shall be entitled, at any time prior to the close of business on the date fixed for redemption of such shares pursuant to Sections 6, 7 and 8 hereof, to cause any or all of such shares to be converted into shares of Common Stock, initially at a conversion rate equal to the ratio of $600 to the amount which initially shall be $60 and which shall be adjusted as hereinafter provided (and, as so adjusted, is hereinafter sometimes referred to as the "Conversion Price") (that is, a conversion rate initially equivalent to ten shares of Common Stock for each share of Series B Preferred Stock so converted, which is subject to adjustment as the Conversion Price is adjusted as hereinafter provided).

(B) Any holder of shares of Series B Preferred Stock desiring to convert such shares into shares of Common Stock shall surrender the certificate or certificates representing the shares of Series B Preferred Stock being converted, duly assigned or endorsed for transfer to the Company (or

accompanied by duly executed stock powers relating thereto), at the principal executive office of the Company or the offices of the transfer agent for the Series B Preferred Stock or such office or offices in the continental United States of an agent for conversion as may from time to time be designated by notice to the holders of the Series B Preferred Stock by the Company or the transfer agent for the Series B Preferred Stock, accompanied by written notice of conversion. Such notice of conversion shall specify (i) the number of shares of Series B Preferred Stock to be converted and the name or names in which such holder wishes the certificate or certificates for Common Stock and for any shares of Series B Preferred Stock not to be so converted to be issued and (ii) the address to which such holder wishes delivery to be made of such new certificates to be issued upon such conversion.

(C) Upon surrender of a certificate representing a share or shares of Series B Preferred Stock for conversion, the Company shall issue and send by hand delivery (with receipt to be acknowledged) or by first-class mail, postage prepaid, to the holder thereof or to such holder's designee, at the address designated by such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled upon conversion. In the event that there shall have been surrendered a certificate or certificates representing shares of Series B Preferred Stock, only part of which are to be converted, the Company shall issue and deliver to such holder or such holder's designee a new certificate or certificates representing the number of shares of Series B Preferred Stock which shall not have been converted.

(D) The issuance by the Company of shares of Common Stock upon a conversion of shares of Series B Preferred Stock into shares of Common Stock made at the option of the holder thereof shall be effective as of the earlier of (i) the delivery to such holder or such holder's designee of the certificates representing the shares of Common Stock issued upon conversion thereof or (ii) the commencement of business on the second business day after the surrender of the certificate or certificates for the shares of Series B Preferred Stock to be converted, duly assigned or endorsed for transfer to the Company (or accompanied by duly executed stock powers relating thereto) as provided by this Resolution. On and after the effective day of conversion, the person or persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock, but no allowance or adjustment shall be made in respect of dividends payable to holders of Common Stock in respect of any period prior to such effective date. The Company shall not be obligated to pay any dividends which shall have been declared and shall be payable to holders of shares of Series B Preferred Stock on a Dividend Payment Date if such Dividend Payment Date for such dividend is subsequent to the effective date of conversion of such shares.

(E) The Company shall not be obligated to deliver to holders of Series B Preferred Stock any fractional share of shares of Common Stock issuable upon any conversion of such shares of Series B Preferred Stock, but in lieu thereof may make a cash payment in respect thereof in any manner permitted by law.

(F) The Company shall at all times reserve and keep available out of its authorized and unissued Common Stock, solely for issuance upon the conversion of shares of Series B Preferred Stock as herein provided, free from any preemptive rights, such number of shares of Common Stock as shall from time to time be issuable upon the conversion of all the shares of Series B Preferred Stock then outstanding. Nothing contained herein shall preclude the Company from issuing shares of Common Stock held in its treasury upon the conversion of shares of Series B Preferred Stock into Common Stock pursuant to the terms hereof. The Company shall prepare and shall use its best efforts to obtain and keep in force such governmental or regulatory permits or other authorizations as may be required by law, and shall comply with all requirements as to registration or qualification of the Common Stock, in order to enable the

Company lawfully to issue and deliver to each holder of record of Series B Preferred Stock such number of shares of its Common Stock as shall from time to time be sufficient to effect the conversion of all shares of Series B Preferred Stock then outstanding and convertible into shares of Common Stock.

SECTION 6. Redemption at the Option of the Company.

(A) The Series B Preferred Stock shall be redeemable, in whole or in part, at the option of the Company at any time after December 20, 1991, or at any time after the date of issuance, if permitted by paragraph (D) of this Section 6, at the following redemption prices per share:

During the Twelve-Month Period Beginning December 20	Price Per Share
1988	$ 657.00
1989	$ 651.30
1990	$ 645.60
1991	$ 639.90
1992	$ 634.20
1993	$ 628.50
1994	$ 622.80
1995	$ 617.10
1996	$ 611.40
1997	$ 605.70

and thereafter at $600 per share, plus, in each case, an amount equal to all accrued and unpaid dividends thereon to the date fixed for redemption. Payment of the redemption price shall be made by the Company in cash or shares of Common Stock, or a combination thereof, as permitted by paragraph (F) of this Section 6. From and after the date fixed for redemption, dividends on shares of Series B Preferred Stock called for redemption will cease to accrue, such shares will no longer be deemed to be outstanding and all rights in respect of such shares of the Company shall cease, except the right to receive the redemption price. If less than all of the outstanding shares of Series B Preferred Stock are to be redeemed, the Company shall either redeem a portion of the shares of each holder determined pro rata based on the number of shares held by each holder or shall select the shares to be redeemed by lot, as may be determined by the Board of Directors of the Company.

(B) Unless otherwise required by law, notice of redemption will be sent to the holders of Series B Preferred Stock at the address shown on the books of the Company or any transfer agent for the Series B Preferred Stock by first-class mail, postage prepaid, mailed not less than twenty (20) days nor more than sixty (60) days prior to the redemption date. Each such notice shall state: (i) the redemption date; (ii) the total number of shares of the Series B Preferred Stock to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; (v) that dividends on the shares to be redeemed will cease to accrue on such redemption date; and (vi) the conversion rights of the shares to be redeemed, the period within which conversion rights may be exercised, and the Conversion Price and number of shares of Common Stock issuable upon conversion of a share of Series B Preferred Stock at the time. Upon surrender of the certificate for any shares so called for redemption and not previously converted (properly endorsed or assigned for transfer, if the Board of Directors of the Company shall so require

and the notice shall so state), such shares shall be redeemed by the Company at the date fixed for redemption and at the redemption price set forth in this Section 6.

(C) In the event of a change in the federal tax law of the United States of America which has the effect of precluding the Company from claiming any of the tax deductions for dividends paid on the Series B Preferred Stock when such dividends are used as provided under Section 404(k) (2) of the Internal Revenue Code of 1986, as amended and in effect on the date shares of Series B Preferred Stock are initially issued, the Company may, in its sole discretion and notwithstanding anything to the contrary in paragraph (A) of this Section 6, elect to redeem any or all of such shares for the amount payable in respect of the shares upon liquidation of the Company pursuant to Section 4 hereof.

(D) Notwithstanding anything to the contrary in paragraph (A) of this Section 6, the Company may elect to redeem any or all of the shares of Series B Preferred Stock at any time on or prior to December 20, 1991, on the terms and conditions set forth in paragraphs (A) and (B) of this Section 6, if the last reported sales price, regular way, of a share of Common Stock, as reported on the New York Stock Exchange Composite Tape or, if the Common Stock is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which such stock is listed or admitted to trading or, if the Common Stock is not listed or admitted to trading on any national securities exchange, on the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") or, if Common Stock is not quoted on such National Market System, the average of the closing bid and asked prices in the over-the-counter market as reported by NASDAQ, for at least twenty (20) trading days within a period of thirty (30) consecutive trading days ending within five (5) days of the notice of redemption, equals or exceeds one hundred fifty percent (150%) of the Conversion Price (giving effect in making such calculation to any adjustments required by Section 9 hereof).

(E) In the event that the Plan is terminated in accordance with its terms, and notwithstanding anything to the contrary in paragraph (A) of this Section 6, the Company shall, as soon thereafter as practicable, call for redemption all then outstanding shares of Series B Preferred Stock for the amount payable in respect of the shares upon liquidation of the Company pursuant to Section 4 hereof.

(F) The Company, at its option, may make payment of the redemption price required upon redemption of shares of Series B Preferred Stock in cash or in shares of Common Stock, or in a combination of such shares and cash, any such shares of Common Stock to be valued for such purposes at their Fair Market Value (as defined in paragraph (G) of Section 9 hereof).

SECTION 7. Other Redemption Rights.

Shares of Series B Preferred Stock shall be redeemed by the Company for cash or, if the Company so elects, in shares of Common Stock, or a combination of such shares and cash, any such shares of Common Stock to be valued for such purpose as provided by paragraph (F) of Section 6, at a redemption price of $600 per share plus accrued and unpaid dividends thereon to the date fixed for redemption, at the option of the holder, at any time and from time to time upon notice to the Company given not less than five (5) business days prior to the date fixed by the holder in such notice for such redemption, upon certification by such holder to the Company of the following events: (i) when and to the extent necessary for such holder to provide for distributions required to be made to participants under, or to satisfy an investment election provided to participants in accordance with, the Plan, or any successor plan; (ii) when and to the extent necessary for such holder to make any payments of principal, interest or premium due and payable (whether as scheduled or upon acceleration) under the Loan

Agreement among the Trustee, certain banking parties thereto (collectively, the "Banks") and Chase Manhattan Bank (National Association), as agent for the Banks or any indebtedness incurred by the holder for the benefit of the Plan; or (iii) in the event that the Plan is not initially determined by the Internal Revenue Service to be qualified within the meaning of Sections 401(a) and 4975(e)(7) of the Internal Revenue Code of 1986, as amended.

SECTION 8. Consolidation, Merger, etc.

(A) In the event that the Company shall consummate any consolidation or merger or similar business combination, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged solely for or changed, reclassified or converted solely into stock of any successor or resulting corporation (including the Company) that constitutes "qualifying employer securities" with respect to a holder of Series B Preferred Stock within the meaning of Section 409(l) of the Internal Revenue Code of 1986, as amended, and Section 407(d)(5) of the Employee Retirement Income Security Act of 1974, as amended, or any successor provisions of law, and, if applicable, for a cash payment in lieu of fractional shares, if any, the shares of Series B Preferred Stock of such holder shall, in connection with such consolidation, merger or similar business combination, be assumed by and shall become preferred stock of such successor or resulting corporation, having in respect of such corporation, insofar as possible, the same powers, preferences and relative, participating, optional or other special rights (including the redemption rights provided by Sections 6, 7 and 8 hereof), and the qualifications, limitations or restrictions thereon, that the Series B Preferred Stock had immediately prior to such transaction, except that after such transaction each share of the Series B Preferred Stock shall be convertible, otherwise on the terms and conditions provided by Section 5 hereof, into the number and kind of qualifying employer securities so receivable by a holder of the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted immediately prior to such transaction; provided, however, that if by virtue of the structure of such transaction, a holder of Common Stock is required to make an election with respect to the nature and kind of consideration to be received in such transaction, which election cannot practicably be made by the holders of the Series B Preferred Stock, then the shares of Series B Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in kind) receivable by a holder of the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election to receive any kind or amount of stock, securities, cash or other property (other than such qualifying employer securities and a cash payment, if applicable, in lieu of fractional shares) receivable upon such transaction (provided that, if the kind or amount of qualifying employer securities receivable upon such transaction is not the same for each non-electing share, then the kind and amount so receivable upon such transaction for each non-electing share shall be the kind and amount so receivable per share by the plurality of the non-electing shares). The rights of the Series B Preferred Stock as preferred stock of such successor or resulting corporation shall successively be subject to adjustments pursuant to Section 9 hereof after any such transaction as nearly equivalent as practicable to the adjustment provided for by such section prior to such transaction. The Company shall not consummate any such merger, consolidation or similar transaction unless all then outstanding shares of Series B Preferred Stock shall be assumed and authorized by the successor or resulting corporation as aforesaid.

(B) In the event that the Company shall consummate any consolidation or merger or similar business combination, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged for or changed, reclassified or converted into other stock or securities or cash or any

other property, or any combination thereof, other than any such consideration which is constituted solely of qualifying employer securities (as referred to in paragraph (A) of this Section 8) and cash payments, if applicable, in lieu of fractional shares, outstanding shares of Series B Preferred Stock shall, without any action on the part of the Company or any holder thereof (but subject to paragraph (C) of this Section 8), be automatically converted by virtue of such merger, consolidation or similar transaction immediately prior to such consummation into the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted at such time so that each share of Series B Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in like kind) receivable by a holder of the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted immediately prior to such transaction; provided, however, that if by virtue of the structure of such transaction, a holder of Common Stock is required to make an election with respect to the nature and kind of consideration to be received in such transaction, which election cannot practicably be made by the holders of the Series B Preferred Stock, then the shares of Series B Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in kind) receivable by a holder of the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election as to the kind or amount of stock, securities, cash or other property receivable upon such transaction (provided that, if the kind or amount of stock, securities, cash or other property receivable upon such transaction is not the same for each non-electing share, then the kind and amount of stock, securities, cash or other property receivable upon such transaction for each non-electing share shall be the kind and amount so receivable per share by a plurality of the non-electing shares).

(C) In the event the Company shall enter into any agreement providing for any consolidation or merger or similar business combination described in paragraph (B) of this Section 8, then the Company shall as soon as practicable thereafter (and in any event at least ten (10) business days before consummation of such transaction) give notice of such agreement and the material terms thereof to each holder of Series B Preferred Stock and each such holder shall have the right to elect, by written notice to the Company, to receive, upon consummation of such transaction (if and when such transaction is consummated), from the Company or the successor of the Company, in redemption and retirement of such Series B Preferred Stock, a cash payment equal to the amount payable in respect of shares of Series B Preferred Stock upon liquidation of the Company pursuant to Section 4 thereof. No such notice of redemption shall be effective unless given to the Company prior to the close of business on the fifth business day prior to consummation of such transaction, unless the Company or the successor of the Company shall waive such prior notice, but any notice of redemption so given prior to such time may be withdrawn by notice of withdrawal given to the Company prior to the close of business on the fifth business day prior to consummation of such transaction.

SECTION 9. Anti-Dilution Adjustments.

(A) In the event the Company shall, at any time or from time to time while any of the shares of the Series B Preferred Stock are outstanding, (i) pay a dividend or make a distribution in respect of the Common Stock in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, in each case whether by reclassification of shares, recapitalization of the Company (including a recapitalization effected by a merger or consolidation to which Section 8 hereof does not apply) or otherwise, the

Conversion Price in effect immediately prior to such action shall be adjusted by multiplying such Conversion Price by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately before such event, and the denominator of which is the number of shares of Common Stock outstanding immediately after such event. An adjustment made pursuant to this paragraph 9(A) shall be given effect, upon payment of such a dividend or distribution, as of the record date for the determination of stockholders entitled to receive such dividend or distribution (on a retroactive basis) and in the case of a subdivision or combination shall become effective immediately as of the effective date thereof.

(B) In the event that the Company shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, issue to holders of shares of Common Stock as a dividend or distribution, including by way of a reclassification of shares or a recapitalization of the Company, any right or warrant to purchase shares of Common Stock (but not including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock) at a purchase price per share less than the Fair Market Value (as hereinafter defined) of a share of Common Stock on the date of issuance of such right or warrant, then, subject to the provisions of paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the number of shares of Common Stock which could be purchased at the Fair Market Value of a share of Common Stock at the time of such issuance for the maximum aggregate consideration payable upon exercise in full of all such rights or warrants, and the denominator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the maximum number of shares of Common Stock that could be acquired upon exercise in full of all such rights and warrants.

(C) In the event the Company shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, issue, sell or exchange shares of Common Stock (other than pursuant to any right or warrant to purchase or acquire shares of Common Stock (including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock) and other than pursuant to any employee or director incentive or benefit plan or arrangement, including any employment, severance or consulting agreement, of the Company or any subsidiary of the Company heretofore or hereafter adopted) for a consideration having a Fair Market Value, on the date of such issuance, sale or exchange, less than the Fair Market Value of such shares on the date of issuance, sale or exchange, then, subject to the provisions of paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by the fraction the numerator of which shall be the sum of (i) the Fair Market Value of all the shares of Common Stock outstanding on the day immediately preceding the first public announcement of such issuance, sale or exchange plus (ii) the Fair Market Value of the consideration received by the Company in respect of such issuance, sale or exchange of shares of Common Stock, and the denominator of which shall be the product of (a) the Fair Market Value of a share of Common Stock on the day immediately preceding the first public announcement of such issuance, sale or exchange multiplied by (b) the sum of the number of shares of Common Stock outstanding on such day plus the number of shares of Common Stock so issued, sold or exchanged by the Company. In the event the Company shall, at any time or from time to time while any shares of Series B Preferred Stock are outstanding, issue, sell or exchange any right or warrant to purchase or acquire shares of Common Stock (including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock), other than any such issuance to holders of shares of Common Stock as a dividend or distribution (including by way of a reclassification of shares or a recapitalization of the Company) and other than pursuant to any employee or director incentive or benefit plan or arrangement (including any employment, severance or consulting

agreement) of the Company or any subsidiary of the Company heretofore or hereafter adopted, for a consideration having a Fair Market Value, on the date of such issuance, sale or exchange, less than the Non-Dilutive Amount (as hereinafter defined), then, subject to the provisions of paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by a fraction the numerator of which shall be the sum of (i) the Fair Market Value of all the shares of Common Stock outstanding on the day immediately preceding the first public announcement of such issuance, sale or exchange plus (ii) the Fair Market Value of the consideration received by the Company in respect of such issuance, sale or exchange of such right or warrant plus (iii) the Fair Market Value at the time of such issuance of the consideration which the Corporation would receive upon exercise in full of all such rights or warrants, and the denominator of which shall be the product of (a) the Fair Market Value of a share of Common Stock on the day immediately preceding the first public announcement of such issuance, sale or exchange multiplied by (b) the sum of the number of shares of Common Stock outstanding on such day plus the maximum number of shares of Common Stock which could be acquired pursuant to such right or warrant at the time of the issuance, sale or exchange of such right or warrant (assuming shares of Common Stock could be acquired pursuant to such right or warrant at such time).

(D) In the event the Company shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, make an Extraordinary Distribution (as hereinafter defined) in respect of the Common Stock, whether by dividend, distribution, reclassification of shares or recapitalization of the Company (including a recapitalization or reclassification effected by a merger or consolidation to which Section 8 hereof does not apply) or effect a Pro Rata Repurchase (as hereinafter defined) of Common Stock, the Conversion Price in effect immediately prior to such Extraordinary Distribution or Pro Rata Repurchase shall, subject to paragraphs (E) and (F) of this Section 9, be adjusted by multiplying such Conversion Price by the fraction the numerator of which is (i) the product of (x) the number of shares of Common Stock outstanding immediately before such Extraordinary Distribution or Pro Rata Repurchase multiplied by (y) the Fair Market Value of a share of Common Stock on the day before the ex-dividend date with respect to an Extraordinary Distribution which is paid in cash and on the distribution date with respect to an Extraordinary Distribution which is paid other than in cash, or on the applicable expiration date (including all extensions hereof) of any tender offer which is a Pro Rata Repurchase, or on the date of purchase with respect to any Pro Rata Repurchase which is not a tender offer, as the case may be, minus (ii) the Fair Market Value of the Extraordinary Distribution or the aggregate purchase price of the Pro Rata Repurchase, as the case may be, and the denominator of which shall be the product of (a) the number of shares of Common Stock outstanding immediately before such Extraordinary Dividend or Pro Rata Repurchase minus, in the case of a Pro Rata Repurchase, the number of shares of Common Stock repurchased by the Company multiplied by (b) the Fair Market Value of a share of Common Stock on the day before the ex-dividend date with respect to an Extraordinary Distribution which is paid in cash and on the distribution date with respect to an Extraordinary Distribution which is paid other than in cash, or on the applicable expiration date (including all extensions thereof) of any tender offer which is a Pro Rata Repurchase or on the date of purchase with respect to any Pro Rata Repurchase which is not a tender offer, as the case may be. The Company shall send each holder of Series B Preferred Stock (i) notice of its intent to make any dividend or distribution and (ii) notice of any offer by the Company to make a Pro Rata Repurchase, in each case at the same time as, or as soon as practicable after, such offer is first communicated (including by announcement of a record date in accordance with the rules of any stock exchange on which the Common Stock is listed or admitted to trading) to holders of Common Stock. Such notice shall indicate the intended record date and the amount and nature of such dividend or distribution, or the number of shares subject to such offer for a Pro Rata Repurchase and the purchase price payable by

the Company pursuant to such offer, as well as the Conversion Price and the number of shares of Common Stock into which a share of Series B Preferred Stock may be converted at such time.

(E) Notwithstanding any other provisions of this Section 9, the Company shall not be required to make any adjustment to the Conversion Price unless such adjustment would require an increase or decrease of at least one percent (1%) in the Conversion Price. Any lesser adjustment shall be carried forward and shall be made no later than the time of, and together with, the next subsequent adjustment which, together with any adjustment or adjustments so carried forward, shall amount to an increase or decrease of at least one percent (1%) in the Conversion Price.

(F) If the Company shall make any dividend or distribution on the Common Stock or issue any Common Stock, other capital stock or other security of the Company or any rights or warrants to purchase or acquire any such security, which transaction does not result in an adjustment to the Conversion Price pursuant to the foregoing provisions of this Section 9, the Board of Directors of the Company shall consider whether such action is of such a nature that an adjustment to the Conversion Price should equitably be made in respect of such transaction. If in such case the Board of Directors of the Company determines that an adjustment to the Conversion Price should be made, an adjustment shall be made effective as of such date, as determined by the Board of Directors of the Company. The determination of the Board of Directors of the Company as to whether an adjustment to the Conversion Price should be made pursuant to the foregoing provisions of this paragraph 9(F), and, if so, as to what adjustment should be made and when, shall be final and binding on the Company and all stockholders of the Company. The Company shall be entitled to make such additional adjustments in the Conversion Price, in addition to those required by the foregoing provisions of this Section 9, as shall be necessary in order that any dividend or distribution in shares of capital stock of the Company, subdivision, reclassification or combination of shares of stock of the Company or any recapitalization of the Company shall not be taxable to the holders of the Common Stock.

(G) For purposes of this Resolution, the following definitions shall apply:

"Business Day" shall mean each day that is not a Saturday, Sunday or a day on which state or federally chartered banking institutions in New York, New York are not required to be open.

"Current Market Price" of publicly traded shares of Common Stock or any other class of capital stock or other security of the Company or any other issuer for any day shall mean the last reported sales price, regular way, or, in the event that no sale takes place on such day, the average of the reported closing bid and asked prices, regular way, in either case as reported on the New York Stock Exchange Composite Tape or, if such security is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which such security is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, on the NASDAQ National Market System or, if such security is not quoted on such National Market System, the average of the closing bid and asked prices on each such day in the over-the-counter market as reported by NASDAQ or, if bid and asked prices for such security on each such day shall not have been reported through NASDAQ, the average of the bid and asked prices for such day as furnished by any New York Stock Exchange member firm regularly making a market in such security selected for such purpose by the Board of Directors of the Company or a committee thereof, in each case, on each trading day during the Adjustment Period. "Adjustment Period" shall mean the period of five (5) consecutive trading days preceding, and including, the date as of which the Fair Market Value of a security is to be determined. The "Fair Market Value" of any security which is not publicly traded or of any other property shall mean the fair value thereof as determined by an independent investment banking or appraisal firm

experienced in the valuation of such securities or property selected in good faith by the Board of Directors of the Company or a committee thereof, or, if no such investment banking or appraisal firm is in the good faith judgment of the Board of Directors or such committee available to make such determination, as determined in good faith by the Board of Directors of the Company or such committee.

"Extraordinary Distribution" shall mean any dividend or other distribution to holders of Common Stock (effected while any of the shares of Series B Preferred Stock are outstanding) (i) of cash, where the aggregate amount of such cash dividend or distribution together with the amount of all cash dividends and distributions made during the preceding period of 12 months, when combined with the aggregate amount of all Pro Rata Repurchases (for this purpose, including only that portion of the aggregate purchase price of such Pro Rata Repurchase which is in excess of the Fair Market Value of the Common Stock repurchased as determined on the applicable expiration date (including all extensions thereof) of any tender offer or exchange offer which is a Pro Rata Repurchase, or the date of purchase with respect to any other Pro Rata Repurchase which is not a tender offer or exchange offer made during such period), exceeds twelve and one-half percent (12 1/2%) of the aggregate Fair Market Value of all shares of Common Stock outstanding on the day before the ex-dividend date with respect to such Extraordinary Distribution which is paid in cash and on the distribution date with respect to an Extraordinary Distribution which is paid other than in cash, and/or (ii) of any shares of capital stock of the Company (other than shares of Common Stock), other securities of the Company (other than securities of the type referred to in paragraph (B) or (C) of this Section 9), evidences of indebtedness of the Company or any other person or any other property (including shares of any subsidiary of the Company) or any combination thereof. The Fair Market Value of an Extraordinary Distribution for purposes of paragraph (D) of this Section 9 shall be equal to the sum of the Fair Market Value of such Extraordinary Distribution plus the amount of any cash dividends which are not Extraordinary Distributions made during such 12-month period and not previously included in the calculation of an adjustment pursuant to paragraph (D) of this Section 9.

"Fair Market Value" shall mean, as to shares of Common Stock or any other class of capital stock or securities of the Company or any other issuer which are publicly traded, the average of the Current Market Prices of such shares or securities for each day of the Adjustment Period. "Non-Dilutive Amount" in respect of an issuance, sale or exchange by the Corporation of any right or warrant to purchase or acquire shares of Common Stock (including any security convertible into or exchangeable for shares of Common Stock) shall mean the remainder of (i) the product of the Fair Market Value of a share of Common Stock on the day preceding the first public announcement of such issuance, sale or exchange multiplied by the maximum number of shares of Common Stock which could be acquired on such date upon the exercise in full of such rights and warrants (including upon the conversion or exchange of all such convertible or exchangeable securities), whether or not exercisable (or convertible or exchangeable) at such date, minus (ii) the aggregate amount payable pursuant to such right or warrant to purchase or acquire such maximum number of shares of Common Stock; provided, however, that in no event shall the Non-Dilutive Amount be less than zero. For purposes of the foregoing sentence, in the case of a security convertible into or exchangeable for shares of Common Stock, the amount payable pursuant to a right or warrant to purchase or acquire shares of Common Stock shall be the Fair Market Value of such security on the date of the issuance, sale or exchange of such security by the Company.

"Pro Rata Repurchase" shall mean any purchase of shares of Common Stock by the Company or any subsidiary thereof, whether for cash, shares of capital stock of the Company, other securities of the Company, evidences of indebtedness of the Company or any other person or any other property

(including shares of a subsidiary of the Company), or any combination thereof, effected while any of the shares of Series B Preferred Stock are outstanding, pursuant to any tender offer or exchange offer subject to Section 13(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision of law, or pursuant to any other offer available to substantially all holders of Common Stock; provided, however, that no purchase of shares by the Company, or any subsidiary thereof made in open market transactions shall be deemed a Pro Rata Repurchase. For purposes of this paragraph 9(G), shares shall be deemed to have been purchased by the Company or any subsidiary thereof "in open market transactions" if they have been purchased substantially in accordance with the requirements of Rule 10b-18 as in effect under the Exchange Act, on the date shares of Series B Preferred Stock are initially issued by the Company or on such other terms and conditions as the Board of Directors of the Company or a committee thereof shall have determined are reasonably designed to prevent such purchases from having a material effect on the trading market for the Common Stock.

(A) Whenever an adjustment to the Conversion Price and the related voting rights of the Series B Preferred Stock is required pursuant to this Resolution, the Company shall forthwith place on file with the transfer agent for the Common Stock and the Series B Preferred Stock, and with the Secretary of the Company, a statement signed by two officers of the Company stating the adjusted Conversion Price determined as provided herein and the resulting conversion ratio, and the voting rights (as appropriately adjusted), of the Series B Preferred Stock. Such statement shall set forth in reasonable detail such facts as shall be necessary to show the reason and the manner of computing such adjustment, including any determination of Fair Market Value involved in such computation. Promptly after each adjustment to the Conversion Price and the related voting rights of the Series B Preferred Stock, the Company shall mail a notice thereof and of the then prevailing conversion ratio to each holder of shares of the Series B Preferred Stock.

SECTION 10. Ranking; Attributable Capital and Adequacy of Surplus; Retirement of Shares.

(A) The Series B Preferred Stock shall rank senior to the Common Stock as to the payment of dividends and the distribution of assets on liquidation, dissolution and winding up of the Company, and, unless otherwise provided in the Restated Certificate of Incorporation of the Company, as the same may be amended, or a certificate of designations relating to a subsequent series of Preferred Stock, par value $1.00 per share, of the Company, the Series B Preferred Stock shall rank junior to all series of the Company's Preferred Stock, par value $1.00 per share, as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding up.

(B) In addition to any vote of stockholders required by law, the vote of the holders of a majority of the outstanding shares of Series B Preferred Stock shall be required to increase the par value of the Common Stock or otherwise increase the capital of the Company allocable to the Common Stock for the purpose of the Delaware General Corporation Law (the "DGCL") if, as a result thereof, the surplus of the Company for purposes of the DGCL would be less than the amount of Preferred Dividends that would accrue on the then outstanding shares of Series B Preferred Stock during the following three years.

(C) (C)(C)Any shares of Series B Preferred Stock acquired by the Company by reason of the conversion or redemption of such shares as provided by this Resolution, or otherwise so acquired, shall be retired as shares of Series B Preferred Stock and restored to the status of authorized but unissued shares of Preferred Stock, par value $1.00 per share, of the Company, undesignated as to series, and may thereafter be reissued as part of a new series of such Preferred Stock as permitted by law.

SECTION 11. Miscellaneous.

(A) All notices referred to herein shall be in writing, and all notices hereunder shall be deemed to have been given upon the earlier of receipt thereof or three (3) business days after the mailing thereof if sent by registered mail (unless first-class mail shall be specifically permitted for such notice under the terms of this Resolution) with postage prepaid, addressed: (i) if to the Company, to its office at 2000 Westchester Avenue, White Plains, New York 10650 (Attention: Secretary) or to the transfer agent for the Series B Preferred Stock, or other agent of the Company designated as permitted by this Resolution or (ii) if to any holder of the Series B Preferred Stock or Common Stock, as the case may be, to such holder at the address of such holder as listed in the stock record books of the Company (which may include the records of any transfer agent for the Series B Preferred Stock or Common Stock, as the case may be) or (iii) to such other address as the Company or any such holder, as the case may be, shall have designated by notice similarly given.

(B) The term "Common Stock" as used in this Resolution means the Company's Common Stock, par value $6.25 per share, as the same exists at the date of filing of a certificate of designations relating to Series B Preferred Stock or any other class of stock resulting from successive changes or reclassifications of such Common Stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that, at any time as a result of an adjustment made pursuant to Section 9 of this Resolution, the holder of any share of the Series B Preferred Stock upon thereafter surrendering such shares for conversion, shall become entitled to receive any shares or other securities of the Company other than shares of Common Stock, the Conversion Price in respect of such other shares or securities so receivable upon conversion of shares of Series B Preferred Stock shall thereafter be adjusted, and shall be subject to further adjustment from time to time, in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in Section 9 hereof, and the provisions of Sections 1 through 8, 10 and 11 of this Resolution with respect to the Common Stock shall apply on like or similar terms to any such other shares or securities.

(C) The Company shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Series B Preferred Stock or shares of Common Stock or other securities issued on account of Series B Preferred Stock pursuant hereto or certificates representing such shares or securities. The Company shall not, however, be required to pay any such tax which may be payable in respect of any transfer involved in the issuance or delivery of shares of Series B Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Series B Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any person with respect to any such shares or securities other than a payment, to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the person otherwise entitled to such issuance, delivery or payment has paid to the Company the amount of any such tax or has established, to the satisfaction of the Company, that such tax has been paid or is not payable.

(D) In the event that a holder of shares of Series B Preferred Stock shall not by written notice designate the name in which shares of Common Stock to be issued upon conversion of such shares should be registered or to whom payment upon redemption of shares of Series B Preferred Stock should be made or the address to which the certificate or certificates representing such shares, or such payment, should be sent, the Company shall be entitled to register such shares, and make such payment, in the name of the holder of such Series B Preferred Stock as shown on the records of the Company and

to send the certificate or certificates representing such shares, or such payment, to the address of such holder shown on the records of the Company.

(E) Unless otherwise provided in the Restated Certificate of Incorporation, as the same may be amended, of the Company, all payments in the form of dividends, distributions on voluntary or involuntary dissolution, liquidation or winding-up or otherwise made upon the shares of Series B Preferred Stock and any other stock ranking on a parity with the Series B Preferred Stock with respect to such dividend or distribution shall be pro rata, so that amounts paid per share on the Series B Preferred Stock and such other stock shall in all cases bear to each other the same ratio that the required dividends, distributions or payments, as the case may be, then payable per share on the shares of the Series B Preferred Stock and such other stock bear to each other.

(F) The Company may appoint, and from time to time discharge and change, a transfer agent for the Series B Preferred Stock. Upon any such appointment or discharge of a transfer agent, the Company shall send notice thereof by first-class mail postage prepaid, to each holder or record of Series B Preferred Stock.

Series D Junior Participating Preferred Stock

SECTION 1. Designation and Amount.

The shares of such series shall be designated as "Series D Junior Participating Preferred Stock" and the number of shares constituting such series shall be 3,000,000.

SECTION 2. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series D Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series D Junior Participating Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the 15th day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series D Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $5.00 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of common stock, par value $6.25 per share, of the Company (the "Common Stock") or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series D Junior Participating Preferred Stock. In the event the Company shall at any time after March 16, 1989 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series D Junior Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of

Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Company shall declare a dividend or distribution on the Series D Junior Participating Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $5.00 per share on the Series D Junior Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series D Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series D Junior Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series D Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series D Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series D Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 45 days prior to the date fixed for the payment thereof.

SECTION 3. Voting Rights.

The holders of shares of Series D Junior Participating Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series D Junior Participating Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Company. In the event the Company shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series D Junior Participating Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by law, the holders of shares of Series D Junior Participating Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Company.

(C) If at the time of any annual meeting of stockholders for the election of directors, the equivalent of six quarterly dividends (whether or not consecutive) payable on any share or shares of

preferred stock are in default, the number of directors constituting the Board of Directors of the Company shall be increased by two. The holders of record of the Series D Junior Participating Preferred Stock, voting separately as a class with the holders of shares of any one or more other series of preferred stock upon which like voting rights have been conferred, shall be entitled at said meeting of stockholders (and at each subsequent annual meeting of stockholders), unless all dividends in arrears have been paid or declared and set apart for payment prior thereto, to vote for the election of two directors of the Company, the holders of any Series D Junior Participating Preferred Stock being entitled to cast 100 votes per share of Series D Junior Participating Preferred Stock, with the remaining directors of the Company to be elected by the holders of shares of any other class or classes or series of stock entitled to vote therefor. Until the default in payments of all dividends which permitted the election of said directors shall cease to exist, any director who shall have been so elected pursuant to the next preceding sentence may be removed at any time, either with or without cause, only by the affirmative vote of the holders of the shares at the time entitled to cast a majority of the votes entitled to be cast for the election of any such director at a special meeting of such holders called for that purpose, and any vacancy thereby created may be filled by the vote of such holders. If and when such default shall cease to exist, the holders of the Series D Junior Participating Preferred Stock and the holders of shares of any one or more series of preferred stock upon which like voting rights have been conferred shall be divested of the foregoing special voting rights, subject to revesting in the event of each and every subsequent like default in payments of dividends. Upon the termination of the foregoing special voting rights, the terms of office of all persons who may have been elected directors pursuant to said special voting rights shall forthwith terminate, and the number of directors constituting the Board of Directors shall be reduced by two.

(D) Except as set forth herein, holders of Series D Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

SECTION 4. Certain Restrictions.

(A) In the event that full cumulative dividends on the Series D Junior Participating Preferred Stock have not been declared and paid or set apart for payment when due, the Company shall not declare or pay or set apart for payment any dividends or make any other distributions on, or make any payment on account of the purchase, redemption or other retirement of any other class of stock or series thereof of the Company ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series D Junior Participating Preferred Stock until full cumulative dividends on the Series D Junior Participating Preferred Stock shall have been paid or declared and set apart for payment; provided, however, that the foregoing shall not apply to (i) any dividend payable solely in any shares of any stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series D Junior Participating Preferred Stock or (ii) the acquisition of shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series D Junior Participating Preferred Stock in exchange solely for shares of any other stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series D Junior Participating Preferred Stock.

(B) The Company shall not permit any subsidiary of the Company to purchase or otherwise acquire for consideration any shares of stock of the Company unless the Company could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

SECTION 5. Reacquired Shares.

Any shares of Series D Junior Participating Preferred Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

SECTION 6. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Company, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series D Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series D Junior Participating Preferred Stock shall have received $100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series D Liquidation Preference"). Following the payment of the full amount of the Series D Liquidation Preference, no additional distributions shall be made to the holders of shares of Series D Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series D Liquidation Preference by (ii) 100 (as appropriately adjusted as set forth in subparagraph (C) below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii) immediately above being referred to as the "Adjustment Number"). Following the payment of the full amount of the Series D Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series D Junior Participating Preferred Stock and Common Stock, respectively, holders of Series D Junior Participating Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to one (1) with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series D Liquidation Preference and the liquidation preferences of all other series of Preferred Stock, if any, which rank on a parity with the Series D Junior Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Company shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

SECTION 7. Consolidation, Merger, etc.

In case the Company shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series D Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Company shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series D Junior Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

SECTION 8. Redemption.

The outstanding shares of Series D Junior Participating Preferred Stock may be redeemed at the option of the Board of Directors as a whole, or in part, at any time, or from time to time, at a cash price per share equal to the product of the Adjustment Number times the Average Market Value (as such term is hereinafter defined) of the Common Stock on the date of mailing of the notice of redemption, plus all dividends which on the redemption date have accrued on the shares to be redeemed and have not been paid, or declared and a sum sufficient for the payment thereof set apart, without interest. The "Average Market Value" as of a particular date is the average of the closing sale prices of the Common Stock during the 10 consecutive Trading Day period immediately preceding such date on the Composite Tape for New York Stock Exchange Listed Stocks, 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, as amended, on which such stock is listed, or, if such stock is not listed on any such exchange, the average of the closing sale prices with respect to a share of Common Stock during such 10-day period, as quoted 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 of the Common Stock as determined by the Board of Directors in good faith. The term "Trading Day" shall mean a day on which the principal national securities exchange on which the Common Stock is listed or admitted to trading is open for the transaction of business or, if the Common Stock is not listed or admitted to trading on any national securities exchange, a Monday, Tuesday, Wednesday, Thursday or Friday on which banking institutions in the State of New York are not authorized or obligated by law or executive order to close.

SECTION 9. Ranking.

The Series D Junior Participating Preferred Stock shall rank junior to the Company's Series B ESOP Convertible Preferred Stock, and shall rank junior to all other series of the Company's Preferred Stock unless the terms of any such other series shall provide otherwise, as to the payment of dividends and the distribution of assets.

SECTION 10. Amendment.

The Restated Certificate of Incorporation of the Company shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series D Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series D Junior Participating Preferred Stock, voting separately as a class.

SECTION 11. Fractional Shares.

Series D Junior Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series D Junior Participating Preferred Stock.

Market Auction Preferred Shares

SECTION 1. Designation; Amount and Series.

The Preferred Stock authorized hereby consists of 1,200 shares (each share a series) designated as "Market Auction Preferred Shares" (referred to as the "Auction Preferred", the "Preferred Stock" or the "Remarketing Preferred") issuable in the following groups of series (each group a "Series"): 300 shares designated "Market Auction Preferred Shares, Series G-1 through G-300" (the "Series G Preferred Stock"), 300 shares designated "Market Auction Preferred Shares, Series H-1 through H-300" (the "Series H Preferred Stock"), 300 shares designated "Market Auction Preferred Shares, Series I-1 through I-300" (the "Series I Preferred Stock") and 300 shares designated "Market Auction Preferred Shares, Series J-1 through J-300" (the "Series J Preferred Stock"). Except as expressly provided herein, each share of each separate Series of Auction Preferred shall be identical and equal in all aspects to every other share of such Series, and the shares of all of the Series shall be identical and equal in all respects.

SECTION 2. Definitions.

Any references to Sections or subsections that are made in this part of Article IV(B) shall be to Sections or subsections contained in this part of Article IV(B). Unless the context or use indicates another or different meaning or intent, the following terms shall have the following meanings when used in this part of Article IV(B), whether used in the singular or plural:

"Act" means the Securities Act of 1933, as amended.

"Additional Payments" means an amount equal to the product of (i) the Default Rate on the date on which such Failure to Deposit occurred (or, if such Failure to Deposit relates to a failure to pay dividends other than at the end of a Dividend Period, the Default Rate computed using the Percentage applicable to the rating category below "baa3" or "BBB-" as of the Business Day immediately preceding the Auction Date or the date of the immediately preceding Remarketing for such shares), times (ii) a fraction, the numerator of which will be the number of days during which such failure existed and was not cured as described in Section 3(i)(B) (including the day such failure occurs and excluding the day such failure is cured) and the denominator of which will be 360, times (iii) the full

amount of the dividends required to be paid on the Dividend Payment Date with respect to which such failure occurred.

"Affiliate" means any Person controlled by, in control of, or under common control with, the Corporation.

"Applicable `AA' Composite Commercial Paper Rate", on any date, means, in the case of any Dividend Period of (1) 1 to 48 days, the interest equivalent of the 30-day rate, (2) 49 days or more but less than 70 days, the interest equivalent of the 60-day rate, (3) 70 days or more but less than 85 days, the arithmetic average of the interest equivalent of the 60-day and 90-day rates, (4) 85 days or more but less than 120 days, the interest equivalent of the 90-day rate, (5) 120 days or more but less than 148 days, the arithmetic average of the interest equivalent of the 90-day and 180-day rates, (6) 148 days or more but less than 184 days, the interest equivalent of the 180-day rate, in each case, on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P or "Aa" by Moody's, or the equivalent of such rating by another rating agency, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date. In the event that the Federal Reserve Bank of New York does not make available any of the foregoing rates, then such rates shall be the 30-day, 60-day, 90-day or 180-day rate or arithmetic average of such rates, as the case may be, as quoted on a discount basis or otherwise, by the Commercial Paper Dealers to the Auction Agent or the applicable Remarketing Agent as of the close of business on the Business Day next preceding such date. If any Commercial Paper Dealer does not quote a rate required to determine the Applicable "AA" Composite Commercial Paper Rate, the Applicable "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer (if any) and any Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers selected by the Corporation to provide such rate or rates or, if the Corporation does not select any Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer (if any). For purposes of this definition, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security.

"Applicable Determining Rate" means (i) for any Dividend Period from 1 to 48 days, Standard Dividend Period or Short-Dividend Period of 183 days or less, the Applicable "AA" Composite Commercial Paper Rate, (ii) for any Short Dividend Period of 184 to 364 days, the Applicable Treasury Bill Rate and (iii) for any Long Dividend Period, the Applicable Treasury Note Rate.

"Applicable Rate" means the dividend rate payable on a share of Preferred Stock for any Dividend Period subsequent to the Initial Dividend Period for such share established pursuant to Section 3 below.

"Applicable Treasury Bill Rate" for any Short Dividend Period in excess of 183 days and "Applicable Treasury Note Rate" for any Long Dividend Period, on any date, means the interest equivalent of the rate for direct obligations of the United States Treasury having an original maturity which is equal to, or next lower than, the length of such Short Dividend Period or Long Dividend Period, as the case may be, as published weekly by the Federal Reserve Board in "Federal Reserve Statistical Release H.15(519)-Selected Interest Rates", or any successor publication by the Federal Reserve Board, within 5 Business Days preceding such date. In the event that the Federal Reserve Board does not publish such rate, or if such release is not available, the Applicable Treasury Bill Rate or Applicable Treasury Note Rate will be the arithmetic mean of the secondary market bid rates as of approximately 3:30 P.M., New York City time, on the Business Day next preceding such date of the U.S. Government Securities Dealers furnished to the Auction Agent or the applicable Remarketing

Agent for the issue of direct obligations of the United States Treasury, in an aggregate principal amount of at least $250,000 with a remaining maturity equal to, or next lower than, the length of such Short Dividend Period or Long Dividend Period, as the case may be. If any U.S. Government Securities Dealer does not quote a rate required to determine the Applicable Treasury Bill Rate or the Applicable Treasury Note Rate, the Applicable Treasury Bill Rate or Applicable Treasury Note Rate shall be determined on the basis of the quotation or quotations furnished by the remaining U.S. Government Securities Dealer (if any) or any Substitute U.S. Government Securities Dealer or Dealers selected by the Corporation to provide such rate or rates or, if the Corporation does not select any such Substitute U.S. Government Securities Dealer, by the remaining U.S. Government Securities Dealer (if any); provided that, if the Corporation is unable to cause such quotations to be furnished to the Auction Agent or the applicable Remarketing Agent by such sources, the Corporation may cause such rates to be furnished to the Auction Agent or the applicable Remarketing Agent by such alternative source as the Corporation in good faith deems to be reliable. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis shall be equal to the quotient of (A) the discount rate divided by (B) the difference between 1.00 and the discount rate.

"Articles of Incorporation" means the Restated Certificate of Incorporation, as amended, of the Corporation.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means The Bank of New York, unless or until another bank or trust company has been appointed as such by the Corporation.

"Auction Agent Agreement" has the meaning set forth in Section 8 below.

"Auction Date" means, for any Series of Auction Preferred, the first Business Day preceding the first day of each Dividend Period for such Series other than the Initial Dividend Period for such Series.

"Auction Method" means a method of determining Dividend Periods and dividend rates for the Auction Preferred of a Series pursuant to the Auction Procedures.

"Auction Preferred" means the Auction Preferred, including the Converted Remarketing Preferred, being auctioned pursuant to the Auction Procedures.

"Auction Procedures" means the procedures for conducting Auctions set forth in Section 7 below.

"Board of Directors" means the Board of Directors of the Corporation or any duly authorized committee of the Board of Directors acting on behalf thereof.

"Broker-Dealer" means any broker-dealer, or other entity permitted by law to perform the functions required of a Broker-Dealer in these Auction Procedures, that has been selected by the Corporation and has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective.

"Business Day" means a day on which the New York Stock Exchange is open for trading and which is not a day on which banks in The City of New York are authorized or obliged by law to close.

"Certificate of Designations" or "Certificate" means the Certificate of Designations, Preferences and Rights of Market Auction Preferred Shares of the Corporation dated and filed with the Delaware Secretary of State on December 22, 1992.

"Chief Financial Officer" has the meaning set forth in Section 3(g)(ii) below.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commercial Paper Dealers" means Morgan Stanley and First Boston or, in lieu thereof, their respective affiliates or successors.

"Converted Auction Preferred" means shares of Auction Preferred which, by reason of an election by the Method Selection Agent of a different Dividend Determination Method, will become Remarketing Preferred at the end of the then-current Dividend Period applicable thereto.

"Converted Remarketing Preferred" means shares of Remarketing Preferred which, by reason of an election by the Method Selection Agent of a different Dividend Determination Method, will become Auction Preferred at the end of the then-current Dividend Period applicable thereto.

"Corporation" means Texaco Inc., a Delaware corporation, or its successor.

"Date of Original Issue", with respect to any share of Preferred Stock, means the date on which the Corporation originally issued such share of Preferred Stock.

"Default Period" has the meaning set forth in Section 6(b)(i) below.

"Default Rate" means the higher of (A) the Maximum Applicable Rate obtained by multiplying the Applicable Determining Rate, determined as of the Business Day next preceding the date of the Failure to Deposit that, pursuant to Section 3(i), caused the application of such Default Rate, by the Percentage for the rating category below "baa3" or "BBB-", and (B) (i) if the Corporation has failed timely to pay dividends, the dividend rate in effect for the Dividend Period in respect of which such Failure to Deposit occurred, or (ii) if the Corporation has failed timely to pay the redemption price (including accumulated and unpaid dividends) of shares of any Series of Preferred Stock called for redemption, the dividend rate in effect on the date such redemption price was to have been paid. The Percentage used to determine the Default Rate for any shares of Preferred Stock shall be the Percentage for the rating category below "baa3" or "BBB-" (i) in effect on the immediately preceding Auction Date or the date of the immediately preceding Remarketing, in the case of a Default Rate that applies to the portion of a Dividend Period occurring after a failure to pay dividends and (ii) in effect on the date of determination, in all other cases.

"Depository Agreement" means each agreement among the Corporation, the Remarketing Depository and a Remarketing Agent.

"Dividend Determination Method" or "Method" shall mean either the Auction Method or the Remarketing Method.

"Dividend Payment Date" has the meaning set forth in Section 3(b)(iii) below.

"Dividend Period" has the meaning set forth in Section 3(b)(v) below.

"Dividend Quarter" has the meaning set forth in Section 3(b)(iii) below.

"Dividends-Received Deduction" has the meaning set forth in Section 3(f)(v) below.

"Existing Holder" means a Person who has signed a Master Purchaser's Letter and is listed as the beneficial owner of any shares of Auction Preferred in the records of the Auction Agent.

"Failure to Deposit" means the failure by the Corporation to pay to the Paying Agent by 11:00 A.M., New York City Time, in immediately available funds, (i) on a Dividend Payment Date, the full amount of any dividend (whether or not earned or declared) to be paid on such Dividend Payment Date on any shares of Preferred Stock or (ii) on any redemption date, the full redemption price (including accumulated and unpaid dividends), to be paid on such redemption date for any shares of Preferred Stock.

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System.

"First Boston" means The First Boston Corporation.

"Holder" means an Existing Holder or any beneficial owner of Preferred Stock acquired pursuant to a Remarketing.

"Initial Auction Date" means the Business Day immediately preceding the first day of a Dividend Period for Auction Preferred.

"Initial Dividend Rate" has the meaning set forth in Section 3(g)(i) below.

"Initial Dividend Period" means the periods commencing on the Date of Original Issue and ending on the respective days immediately preceding the Initial Dividend Payment Dates for each Series of Preferred Stock.

"Initial Dividend Payment Date" has the meaning set forth in Section 3(b) below.

"Long Dividend Period" has the meaning set forth in Section 3(b)(v) below.

"Marketing Conditions" means the following factors: (i) short-term and long-term market rates and indices of such short-term and long-term rates, (ii) market supply and demand for short-term and long-term securities, (iii) yield curves for short-term and long-term securities comparable to the Preferred Stock, (iv) industry and financial conditions which may affect the Preferred Stock, (v) the number of shares of Preferred Stock to be sold pursuant to an Auction or a Remarketing, as the case may be, (vi) the number of potential purchasers of Preferred Stock, (vii) the Dividend Periods and dividend rates at which current and potential holders would remain or become holders, (viii) current tax laws and administrative interpretations with respect thereto and (ix) the Corporation's current and projected funding requirements based on its asset and liability position, tax position and current financing objectives. If Marketing Conditions are being assessed by the Chief Financial Officer, such officer's evaluation of the factors described in clauses (vi) and (vii) above may be based on discussions with one or more Broker-Dealers or Remarketing Agents.

If Marketing Conditions are being assessed by the Term Selection Agent or the Method Selection Agent, such agent's evaluation of the factor described in clause (ix) above may be based on discussions with representatives of the Corporation.

"Maximum Applicable Rate", as of any date, means the rate obtained by multiplying the Applicable Determining Rate then in effect for a Dividend Period by the Percentage (as it may be adjusted from time to time based on certain factors by the Chief Financial Officer in accordance with the provisions hereof) determined as set forth below based on the lower of the credit ratings assigned to the Preferred Stock by Moody's and S&P.

Credit Rating		
Moody's	S & P	Percentage
"aa3" or Above	AA- or Above	150%
"a3" to "a1"	A- to A+	200%
"baa3" to "baa1"	BBB- to BBB+	225%
Below "baa3"	Below BBB	275%

The Corporation will take all reasonable action necessary to enable Moody's and S&P to provide ratings for the Preferred Stock. If either Moody's or S&P does not make such rating available or neither Moody's nor S&P shall make such a rating available, the Corporation will designate a rating agency or rating agencies as a substitute rating agency or substitute rating agencies, as the case may be, subject to the approval of Morgan Stanley and First Boston, such approval not to be unreasonably withheld, and the Corporation will take all reasonable action to enable such rating agency or rating agencies to provide a rating or ratings for each Series of Preferred Stock. If either Moody's or S&P shall change its rating categories for preferred stock, or if one or more substitute rating agencies are designated, then the determination set forth above will be made based upon the substantially equivalent new rating categories for preferred stock of such rating agency or substitute rating agency.

"Memorandum" means the Private Placement Memorandum dated December 16, 1992 relating to the Corporation and the placement of the shares of Preferred Stock.

"Method Selection Agent" means any entity appointed by the Corporation to act on its behalf in selecting Dividend Determination Methods for a Series of Preferred Stock, provided that if the Corporation shall appoint more than one entity to so act with respect to a Series, "Method Selection Agent" shall mean, unless the context otherwise requires, all entities so appointed.

"Method Selection Agreement" means an agreement between the Corporation and the Method Selection Agent pursuant to which the Method Selection Agent agrees to determine the Method applicable to a Series of Preferred Stock.

"Minimum Holding Period" has the meaning set forth in Section 3(f)(v) below.

"Moody's" means Moody's Investors Service, Inc., or its successor, so long as such agency (or successor) is in the business of rating securities of the type of the Preferred Stock and, if such agency is not in such business, then a Substitute Rating Agency.

"Morgan Stanley" means Morgan Stanley & Co. Incorporated.

"Normal Dividend Payment Date" has the meaning set forth in Section 3(b)(ii) below.

"Notice of Change in Dividend Period" has the meaning set forth in Section 3(d)(ii) below.

"Notice of Method Revocation" has the meaning set forth in Section 3(C)(ii) below.

"Notice of Method Selection" has the meaning set forth in Section 3(C)(i) below.

"Notice of Percentage Increase" has the meaning set forth in Section 3(h)(i) below.

"Notice of Removal" has the meaning set forth in Section 3(C)(iii) below.

"Notice of Revocation" has the meaning set forth in Section 3(d)(ii) below.

"Outstanding" means, as of any date, shares of Preferred Stock theretofore issued except, without duplication, (i) any shares of Preferred Stock theretofore cancelled, delivered to the Corporation for cancellation or redeemed and (ii) as of any Auction Date or Remarketing Date, any shares of Preferred Stock subject to redemption on the next following Business Day.

"Participant" means the member of the Securities Depository that will act on behalf of an Existing Holder or a Potential Holder, in the case of Auction Preferred, or the beneficial owner, in the case of Remarketing Preferred, and that is identified as such in such Holder's or Potential Holder's Master Purchaser's Letter.

"Paying Agent" means the Auction Agent unless another bank or trust company has been appointed to act as the paying agent for the shares of Preferred Stock by resolution of the Board of Directors.

"Percentage" has the meaning set forth in Section 3(h)(i) below.

"Person" means and includes an individual, a partnership, a corporation, a trust, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof.

"Purchaser's Letter" means a Master Purchaser's Letter substantially in the form of Appendix E to the Memorandum delivered to the initial purchasers of the Preferred Stock which each prospective purchaser of Preferred Stock will be required to sign as a condition to purchasing Preferred Stock or participating in an Auction or Remarketing.

"Redemption Agent" means the Auction Agent unless another bank or trust company has been appointed to act as the redemption agent for the shares of Preferred Stock by resolution of the Board of Directors.

"Remarketing" means the implementation of Remarketing Procedures.

"Remarketing Agent" means, at any time, the entity or entities appointed by the Corporation to act on its behalf in establishing dividend rates and Dividend Periods for Remarketing Preferred and to act on behalf of holders of Remarketing Preferred in remarketing such Remarketing Preferred as provided in the Remarketing Procedures.

"Remarketing Depository" means The Bank of New York, and its successors or any other depository selected by the Corporation which agrees to follow the procedures required to be followed by such depository in connection with shares of Remarketing Preferred with a Dividend Period of less than 7 days.

"Remarketing Method" means a method of determining Dividend Periods and dividend rates for the Preferred Stock.

"Remarketing Preferred" means the Preferred Stock, including the Converted Auction Preferred for which the dividend rate and Dividend Period are to be determined pursuant to the Remarketing Method.

"Remarketing Procedures" means the procedures for remarketing shares of Remarketing Preferred as set forth in Section 9.

"Securities Depository" means The Depository Trust Company or any other securities depository selected by the Corporation that agrees to follow the procedures required to be followed by such securities depository in connection with the Preferred Stock.

"Series" means any of the Series G, Series H, Series I or Series J of the Preferred Stock authorized by this Certificate.

"Short Dividend Period" has the meaning set forth in Section 3(b)(v) below.

"Standard Dividend Period" has the meaning set forth in Section 3(b)(v) below.

"Standard & Poor's" or "S&P" means Standard & Poor's Corporation, or its successor, so long as such agency (or successor) is in the business of rating securities of the type of the Preferred Stock and, if such agency is not in such business, then a Substitute Rating Agency.

"Stock Books" means the stock transfer books of the Corporation maintained by the Paying Agent.

"Substitute Commercial Paper Dealer" means Goldman, Sachs & Co., Shearson Lehman Brothers Inc. or Merrill Lynch, Pierce, Fenner & Smith Incorporated, or their respective affiliates or successors or, if none of such firms furnishes commercial paper quotations, a leading dealer in the commercial paper market selected by the Corporation in good faith.

"Substitute Rating Agency" means a nationally recognized statistical rating organization (as that term is used in the rules and regulations of the Securities Exchange Act of 1934) selected by the Corporation, subject to approval by Morgan Stanley and First Boston, which approval is not to be unreasonably withheld.

"Substitute U.S. Government Securities Dealers" means Goldman, Sachs & Co., Shearson Lehman Brothers Inc. or Merrill Lynch, Pierce, Fenner & Smith Incorporated, or their respective affiliates or successors or, if none of such firms provides quotes in U.S. government securities, a leading dealer in the government securities market selected by the Corporation in good faith.

"Tender Agent" means, at any time, the bank or the organization (initially The Bank of New York) appointed by the Corporation to perform the duties of Tender Agent as provided in the Remarketing Procedures.

"Term Selection Agent" means any entity appointed by the Corporation to act on its behalf in establishing the length of any Dividend Period other than the Standard Dividend Period, the Dividend Payment Dates for any Short Dividend Period and, in the case of any Long Dividend Period, additional redemption provisions, if any, for a Series of Auction Preferred, provided that if the Corporation shall

appoint more than one entity to so act with respect to a Series, "Term Selection Agent" shall mean, unless the context otherwise requires, all entities so appointed.

"U.S. Government Securities Dealers" means Morgan Stanley and First Boston or, in lieu thereof, their respective affiliates or successors.

SECTION 3. Dividends.

(a) Holders of shares of Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefor, cumulative cash dividends at the Applicable Rate per annum, determined as set forth in Section 3(f) below, and no more, payable on the respective dates set forth below.

(b) (i) Dividends on the shares of Preferred Stock of each Series shall accumulate (whether or not declared) from the Date of Original Issue.

(ii) Dividends on each Series of Preferred Stock shall be payable on the Initial Dividend Payment Date for such Series. After the Initial Dividend Periods, dividends on any shares of Preferred Stock with (a) a Dividend Period of 1 to 48 days (which, in the case of Auction Preferred, shall be a period of days divisible by 7) will be payable on the day following the last day of such Dividend Period, (b) a Standard Dividend Period will be payable on the day following the last day of such Standard Dividend Period (which last day of such Standard Dividend Period will normally be each seventh Wednesday following the preceding Dividend Payment Date for such Series), (c) a Short Dividend Period, on the day following the last day of such Short Dividend Period and on such other Dividend Payment Dates as established at the time such Short Dividend Period is determined and (d) a Long Dividend Period, on the day following the last day of such Long Dividend Period and on the March 31, June 30, September 30 and December 31 of each year during such dividend period. Each day on which dividends on shares of Preferred Stock of each Series would be payable as determined as set forth in this clause (ii) but for adjustments set forth in Section 3(f)(v) below, other than adjustments to reflect changes in the Minimum Holding Period, is referred to herein as a "Normal Dividend Payment Date".

(iii) Each date on which dividends for each share of Preferred Stock shall be payable as set forth herein is referred to herein as a "Dividend Payment Date". If applicable, the period from the preceding Dividend Payment Date to the next Dividend Payment Date for any share of Preferred Stock with a Long Dividend Period is herein referred to as a "Dividend Quarter". Although any particular Dividend Payment Date may not occur on the originally scheduled Normal Dividend Payment Date because of the adjustments set forth in Section 3(f)(v) below, each succeeding Dividend Payment Date shall be, subject to such adjustments, the date determined as set forth in clause (ii) above as if each preceding Dividend Payment Date had occurred on the respective originally scheduled Normal Dividend Payment Date.

(iv) Dividend Periods may be of any duration (including perpetual duration) and not less than (i) seven days in the case of Auction Preferred (other than Converted Remarketing Preferred) and (ii) one day in the case of Remarketing Preferred (other than Converted Auction Preferred). The duration of each subsequent Dividend Period following the Initial Dividend Period for each Series and the Applicable Rate for such subsequent Dividend Period will be determined by either the Auction Method or the Remarketing Method.

(v) The Initial Dividend Payment Date for the Initial Dividend Period for Series G Preferred Stock shall be February 11, 1993, for Series H Preferred Stock shall be February 18, 1993, for Series I Preferred Stock shall be February 25, 1993 and for Series J Preferred Stock shall be March 4, 1993. After the Initial Dividend Period for each Series of Preferred Stock, each subsequent Dividend Period for any shares of Preferred Stock shall (except for the adjustments for non-Business Days described in Section 3(f)(v) below) be 49 days (each such 49-day period, subject to any adjustment as a result of a change in law adjusting the Minimum Holding Period as described in Section 3(f)(v) below, being referred to herein as a "Standard Dividend Period"), unless as provided in clause (d) below, the Term Selection Agent or the applicable Remarketing Agent, as the case may be, specifies that any such subsequent Dividend Period for a particular share of Preferred Stock shall be (A) a Dividend Period of 1 to 48 days (which in the case of Auction Preferred, shall be a period of days divisible by 7), (B) a Dividend Period of 50 to 364 days and consisting of a whole number of weeks (a "Short Dividend Period") or (C) a Dividend Period of 365 days or longer and consisting of a whole number of weeks (a "Long Dividend Period"). Each such Dividend Period of 1 to 48 days, Standard Dividend Period, Short Dividend Period and Long Dividend Period (together with (i) any Initial Dividend Periods and (ii) any period commencing on a redemption date on which there is a Failure to Deposit and ending on the date the redemption price for such shares is paid to the Paying Agent) being referred to herein as a "Dividend Period").

(c) (i) Subject to certain limitations set forth in clause (v) below, either Dividend Determination Method may be selected by the Method Selection Agent for a Series of Preferred Stock for any subsequent Dividend Period with respect to all shares of such Series, provided that such Method Selection Agent determines at the time of such selection that a change in the Dividend Determination Method will be the most favorable financing alternative for the Corporation based upon the then-current Marketing Conditions. If more than one entity is serving as Method Selection Agent for a Series, such entities shall act in concert in performing their duties, provided that notices referred to herein may be given by one entity on behalf of all such entities. The Method Selection Agent for any Series of Preferred Stock will make such selection in a notice (a "Notice of Method Selection") sent by such Method Selection Agent to the Corporation, the Term Selection Agent, the Auction Agent, the Securities Depository, the Remarketing Depository, the Tender Agent and any applicable Remarketing Agent by telephone (with confirmation in writing), and to any other record holders of the shares of Preferred Stock of such Series by first-class mail, postage prepaid, not less then seven Business Days prior to the first day of such subsequent Dividend Period. Each Notice of Method Selection will state the Method selected by the Method Selection Agent. If the Method Selection Agent for a Series which is then a Series of Remarketing Preferred selects the Auction Method for any subsequent Dividend Period, the Remarketing Agent for such Series will establish Dividend Periods and Applicable Rates for shares of such Series until the Initial Auction Date in a manner that will best promote an orderly transition to the Auction Method. Any Dividend Determination Method so selected by the Method Selection Agent for a Series shall continue in effect for such Series until the Method Selection Agent selects the other Method in the aforesaid manner. Until a Method Selection Agent for any Series has been appointed, the Dividend Determination Method will be the Auction Method.

(ii) A Notice of Method Selection may be revoked (a "Notice of Method Revocation") by the Method Selection Agent on or prior to 10:00 A.M. on the second Business Day preceding the first day of the sub-sequent Dividend Period by giving a Notice of Method Revocation to the Corporation, the Term Selection Agent, the Securities Depository, the Remarketing Depository,

the Auction Agent, the Tender Agent, any applicable Remarketing Agent and any other record holders of the shares of Preferred Stock of such Series.

(iii) Any Notice of Method Selection with respect to any subsequent Dividend Period for any Series of Preferred Stock shall be deemed to have been withdrawn if on or prior to the second Business Day preceding the first day of such subsequent Dividend Period the Corporation shall have removed the Method Selection Agent for such Series, provided that the Corporation shall have given a notice (a "Notice of Removal") to the Term Selection Agent, the Securities Depository, the Remarketing Depository, the Auction Agent, the Tender Agent, any applicable Remarketing Agent and any other record holders of shares of Preferred Stock of such Series no later than 3:00 P.M., New York City time, on such second Business Day. If more than one entity has been appointed and is acting as Method Selection Agent for that Series, such Notice of Method Selection shall be deemed to have been withdrawn only if the Corporation shall have removed all such entities; and the removal at any time by the Corporation of one or more but not all such entities shall not effect a deemed withdrawal of a Notice of Method Selection and in any such event no Notice of Removal need be given. If the Method Selection Agent for any Series of Preferred Stock resigns or is removed (or, in either case, if more than one entity has been appointed and is acting as Method Selection Agent for that Series then all such entities), the Dividend Determination Method applicable to such Series in effect at the time of such resignation or removal will continue in effect until the Corporation appoints a successor Method Selection Agent for such Series and such Method Selection Agent sends a Notice of Method Selection. If, as a result of the resignation or removal of the Method Selection Agent, the Dividend Determination Method for any Series will continue to be the Auction Method, then the duration of the next succeeding Dividend Period for such Series will be the Standard Dividend Period.

(iv) Any Method for a Series of Preferred Stock selected by the Method Selection Agent for such Series pursuant to a Notice of Method Selection (except a Notice of Method Selection that is revoked or deemed to have been withdrawn) shall be conclusive and binding on the Corporation and the holders of Preferred Stock of such Series. If the Notice of Method Selection is not revoked or deemed to have been withdrawn, any Method so selected by the Method Selection Agent for a Series will continue in effect for that Series until such Method Selection Agent or any successor selects the other Method in the aforesaid manner. No defect in the Notice of Method Selection, the Notice of Method Revocation or the Notice of Removal of the Method Selection Agent or in the mailing thereof shall affect the validity of any change in the Dividend Determination Method or any withdrawal, revocation or removal.

(v) Notwithstanding the foregoing, the Method Selection Agent shall not be entitled to change the Dividend Determination Method then applicable to a Series if (i) at the time of an election that the Remarketing Method apply to a Series, the Corporation has not appointed (and given notice or taken such other action as may be necessary for the timely effectiveness of such appointment) a Remarketing Agent, a Tender Agent, a Securities Depository and a Remarketing Depository for such Series, (ii) at the time of an election that the Auction Method apply to a Series, the Corporation has not appointed (and given notice or taken such other action as aforesaid) an Auction Agent, a Securities Depository and at least one Broker-Dealer for such Series, or such election would result in more than one Dividend Period for the shares of Preferred Stock of such Series or (iii) at the time of any such election, a Failure to Deposit has occurred and is continuing. Once the Method Selection Agent has selected a Dividend Determination Method for a Series in the aforesaid manner, such selection shall become effective on the last day of the Dividend Period(s) then applicable to shares of Preferred Stock of such Series notwithstanding any

Failure to Deposit for such Series which may occur after the delivery of the Notice of Method Selection by such Method Selection Agent, the failure to remarket tendered shares of Remarketing Preferred of such Series, in the case of the selection of the Remarketing Method, or the lack of Sufficient Clearing Bids in the Auction for such Series, in the case of the selection of the Auction Method.

(d) (i) With respect to shares of Auction Preferred, each successive Dividend Period shall commence on the Dividend Payment Date for the preceding Dividend Period for such Series and shall end (A) in the case of a Dividend Period of 7 to 48 days or a Standard Dividend Period, on the day preceding the next Dividend Payment Date and (B) in the case of a Short Dividend Period or a Long Dividend Period, on the last day of the Short Dividend Period or Long Dividend Period, as the case may be, specified by the Term Selection Agent, in the related Notice of Change in Dividend Period.

(ii) The Term Selection Agent will give telephonic and written notice, not less than 10 and not more than 30 days prior to an Auction Date and based on the then-current Marketing Conditions, to the Corporation, the Auction Agent, the Method Selection Agent, the Securities Depository and any other record holders of a Series of Auction Preferred if it determines that the next succeeding Dividend Period for such Series will be a Dividend Period of 7 to 48 days, a Short Dividend Period or a Long Dividend Period (any such notice, a "Notice of Change in Dividend Period"); provided, that if the then-current Dividend Period is less than 10 days, the Term Selection Agent will give such Notice of Change in Dividend Period no less than 5 days prior to an Auction Date. Each such Notice of Change in Dividend Period shall be in substantially the form of Exhibit D to the Auction Agent Agreement and shall specify the following terms, (A) the next succeeding Dividend Period for such Series as a Dividend Period of 7 to 48 days, a Short Dividend Period or a Long Dividend Period; provided that a Dividend Period of 7 to 48 days shall only be established so long as corporate holders of such Series of Preferred Stock shall not lose entitlement to the Dividends-Received Deduction as a result of the length of such Dividend Period, (B) the term thereof, (C) in the case of a Short Dividend Period, the Dividend Payment Dates with respect thereto and (D) in the case of a Long Dividend Period, additional redemption provisions or restrictions on redemption, if any, as authorized in Section 4(b)(ii) hereof. However, for any Auction occurring after the initial Auction, the Term Selection Agent may not give a Notice of Change in Dividend Period (and any such Notice of Change in Dividend Period shall be null and void) unless Sufficient Clearing Bids were made in the last occurring Auction for any Series and full cumulative dividends, if any, for all Series of Auction Preferred payable prior to the date of such notice have been paid in full. The Term Selection Agent may establish a Dividend Period of 7 to 48 days, a Short Dividend Period or a Long Dividend Period for any Series of Preferred Stock, if the Term Selection Agent determines that such Dividend Period and, in the case of a Long Dividend Period, additional redemption provisions or restrictions on redemption, provide the Corporation with the most favorable financing alternative based upon the then-current Marketing Conditions. A Notice of Change in Dividend Period may be revoked by the Term Selection Agent on or prior to 10:00 A.M. New York City time on the related Auction Date by telephonic and written notice (a "Notice of Revocation"), in substantially the form of Exhibit E to the Auction Agent Agreement, to the Corporation, the Auction Agent, the Method Selection Agent, the Securities Depository and any other record holders of the shares of such Series, specifying that the Term Selection Agent has determined that because of subsequent changes in such Marketing Conditions, such Dividend Period would not result in the most favorable financing alternative for the Corporation. Notices of Revocation given by the Term Selection Agent will be conclusive and binding upon the Corporation and the holders of shares of Auction Preferred and,

except as set forth below in clause (iv), a Notice of Change in Dividend Period given by the Term Selection Agent will be conclusive and binding upon the Corporation and the holder of shares of Auction Preferred.

(iii) Any Notice of Change in Dividend Period with respect to any subsequent Dividend Period for any Series of Auction Preferred will be deemed to have been withdrawn if on or prior to the second Business Day preceding an Auction Date the Corporation shall have removed the Term Selection Agent, provided that the Corporation shall have given Notice of Removal to the Auction Agent, the Method Selection Agent and the Securities Depository and any other record holders of the shares of such Series, no later than 3:00 P.M., New York City time, on such second Business Day. If the Term Selection Agent resigns or is removed, the Dividend Period for each Series of Auction Preferred shall be a Standard Dividend Period until the Corporation appoints a successor Term Selection Agent for such Series and such Term Selection Agent sends a Notice of Change in Dividend Period.

(iv) If the Term Selection Agent does not give a Notice of Change in Dividend Period with respect to the next succeeding Dividend Period for any Series of Auction Preferred or has given such a Notice of Change in Dividend Period and gives a Notice of Revocation with respect thereto or such Notice of Change in Dividend Period is deemed to be withdrawn, such next succeeding Dividend Period shall be a Standard Dividend Period with respect to such Series. In addition, in the event the Term Selection Agent has given a Notice of Change in Dividend Period with respect to the next succeeding Dividend Period for a Series of Preferred Stock and such notice has not been revoked or deemed to be withdrawn, but Sufficient Clearing Bids are not made in the related Auction or such Auction is not held for any reason, such next succeeding Dividend Period for such Series will, notwithstanding such Notice of Change in Dividend Period, be a Standard Dividend Period and the Term Selection Agent may not again give a Notice of Change in Dividend Period (and any such Notice of Change in Dividend Period shall be null and void) for such Series until Sufficient Clearing Bids have been made in an Auction for such Series.

(e) (i) With respect to shares of Remarketing Preferred, the duration of each subsequent Dividend Period and the Applicable Rate for each such subsequent Dividend Period shall be established by the Remarketing Agent for such shares of Remarketing Preferred and will be conclusive and binding on the Corporation and the holders of such shares.

(ii) For each Dividend Period the applicable Remarketing Agent shall establish a dividend rate, not in excess of the Maximum Applicable Rate, which it determines shall be the lowest rate at which tendered shares of Remarketing Preferred would be remarketed at $250,000 per share. In establishing each Dividend Period and dividend rate, each Remarketing Agent will establish Dividend Periods and dividend rates which it determines will result in the most favorable financing alternative for the Corporation based on the then-current Marketing Conditions.

(iii) Each Holder will be deemed to have tendered its shares of Remarketing Preferred for sale by Remarketing on the Business Day immediately preceding the first day of each subsequent Dividend Period applicable thereto, unless it gives irrevocable notice otherwise. Consequently, a Holder will hold shares of Remarketing Preferred only for a Dividend Period and at a dividend rate accepted by that holder, except for one or more successive Dividend Periods of one day resulting from a Failure to Deposit or the failure to remarket such shares as described below. At any time, any or all shares of Remarketing Preferred of a Series may have Dividend Periods of various lengths. Depending on Marketing Conditions at the time of Remarketing, any or all shares

of Remarketing Preferred of a Series may have different Applicable Rates, including those set on the same day for Dividend Periods of equal length.

(f) (i) Not later than 11:00 A.M. New York City time on the Dividend Payment Date (except as provided in Section 3(f)(v) below) for each share of Preferred Stock, the Corporation is required to deposit with the Paying Agent sufficient immediately available funds for the payment of declared dividends.

(ii) Each dividend shall be payable to the holder or holders of record of such shares of Preferred Stock as such holders' names appear on the Stock Books on the Business Day next preceding the applicable Dividend Payment Date. Subject to Section 3(i) below, dividends in arrears (including any Additional Payments) for any past Dividend Payment Date may be declared by the Board of Directors and paid at any time, without reference to any regular Dividend Payment Date, to the holder or holders of record as such holders appear on the Stock Books as of the Business Day next preceding such Dividend Payment Date. Any dividend payment made on any shares of Preferred Stock shall first be credited against the dividends accumulated with respect to the earliest Dividend Payment Date for which dividends have not been paid with respect to such shares.

(iii) So long as the shares of Preferred Stock are held of record by the nominee of the Securities Depository or the Remarketing Depository, as the case may be, dividends will be paid to the nominee of the Securities Depository or the Remarketing Depository, on each Dividend Payment Date. Dividends on shares of Preferred Stock held through the Securities Depository will be paid through the Securities Depository on each Dividend Payment Date in accordance with its normal procedures.

(iv) Dividends on any shares of Preferred Stock held by the Remarketing Depository will be paid through the Remarketing Depository on each Dividend Payment Date by wire or other transfer of immediately available funds to a Holder's account with a commercial bank in the United States so long as such Holder has provided the Remarketing Depository with the necessary information to effect such transfer. Any payments not made by wire or other transfer will be made by check to the Holder of such Preferred Stock.

(v) In the case of dividends payable with respect to a share of Preferred Stock with a Dividend Period of 7 to 48 days, a Standard Dividend Period or a Short Dividend Period, if:

(A) (x) The Securities Depository shall continue to make available to Participants the amounts due as dividends on such shares of Preferred Stock in next-day funds on the dates on which such dividends are payable and (y) a Normal Dividend Payment Date is not a Business Day, or the day next succeeding such Normal Dividend Payment Date is not a Business Day, then dividends shall be payable on the first Business Day preceding such Normal Dividend Payment Date that is next succeeded by a Business Day; or

(B) (x) The Securities Depository shall make available to Participants the amounts due as dividends on such shares of Preferred Stock in immediately available funds on the dates on which such dividends are payable (and the Securities Depository shall have so advised the Auction Agent) and (y) a Normal Dividend Payment Date is not a Business Day, then dividends shall be payable on the first Business Day following such Normal Dividend Payment Date.

(C) In the case of dividends payable with respect to shares of Preferred Stock with a Long Dividend Period, if:

(I) (x) The Securities Depository shall continue to make available to its Participants the amounts due as dividends on such shares of Preferred Stock in next-day funds on the dates on which such dividends are payable and (y) a Normal Dividend Payment Date is not a Business Day, or the day next succeeding such Normal Dividend Payment Date is not a Business Day, then dividends shall be payable on the first Business Day following such Normal Dividend Payment Date that is next succeeded by a Business Day; or

(II) (x) The Securities Depository shall make available to its Participants the amounts due as dividends on such shares of Preferred Stock in immediately available funds on the dates on which such dividends are payable (and the Securities Depository shall have so advised the Auction Agent) and (y) a Normal Dividend Payment Date is not a Business Day, then dividends shall be payable on the first Business Day following such Normal Dividend Payment Date.

(D) Notwithstanding the foregoing, in case of payment in next-day funds, if the date on which dividends on shares of Preferred Stock would be payable as determined as set forth in clauses (A), (B) and (C) above is a day that would result, due to such procedures, in the number of days between successive Auction Dates or Remarketing Dates for such shares (determined by excluding the first Auction Date or Remarketing Date, as the case may be, and including the second Auction Date and the second Remarketing Date, as the case may be), not being at least equal to the then-current minimum holding period (currently set forth in Section 246(c) of the Code) (the "Minimum Holding Period") required for corporate taxpayers to be entitled to the dividends- received deduction on preferred stock held by nonaffiliated corporations (currently set forth in Section 243(a) of the Code) (the "Dividends-Received Deduction"), then dividends on such shares shall be payable on the first Business Day following such date on which dividends would be so payable that is next succeeded by a Business Day that results in the number of days between such successive Auction Dates or Remarketing Dates, as the case may be (determined as set forth above), being at least equal to the then current Minimum Holding Period.

(E) In addition, notwithstanding the foregoing, in the event of a change in law altering the Minimum Holding Period, the period of time between Dividend Payment Dates shall automatically be adjusted so that there shall be a uniform number of days in subsequent Dividend Periods (such number of days without giving effect to the adjustments referred to above being referred to herein as "Subsequent Dividend Period Days") commencing after the date of such change in law equal to or, to the extent necessary, in excess of the then current Minimum Holding Period; provided that the number of Subsequent Dividend Period Days shall not exceed by more than nine days the length of such then-current Minimum Holding Period and shall be evenly divisible by seven, and the maximum number of Subsequent Dividend Period Days, as adjusted pursuant to this provision, in no event shall exceed 119 days.

(F) If a Normal Dividend Payment Date for shares of Remarketing Preferred with Dividend Periods of less than 7 days is not a Business Day, then dividends shall be payable on the first Business Day following such Normal Dividend Payment Date.

(g) (i) For the Initial Dividend Periods dividends will accumulate at a rate per annum of 3.25% for Series G Preferred Stock, 3.25% for Series H Preferred Stock, 3.25% for Series I Preferred Stock, and 3.25% for Series J Preferred Stock (in each case, the "Initial Dividend Rate"). The dividend rate for each share of Preferred Stock for each subsequent Dividend Period shall be the Applicable Rate determined by either the Auction Method or the Remarketing Method.

(ii) Notwithstanding the application of either the Auction Method or the Remarketing Method, the dividend rate on each share of Preferred Stock shall not exceed the Maximum Applicable Rate per annum for any Dividend Period; provided, however, that the Chief Financial Officer of the Corporation (the "Chief Financial Officer") based on certain factors may increase the Percentage used to calculate the Maximum Applicable Rate at any time up to certain amounts set forth below in Section 3(h)(ii). The provisions of the immediately preceding sentence notwithstanding, at any time that the application of the provisions with respect to a Failure to Deposit would, but for the provisions of the immediately preceding sentence, result in a dividend rate on a share of Preferred Stock being in excess of the Maximum Applicable Rate per annum, the maximum dividend rate applicable to such share of Preferred Stock shall be such higher dividend rate as provided below.

(h) (i) Not later than 10:00 A.M., New York City time, on the related Auction Date or Remarketing Date, as the case may be, and based on the criteria set forth below, the Chief Financial Officer may, upon telephonic and written notice, to the Auction Agent, each applicable Remarketing Agent, the Securities Depository, the Remarketing Depository and any other record holder of shares of Preferred Stock affected thereby, increase the percentage (the "Percentage") used to calculate the Maximum Applicable Rate for any shares of Preferred Stock (a "Notice of Percentage Increase"). Such Notice of Percentage Increase shall specify the new Percentages to be used to calculate the Maximum Applicable Rate and shall be in substantially the form of Exhibit G to the Auction Agent Agreement.

The Chief Financial Officer may increase such Percentages if the Chief Financial Officer determines that supervening considerations make the Percentages then in effect inimical to the financial interests of the Corporation and that such increase is necessary to enable the operation of the then-applicable Method to provide the Corporation with the most favorable financing alternatives based on then-current Marketing Conditions. The Chief Financial Officer may not revoke a Notice of Percentage Increase and the Percentages specified therein will be the applicable Percentages for the determination of the Maximum Applicable Rate with respect to such shares for subsequent Dividend Periods, except as described below, until a new Notice of Percentage Increase shall be delivered in accordance with the terms thereof.

(ii) Except as described below, the Chief Financial Officer may not increase the Percentage used to calculate the Maximum Applicable Rate to above the Percentages set forth in the third column of the table below corresponding to the applicable credit ratings set forth in the first two columns of the table below.

Credit Rating		Maximum Percentage Permitted to be Used to Calculate Maximum Applicable Rate
Moody's	Standard & Poor's	
"aa3" or Above	AA- or Above	175%
"a3" to "a1"	A- to A+	225%
"baa3" to "baa1"	+BBB- to BBB	250%
Below "baa3"	Below BBB	275%

The maximum percentages set forth in the third column of the above table may be increased by the Chief Financial Officer, upon receipt of an opinion of counsel addressed to the Corporation to the effect that the use of such higher percentages to calculate the Maximum Applicable Rate will not adversely affect the tax treatment of the Preferred Stock.

(iii) The Chief Financial Officer may only raise the Percentage applicable to a Series of Auction Preferred if the Chief Financial Officer raises such Percentage for all the shares of such Series. The Chief Financial Officer may, however, only raise the Percentage applicable to shares of Remarketing Preferred with respect to those shares of Remarketing Preferred being remarketed on the same date, and shall not be required to raise the Percentage applicable to any other shares of Remarketing Preferred. However, if the Percentage applicable to a share of Remarketing Preferred is less than the Percentage applicable to any other share of Remarketing Preferred of the same Series, the lower Percentage applicable to such share shall, at the end of the current Dividend Period for such share, automatically be increased to the highest Percentage then applicable to any share of Remarketing Preferred of such Series, unless the Chief Financial Officer elects to increase further the Percentage applicable to such share.

(i) (A) In the event a Failure to Deposit occurs and any such Failure to Deposit shall not have been cured within three Business Days after such occurrence, then until such time as the full amount due shall have been paid to the Paying Agent, the Auction Procedures and the Remarketing Procedures will be suspended. The Applicable Rate for each Dividend Period commencing on or after any such Dividend Payment Date (or redemption date, as the case may be) on which there has been a Failure to Deposit and such Failure to Deposit has not been cured within three Business Days shall be equal to the Default Rate for such Dividend Period. In addition, if any such Dividend Payment Date was not the last day of a Dividend Period, the Applicable Rate for the portion of such Dividend Period commencing on such Dividend Payment Date and ending on the day preceding the next succeeding Dividend Payment Date shall be the Default Rate for such period, computed as if such period were a "Dividend Period". If there has been a failure to pay dividends on the last day of a Dividend Period, the Dividend Period to which such Default Rate will apply shall be a Standard Dividend Period in the case of Auction Preferred and successive one day periods in the case of Remarketing Preferred. If there has been a failure to pay the redemption price of shares of Preferred Stock called for redemption, the Dividend Period

to which such Default Rate will apply shall be the period commencing on, and including, the redemption date and ending on, but excluding, the date the redemption price is paid to the Paying Agent. The suspension of the Auction Procedures and the Remarketing Procedures shall continue in effect until there shall occur a Dividend Payment Date at least one Business Day prior to which the full amount of any dividends (whether or not earned or declared) payable on each Dividend Payment Date prior to and including such Dividend Payment Date along with any Additional Payments then due, and the full amount of any redemption price (including accumulated and unpaid dividends) then due shall have been paid to the Paying Agent, and thereupon application of the Auction Procedures and the Remarketing Procedures shall resume for any Outstanding shares on the terms stated herein for Dividend Periods commencing with such Dividend Payment Date. If a Failure to Deposit is cured within three Business Days, then the Applicable Rate will be the dividend rate established in connection with any Auction or Remarketing relating to such shares of Preferred Stock conducted immediately preceding the Failure to Deposit, provided that the Applicable Rate shall be the Default Rate for each day (excluding the date of deposit) until the Failure to Deposit is cured. Such Default Rate shall be computed using the Dividend Period established in connection with any Auction or Remarketing relating to such shares of Preferred Stock conducted immediately preceding the Failure to Deposit.

(B) Any Failure to Deposit with respect to any share of Preferred Stock shall be deemed to be cured if, with respect to a Failure to Deposit relating to (a) the payment of dividends on such shares of Preferred Stock, the Corporation deposits with the Paying Agent by 11:00 A.M., New York City time, all accumulated and unpaid dividends on such shares of Preferred Stock, including the full amount of any dividends to be paid with respect to the Dividend Period or portion thereof with respect to which the Failure to Deposit occurred, plus Additional Payments, and (b) the redemption of such shares, the Corporation deposits with the Paying Agent by 11:00 A.M., New York City time, funds sufficient for the redemption of such shares (including accumulated and unpaid dividends) and gives irrevocable instructions to apply such funds and, if applicable, the income and proceeds therefrom, to the payment of the redemption price (including accumulated and unpaid dividends) for such shares. If the Corporation shall have cured such Failure to Deposit by making timely payment to the Paying Agent, either the Auction Agent or the Remarketing Agent, as the case may be, will give telephonic and written notice of such cure to each Holder of shares of Preferred Stock at the telephone number and address specified in such Holder's Master Purchaser's Letter and to each Broker-Dealer, in the case of the Auction Agent, as promptly as practicable after such cure is effected. Additional Payments paid to the Paying Agent with respect to a Failure to Deposit will be payable to the Holders of shares of Preferred Stock on the Record Date for the Dividend Payment Date with respect to which such Failure to Deposit occurred.

(j) If an Auction or Remarketing for any shares of Preferred Stock is not held on an Auction Date or Remarketing Date for any reason (other than because of the suspension of Auctions or Remarketing due to a Failure to Deposit as described above), the dividend rate for such shares shall be the Maximum Applicable Rate (calculated assuming a Standard Dividend Period) determined as of such Auction Date or Remarketing Date and the Dividend Period shall be a Standard Dividend Period, in the case of Auction Preferred, and successive Dividend Periods of one day, in the case of Remarketing Preferred, until such shares of Remarketing Preferred are remarketed.

(k) The amount of dividends per share payable on any Dividend Payment Date on a share of Preferred Stock having a Dividend Period of up to 364 days shall be computed by multiplying the Applicable Rate for each Dividend Period by a fraction the numerator of which shall be the number of days between Dividend Payment Dates (calculated by counting the date of the preceding Dividend

Payment Date as the first day and the day preceding the current Dividend Payment Date as the last day) and the denominator of which shall be 360, and multiplying the amount so obtained by $250,000. During any Dividend Period of 365 days or longer, the amount of dividends accumulated on each share will be computed on the basis of a 360-day year consisting of twelve 30-day months.

(l) (i) Holders of shares of each Series of Preferred Stock shall not be entitled to any dividends, whether payable in cash, property or stock, in excess of full cumulative dividends. So long as any shares of Preferred Stock are Outstanding, the Corporation shall not declare or pay or set apart for payment any dividends or make any other distributions on, or payment on account of the purchase, redemption or other retirement of the common stock of the Corporation or any other capital stock of the Corporation ranking junior to the Preferred Stock as to dividends or as to distributions upon liquidation, dissolution or winding-up of the Corporation unless (i) full cumulative dividends on the Preferred Stock have been paid (or declared and a sum sufficient for the payment thereof set apart for such payment) for all Dividend Periods terminating on or prior to the date of such payment, distribution, purchase, redemption or other retirement with respect to such junior capital stock and (ii) the Corporation is not in default with respect to any obligation to redeem or retire shares of the Preferred Stock; provided, however, that the foregoing shall not apply to (i) any dividend payable solely in any shares of any stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding-up of the Corporation, junior to the Preferred Stock or (ii) the acquisition of shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the Corporation, junior to the Preferred Stock in exchange solely for shares of any other stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding-up of the Corporation, junior to the Preferred Stock.

(ii) Each dividend will be payable to the holder or holders of record of shares of Preferred stock as they appear on the Stock Books on the Business Day next preceding the applicable Dividend Payment Date. Dividends in arrears for any past Dividend Period (and for any past Dividend Payment Date occurring prior to the end of a Long Dividend Period or a Short Dividend Period) may be declared and paid at any time, without reference to any regular Dividend Payment Date, to the record holders of such shares. Any dividend payment made on any shares of Preferred Stock shall first be credited against the dividends accumulated with respect to the earliest Dividend Payment Date for which dividends have not been paid with respect to such shares. So long as the shares of Preferred stock are held of record by the nominee of the Securities Depository or the Remarketing Depository, as the case may be, dividends will be paid to the nominee of the Securities Depository or the Remarketing Depository, on each Dividend Payment Date.

(iii) Unless otherwise provided for in the Restated Certificate of Incorporation, as the same may be amended, of the Corporation, all payments in the form of dividends made upon shares of Preferred Stock and any other stock ranking on a parity with the Preferred Stock with respect to such dividend shall be pro rata, so that amounts paid per share on the Preferred Stock and such other stock shall in all cases bear to each other the same ratio that the required dividends then payable per share on the shares of Preferred Stock and such other stock bear to each other.

SECTION 4. Optional Redemption.

(a) At the option of the Corporation, by resolution of the Board of Directors, the shares of a Series of Preferred Stock may be redeemed, in whole or in part, out of funds legally available therefor, on the Business Day immediately preceding any Dividend Payment Date for such shares, upon at least 15 but not more than 45 days notice, at a redemption price per share equal to the sum of $250,000 plus premium thereon, if any, and an amount equal to accrued and unpaid dividends thereon (whether or not earned or declared) to the date that the Corporation pays the full amount payable upon redemption of such shares; provided that such redemption date shall be the Dividend Payment Date for such shares if the payment on the Business Day preceding such date would reduce the holding period for such shares since the Auction Date or Remarketing Date preceding such payment below the Minimum Holding Period. Pursuant to such right of optional redemption, the Corporation may elect to redeem some or all of the shares of Preferred Stock of any Series without redeeming shares of any other Series.

(b) (i) Notwithstanding the foregoing, if any dividends on shares of any Series of Preferred Stock are in arrears, (i) no shares of such Series of Preferred Stock or of any other Series of Preferred Stock shall be redeemed unless all outstanding shares of each Series of Preferred Stock are simultaneously redeemed and (ii) the Corporation shall not purchase or otherwise acquire any shares of Preferred Stock; provided, however, that the foregoing shall not prevent the purchase or acquisition of shares of Preferred Stock pursuant to an otherwise lawful purchase or exchange offer made on the same terms to all Holders of Outstanding shares of Preferred Stock.

(ii) In connection with the selection of a Long Dividend Period, the Term Selection Agent or the applicable Remarketing Agent, as the case may be, may restrict the Corporation's ability to redeem shares of Preferred Stock by providing for the payment of a redemption premium or fixing a period of time during which such shares of Preferred Stock may not be redeemed if the Term Selection Agent or the applicable Remarketing Agent, as the case be, determines, based on the then-current Marketing Conditions, that adding such terms will result in the most favorable financing alternative for the Corporation.

(c) (i) If shares of Preferred Stock are to be redeemed, the Redemption Agent will, at the direction of the Corporation, cause to be sent, by first-class or air mail, postage prepaid, telex or facsimile, a notice of redemption to each holder of record (initially Cede & Co., as nominee of the Securities Depository) of shares of Preferred Stock to be redeemed. Such notice of redemption shall be sent not fewer than fifteen nor more than 45 days prior to the redemption date. Each notice of redemption will identify the Preferred Stock to be redeemed by CUSIP number and will state (a) the redemption date, (b) the redemption price, (c) the place where the redemption price is to be paid and (d) the number of shares of Preferred Stock and the Series thereof to be redeemed. The notice will also be published in The Wall Street Journal.

(ii) No defect in the notice of redemption or in the mailing or publication thereof will affect the validity of the redemption proceedings, except as required by applicable law. A notice of redemption will be deemed given on the day that it is mailed in accordance with the foregoing description.

(iii) The Corporation may elect to redeem some or all of the shares of each Series of Preferred Stock.

(iv) In the case of shares of a Series of Auction Preferred, so long as the Securities Depository's nominee is the record holder of such shares, the Redemption Agent will give notice to the Securities Depository, and the Securities Depository will determine the number of shares of each such Series to be redeemed from the accounts of each of its Participants. A Participant may determine to redeem shares from certain of the beneficial holders holding through such Participant (which may include a Participant holding shares for its own account) without redeeming shares from the accounts of other beneficial owners.

Any such redemption will be made in accordance with applicable laws and rules.

(v) In the case of shares of Remarketing Preferred, notice of such redemption shall be given to the Securities Depository or the Remarketing Depository, as the case may be, and any other record holders of the Remarketing Preferred to be redeemed. The Corporation shall identify by CUSIP number the shares of Remarketing Preferred to be redeemed. To the extent less than all of the shares of Remarketing Preferred represented by a certificate with a particular CUSIP number are to be redeemed, the applicable Depository shall determine the shares represented by such certificate to be redeemed. In the case of the Securities Depository, the shares to be redeemed shall be determined as described in the preceding paragraph, and in the case of the Remarketing Depository, the Remarketing Depository shall determine the number of shares represented by such certificate to be redeemed from each Holder thereof.

(vi) If any shares of Preferred Stock to be redeemed are not held of record by a nominee for the Securities Depository or the Remarketing Depository, the particular shares of Preferred Stock to be redeemed shall be selected by the Corporation by lot or by such other method as the Corporation shall deem fair and equitable.

(vii) Upon any date fixed for redemption (unless a Failure to Deposit occurs), all rights of the Holders of shares of Preferred Stock called for redemption will cease and terminate, except the right of such Holders to receive the amounts payable in respect of such redemption therefor, but without interest, and such shares of Preferred Stock will be deemed no longer outstanding and, upon the taking of any action required by applicable law, shall have the status of authorized and unissued shares of preferred stock and may be reissued by the Corporation at any time as shares of any series of preferred stock other than as shares of Preferred Stock.

SECTION 5. Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, after payment or provision for payment of the debts and other liabilities of the Corporation, the holders of the shares of the Preferred Stock shall be entitled to receive, out of the assets of the Corporation, whether such assets are capital or surplus and whether or not any dividends as such are declared but before any payment or distribution of assets is made to holders of common stock of the Corporation or any other class of stock or series thereof ranking junior to the Preferred Stock with respect to the distribution of assets, a preferential liquidation distribution in the amount of $250,000 per share of Preferred Stock plus an amount equal to accumulated and unpaid dividends on each such share (whether or not declared) to and including the date of such distribution and no more. Neither the merger or consolidation of the Corporation with or into any other corporation, nor the merger or consolidation of any other corporation with or into the Corporation, nor the sale, lease, exchange or other transfer of all or any portion of the assets of the Corporation, shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 5.

(b) If upon any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the assets of the Corporation available for distribution to the holders of Preferred Stock and any other series of capital stock of the Corporation ranking on a parity with the Preferred Stock are insufficient to pay the holders of the Preferred Stock the full amount of the preferential liquidation distributions to which they are entitled, then such assets of the Corporation shall be distributed ratably among the holders of Preferred Stock and any other series of capital stock of the Corporation ranking on a parity with the Preferred Stock based upon the ratio of (x) the aggregate amount available for distribution on all shares of Preferred Stock and such parity stock to (y) the total amount distributable on all shares of Preferred Stock and such parity stock upon liquidation.

SECTION 6. Voting Rights.

(a) Holders of the Preferred Stock will have no voting rights except as hereinafter described or as otherwise provided by the General Corporation Law of the State of Delaware; provided, however, that the affirmative vote of the holders of record of at least 66 2/3% of the Outstanding shares of Preferred Stock, voting separately as one class, shall be necessary to adopt any alteration, amendment or repeal of any provision of the Articles of Incorporation or this Certificate of Designations (including any such alteration, amendment or repeal effected by any merger or consolidation), if such alteration, amendment or repeal would alter or change the powers, preferences or special rights of the shares of Preferred Stock so as to affect them adversely.

(b) (i) If at any time the equivalent of six or more full quarterly dividends (whether or not consecutive) payable on the Preferred Stock shall be in arrears (to any extent) (a "Default Period"), the number of directors constituting the Board of Directors of the Corporation shall be increased by two (2), and the holders of record of the Preferred Stock shall have the exclusive right, voting as a class with any other shares of preferred stock of the Corporation so entitled to vote thereon, to elect the directors to fill such newly created directorships. This right shall remain vested until all dividends in arrears on the Preferred Stock have been paid or declared and set apart for payment, at which time (A) the right shall terminate (subject to revesting), (B) the term of the directors then in office elected in accordance with the foregoing shall terminate, and (C) the number of directors constituting the Board of Directors of the Corporation shall be reduced by the number of directors whose term has been terminated pursuant to clause (B) above. For purposes of the foregoing, default in the payment of dividends for the equivalent of six quarterly dividends means, in the case of Preferred Stock which pays dividends either more or less frequently than every quarter, default in the payment of dividends in respect of one or more Dividend Periods containing not less than 540 days.

(ii) Whenever such right shall vest, it may be exercised initially by the vote of the holders of record of a majority of the shares of Preferred Stock present and voting, in person or by proxy, at a special meeting of holders of record of the Preferred Stock or at the next annual meeting of stockholders. A special meeting for the exercise of such right shall be called by the Secretary of the Corporation as promptly as possible, and in any event within 10 days after receipt of a written request signed by the holders of record of at least 25% of the Outstanding shares of the Preferred Stock, subject to any applicable notice requirements imposed by law. Notwithstanding the provisions of this paragraph, no such special meeting shall be held during the 30-day period preceding the date fixed for the annual meeting of stockholders of the Corporation.

(iii) So long as a Default Period continues, any director who shall have been elected by holders of record of Preferred Stock entitled to vote in accordance herewith shall hold office for a

term expiring at the next annual meeting of stockholders and during such term may be removed at any time, without cause by, and only by, the affirmative vote of the holders of record of a majority of the shares of Preferred Stock present and voting, in person or by proxy, at a special meeting of such stockholders of record called for such purpose, and any vacancy created by such removal may also be filled at such meeting. A meeting for the removal of a director elected by the holders of record of Preferred Stock and the filling of the vacancy created thereby shall be called by the Secretary of the Corporation as promptly as possible and in any event within 10 days after receipt of request therefor signed by the holders of record of not less than 25% of the Outstanding shares of Preferred Stock, subject to any applicable notice requirements imposed by law. Such meeting shall be held at the earliest practicable date thereafter. Notwithstanding the provisions of this paragraph, no such meeting shall be held during the 30-day period preceding the date fixed for the annual meeting of stockholders of the Corporation.

(iv) Any vacancy caused by the death, resignation or expiration of the term of office of a director who shall have been elected in accordance with these provisions may be filled by the remaining director so elected or, if not so filled, by a vote of holders of record of a majority of the shares of Preferred Stock present and voting, in person or by proxy, at a meeting called for such purpose (or, in the case of expiration of the term of office of such director, at the annual meeting of stockholders of the Corporation). Unless such vacancy shall have been filled by the remaining director or by vote at the annual meeting of stockholders, such special meeting shall be called by the Secretary of the Corporation at the earliest practicable date after such death, resignation or expiration of term of office, and in any event within 10 days after receipt of a written request signed by the holders of record of at least 25% of the Outstanding shares of Preferred Stock. Notwithstanding the provisions of this paragraph, no such special meeting shall be held during the 30-day period preceding the date fixed for the annual meeting of stockholders of the Corporation.

(v) If any meeting of the holders of the Preferred Stock required above to be called shall not have been called within 10 days after personal service of a written request therefor upon the Secretary of the Corporation or within 15 days after mailing the same by registered mail addressed to the Secretary of the Corporation at his principal office, subject to any applicable notice requirements imposed by law, then the holders of record of at least 25% of the Outstanding shares of Preferred Stock may designate in writing a holder of Preferred Stock to call such meeting at the expense of the Corporation, and such meeting may be called by such person so designated upon the notice required for annual meetings of stockholders or such shorter notice (but in no event shorter than permitted by law) as may be acceptable to the holders of a majority of the total number of shares of Preferred Stock. Any holder of Preferred Stock so designated shall have access to the stock books of the Corporation for the purpose of causing such meeting to be called pursuant to these provisions. Such meeting shall be held at the earliest practicable date thereafter. Notwithstanding the provisions of this paragraph, no such meeting shall be held during the 30-day period preceding the date fixed for the annual meeting of stockholders of the Corporation.

(vi) At any meeting of the holders of record of the Preferred Stock called in accordance with the above provisions for the election or removal of directors, the presence in person or by proxy of the holders of record of one-third of the total number of Outstanding shares of Preferred Stock shall be required to constitute a quorum; in the absence of a quorum, a majority of the holders of record present in person or by proxy shall have power to adjourn the meeting from time to time without notice, other than announcement at the meeting, until a quorum shall be present.

SECTION 7. Auction Procedures.

(a) Certain Definitions. Capitalized terms not defined in this Section 7 shall have the respective meanings specified elsewhere in this part of Article IV(B). As used in this Section 7, the following terms shall have the following meanings, unless the context otherwise requires:

(i) "Available Shares of Auction Preferred" has the meaning set forth in subsection (d)(i) below.

(ii) "Bid" has the meaning set forth in subsection (b)(i) below.

(iii) "Bidder" has the meaning set forth in subsection (b)(i) below.

(iv) "Broker-Dealer Agreement" means an agreement between the Auction Agent and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures specified in these Auction Procedures.

(v) "Hold Order" has the meaning set forth in subsection (b)(i) below.

(vi) "Order" has the meaning set forth in subsection (b)(i) below.

(vii) "Potential Holder" means any Person, including any Existing Holder, (A) who shall have executed a Purchaser's Letter and (B) who may be interested in acquiring shares of Auction Preferred (or, in the case of an Existing Holder, additional shares of Auction Preferred).

(viii) "Sell Order" has the meaning set forth in subsection (b)(i) below.

(ix) "Submission Deadline" means 1:00 P.M., New York City time, on any Auction Date, or such other time on any Auction Date as may be specified from time to time by the Auction Agent as the time prior to which each Broker-Dealer must submit to the Auction Agent in writing all Orders obtained by it for the Auction to be conducted on such Auction Date.

(x) "Submitted Bid" has the meaning set forth in subsection (C)(i) below.

(xi) "Submitted Hold Order" has the meaning set forth in subsection (C)(i) below.

(xii) "Submitted Order" has the meaning set forth in subsection (C)(i) below.

(xiii) "Submitted Sell Order" has the meaning set forth in subsection (C)(i) below.

(xiv) "Sufficient Clearing Bids" has the meaning set forth in subsection (d)(i) below.

(xv) "Winning Bid Rate" has the meaning set forth in subsection (d)(i) below.

(b) Orders by Existing Holders and Potential Holders.

(i) Prior to the Submission Deadline on each Auction Date for any Series of Auction Preferred:

(A) each Existing Holder may submit to a Broker-Dealer information as to:

(1) the number of Outstanding shares of Auction Preferred, if any, held by such Existing Holder that such Existing Holder desires to continue to hold without regard to the Applicable Rate for the next succeeding Dividend Period;

(2) the number of Outstanding shares of Auction Preferred, if any, held by such Existing Holder that such Existing Holder desires to sell, provided that the Applicable Rate for the next succeeding Dividend Period is less than the rate per annum specified by such Existing Holder; and/or

(3) the number of Outstanding shares of Auction Preferred, if any, held by such Existing Holder that such Existing Holder desires to sell without regard to the Applicable Rate for the next succeeding Dividend Period; and

(B) each Broker-Dealer, using a list of Potential Holders that shall be maintained in accordance with the provisions set forth in the Broker-Dealer Agreement for the purpose of conducting a competitive Auction, shall contact both Existing Holders and Potential Holders, including Existing Holders with respect to an offer by any such Existing Holder to purchase additional shares of Auction Preferred, on such list to notify such Existing Holders and Potential Holders as to the length of the next Dividend Period and (i) with respect to any Short Dividend Period or Long Dividend Period, the Dividend Payment Date(s) and (ii) with respect to any Long Dividend Period, any dates before which shares of Auction Preferred may not be redeemed and any redemption premium applicable in an optional redemption and to determine the number of Outstanding shares of Auction Preferred, if any, with respect to which each such Existing Holder and each Potential Holder desires to submit an Order and each such Potential Holder offers to purchase, provided that the Applicable Rate for the next succeeding Dividend Period shall not be less than the rate per annum specified by such Potential Holder.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (A) or (B) of this Subsection (b)(i) is hereinafter referred to as an "Order" and each Existing Holder and each Potential Holder placing an Order is hereinafter referred to as a "Bidder;" an Order containing the information referred to in clause (A)(1) of this Subsection (b)(i) is hereinafter referred to as a "Hold Order;" an Order containing the information referred to in clause (A)(2) or (B) of this Subsection (b)(i) is hereinafter referred to as a "Bid;" and an Order containing the information referred to in clause (A)(3) of this Subsection (b)(i) is hereinafter referred to as a "Sell Order".

(ii) (A) A Bid by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the number of Outstanding shares of Auction Preferred specified in such Bid if the Applicable Rate determined on such Auction Date shall be less than the rate per annum specified in such Bid; or

(2) such number or a lesser number of Outstanding shares of Auction Preferred to be determined as set forth in Subsections (e)(i)(D) and (e)(iii) if the Applicable Rate determined on such Auction Date shall be equal to the rate per annum specified therein; or

(3) a lesser number of Outstanding shares of Auction Preferred to be determined as set forth in Subsections (e)(ii)(C) and (e)(iii) if such specified rate per annum shall be higher than the Maximum Applicable Rate and Sufficient Clearing Bids do not exist.

(B) a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the number of Outstanding shares of Auction Preferred specified in such Sell Order; or

(2) such number or a lesser number of Outstanding shares of Auction Preferred to be determined as set forth in Subsections (e)(ii)(C) and (e)(iii) if Sufficient Clearing Bids do not exist.

(C) a Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

(1) the number of Outstanding shares of Auction Preferred specified in such Bid if the Applicable Rate determined on such Auction Date shall be higher than the rate per annum specified in such Bid; or

(2) such number or a lesser number of Outstanding shares of Auction Preferred to be determined as set forth in Subsections (e)(i)(E) and (e)(iv) if the Applicable Rate determined on such Auction Date shall be equal to the rate per annum specified therein.

(c) Submission of Orders by Broker-Dealers to Auction Agent.

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date for any Series of Auction Preferred all Orders obtained by such Broker-Dealer specifying with respect to each Order:

(A) the name of the Bidder placing such Order;

(B) the aggregate number of Outstanding shares of Auction Preferred that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Holder:

(1) the number of Outstanding shares of Auction Preferred, if any, subject to any Hold Order placed by such Existing Holder;

(2) the number of Outstanding shares of Auction Preferred, if any, subject to any Bid placed by such Existing Holder and the rate per annum specified in such Bid; and

(3) the number of Outstanding shares of Auction Preferred, if any, subject to any Sell Order placed by such Existing Holder; and

(D) to the extent such Bidder is a Potential Holder, the rate per annum specified in such Potential Holder's Bid.

(Each "Hold Order", "Bid" or "Sell Order" as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order", a "Submitted Bid" or a "Submitted Sell Order", as the case may be, or as a "Submitted Order".)

(ii) If any rate per annum specified in any Submitted Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.

(iii) If one or more Orders covering in the aggregate all of the Outstanding shares of Auction Preferred held by an Existing Holder are not submitted to the Auction Agent prior to the Submission Deadline for any reason (including the failure of a Broker-Dealer to contact such Existing Holder or to submit such Existing Holder's Order or Orders), such Existing Holder shall be deemed to have submitted a Hold Order covering the number of Outstanding shares of Auction Preferred held by such Existing Holder that are not subject to Orders submitted to the Auction Agent.

(iv) A Submitted Order or Submitted Orders of an Existing Holder that cover in the aggregate more than the number of Outstanding shares of Auction Preferred held by such Existing Holder will be considered valid in the following order of priority:

(A) any Submitted Hold Order of such Existing Holder will be considered valid up to and including the number of Outstanding shares of Auction Preferred held by such Existing Holder, provided that, if there is more than one such Submitted Hold Order and the aggregate number of shares of Auction Preferred subject to such Submitted Hold Orders exceeds the number of Outstanding shares of Auction Preferred held by such Existing Holder, the number of shares of Auction Preferred subject to each of such Submitted Hold Orders will be reduced pro rata so that such Submitted Hold Orders in the aggregate will cover exactly the number of Outstanding shares of Auction Preferred held by such Existing Holder;

(B) any Submitted Bids of such Existing Holder will be considered valid (in the ascending order of their respective rates per annum if there is more than one Submitted Bid of such Existing Holder) for the number of Outstanding shares of Auction Preferred held by such Existing Holder equal to the difference between (i) the number of Outstanding shares of Auction Preferred held by such Existing Holder and (ii) the number of Outstanding shares of Auction Preferred subject to any Submitted Hold Order of such Existing Holder referred to in clause (iv)(A) above (and, if more than one Submitted Bid of such Existing Holder specifies the same rate per annum and together they cover more than the remaining number of shares of Auction Preferred that can be the subject of valid Submitted Bids of such Existing Holder after application of clause (iv)(A) above and of the foregoing portion of this clause (iv)(B) to any Submitted Bid or Submitted Bids of such Existing Holder specifying a lower rate or rates per annum, the number of shares of Auction Preferred subject to each of such Submitted Bids specifying the same rate per annum will be reduced pro rata so that such Submitted Bids, in the aggregate, cover exactly such remaining number of Outstanding shares of Auction Preferred of such Existing Holder).

(C) any Submitted Sell Order of an Existing Holder will be considered valid up to and including the excess of the number of Outstanding shares of Auction Preferred held by such Existing Holder over the sum of (a) the number of shares of Auction Preferred subject to Submitted Hold Orders by such Existing Holder referred to in clause (iv)(A) above and (b)

the number of shares of Auction Preferred subject to valid Submitted Bids by such Existing Holder referred to in clause (iv)(B) above; provided that, if there is more than one Submitted Sell Order of such Existing Holder and the number of shares of Auction Preferred subject to such Submitted Sell Orders is greater than such excess, the number of shares of Auction Preferred subject to each of such Submitted Sell Orders will be reduced pro rata so that such Submitted Sell Orders, in the aggregate, will cover exactly the number of shares of Auction Preferred equal to such excess.

The number of Outstanding shares of Auction Preferred, if any, subject to Submitted Bids of such Existing Holder not valid under clause (iv)(B) above shall be treated as the subject of a Submitted Bid by a Potential Holder at the rate per annum specified in such Submitted Bids.

(v) If there is more than one Submitted Bid by any Potential Holder in any Auction, each such Submitted Bid shall be considered a separate Submitted Bid with respect to the rate per annum and number of shares of Auction Preferred specified therein.

(d) Determination of Sufficient Clearing Bids, Winning Bid Rate and Applicable Rate.

(i) Not earlier than the Submission Deadline on each Auction Date for any Series of Auction Preferred, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers and shall determine:

(A) the excess of the total number of Outstanding shares of Auction Preferred over the number of shares of Auction Preferred that are the subject of Submitted Hold Orders (such excess being hereinafter referred to as the "Available Shares of Auction Preferred");

(B) from the Submitted Orders, whether the number of Outstanding shares of Auction Preferred that are the subject of Submitted Bids by Potential Holders specifying one or more rates per annum equal to or lower than the Maximum Applicable Rate exceeds or is equal to the sum of:

(1) the number of Outstanding shares of Auction Preferred that are the subject of Submitted Bids by Existing Holders specifying one or more rates per annum higher than the Maximum Applicable Rate, and

(2) the number of Outstanding shares of Auction Preferred that are subject to Submitted Sell Orders.

(if such excess or such equality exists (other than because the number of Outstanding shares of Auction Preferred in clauses (1) and (2) above are each zero because all of the Outstanding shares of Auction Preferred are the subject of Submitted Hold Orders), there shall exist "Sufficient Clearing Bids" and such Submitted Bids by Potential Holders shall be hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the winning bid rate (the "Winning Bid Rate"), which shall be the lowest rate per annum specified in the Submitted Bids that if:

(1) each Submitted Bid from Existing Holders specifying the Winning Bid Rate and all other Submitted Bids from Existing Holders specifying lower rates per annum

were accepted, thus entitling such Existing Holders to continue to hold the shares of Auction Preferred that are the subject of such Submitted Bids, and

(2) each Submitted Bid from Potential Holders specifying the Winning Bid Rate and all other submitted Bids from Potential Holders specifying lower rates per annum were accepted, thus entitling such Potential Holders to purchase the shares of Auction Preferred that are the subject of such Submitted Bids, would result in such Existing Holders described in subclause (C)(1) continuing to hold an aggregate number of Outstanding shares of Auction Preferred that, when added to the number of Outstanding shares of Auction Preferred to be purchased by such Potential Holders described in subclause (C)(2), would equal or exceed the number of Available Shares of Auction Preferred.

(ii) In connection with any Auction and promptly after the Auction Agent has made the determinations pursuant to Subsection (d)(i), the Auction Agent shall advise the Corporation of the Maximum Applicable Rate and, based on such determinations, the Applicable Rate for the next succeeding Dividend Period as follows:

(A) if Sufficient Clearing Bids exist, that the Applicable Rate for the next succeeding Dividend Period shall be equal to the Winning Bid Rate;

(B) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding shares of Auction Preferred are the subject of Submitted Hold Orders), that the next succeeding Dividend Period will be a Standard Dividend Period and the Applicable Rate for the next succeeding Dividend Period determined shall be equal to the Maximum Applicable Rate for a Standard Dividend Period determined on the Business Day immediately preceding such Auction; or

(C) if all of the Outstanding shares of Auction Preferred are the subject of Submitted Hold Orders, that the Applicable Rate for the next succeeding Dividend Period shall be equal to 58% of the Applicable "AA" Composite Commercial Paper Rate, in the case of Auction Preferred with a Dividend Period of 7 to 48 days, a Standard Dividend Period or a Short Dividend Period of 183 days or less, 58% of the Applicable Treasury Bill Rate in the case of Auction Preferred with a Short Dividend Period of 184 to 364 days, or 58% of the Applicable Treasury Note Rate, in the case of Auction Preferred with a Long Dividend Period, in effect on the Auction Date.

(e) Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Shares of Auction Preferred. Based on the determinations made pursuant to Subsection (d)(i), the Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, subject to the provisions of Subsections (e)(iii) and (e)(iv), Submitted Bids and Submitted Sell Orders shall be accepted or rejected in the following order of priority and all other Submitted Bids shall be rejected:

(A) the Submitted Sell Orders of Existing Holders shall be accepted and the Submitted Bid of each of the Existing Holders specifying any rate per annum that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Holder to sell the

Outstanding shares of Auction Preferred that are the subject of such Submitted Sell Order or Submitted Bid;

(B) the Submitted Bid of each of the Existing Holders specifying any rate per annum that is lower than the Winning Bid Rate shall be accepted, thus entitling each such Existing Holder to continue to hold the Outstanding shares of Auction Preferred that are the subject of such Submitted Bid;

(C) the Submitted Bid of each of the Potential Holders specifying any rate per annum that is lower than the Winning Bid Rate shall be accepted;

(D) the Submitted Bid of each of the Existing Holders specifying a rate per annum that is equal to the Winning Bid Rate shall be accepted, thus entitling each such Existing Holder to continue to hold the Outstanding shares of Auction Preferred that are the subject of such Submitted Bid, unless the number of Outstanding shares of Auction Preferred subject to all such Submitted Bids shall be greater than the number of Outstanding shares of Auction Preferred ("Remaining Shares of Auction Preferred") equal to the excess of the Available Shares of Auction Preferred over the number of Outstanding shares of Auction Preferred subject to Submitted Bids described in Subsections (e)(i)(B) and (e)(i)(C), in which event the Submitted Bids of each such Existing Holder shall be rejected, and each such Existing Holder shall be required to sell Outstanding shares of Auction Preferred, but only in an amount equal to the difference between (1) the number of Outstanding shares of Auction Preferred then held by such Existing Holder subject to such Submitted Bid and (2) the number of shares of Auction Preferred obtained by multiplying (x) the number of Remaining Shares of Auction Preferred by (y) a fraction, the numerator of which shall be the number of Outstanding shares of Auction Preferred held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the aggregate number of Outstanding shares of Auction Preferred subject to such Submitted Bids made by all such Existing Holders that specified a rate per annum equal to the Winning Bid Rate; and

(E) the Submitted Bid of each of the Potential Holders specifying a rate per annum that is equal to the Winning Bid Rate shall be accepted, but only in an amount equal to the number of Outstanding shares of Auction Preferred obtained by multiplying (x) the difference between the Available Shares of Auction Preferred and the number of Outstanding shares of Auction Preferred subject to Submitted Bids described in Subsections (e)(i)(B), (e)(i)(C) and (e)(i)(D) by (y) a fraction, the numerator of which shall be the number of Outstanding shares of Auction Preferred subject to such Submitted Bid and the denominator of which shall be the sum of the number of Outstanding shares of Auction Preferred subject to such Submitted Bids made by all such Potential Holders that specified rates per annum equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding shares of Auction Preferred are subject to Submitted Hold Orders), subject to the provisions of Subsection (e)(iii), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids of Potential Holders shall be rejected:

(A) the Submitted Bid of each Existing Holder specifying any rate per annum that is equal to or lower than the Maximum Applicable Rate shall be accepted, thus entitling such

Existing Holder to continue to hold the Outstanding shares of Auction Preferred that are the subject of such Submitted Bid;

(B) the Submitted Bid of each Potential Holder specifying any rate per annum that is equal to or lower than the Maximum Applicable Rate shall be accepted, thus requiring such Potential Holder to purchase the Outstanding shares of Auction Preferred that are the subject of such Submitted Bid; and

(C) the Submitted Bids of each Existing Holder specifying any rate per annum that is higher than the Maximum Applicable Rate shall be rejected, thus requiring each such Existing Holder to sell the Outstanding shares of Auction Preferred that are the subject of such Submitted Bid, and the Submitted Sell Orders of each Existing Holder shall be accepted, in both cases only in an amount equal to the difference between (1) the number of Outstanding shares of Auction Preferred then held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and (2) the number of shares of Auction Preferred obtained by multiplying (x) the difference between the Available Shares of Auction Preferred and the aggregate number of Outstanding shares of Auction Preferred subject to Submitted Bids described in Subsections (e)(ii)(A) and (e)(ii)(B) by (y) a fraction, the numerator of which shall be the number of Outstanding shares of Auction Preferred held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate number of Outstanding shares of Auction Preferred subject to all such Submitted Bids and Submitted Sell Orders

(iii) If, as a result of the procedures described in Subsections (e)(i) or (e)(ii), any Existing Holder would be entitled or required to sell or any Potential Holder would be entitled or required to purchase, a fraction of a share of Auction Preferred on any Auction Date, the Auction Agent shall, in such manner as in its sole discretion it shall determine, round up or down the number of shares of Auction Preferred to be purchased or sold by any Existing Holder or Potential Holder on such Auction Date so that only whole shares of Auction Preferred will be entitled or required to be sold or purchased.

(iv) If, as a result of the procedures described in Subsection (e)(i), any Potential Holder would be entitled or required to purchase less than a whole share of Auction Preferred on any Auction Date, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate shares of Auction Preferred for purchase among Potential Holders so that only whole shares of Auction Preferred are purchased on such Auction Date by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any shares of Auction Preferred on such Auction Date.

(v) Based on the results of each Auction, the Auction Agent shall determine, with respect to each Broker-Dealer that submitted Bids or Sell Orders on behalf of Existing Holders or Potential Holders, the aggregate number of Outstanding shares of Auction Preferred to be purchased and the aggregate number of Outstanding shares of Auction Preferred to be sold by such Potential Holders and Existing Holders and, to the extent that such aggregate number of Outstanding shares of Auction Preferred to be purchased and such aggregate number of Outstanding shares of Auction Preferred to be sold differ, the Auction Agent shall determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more

sellers such Broker-Dealer shall receive, as the case may be, Outstanding shares of Auction Preferred.

SECTION 8. Auction Agent.

The Corporation shall use its best efforts to maintain, pursuant to a written agreement (the "Auction Agent Agreement"), an Auction Agent with respect to each Series of Auction Preferred, to act in accordance with the provisions set forth herein with respect to such Series.

SECTION 9. Remarketing Procedures.

(a) Determination of Dividend Periods and Dividend Rates for Remarketing MAPS. Subject to Section 3 hereof, the duration of each subsequent Dividend Period and the dividend rate for each subsequent Dividend Period with respect to any share of Remarketing Preferred will be established by a Remarketing Agent and will be conclusive and binding on the Corporation and the Holder of such share of Remarketing Preferred. Each Remarketing Agent will establish dividend rates, not in excess of the Maximum Applicable Rate, for each Dividend Period which it determines will be the lowest rate at which tendered Shares of Remarketing Preferred would be remarketed at $250,000 per share. In establishing each Dividend Period and dividend rate, each Remarketing Agent will establish Dividend Periods and dividend rates which it determines will result in the most favorable financing alternative for the Corporation based on the then-current Marketing Conditions.

(b) Remarketing; Tender for Remarketing. The following procedures shall be applicable to each share of Remarketing Preferred:

(i) The Remarketing Agent. Each Remarketing Agent shall use its best efforts, on behalf of the Holders thereof, to remarket all shares of Remarketing Preferred tendered for sale by Remarketing for which it is acting as Remarketing Agent without charge to such Holder, only at $250,000 per share, provided that no such Remarketing Agent shall be obligated to remarket such Remarketing Preferred if there shall be a material misstatement or omission in any disclosure document provided by the Corporation and used in connection with the Remarketing of such Remarketing Preferred or at any time such Remarketing Agent shall have determined that it is not advisable to remarket Remarketing Preferred by reason of: (i) a pending or proposed change in applicable tax laws, (ii) a material adverse change in the financial condition of the Corporation, (iii) a banking moratorium, (iv) domestic or international hostilities, (v) an amendment of the provisions hereof which materially and adversely changes the nature of the shares of Remarketing Preferred or the Remarketing Procedures or (vi) a Failure to Deposit. Any Remarketing Agent may, but shall not be obligated to, purchase tendered Remarketing Preferred for its own account. Should the Remarketing Agent for any share of Remarketing Preferred not succeed in Remarketing all such shares of Remarketing Preferred so tendered for Remarketing on any date, such Remarketing Agent shall select the shares of such Remarketing Preferred to be sold from those tendered pro rata. Payments in the amount of $250,000 per share of Remarketing Preferred remarketed shall be made by the Tender Agent by crediting such payments to the accounts of the Holders thereof maintained by the Tender Agent or, to the extent duly requested of the Tender Agent by Holders, by wire or other transfer in immediately available funds to their accounts with commercial banks in the United States. If for any reason a share of Remarketing Preferred is not remarketed on the date of tender, such share will be retained by its Holder. Until remarketed, each such share of Remarketing Preferred will have successive Dividend Periods of one day and will be entitled to dividends, payable on each succeeding Business Day at the Maximum Applicable Rate.

(ii) Notice of Shares of Remarketing Preferred to be Retained. Each share of Remarketing Preferred will be deemed to have been tendered for sale by Remarketing on the last day of each Dividend Period, unless the Holder thereof gives irrevocable notice to the contrary to the Remarketing Agent for such share of Remarketing Preferred or if so instructed by such Remarketing Agent, to the Tender Agent. Such notice, which may be telephonic or written, must be delivered, prior to 3:00 P.M., New York City time, on the Business Day immediately preceding the last day of a Dividend Period or on the earlier day specified in a notice, if any, mailed by the Tender Agent at the direction of such Remarketing Agent to such record holder at its address as the same appears on the Stock Books of the Corporation, which day will be a Business Day at least four Business Days after the mailing of such notice. The notice from such Holder of an election to retain shares of Remarketing Preferred shall state:

(A) the number of shares of such Remarketing Preferred held by the Securities Depository or the Remarketing Depository, and

(B) the number of such shares of Remarketing Preferred which shall be deemed not to have been so tendered.

(iii) Shares Deemed to Have Been Tendered. The failure to give notice of an election to retain any shares of Remarketing Preferred as provided in (b)(ii) above will constitute the irrevocable tender for sale by Remarketing of such shares of Remarketing Preferred. Certificates representing shares of Remarketing Preferred remarketed will be issued to the Securities Depository or the Remarketing Depository, as the case may be, irrespective of whether the certificates formerly representing such shares of Remarketing Preferred have been delivered to the Tender Agent. A Holder which has not given notice that it will retain its shares of Remarketing Preferred shall have no further rights with respect to such shares of Remarketing Preferred upon the Remarketing of such shares of Remarketing Preferred, except the right to receive any declared but unpaid dividends thereon and the proceeds of the Remarketing of such shares.

(iv) Funds for Purchase of Shares. Payments to Holders of shares of Remarketing Preferred remarketed will be made solely from the proceeds received from the purchasers of such shares in a Remarketing. Neither the Corporation, the Tender Agent nor any Remarketing Agent shall be obligated to provide funds to make payment to the holders of shares of Remarketing Preferred tendered for Remarketing.

(c) The Remarketing Process. The Remarketing process will be conducted on the following schedule and in the following manner (all times are New York City time):

The Last Business Day of a Dividend Period:* Beginning Not Later Than	
1:00 P.M	The Remarketing Agent for the shares of Remarketing Preferred will determine and, upon request, make available to all interested persons non-binding indications of Dividend Periods and dividend rates based upon then current Marketing Conditions. Each Holder may obtain a binding commitment as to the specific Dividend Period or Dividend Periods and the related Applicable Rate or Applicable Rates which will be applicable to such Holder's shares should such Holder elect to retain them.
At 3:00 P.M	Holders of shares of Remarketing Preferred will be deemed to have tendered shares of Remarketing Preferred for sale by Remarketing at $250,000 per share unless they have given contrary instructions to the Remarketing Agent for such shares of Remarketing Preferred or, if so instructed by such Remarketing Agent, to the Tender Agent.
After 3:00 P.M	The applicable Remarketing Agent will solicit and receive orders from prospective investors to purchase tendered shares of Remarketing Preferred. A purchaser, at the time of its agreement to purchase shares of Remarketing Preferred, may obtain a binding commitment as to the specific Dividend Period or Dividend Periods and the related Applicable Rate or Applicable Rates for such shares of Remarketing Preferred based upon then-current Marketing Conditions.

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* Or such other time and day as may have been specified in a notice mailed to the holders of Remarketing Preferred.

First Business Day of Next Dividend Period:

Opening of Business	The applicable Remarketing Agent will continue, if necessary, remarketing shares of Remarketing Preferred as described above.
By 1:00 P.M	The applicable Remarketing Agent will have completed Remarketing and will advise the Tender Agent as to the Applicable Rate and Dividend Period applicable to each share of Remarketing Preferred commencing a Dividend Period on that day and of any failure to remarket.
By 2:30 P.M	New Holders must deliver the purchase price as instructed by the applicable Remarketing Agent. Former Holders will be paid the proceeds of the Remarketing of their shares by the Tender Agent (upon surrender of their certificates, if applicable).

SECTION 10. The Remarketing Agent.

The Corporation will take all reasonable action necessary so that, at all times, at least one investment bank, broker, dealer or other organization qualified to remarket shares of Remarketing Preferred and to establish Dividend Periods and Applicable Rates is acting as Remarketing Agent for each share of Remarketing Preferred.

SECTION 11. Book Entry System.

(a) Shares of Preferred Stock with Dividend Periods of 7 days or longer shall be represented by a global certificate or certificates registered in the name of a nominee of the Securities Depository, as depository for such shares of Preferred Stock. Shares of Remarketing Preferred with Dividend Periods of less than 7 days shall be represented by a global certificate or certificates registered in the name of a nominee of the Remarketing Depository, as depository for such shares of Remarketing Preferred.

(b) All of the Outstanding shares of Auction Preferred of each Series shall be represented by a single certificate for each Series registered in the name of the nominee of the Securities Depository unless otherwise required by law or unless there is no Securities Depository. If there is no Securities Depository, shares of Auction Preferred shall be registered in the Stock Books in the name of the Existing Holder thereof and such Existing Holder thereupon will be entitled to receive a certificate therefor and be required to deliver a certificate therefor upon transfer or exchange thereof.

(c) Each Series of Remarketing Preferred shall be represented by a separate global security or global securities and shares of Remarketing Preferred having different Dividend Payment Dates, dividend rates, redemption provisions or Percentages, if any, shall be represented by a separate global security.

(d) Interests in shares of Preferred Stock represented by a global security will be shown on, and transfers thereof will be effected only through, records maintained by the respective depository.

(e) If the Securities Depository should resign and the Corporation not select a substitute securities depository, physical delivery of certificates shall be made in the names of designated transferees in exchange for the global security or securities held for the account of the Securities Depository.

SECTION 12. Miscellaneous.

(a) So long as the dividend rate is based on the results of an Auction or Remarketing, a Holder (i) may sell, transfer or otherwise dispose of shares of Auction Preferred only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer or to a Person that has delivered a signed copy of a Purchaser's Letter to a Broker-Dealer, and in the case of all transfers other than pursuant to Auctions, such Existing Holder of the shares of Auction Preferred, its Broker-Dealer or its Participant advises the Auction Agent of such transfer, (ii) may transfer shares of Remarketing Preferred only pursuant to a tender of such shares to the Tender Agent or to a person that has delivered a signed copy of a Purchaser's Letter to a Remarketing Agent, and in the case of all transfers of shares of Remarketing Preferred other than pursuant to a tender of such shares, the holder of the shares so transferred advises a Remarketing Agent of such transfer and (iii) unless otherwise required by law, shall have its ownership of shares of Preferred Stock maintained in book entry form by the Securities Depository or, in the case of shares of Remarketing Preferred with a Dividend Period of less than 7 days, the Remarketing Depository.

(b) Each Remarketing Agent will be required to register on a list maintained pursuant to a Remarketing Agreement a transfer of shares of Remarketing Preferred for which it is the Remarketing Agent from a holder to another person only if such transfer is made to a person that has delivered a signed copy of a Purchaser's Letter to such Remarketing Agent and if (i) such transfer is pursuant to a Remarketing or (ii) such Remarketing Agent has been notified in writing (A) by such holder of such transfer or (B) by any person that purchased or sold such Remarketing Preferred in a Remarketing of the failure of such Remarketing Preferred to be delivered or paid for, as the case may be, in connection with such Remarketing. A Remarketing Agent is not required to register a transfer of Remarketing Preferred pursuant to clause (ii) above on or prior to the Business Day immediately preceding the first day of a subsequent Dividend Period for such Remarketing Preferred unless it receives the written notice required by such clause (ii) by 3:00 P.M., New York City time, on the second Business Day preceding the first day of such subsequent Dividend Period. Such Remarketing Agent will rescind a transfer registered on such list as a result of a Remarketing if the Remarketing Agent is notified in writing of the failure of shares of Remarketing Preferred to be delivered or paid for as required. Any transfer of shares of Remarketing Preferred made in violation of the terms of a Purchaser's Letter may affect the right of the Person acquiring such shares to participate in Remarketings.

(c) (i) If the Method of determining the Dividend Rate for some or all of the Series of Preferred Stock is the Auction Method, the Corporation or any Affiliate of the Corporation may not submit for its own account a Bid or Hold Order in an Auction. If the Corporation or any Affiliate holds shares of Auction Preferred for its own account, it must submit a Sell Order in the next auction with respect to such shares. Any Broker-Dealer that is an Affiliate of the Corporation may not submit for its own account Bid Orders or Hold Orders in Auctions. If such affiliated Broker-Dealer holds shares of Auction Preferred for its own account, it must submit a Sell Order in the next Auction with respect to such shares of Auction Preferred.

(ii) The Corporation or any Affiliate of the Corporation may acquire, hold or dispose of shares of Remarketing Preferred. Subject to such limitations as the Corporation and the

Remarketing Agent may agree, it and its Affiliates will purchase shares of Remarketing Preferred, if any, during Remarketings only after 3:00 P.M. on the Business Day immediately preceding the first day of each subsequent Dividend Period and only at Applicable Rates and for Dividend Periods established by the Remarketing Agents without regard to such offers by the Corporation or its Affiliates and will tender shares of Remarketing Preferred for Remarketing only upon at least 10 days' prior notice to the Remarketing Agents; provided, however, that if the then current Dividend Period is less than 10 days, the Corporation will give notice to the Remarketing Agent on the day such Dividend Period of less than 10 days commences. In the event that the Corporation or its Affiliates purchase shares of Remarketing Preferred for their respective accounts, all shares of Remarketing Preferred tendered by other holders, including any such Remarketing Preferred owned by a Remarketing Agent, will be remarketed before the Remarketing of any such Remarketing Preferred owned by the Corporation or its Affiliates. If any shares of Remarketing Preferred tendered for Remarketing are not sold, any shares of Remarketing Preferred tendered for Remarketing by the Corporation or an Affiliate of the Corporation, up to the number of such shares not so sold, will be deemed not to have been so tendered.

(d) The purchase price of each share of Preferred Stock which is sold either through the Auction Procedures or the Remarketing Procedures shall be $250,000.

(e) If a holder of Converted Auction Preferred fails to give irrevocable notice otherwise to the Remarketing Agent for such Remarketing Preferred (or, if so instructed by such Remarketing Agent, to the Tender Agent) by no later than 3:00 P.M., New York City time, on the Business Day immediately preceding the first day of the subsequent Dividend Period applicable thereto, or such other day as is specified in a notice delivered in the manner set forth in Section 9(b)(ii), such holder will be deemed to have tendered such Converted Auction Preferred for sale by Remarketing on such Business Day.

(f) An Auction will be held in respect of each Series of Converted Remarketing Preferred on the Initial Auction Date. If a holder of Converted Remarketing Preferred does not submit an Order in such Auction, such holder will be deemed to have submitted a Sell Order in such Auction.

SECTION 13. Exclusive Remedy.

In the event that dividends are not timely declared on the shares of Preferred Stock, the exclusive remedy of Holders against the Corporation shall be as set forth in this part of Article IV (B) and in no event shall Holders of such shares have a specifically enforceable right to the declaration of dividends.

SECTION 14. Additional Terms.

(a) The Board of Directors may interpret the provisions of this part of Article IV (B) to resolve any inconsistency or ambiguity or remedy any formal defect.

(b) The headings of the various subdivisions of this part of Article IV (B) are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

(C) Except as otherwise provided by the General Corporation Law of the State of Delaware or by any resolution heretofore or hereafter adopted by the Board of Directors fixing the relative powers,

preferences and rights and the qualifications, limitations or restrictions of any additional series of Preferred Stock, the entire voting power of the shares of the Company for the election of directors and for all other purposes, as well as all other rights appertaining to shares of the Company, shall be vested exclusively in the Common Stock. Each share of Common Stock shall have one vote upon all matters to be voted on by the holders of the Common Stock, and shall be entitled to participate equally in all dividends payable with respect to the Common Stock and to share ratably, subject to the rights and preferences of any Preferred Stock, in all assets of the Company in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, or upon any distribution of the assets of the Company.

(D) 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.

V.

The Company is to have perpetual existence.

VI.

The private property of the stockholders is not to be subject to the payment of corporate debts to any extent whatever.

VII.

No holder of stock of the Company shall have any preferential right of subscription to any share of any class of stock of the Company issued or sold, or to any obligations convertible into stock of the Company, or any right of subscription to any thereof other than such, if any, as the Board of Directors in its discretion may determine, and at such prices as the Board of Directors may fix.

VIII.

The Company may use its surplus earnings or accumulated profits in the purchase or acquisition of its own capital stock from time to time as its Board of Directors shall determine, and such capital stock so purchased may, if the directors so determine, be held in the treasury of the Company as treasury stock, to be thereafter disposed of in such manner as the directors shall deem proper.

IX.

(A) Number, Election and Terms of Directors. Except as otherwise fixed by or pursuant to the provisions of Article IV hereof relating to the rights of the holders of any class or series of stock having 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 or pursuant to the by-laws. 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 shall be provided in the manner specified in the by-laws, 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.

(B) Stockholder Nomination of Director Candidates. Advance notice of stockholder nominations for the election of directors shall be given in the manner provided in the by-laws.

(C) Newly Created Directorships and Vacancies. Except as otherwise provided for or fixed by or pursuant to the provisions of Article IV hereof 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 increase in the number of directors and 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.

(D) 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 stock entitled to vote generally in the election of directors, voting together as a single class.

(E) Amendment, Repeal, Etc. Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least 66 2/3% 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, shall be required to alter, amend, adopt any provision inconsistent with or repeal this Article IX.

X.

In furtherance, and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized:

(A) to fix in the by-laws from time to time the number of directors of the Company, none of whom need be stockholders;

(B) to fix the amount to be reserved as working capital over and above its capital stock paid in;

(C) to borrow money and to make and issue notes, bonds, debentures, obligations and evidence of indebtedness of all kinds, with or without the privilege of conversion into stock of the Company; and also to authorize and cause to be executed mortgages and liens upon the real and personal property of the Company and conveyances of its real estate;

(D) from time to time to determine whether and to what extent, and at what times and places, and under what conditions and regulations, the accounts and books of the Company (other than the stock ledger), or any of them, shall be open to inspection of stockholders; and no stockholder shall have any right of inspecting any account book or document of the Company except as conferred by statute, unless authorized by a resolution of the stockholders or directors; and

(E) if the by-laws so provide, to designate by resolution three or more of its number to constitute an executive committee, which committee shall, for the time being, have and exercise such of the powers of the Board of Directors in the management of the business and affairs of the Company, and have power to authorize the seal of the Company to be affixed to all papers which may require it.

The Company may in its by-laws confer powers upon its directors in addition to the foregoing and in addition to the powers and authorities expressly conferred upon them by statute.

Both stockholders and directors shall have power, if the by-laws so provide, to hold their meeting and to have one or more offices within or without the State of Delaware, and to keep the books of the Company (subject to the provisions of applicable laws), outside of the State of Delaware at such places as may be from time to time designated by the Board of Directors.

XI.

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. Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least 66 2/3% 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, shall be required to alter, amend, adopt any provision inconsistent with or repeal this Article XI.

XII.

The Board of Directors shall have power to make, alter, amend and repeal the by-laws (except so far as the by-laws adopted by the stockholders shall otherwise provide). Any by-laws made by the directors under the powers conferred hereby may be altered, amended or repealed by the directors or by the stockholders. Notwithstanding the foregoing and anything contained in this Certificate of Incorporation to the contrary, Section 2 of Article I and Sections 1,2,3 and 4 of Article II of the by-laws shall not be altered, amended or repealed and no provision inconsistent therewith shall be adopted without the affirmative vote of the holders of at least 66 2/3% of the voting power of all the shares of the Company entitled to vote generally in the election of directors, voting together as a single class. Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least 66 2/3% 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, shall be required to alter, amend, adopt any provision inconsistent with or repeal this Article XII.

XIII.

(A) Vote Required for Certain Business Combinations.

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

(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 Company (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 XIII, each share of the Voting Stock shall have the number of votes granted to it pursuant to Article IV of this 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 XIII 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 XIII 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 other provision of this 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 and the Fair Market Value (as hereinafter defined) as of the date of the consummation of the Business Combination of consideration other than 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 XIII as the "Determination Date"), whichever is higher.

(b) The aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than 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 2(b) 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 or in the same form as the Interested Stockholder has previously paid for shares of such class of Voting Stock. If the Interested Stockholder has paid for shares of any class of Voting Stock with varying forms of consideration, the form of consideration for such class of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such class of Voting Stock previously acquired by it. The price determined in accordance with paragraph 2(a) and 2(b) 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 this 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 (i) on the same terms and as a result of an offer made generally to all holders of Common Stock or (ii) pursuant to statutory appraisal right.

(D) Certain Definitions. For the purposes of this Article XIII:

(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 C, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of paragraph 3 of this Section C 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 March 1, 1984.

(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 C, 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 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 the Board of Directors in good faith.

(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 XIII.

(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 Stocks, 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 XIII, 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 XIII.

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

(G) Amendment, Repeal, etc. Notwithstanding any other provisions of this Certificate of Incorporation or the by-laws (and notwithstanding the fact that a lesser percentage may be specified by law, this Certificate of Incorporation or the by-laws) the affirmative vote of the holders of 80% or more of the outstanding Voting Stock, voting together as a single class, shall be required to amend or repeal, or adopt any provisions inconsistent with this Article XIII.

XIV.

A director of the Company shall not be liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the Delaware General Corporation Law as the same exists or may hereafter be amended.

Any repeal or modification of the foregoing paragraph by the stockholders of the Company shall not adversely affect any right or protection of a director of the Company existing at the time of such repeal or modification.

XV.

The Company reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by this Certificate of Incorporation or statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

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 fourth Tuesday in April of each year at 2:00 P.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 662/3% of the combined voting power of the then outstanding shares of stock 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, the Chairman of the Board, the President, and the Treasurer shall each have the authority to 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 and the Fair Market Value (as hereinafter defined) as of the date of the consummation of the Business Combination of consideration other than 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 and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than 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 or in the same form as the Interested Stockholder has previously paid for shares of any class of Voting Stock. If the Interested Stockholder has paid for shares of any class of Voting Stock with varying forms of consideration, the form of consideration for such class of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such Class of Voting Stock previously acquired by it. 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.

EXHIBIT 10(iii)(a)

FORM OF
SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT ("Agreement") is entered into on December 17, 1998 by and between TEXACO INC. ("Company"), its subsidiaries and affiliates (The Company, its subsidiaries and affiliates shall be referred to herein as "Texaco"), and ______________________________________ ("Employee").

WHEREAS, the Company believes that it is in the best interest of the Company and its stockholders to encourage the continuous employment of key management;

WHEREAS, the Company believes that in the event of a Change of Control of the Company, as defined herein, ("Change of Control") its executives should remain free of personal financial and employment uncertainty and continue to assess each business proposition on its merits based on what is best for the Company's stockholders.

WHEREAS, although a change of control in the Company is not contemplated, the Company has determined that appropriate steps should be taken to encourage continued dedication of its key management employees.

NOW, THEREFORE, for good and valuable consideration the Employee and the Company agree as follows:

1. Term of Agreement. The term of this Agreement shall commence on the date first set forth above and shall continue in effect through December 31, 2001; provided however, on January 1, 2000 and each January 1 thereafter the term of this Agreement shall automatically be extended for an additional one-year term, unless the Company's Board of Directors ("Board") agree by an affirmative vote not to extend the agreement; provided further, that if there is a Change of Control prior to the expiration of any original or extended term, this Agreement may not be terminated and shall remain in full force and effect for 36 months beyond the month in which such Change in Control of the Company occurred; provided further that the term of this Agreement shall automatically expire upon the first day of the month immediately following the Employee's 65th birthday.

2. Change of Control. A Change of Control is considered to have occurred if:

(a) At any time during the period of two consecutive years, at least a majority of the entire Board does not consist of Incumbent Directors; (Incumbent Directors is defined as individuals who were directors of the Company at the beginning of this two-year period or who subsequently become directors of the Company and whose election or nomination for election by the Company's stockholders was approved by a vote of the majority of the "Incumbent Directors.")

(b) At any time during any 12-month period the individuals who are directors of the Company at the beginning of the 12-month period cease to

constitute at least a majority of the Board other than due to death, disability or mandatory retirement; or

(c) Any individual, firm, corporation, partnership, or other entity, other than the Company, employee benefit plan of the Company, or any entity organized, appointed or established by the Company, becomes a Beneficial Owner of securities of the Company representing 25% or more of the combined voting power of the then outstanding securities of the Company; or

(d) The shareholders of the Company, determined prior to a merger or corporate combination, do not own 55% or more of the merged or combined entity.

3. Eligibility. The Employee will be entitled to the benefits set forth in this Agreement from the date of first contact by a party, or a party's representative, with Texaco which results in a Change of Control involving that party or its affiliate, as may be disclosed in Form 14d-1 filed with the Securities Exchange Commission and up to 36 months after a Change of Control of the Company, either of the following occurs:

(a) The Employee's employment is terminated without Just Cause. Termination for Just Cause means that the Employee's employment with Texaco is terminated due to the Employee's engaging in willful and continued misconduct, or to the Employee's willful and continued failure to substantially perform his or her duties with Texaco (other than due to physical or mental disability, illness, etc.), if such failure or misconduct is materially damaging or materially detrimental to the business and operations of Texaco, provided that the Employee shall have received written notice of such failure or misconduct and shall have continued to engage in such failure or misconduct after thirty (30) days following receipt of such notice from the Board, which notice specifically identifies the manner in which the Board believes that the Employee has

engaged in such failure or misconduct. For purposes of this subsection, no act, or failure to act, on the employee's part shall be deemed willful unless done, or omitted to be done, by the Employee not in good faith and without reasonable belief that the Employee's action or omission was in the best interest of Texaco. Notwithstanding the foregoing, the Employee shall not be deemed to have been terminated for Just Cause under this Agreement unless and until there shall have been delivered to the Employee a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to the Employee and an opportunity for the Employee, together with his or her counsel, to be heard before the Board), finding that in the good faith opinion of the Board the Employee failed to substantially perform his or her duties or of misconduct in accordance with the first sentence of this subsection, and of continuing such failure to substantially perform the

Employee's duties or misconduct as aforesaid after notice from the Board, and specifying the particulars thereof in detail; or

(b) The Employee resigns for Good Reason. The Employee will be deemed to resign for Good Reason if he or she resigns within 60 days after:

(i) a reduction in the Employee's Base Pay (as defined in Section 4);

(ii) a reduction in the Employee's cash bonus in excess of 20% of the prior year's award (unless the reduction is due to Texaco's performance under the objective measurements of the Company's Incentive Bonus Plan effective immediately before the Change of Control or under the objective measurements of an incentive compensation program with target bonuses and performance goals comparable to and not materially less favorable to the Employee than the targets and goals described in the Company's Incentive Bonus Plan in existence prior to the Change in Control);

(iii) the assignment of any duties inconsistent with the position in Texaco that the Employee held immediately prior to the Change of Control or a significant adverse alteration in the nature or status of the Employee's responsibilities or condition of employment from those in effect immediately prior to such Change of Control;

(iv) the failure of Texaco to continue in effect any material compensation or benefit plan in which the Employee participated immediately prior to the Change of Control, unless an equitable arrangement (embodied in an ongoing substitute or alternate plan) has been made with respect to such plan, or the failure by Texaco to continue the Employee's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Employee's participation relative to other participants, as that which existed at the time of the Change of Control, unless any such change is independently justified based on peer group practices; or

(v) being required to relocate to a work location which is 50 or more miles from the Employee's former work location, without the Employee's consent.

4. Severance Benefits. If there is a Change of Control and the Employee is terminated, within the period described in Section 3 above, without Just Cause or resigns for Good Reason, the Employee shall receive a cash payment, except as otherwise provided herein, equal to the following:

(a) Thirty-six months' Base Pay, which shall mean the monthly base salary in effect immediately before the Change of Control or, if greater, the base

salary during the year immediately before the Employee's termination without Just Cause or resignation for Good Reason; plus

(b) three times the highest cash bonus earned by the Employee in any of the five years preceding the Employee's termination date (If the Employee has not yet earned a Company bonus prior to the Change of Control, then the Employee's target bonus shall be used in this regard); plus

(c) three times the annual value of benefits earned or accrued by the Employee as a result of the Employee's participation in the following plans immediately preceding the Change of Control or immediately preceding the Employee's resignation, whichever is greater:

(1) In lieu of additional service credit under the Retirement and Supplemental Plans, a cash payment equal to 10% of the amounts determined under 4(a) and 4(b) above; plus

(2) In lieu of additional contributions to the Thrift and Supplemental Plans, a cash payment equal to 6% of the amounts determined under 4(a) above; plus

(3) If Employee is not eligible to receive a full Company contribution under (d) below, a cash payment equal to the annual Company contribution that is not payable by the Company under (d) to the Texaco Comprehensive Medical Plan (or alternate sponsored medical plan or HMO) for the Employee's elected coverage option.

(d) Retiree medical coverage under the Company-sponsored medical plan pursuant to the terms and conditions of such plan immediately prior to the Change of Control as you have attained age 45 and have at least 10 years of service. The full Company portion of the premium will be paid by the Company, if the Employee has 20 or more years of service. The Company contribution will be pro-rated downward by 5% per year between 10 and 20 years at termination of employment. In order to qualify for retiree coverage, the Employee must have been covered under a Company-sponsored medical plan immediately prior to the Change of Control or immediately prior to termination of employment. If Employee is not eligible for retiree medical, she can participate in the Company-sponsored medical plan at her own expense for three years from the date of termination (inclusive of COBRA coverage); and

(e) As Employee has reached age 45 and has at least 10 years of service, Employee will receive retiree life insurance coverage under the Company-sponsored life insurance plan pursuant to the terms and conditions of such plan immediately prior to the Change of Control. The full amount of insurance will be paid by the Company if the Employee has 20 or more years of service. Coverage will be reduced 5% per year for employees who have between 10 and 20 years of service upon termination of

employment. In order to qualify for retiree life insurance the Employee must have participated in contributory life insurance coverage immediately prior to the date of the Change of Control or immediately prior to termination of employment.

(f) Outplacement services with a nationally recognized outplacement firm, with a cost not to exceed $15,000, plus

(g) Continued participation under the terms and practices of the Company's Tax Assistance Plan for the year of termination or resignation and three calendar years immediately following.

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

5. Release. Employee will not be asked to sign a release in order to receive the benefits provided under this Agreement.

6. Payment of Benefits. The Severance Benefits provided for under Section 4(a), (b) and (c) of this Agreement, less applicable tax withholding, shall be paid by the Company to the Employee in a lump sum within 10 business days after termination or resignation.

7. Gross-up. This section will apply in the event that the Employee, or any of his beneficiaries or designees, receives payments under this Agreement or under any other plan, agreement, program, or policy that is sponsored by the Company, which are determined (as described below) to be subject to excise tax under Internal Revenue Code (IRC) section 4999 ("excess parachute payments").

(a) If it is determined that the Employee would be subject to the excise tax noted above on such excess parachute payments, the Company shall pay to the Employee within 10 days following such determination or date of payment, if later, an additional amount ("Gross-up Payment") which may be necessary to reimburse the Employee on an after-tax basis (including income, FICA and excise taxes) for any excise tax that may be imposed by the Internal Revenue Service or a court. Such determination of the existence of excess parachute payments must be made either pursuant to a written determination by the public accounting firm designated by the Company to provide tax assistance service under the Tax Assistance Plan prior to the Change of Control or such other party as may be specifically designated by the Company prior to the Change of Control, pursuant to a closing agreement made under IRC Section 7121 that is approved by the IRS and involves the Employee, or pursuant to a decision involving the

Employee by a court of competent jurisdiction. In calculating the amount of the Gross-up Payment, it shall be assumed that the Employee pays state and local income taxes at the highest marginal rate of taxation imposed by the state and locality in which the Employee resides or is employed (or both) in the calendar year in which the Gross-up Payment is to be made and pays FICA taxes on wages earned. It also shall be assumed that the Employee's income tax rate will be computed based upon the maximum effective marginal federal, state, and local income tax rates (including FICA taxes) on earned income, with such maximum effective federal rate to be computed with regard to IRC section 68, and applying any available deduction of state and local income taxes for federal income tax purposes. All such calculations shall be made by the public accounting firm or party specified in this Section in an equitable manner.

(b) Notwithstanding any other provision in this Agreement to the contrary, if it is determined by the Company's independent auditors, elected by the shareholders prior to the Change of Control, that the tax gross-up provisions in this section as they relate to the accelerated vesting of nonqualified stock options or restricted stock issued by the Company would be the sole reason precluding the use by the Company of the pooling of interests method of accounting, then the tax gross-up provisions of this section shall not apply to such nonqualified stock options or restricted stock as the case may be, unless the gross-up payment as described herein can be altered, modified or delayed to allow it to be paid without precluding the use of the pooling of interest method of accounting. The Company will make best efforts to alter, modify, or delay the payment so that the gross-up can be made.

8. Benefits under this Agreement and Similar Plans. Severance Benefits under this Agreement are made in lieu of and shall replace any benefit entitlements under the Separation Pay Plan of Texaco Inc. but are not intended to replace benefits provided under any other plan or arrangement.

9. Grantor Trust. Severance Benefits under this Agreement shall be secured by the Grantor Trust established by the Company.

10. Successors. This Agreement will be binding upon both the Company's and Employee's successors and assigns. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be deemed to be a material breach of this Agreement and shall entitle the Employee to compensation from the Company in the same amount and on the same terms as the Employee would be entitled to hereunder if he or she terminates employment following a Change of Control. For purposes of implementing the foregoing, the date on which any such succession becomes

effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

11. Enforceability. This Agreement shall inure to the benefit of and be enforceable by the Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Employee should die while any amount is still payable hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Employee's devisee, legatees or other designee or, if there is no such designee, to his or her estate.

12. Notice. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered or certified mail, return receipt requested postage prepaid, addressed to the Company or the Employee, as the case may be. All notices to the Company shall be directed to the Assistant Secretary of the Company with responsibility for executive compensation at:

Texaco Inc.
2000 Westchester Avenue
White Plains, New York 10650
Attn.: Executive Compensation Department

Notices to the Employee shall be directed to the Employee at:

Notices of address changes must be furnished to the other party in writing in accordance herewith and shall be effective only upon receipt by the other party.

13. Interpretation. Any issues with respect to the interpretation of this Agreement upon the occurrence of a Change of Control, including but not limited to the issue of eligibility, will be determined by majority vote of the Change of Control Committee. The Change of Control Committee is a committee composed of all individuals who held the offices of Chief Executive Officer, Chief Financial Officer and the Assistant Secretary of the Company with responsibility for executive compensation at any time during the 12-month period immediately before the Change of Control. The decisions reached by the Change of Control Committee with respect to all issues and questions relative to this Agreement will be final, conclusive and binding on all persons.

14. Miscellaneous. No provision of this Agreement may be modified, waived, cancelled or discharged in any way unless such waiver, modification,

cancellation or discharge is agreed to in writing and signed by the Employee and a duly authorized officer of the Company.

15. Indemnification. The Company shall pay any and all reasonable fees and expenses incurred by the Employee in seeking to obtain or enforce any rights or benefits provided by this Agreement, including, all reasonable attorney's fees and expenses, accountant's fees and expenses, and court costs that may be incurred by the Employee in pursuing a claim for payment of benefits under this Agreement, unless a Court of competent jurisdiction determines that the participant's cause of action is frivolous.

16. Severability. If any provision of this Agreement is adjudged by a court of competent jurisdiction to be void or unenforceable, the same shall in no way affect any other provision of this Agreement or the validity or enforceability of this Agreement.

17. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

18. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer, and the Employee has signed this Agreement, all as of the day and year first above written.

TEXACO INC.

Peter I. Bijur
Chairman of the Board and Chief Executive Officer

Employee

Attest:

Stephen Pennacchio
Assistant Secretary

EXHIBIT 10(iii)(b)

December 30, 1997

Mr. John J. O'Connor

Dear John:

We are delighted that you are joining us at Texaco Inc. ("Texaco"). This letter sets forth terms and conditions which you and Texaco have agreed to in connection with your employment by Texaco.

1. Term of Employment.

Your employment under this Agreement shall be effective January 1, 1998 and shall continue until terminated in accordance with Section 4 below. Notwithstanding the foregoing, your continuous service date for the following Texaco benefit plans: Vacation, Short Term Disability, Long Term Disability and Separation Pay will be January 1, 1978.

2. Duties and Responsibilities.

(a) Texaco will employ you initially as Senior Vice President & President of Worldwide Exploration & Production. In such capacity, you shall perform the customary duties and have the customary responsibilities of such position in the employ of Texaco and such other duties as may be assigned to you from time to time by the Chief Executive Officer or his designee.

(b) You agree to faithfully serve Texaco, devote your full working time, attention and energies to the business of Texaco, its subsidiaries and affiliated entities, and perform the duties under this Agreement to the best of your abilities. You may also perform inconsequential services without direct compensation in connection with charitable or civic organizations.

(c) You agree (i) to comply with all applicable laws, rules and regulations, and all requirements of all applicable regulatory, self-regulatory, and administrative bodies; (ii) to comply with Texaco's rules, procedures, policies, requirements, and directions; and (iii) not to engage in any other business or employment without the written consent of Texaco except as otherwise specifically provided herein.

3. Compensation and Benefits.

(a) Base Salary. Texaco will pay you a base salary at the initial annual rate of $450,000 per year ("Base Salary"), which will be payable in accordance with Texaco's standard practice for elected officers. Thereafter, modifications, if any, to your Base Salary will be determined by the

Compensation Committee of the Board of Directors, or any body or person authorized to do so, at such times and in such manner as is consistent with Texaco's standard practice for elected officers.

(b) Benefit Plans and Fringe Benefits. Except as otherwise provided

herein, during your employment with Texaco, you shall participate in each of Texaco's existing executive and employee benefit plans, policies or arrangements pursuant to their terms, including the Relocation Plan when you decide to move your family from Virginia, and any such plans, policies or arrangements that Texaco may maintain or establish during your period of employment (in addition to or in substitution for any existing plan) and to receive all fringe benefits for which your position grade makes you eligible in accordance with Texaco's usual policies and in accordance with the terms and provisions of each such plan, policy, or arrangement, including, without limitation, those listed on Appendix A attached to this Agreement. Any modifications, deletions or additions to any of these plans will apply to you as they apply to all executives in the same position grade as you.

(c) Expense Reimbursement. Texaco shall promptly pay, or reimburse you for, all reasonable and necessary business expenses incurred by you in the performance of your duties hereunder, provided that you properly account for them in accordance with Texaco's standard policy for officers.

(d) Stock Incentive Plan. Texaco believes that ownership of the common

stock by officers and other employees having substantial responsibilities as to the conduct and development of Texaco's business is important for the welfare of the stockholders. Texaco common stock provides officers and other employees with: an alignment with the interests of stockholders; and a significant incentive to use their best efforts for Texaco's long-term success. Accordingly, on the date of your employment, you will be granted 37,996 Stock Options and 5,428 Performance Restricted Shares. These options and shares will be subject to the terms and conditions of the Stock Incentive Plan and an

agreement to that effect will be executed by you and Texaco to evidence this grant.

4. Termination of Employment.

Your employment hereunder may be terminated under the following circumstances:

(a) Death or Total Disability. Your employment hereunder shall terminate upon your death or your becoming Totally Disabled. For purposes of this Agreement, you shall be "Totally Disabled" as of the date you become entitled to receive disability benefits under Texaco's long-term disability plan.

(b) Termination by Texaco for Cause. Texaco may terminate your employment hereunder for "Cause" at any time by providing written notice to you.

(i) For purposes of this Agreement, the term "Cause" shall mean any of the following:

(A) the transfer by you of confidential business information of any type concerning Texaco to a competitor of Texaco for compensation;

(B) commission of an act by you in the course of your employment with Texaco which constitutes dishonesty, or conduct adverse to the best interests of the Company or its subsidiaries and affiliates, or conduct in violation of Company policy and causes material harm to Texaco;

(C) any conduct for which you are convicted of intentionally and knowingly committing a crime against Texaco under federal law or the law of the state in which such action occurred;

(D) conviction of a crime (including conviction on a nolo contendere plea) involving a felony;

(E) deliberate and continual refusal to perform employment duties reasonably requested by Texaco or an affiliate after thirty (30) days' written notice by certified mail of such failure to perform, specifying that the failure constitutes Cause (other than as a result of vacation, sickness, illness or injury);

(F) fraud or embezzlement determined in accordance with Texaco's normal, internal audit procedures;

(G) gross misconduct or gross negligence in connection with the business of Texaco or any affiliate which has substantial effect on Texaco or the affiliate; or

(H) breach of any of the covenants set forth in Section 6 below.

(ii) You will be considered to have been terminated for Cause if Texaco determines that you engaged in an act constituting Cause. Any such determination shall be made by the Chief Executive Officer.

(c) Termination by Texaco without Cause. Texaco may terminate your employment hereunder without Cause at any time after providing thirty (30) days written notice to you.

(d) Voluntary Termination by You. You may terminate employment hereunder at any time after providing thirty (30) days written notice to Texaco.

5. Compensation Following Termination of Employment.

(a) Upon termination of employment for any reason, you (or your beneficiary or estate, as the case may be) will be entitled to receive (i) any accrued but unpaid Base Salary for services rendered to the date of termination as determined pursuant to Section 3(a), (ii) any incurred but unpaid expenses required to be reimbursed pursuant to Section 3(c), and (iii) any vacation accrued but unused to the date of termination. The benefits to which you may be entitled upon termination pursuant to the plans, policies, and arrangements referred to in Section 3(b) hereof shall be determined and paid in accordance with the terms of such plans, policies, and arrangements.

(b) Except as otherwise provided in this Agreement, or under the terms of any incentive compensation, employee benefit, or fringe benefit plan applicable to you at the time of your termination or resignation of employment, you shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation.

Texaco shall have the right to discontinue any or all remaining payment and/or benefits if Texaco determines that there were actions on your part which would have warranted termination for Cause under this Agreement.

6. Restrictive Covenants.

(a) Protected Information. You recognize and acknowledge that you will

have access to various confidential or proprietary information concerning Texaco and entities affiliated with Texaco of a special and unique value which may include, without limitation, (i) books and records relating to operation, finance, accounting, sales, personnel and management, (ii) policies and matters relating particularly to operations such as exploration and producing, customer service requirements, costs of providing service and equipment, operating costs and pricing matters, and (iii) various trade or business secrets, including business opportunities, marketing or business diversification plans, business development and bidding techniques, methods and processes, financial data and the like (collectively, the "Protected Information"). You therefore covenant and agree that you will not at any time, either while employed by Texaco or afterwards, knowingly make any independent use of, or knowingly disclose to any other person or organization (except as authorized by Texaco) any of the Protected Information.

(b) Competitive Activity. You covenant and agree that at all times during your period of employment with Texaco, you will not, directly or indirectly, engage in, assist, or have any active interest or involvement [whether as an employee, agent, consultant, creditor, advisor, officer, director, stockholder (excluding holding of less than 1% of the stock of a public company), partner, proprietor or any type of principal whatsoever] in any person, firm, or business entity which, directly or indirectly, is engaged in the same business as that conducted and carried on by Texaco, without Texaco's specific written consent to do so.

(c) Non-Solicitation. You covenant and agree that for a period of one

year following termination of employment for any reason, you will not directly or indirectly (i) induce any suppliers and/or customers of Texaco or corporations affiliated with Texaco to provide services to or patronize any similar business which competes with any material business of Texaco; (ii) canvass, solicit or accept any similar business from any supplier and/or customer of Texaco or corporations affiliated with Texaco; (iii) directly or indirectly request or advise any customers of Texaco or corporations affiliated with Texaco to withdraw, curtail or cancel their business with Texaco; (iv) directly or indirectly disclose to any other person, firm or corporation the names or addresses of any of the suppliers and/or customers of Texaco or corporations affiliated with Texaco; or (v) directly or indirectly solicit or induce or assist others in soliciting or inducing any employee of Texaco to terminate his/her employment with Texaco.

(d) Non-Disparagement. You covenant and agree that during the course of your employment by Texaco or at any time thereafter, you shall not, directly or indirectly, in public or private, deprecate, impugn, disparage, or make any remarks written or verbal that would tend to or be construed to tend to defame Texaco or any of its officers or employees, members of its board of directors or agents, nor shall you assist any other person, firm or company in so doing.

(e) Return of Documents and Other Materials. You shall promptly deliver to Texaco, upon termination of your employment, or at any other time as Texaco may so request, all customer lists, leads and refunds, data processing programs and documentation, employee information, memoranda, notes, records, reports, tapes, manuals, drawings, blueprints, programs, and any other documents and other materials (and all copies thereof) relating to Texaco's business (including but not limited to exploration or producing operations activities, etc.) or that of its customers, and all property associated therewith, which you may then possess or have under your control.

7. Enforcement of Covenants.

(a) Termination of Employment and Forfeiture of Compensation. You agree that in the event that Texaco determines that you have breached any of the covenants set forth in Section 6 hereof during your employment, Texaco shall have the right to terminate your employment for Cause. Such termination of employment or discontinuance of benefits shall be in addition to and shall not limit any and all other rights and remedies that Texaco may have against you.

(b) Right to Injunction. You acknowledge that a breach of the covenants set forth in Section 6 thereof will cause irreparable damage to Texaco with respect to which Texaco's remedy at law for damages will be inadequate. Therefore, in the event of breach or anticipatory breach of the covenants set forth in this section by you, you and Texaco agree that Texaco shall be entitled to the following particular forms of relief, in addition to remedies otherwise available to it at law or equity: (i) injunctions, both preliminary and permanent, enjoining or retraining such breach or anticipatory breach and you hereby consent to the issuance thereof forthwith and without bond by any court of competent jurisdiction; and (ii) recovery of all reasonable sums expended and costs, including reasonable attorney's fees, incurred by Texaco to enforce the covenants set forth in this section.

(c) Separability of Covenants. The covenants contained in Section 6 hereof constitute a series of separate covenants, one for each applicable State in the United States and the District of Columbia, and one for each applicable foreign country. If in any judicial proceeding, a court shall hold that any of the covenants set forth in Section 6 exceed the time, geographic, or occupational limitations permitted by applicable laws, you and Texaco agree that such provisions shall and are hereby reformed to the maximum time, geographic, or occupational limitations permitted by such laws. Further, in the event a court shall hold unenforceable any of the separate covenants deemed included herein, then such unenforceable covenant or covenants shall be deemed eliminated from the provisions of this Agreement for the purpose of such proceeding to the extent necessary to permit the remaining separate covenants to be enforced in such proceeding. You and Texaco further agree that the covenants in Section 6 shall each be construed as a separate agreement independent of any other provisions of this Agreement, and

the existence o any claim or cause of action by you against Texaco whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by Texaco of any of the covenants of Section 6.

8. Arbitration of Disputes.

In the event of any dispute or disagreement arising out of or in connection with this Agreement, you and Texaco agree to submit any such dispute or disagreement or arbitration under the Employment Dispute Arbitration Rules of the American Arbitration Association. The dispute or disagreement will be submitted to a mutually agreed upon retired federal judge, or failing such agreement, to a retired federal judge appointed by the Chief Judge of the United States District Court for the Southern District of New York. The arbitration will be held in White Plains, NY. Any decision or award of said arbitrator shall be final and binding on you and Texaco. Each party will pay its own legal fees and expenses for such arbitration and share the fees and expenses of the arbitrator unless otherwise allocated by the arbitrator in the decision or award. The above shall supercede and be in lieu of any other arbitration process provided by the Company including "Solutions".

9. Waiver of Jury Trial.

In the event any controversy or claim arising out of your employment or the termination of your employment is found by a court of competent jurisdiction not to be subject to final and binding arbitration, you and Texaco agree to try such claim or controversy to the Court, without use of a jury or advisory jury. Any action shall be brought in the Supreme Court, State of New York, Westchester County or in the United States District Court for the South District of New York, White Plains Division.

10. Non-Disclosure of Agreement Terms.

You agree that you will not disclose the terms of this Agreement to any third party other than your immediate family, attorney or accountants, except as may be required by law. In the event disclosure is sought from you in response to any subpoena, or other legal process, you shall give the company reasonable notice under the circumstances in order to afford the company an opportunity to evaluate its legal rights and take such action as may be appropriate to protect the interests of the company.

11. Assignment.

Except as otherwise provided in this Section, this Agreement shall inure to the benefit of and be binding upon Texaco, its successors and assigns, and to you and your heirs, executors, administrators and legal representatives. This Agreement shall not be assignable by you, and, without your consent, shall be assignable by Texaco only to any corporation or other entity resulting from the reorganization, merger or consolidation of Texaco with any other corporation or entity or any corporation or entity to which Texaco may sell or otherwise dispose or transfer all or substantially all of its business and/or assets. Texaco will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of its business and/or assets, by agreement in form and substance satisfactory to you to expressly assume and agree to perform this Agreement in the same manner and to the same extent that Texaco would be required to perform it if no such succession had taken place. As used in this Agreement, "Texaco" shall mean Texaco and any successor to its business and/or assets as

aforesaid which executes and delivers the agreement provided for in this Section or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

12. Entire Agreement; Amendment.

This Agreement shall supersede any and all existing agreements, understandings and arrangements between you and Texaco relating to the terms and your employment; provided, however, that this Agreement shall not supersede or in any way reduce your right to receive (or Texaco's obligation to pay) benefits under any employee benefit plan, program or arrangement maintained by Texaco, including, without limitation, those plans, programs and arrangements described in Section 3 hereof. This Agreement may not be amended except by a written agreement signed by both parties.

13. Governing Law and Forum.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed in that State, without regard to its conflict of laws provisions. Any action regarding this Agreement or any term or condition of employment or employment action shall be subject to arbitration as specified in paragraph 9 of this Agreement.

14. Notices.

Any notice, consent or other communication made or given in connection with this Agreement shall be in writing and shall be deemed to have been duly given when delivered by United States registered or certified mail, return receipt requested, to the parties at the following addresses or at such other address as a party may specify by notice to the other:

To You:

John J. O'Connor
Texaco Inc.
2000 Westchester Avenue
White Plains, NY 10650

To Texaco:

Stephen Pennacchio
Texaco Inc.
2000 Westchester Avenue
White Plains, New York 10650

15. Miscellaneous.

(a) The failure of you or Texaco to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(b) Section headings are used herein for convenience of reference only and shall not affect the meanings of any provision of this Agreement.

(c) If any provision of this Agreement is invalid or unenforceable, the balance of the Agreement shall remain in effect, and if any provision is inapplicable to any circumstances, it shall nevertheless remain applicable to all other circumstances.

Since your execution of this Agreement provides for mandatory arbitration of issues arising from your employment or termination of employment and/or waiving of the right to a trial by jury, you may have at least twenty-one (21) days to consider its meaning and effect and to determine whether you wish to enter into it. During that time, you are advised to consult with anyone of your choosing, including an attorney, prior to executing this Agreement.

If you agree that this letter accurately sets forth your agreement with Texaco, please sign and date each copy of this letter in the space provided below and return one to me.

Once you have signed this Agreement, you may choose to revoke your execution within seven (7) days. Any revocation of this Agreement must be in writing and personally delivered to me, or if mailed, postmarked within seven (7) days of the date upon which it was signed by you. Texaco will not employ you pursuant to this Agreement until after the seven (7) day period expires without any revocation by you.

Sincerely,

TEXACO INC.

By: /s/ Carl B. Davidson

Accepted and Agreed to this
5th day of January 1998.

/s/ John J. O'Connor
- --------------------------
John J. O'Connor

APPENDIX A

List of Executive Incentive Plans
Section 3(b) of the Agreement

1. Comprehensive Personal Liability Insurance Program
2. Tax Assistance Plan
3. Country Club Membership
4. Annual Executive Medical Examination

EXHIBIT 10(iii)(c)

July 18, 1997

Mr. William M. Wicker

Dear Mr. Wicker:

This letter sets forth certain terms and conditions which you and Texaco Inc. ("Texaco" or "the Company") have agreed to in connection with your employment by Texaco.

1. Employment Term. Your employment is expected to commence on or about August 1,1997. You shall remain employed by Texaco for at least three years, unless earlier terminated for cause as defined in paragraph 4, under the terms and conditions set forth herein.

2. Employment and Duties. Texaco will employ you as Senior Vice President initially with responsibility for corporate development and reporting directly to the Chief Executive Officer. In this position, or any other position to which you may be elected or appointed, you agree that you shall devote substantially all of your business time and energies to the business of Texaco and shall perform such services as from time to time are assigned to you by the Board of Directors (the "Board") or the Executive Management of Texaco, i.e. the Chief Executive Officer, the President or a Vice Chairman. You shall also be a member of the Executive Council) for at least the first three years of service, or so long as that body exists if shorter than three years.

3. Compensation and Benefits.

a. Your annual base salary is initially set at $400,000 and shall be for no less during the first three years of your employment. It shall be payable in accordance with Texaco's standard practice for elected officers, and shall be determined by the Compensation Committee of the Board at such times and in such manner as is consistent with Texaco's standard practice for elected officers.

b. You shall be eligible to participate in Texaco's Incentive Bonus Plan (IBP) and Stock Incentive Plan (SIP) in accordance with their respective terms. Your target bonus for each of the performance years 1997 through 1999 shall be no less

than $280,032 the current target for Grade IV, the salary grade at your initial employment. Actual bonus paid will be determined by the performance-based IBP. Your awards under the SIP for 1998, 1999 and 2000 shall be for no less than the target award for Grade IV in each year.

c. Except as otherwise provided herein, during your employment with Texaco you shall be eligible to participate in each of Texaco's existing employee benefit plans, policies or arrangements and any such plans, policies or arrangements that Texaco may maintain or establish during your period of employment (in addition to or in substitution for any existing plan) and to receive all other benefits for which your position as a corporate officer makes you eligible in accordance with Texaco's usual policies and with the then current terms and provisions of each such plan, policy, or arrangement, including those listed on Appendix A hereto.

d. Texaco shall promptly pay, or reimburse you for, all reasonable and necessary business expenses incurred by you in the performance of your duties hereunder, provided that you properly account for them in accordance with Texaco's standard policy for elected officers.

4. The term "Cause" shall mean: "the transfer by you of confidential business information of any type concerning Texaco to a competitor of Texaco for compensation; or the commission of an act by you in the course of your employment with Texaco which constitutes fraud, dishonesty, or conduct in violation of Company policy and causes material harm to Texaco, or any conduct for which you are convicted of intentionally and knowingly committing a crime against Texaco under federal law or the law of the state in which such action occurred".

5. Texaco shall not be required to fund or otherwise segregate assets to be used for the payment of the benefits described in paragraph 3 or in any other non-qualified benefit plan, except as otherwise required by law. Texaco's obligation to pay such benefits may be satisfied only out of its general corporate funds, and, therefore, satisfaction of such obligations will be subject to any claims of Texaco's other creditors having priority as to Texaco's assets.

6. Signing Bonus. The Company believes that ownership of the Common Stock by officers and other employees having substantial responsibilities as to the conduct and development of the Company's business is important for the welfare of the stockholders. Texaco Common Stock provides officers and other employees with: an opportunity to acquire a proprietary interest in the Company; a strong mutuality of interest with stockholders; and a significant incentive to use their best efforts for the Company's long-term success. Accordingly, on the date of your employment, you will be granted, as a signing bonus, 15,834 Stock Options and 2,262 Performance Restricted Shares. These options and shares will be subject to the terms and conditions of awards under the SIP and an agreement to that effect will be executed by you and Texaco to evidence this signing bonus.

7. MD Account. Texaco recognizes that you may relinquish certain benefits under the Credit Suisse/First Boston (CS) MD Account and Savings Plan

by accepting employment with Texaco. Texaco will make you whole in 1997 for all
MD Account and

Savings Plan unvested amounts which CS does not pay to you, as determined conclusively by MD Account and Savings Plan statements delivered by CS (as of the date of your resignation from CS). The amounts shall be paid by Texaco by crediting to your account as of your first day of employment, under Texaco's existing plans, a number of fully vested deferred stock units with a value equal to the amount so forfeited.

8. Miscellaneous.

a. This Agreement and the letter agreement (the "Letter Agreement") of even date herewith between you and the Company shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed in that State.

b. Any notice, consent or other communication made or given in connection with this Agreement or the Letter Agreement shall be in writing and shall be deemed to have been duly given when delivered by United States registered or certified mail, return receipt requested, to the parties at the following addresses or at such other address as a party may specify by written notice to the other:

To You:

Mr. William M. Wicker
2000 Westchester Avenue
White Plains, NY 10650

To Texaco:

Corporate Secretary
Texaco Inc.
2000 Westchester Avenue
White Plains, NY 10650

c. This Agreement shall supersede any and all existing agreements, understandings and arrangements between you and Texaco relating to the terms of your employment; provided, however, that this Agreement shall not supersede the Letter Agreement or supersede or in any way reduce your right to receive (or Texaco's obligation to pay) benefits under any employee benefit plan, program or arrangement maintained by Texaco, including, without limitation, those plans, programs and arrangements described in paragraph 3 hereof. Neither this Agreement nor the Letter Agreement may be amended except by a written agreement signed by both parties.

d. The failure of you or Texaco to insist upon strict adherence to any term of this Agreement or the Letter Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement or the Letter Agreement.

e. Except as otherwise provided in this paragraph 8e., this Agreement and the Letter Agreement shall inure to the benefit of and be binding upon Texaco, its successors and assigns, and to you and your heirs, executors, administrators and legal

representatives. Neither this Agreement nor the Letter Agreement shall be assignable by you, and, without your consent, shall be assignable by Texaco only to any corporation or other entity resulting from the reorganization, merger or consolidation of Texaco with any other corporation or entity or any corporation or entity to which Texaco may sell all or substantially all of its business and/or assets. Texaco will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of its business and/or assets, by agreement in form and substance satisfactory to you, to expressly assume and agree to perform this Agreement and the Letter Agreement in the same manner and to the same extent that Texaco would be required to perform them if no such succession had taken place. As used in this Agreement and the Letter Agreement, "Texaco" shall mean Texaco as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this paragraph 8e. or which otherwise becomes bound by all the terms and provisions of this Agreement and the Letter Agreement by operation of law.

f. Paragraph headings are used for convenience of reference only and shall not affect the meanings of any provision of this Agreement or the Letter Agreement.

g. If any provision of this Agreement or the Letter Agreement is invalid or unenforceable, the balance of the Agreement and the Letter Agreement shall remain in effect, and if any provision is inapplicable to any circumstance, it shall nevertheless remain applicable to all other circumstances.

h. Texaco shall pay reasonable attorney's fees incurred by you in negotiating the terms of this Agreement and the Letter Agreement with Texaco.

If you agree that this letter, together with the Letter Agreement, accurately sets forth your agreement with Texaco, please sign and date each copy of this letter below in the space provided and return one to me.

Sincerely,

TEXACO INC.

By: /s/ Carl B. Davidson

Carl B. Davidson
Vice President and Secretary

Accepted and Agreed to this

6th day of August, 1997.

/s/ William M. Wicker
- ------------------------
William M. Wicker

Appendix A
List of Executive Incentive Plans

a. Comprehensive Personal Liability Insurance Program

b. Tax Assistance Plan

c. Country Club Membership

d. Executive Medical Examination

e. Home Computer

July 18, 1997

Mr. William M. Wicker

Dear Mr. Wicker:

In connection with your employment by Texaco on or about August 1,1997:

1. Unless you are earlier terminated for cause or voluntarily leave the Company, you shall be employed for no less the three years (the "Term") as a Senior Vice President at a salary no less than your starting salary.

2. Your Continuous Service Date for any Texaco-sponsored qualified or non-qualified plan for which service is a determinant for benefits shall be August 1,1989. These plans, at the present time, are: Vacation; Short-Term Disability; Long-Term Disability; Separation Pay; Retirement; and two Supplemental Pension Benefits Plans. The eight years' service credit for the Retirement Plan is to be provided by a non-qualified pension supplementation.

With reference to the Retirement and Supplemental Pension Benefits Plans, the Texaco benefits for the period August 1,1989 through July 31,1997 shall be calculated on a non-contributory basis.

If your employment is terminated at any time for "Cause" as defined in a separate letter agreement (the "Employment Letter") of this date, or if you voluntarily leave Texaco within three years of your initial employment, the eight years of service credit for the period August 1, 1989 - July 31,1997 shall be immediately forfeited in their entirety.

3. Change of Control. If, before you have completed three years of service there is a "Change of Control" ("COC"), as that term is defined in Texaco's Separation Pay Plan, at Texaco resulting in

termination of your employment or suspension/cancellation of the IBP and/or SIP, or Texaco or its successor unilaterally terminates your employment without cause or you terminate your employment following a material breach by Texaco of this Agreement or the Employment Letter, (a) you shall be entitled to receive immediately (1) a cash lump sum payment equal to the salary you would have earned during the remainder of the three-year term, less required withholding deduction for applicable taxes plus (2) IBP and SIP awards (Make-Up Awards) sufficient to put you in the position of having the equivalent of Stock Options and Performance Restricted Shares granted to you upon your initial employment plus three annual IBP and SIP awards and (b) all SIP awards then held by you or awarded pursuant to this paragraph shall become fully vested and nonforfeitable. The strike price of the stock options in such Make-Up Awards shall be the price at the date of grant used for the last SIP awards, adjusted if necessary, in accordance with the terms of the SIP, prior to the COC or termination of employment as described in this paragraph. The amount of each annual IBP award to be made up will be the average of IBP award(s) previously received by you as a Texaco employee (or, if no such awards have yet been determined, your then target award).

Sincerely,

Texaco Inc.

By: /s/ Carl B. Davidson

Carl B. Davidson
Vice President & Secretary

Accepted and Agreed to this

6th day of August,1997

/s/ William M. Wicker
- -------------------------
William M. Wicker

EXHIBIT 12.1

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, 1998
(In Millions of Dollars)

	Years Ended December 31,				
	1998	1997	1996	1995	1994
Income from continuing operations, before provision or benefit for income taxes and cumulative effect of accounting changes effective 1-1-98 and 1-1-95........	$ 892	$3,514	$3,450	$1,201	$1,409
Dividends from less than 50% owned companies more or (less) than equity in net income..............	--	(11)	(4)	1	(1)
Minority interest in net income...........................	56	68	72	54	44
Previously capitalized interest charged to income during the period..............................	22	25	27	33	29
Total earnings...................................	970	3,596	3,545	1,289	1,481
Fixed charges:					
Items charged to income:					
Interest charges....................................	664	528	551	614	594
Interest factor attributable to operating lease rentals..................................	120	112	129	110	118
Preferred stock dividends of subsidiaries guaranteed by Texaco Inc........................	33	33	35	36	31
Total items charged to income....................	817	673	715	760	743
Interest capitalized..................................	26	27	16	28	21
Interest on ESOP debt guaranteed by Texaco Inc........	3	7	10	14	14
Total fixed charges.............................	846	707	741	802	778
Earnings available for payment of fixed charges.......... (Total earnings + Total items charged to income)	$1,787	$4,269	$4,260	$2,049	$2,224
Ratio of earnings to fixed charges of Texaco on a total enterprise basis...........................	2.11	6.04	5.75	2.55	2.86

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.

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Management's Discussion and Analysis

Introduction

In 1996, the Securities and Exchange Commission (SEC) issued plain English guidelines to improve shareholder communications. In 1997, we were the first major energy company to begin writing our Management's Discussion and Analysis (MD&A) in plain English. This year we continue to expand the use of plain English.

We were the first major energy company to write our MD&A in plain English.

In the MD&A, we explain the operating results and general financial condition of our company. The MD&A begins with a table of financial highlights that provides a financial picture of the company. The remainder of our MD&A consists of four main topics: Industry Review, Results of Operations, Analysis of Income by Operating Segments and Other Items.

In the Industry Review, we discuss the economic factors that affected our industry in 1998. We also provide our near-term outlook for the industry.

In the Results of Operations, we compare and describe changes in consolidated revenues, costs, expenses and income taxes. Summary schedules, showing results before and after special items, complete this section. Special items are significant events that affect our results but are outside the scope of normal current-year operations.

In the Analysis of Income by Operating Segments, we show and discuss our operating segments: Exploration and Production (Upstream), Manufacturing, Marketing and Distribution (Downstream) and Global Gas Marketing. We also show and discuss Other Business Units and our Corporate/Non-operating results. Our discussion focuses on major business factors affecting our results.

In the Other Items section, we discuss other important items:

- Liquidity and Capital Resources: Our program to manage cash, working capital and debt and other actions that provide us financial flexibility

- Capital and Exploratory Expenditures: Our program to invest in our business, especially in projects aimed at future growth

- Environmental Matters: A discussion about our expenditures relating to protection of the environment

- New Accounting Standards: A description of new accounting standards to be adopted

- Euro Conversion: The status of our program to convert to the new euro currency

- Year 2000: The status of our program to identify and correct our computers, software and related technologies to be year 2000 compliant

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Our discussions in the MD&A and other sections of this Annual Report contain forward-looking statements that are based upon our best estimate of the trends we know about or anticipate. Actual results may be different from our estimates. We have described in our 1998 Annual Report on Form 10-K the factors that could change these forward-looking statements.

Financial Highlights

(Millions of dollars, except per share and ratio data)	1998	1997	1996
Revenues	$ 31,707	$ 46,667	$ 45,500
Income before special items and cumulative effect of accounting change	$ 894	$ 1,894	$ 1,665
Special items	(291)	770	353
Cumulative effect of accounting change	(25)	--	--
Net income	$ 578	$ 2,664	$ 2,018
Diluted income per common share (dollars)			
Income before special items and cumulative effect of accounting change	$ 1.59	$ 3.45	$ 3.03
Special items	(.55)	1.42	.65
Cumulative effect of accounting change	(.05)	--	--
Net income	$ .99	$ 4.87	$ 3.68
Cash dividends per common share (dollars)	$ 1.80	$ 1.75	$ 1.65
Total assets	$ 28,570	$ 29,600	$ 26,963
Total debt	$ 7,291	$ 6,392	$ 5,590
Stockholders' equity	$ 11,833	$ 12,766	$ 10,372
Current ratio	1.07	1.07	1.24
Return on average stockholders' equity*	4.9%	23.5%	20.4%
Return on average capital employed before special items*	6.5%	13.0%	12.8%
Return on average capital employed*	5.0%	17.3%	14.9%
Total debt to total borrowed and invested capital	36.8%	32.3%	33.6%

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

Industry Review

Introduction

Crude oil prices have a major effect on our financial performance. The price of crude oil is determined in the international market by the often complex interaction of worldwide petroleum demand and supply. In 1998, crude oil prices were driven down by several factors which influenced demand and supply. These included economic activity, weather patterns and actions of the Organization of Petroleum Exporting Countries (OPEC). For 1998, WTI crude oil prices averaged $14.39 per barrel, or about 30% below the 1997 average.

Review of 1998

In 1998, the world experienced a severe economic crisis. Global economic growth averaged a meager 1.6%, significantly below the 4% growth recorded in 1997 and 1996.

Economic activity varied widely among regions, with many Asian countries hit the hardest. Japan, the world's second-largest economy, experienced its worst downturn in the post-war period, caused by a collapse in consumer and investor confidence and severe banking problems. Several of developing Asia's key economies, including Indonesia, Hong Kong, Korea, Malaysia, Singapore and Thailand also plunged into recession, crippled by a regional financial crisis which began in July 1997.

The financial turbulence eventually spread to Russia and Latin America. Russia's economy registered a steep decline. In Latin America, the heightened financial uncertainty ultimately pushed the large Brazilian economy into recession, and slowed growth in other Latin American countries. Moreover, weak commodity prices -- attributable in part to the slowdown in Asia -- curtailed economic growth in other areas, particularly the oil producing countries of the Middle East and Africa.

In sharp contrast to the areas experiencing economic recession or stagnation, the U.S. and Western Europe enjoyed favorable economic conditions. U.S. growth remained robust as the economy benefited from lower interest rates, and Western Europe showed an improvement because of higher consumer spending.

Economic activity has a major effect on petroleum consumption. The deterioration in major portions of the global economy resulted in a substantial reduction in oil demand growth, which increased by only about 400,000 barrels per day (BPD) or 0.5% during 1998. This represents a dramatic slowing from the roughly 2 million BPD growth which occurred in both 1997 and 1996. Demand in Asia suffered the largest decline, about 500,000 BPD. This was a significant development, since growth in Asia had accounted for about half of the total worldwide increase in recent years. Moreover, warm weather at both the beginning and end of 1998 constrained oil consumption in the U.S. and Western Europe.

Crude oil prices were further weakened by significant increases in petroleum supplies early in 1998. Specifically:

- OPEC countries set new, higher production quotas in late 1997 and proceeded to exceed them

- U.N.-sanctioned crude oil exports from Iraq increased sharply

- Production from non-OPEC countries also increased

These actions led to a large increase in worldwide petroleum inventories. By mid-1998, OPEC, Mexico and a few other non-OPEC producers agreed to reduce their combined oil production by about 3 million BPD. Yet, in the face of lower demand, this attempt to improve the growing market imbalance did not prevent the slide in world oil prices. The market price of West Texas Intermediate (WTI) crude oil slipped from an average of about $16.70 per barrel in January to $11.30 per barrel during December.

ITEM 1
TEXACO'S U.S. REALIZED CRUDE OIL PRICE PER BARREL

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

- --

In addition to lower worldwide crude oil prices, warmer than normal weather and excess capacity caused natural gas prices in the U.S. to decline almost 20%.

Near-Term Outlook

We have begun to see signs of stabilization in the global economic crisis, prompted by various steps taken by the U.S. and other industrialized countries, including:

- The cutting of interest rates by the U.S. Federal Reserve and other central banks

- An increase in the International Monetary Fund's loanable resources by more than $90 billion

- A significant financial rescue package for Brazil

- Japanese banking reform legislation and implementation of fiscal measures to stimulate the economy

Although there are some preliminary indications that the troubled economies of Asia may be bottoming-out, improvements in the region could be partly offset by slower expansions in the U.S., Western Europe and Latin America. In addition, the Russian economy shows no signs of a near-term turnaround. Accordingly, we anticipate only a 1.7% increase in world economic output in 1999.

These elements point to a continued weak oil market in 1999. OPEC's production cuts are due to expire in June, and it is unsure if they will be expanded, or even extended. In the absence of additional large-volume production reductions, high worldwide petroleum inventories are likely to constrain any significant recovery in oil prices through at least mid-1999.

Results of Operations

Revenues

Our consolidated worldwide revenues were $31.7 billion in 1998, $46.7 billion in 1997 and $45.5 billion in 1996. Approximately 80% of the decrease in 1998 resulted from the accounting for Equilon, a downstream joint venture in the United States we formed in January 1998. Under accounting rules, the significant revenues of the operations we contributed to this joint venture are no longer included in our consolidated revenues. Revenues, costs and expenses of the joint venture are reported net as "equity in income of affiliates" in our income statement.

Sales Revenues -- Price/Volume Effects

Our sales revenues decreased in 1998 due to historically low commodity prices throughout our global markets. Crude oil, natural gas and refined product prices were all lower. Partly offsetting lower sales revenue due to declining prices were higher volumes. We continue to expand our production and sales volumes through successful capital investments and focused market expansion. Worldwide production in

1998 increased by 9% following an increase of 6% in 1997. These increases span our global areas of operations including the United States, the U.K. and the Partitioned Neutral Zone. Refined product sales growth included expanded activities in Latin America and Europe. We also expanded our aviation, marine and other refined product trading activities in the U.S., which are handled outside the joint ventures. Natural gas sales also grew as we expanded our marketing activities in the United States.

Other Revenues

Other revenues include our equity in the income of affiliates, income from asset sales and interest income. Results for 1998 show a decrease in other revenues. Equity in income of affiliates decreased in 1998, mostly due to a decline in Caltex' results and special charges recorded by several of our affiliates. This decline was partly offset by the inclusion of results for Equilon. Income from asset sales was also lower in 1998. In 1997 we sold a 15% interest in the U.K. North Sea Captain field and our upstream interests in Myanmar.

Costs and Expenses

Costs and expenses from operations were $30.5 billion in 1998, $42.9 billion in 1997 and $42.0 billion in 1996. Similar to the explanation of revenues, the decrease for both costs and expenses for 1998 is largely due to the equity accounting treatment for our joint venture company, Equilon. The impact of lower prices, which reduced our cost of goods sold, was partly offset by higher purchased volumes.

Special items recorded by our subsidiaries increased costs and operating expenses in 1998 by $382 million. Principal charges were for inventory valuation adjustments, asset write-downs and employee separation costs. Inventory valuation adjustments to reflect lower market prices for crude oil and refined products increased costs by $99 million.

Asset write-downs, which increased depreciation expense by $150 million, resulted from impairments primarily in our upstream operations. These and other asset impairments that we have recognized since initially applying the provisions of SFAS 121 have been driven by specific events, such as the sale of properties or downward revisions in underground reserve quantities, not changes in prices used to calculate future revenues by year. In performing our impairment reviews of assets not held for sale, we use our best judgment in estimating future cash flows. This includes our outlook of commodity prices based on our view of supply and demand forecasts and other economic indicators. Our present outlook is that prices will recover from their low levels that existed at the end of 1998. If in the future we change this view, asset impairments may result.

Employee separation costs increased our other expenses by approximately $133 million. In the fourth quarter of 1998, we announced reorganizations for several of our operations and began implementing other cost-cutting initiatives to reduce costs and improve focus in growth areas. As a result, we accrued for employee severance costs. The principal units affected were our worldwide upstream operations, our North America natural gas operations, our marketing operations in the U.K. and Brazil, our manufacturing operations in Panama, and our corporate center. We expect that the reorganizations and other initiatives will be substantially completed by the end of the first quarter of 1999. For additional information, see Note 12 to the financial statements.

Special charges in 1997 were $136 million principally for asset write-downs and royalty litigation issues, and $152 million in 1996 for employee separation and litigation matters.

Interest expense for 1998 increased due to higher average debt levels after a slight decrease in 1997.

During 1998 we kept tight control over expenses as we continued to grow our business. Our success is illustrated by the chart below.

ITEM 2
CASH EXPENSES PER BARREL

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

In 1998, we targeted about $650 million in annual pre-tax cost savings through the year 2000.

Income Taxes

Income tax expense was $98 million in 1998, $663 million in 1997 and $965 million in 1996. The decrease in 1998 is mostly due to lower income. The year 1997 included a $488 million benefit for an IRS settlement. The years 1998 and 1996 included benefits of $43 million and $188 million from the sales of interests in a subsidiary.

Income Summary Schedules

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

Income (loss)

(Millions of dollars)	1998	1997	1996
Income before special items and cumulative effect of accounting change	$ 894	$ 1,894	$ 1,665
Special items:			
Inventory valuation adjustments	(142)	--	--
Asset write-downs	(93)	(41)	--
Employee separation costs	(80)	--	(65)
Caltex reorganization	(43)	--	--
U.S. joint venture formation issues	(21)	--	--
Gains on major asset sales	20	367	194
Tax benefits on asset sales	43	--	188
Tax and other issues	25	444	36
Total special items	(291)	770	353
Income before cumulative effect of accounting change	$ 603	$ 2,664	$ 2,018

The following schedule further details our results:

Income (loss)

	Before Special Items			After Special Items		
(Millions of dollars)	1998	1997	1996	1998	1997	1996
Exploration and production						
U.S	$ 381	$ 1,038	$ 1,074	$ 301	$ 990	$ 1,074
International	172	474	466	120	807	493
Total	553	1,512	1,540	421	1,797	1,567
Manufacturing, marketing and distribution						
U.S	278	311	236	223	324	210
International	503	524	249	332	508	447
Total	781	835	485	555	832	657
Global gas marketing	(35)	(43)	34	(18)	(43)	34
Total	1,299	2,304	2,059	958	2,586	2,258
Other business units	7	5	10	7	5	10
Corporate/Non-operating	(412)	(415)	(404)	(362)	73	(250)
Income before cumulative effect of accounting change	$ 894	$ 1,894	$ 1,665	$ 603	$ 2,664	$ 2,018

Analysis of Income by Operating Segments

Upstream

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

Our upstream operations were significantly challenged in 1998, due to lower crude oil and natural gas prices. The following discussion will focus on how the low-price environment and other business factors affected our earnings. We will present our U.S. and international results and conclude our discussion with some forward-looking comments. The U.S. results include some minor Canadian operations which were sold in December 1998.

United States Upstream

(Millions of dollars, except as indicated)	1998	1997	1996
Operating income before special items	$ 381	$ 1,038	$ 1,074
Special items:			
Asset write-downs	(51)	(31)	--
Employee separation costs	(29)	--	--
Gains on major asset sales	--	26	--
Tax and other issues	--	(43)	--
Total special items	(80)	(48)	--
Operating income	$ 301	$ 990	$ 1,074
Selected Operating Data:			
Net production			
Crude oil and NGL (thousands of barrels a day)	433	396	388
Natural gas available for sale (millions of cubic feet a day)	1,679	1,706	1,675
Average realized crude price (dollars per barrel)	$ 10.60	$ 17.34	$ 17.93
Average realized natural gas price (dollars per MCF)	$ 2.00	$ 2.37	$ 2.19
Exploratory expenses (millions of dollars)	$ 257	$ 189	$ 153
Production costs (dollars per barrel)	$ 4.07	$ 3.94	$ 3.82
Return on average capital employed before special items	6.0%	21.2%	23.7%
Return on average capital employed	4.8%	20.2%	23.7%

What happened in the United States?

Business Factors

PRICES Lower prices in 1998 reduced earnings by $647 million. Our average realized crude oil price decreased 39% to $10.60 per barrel. This follows a 3% decrease in 1997. In 1998, crude oil prices plummeted to over 20 year lows in the fourth quarter. Our average realized natural gas price decreased 16% in 1998 to $2.00 per MCF. This follows an 8% increase in 1997.

PRODUCTION Our production increased 5% in 1998. This follows a 2% increase in 1997. The increases are due to the acquisition of heavy oil producer Monterey Resources in November 1997. We also had new production in the Gulf of Mexico and higher production from our Kern River field in California. These production increases more than offset natural field declines. Our production increased 5% in 1998 while the U.S. industry average decreased 3%.

ITEM 3
U.S. PRODUCTION

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

EXPLORATORY EXPENSES We expensed $257 million on exploratory activity in 1998, an increase of 36%. In 1998, we continued to focus our exploration efforts in Texas, Louisiana, California and offshore opportunities in the Gulf of Mexico. In 1997, we began spending more money in these areas, contributing to the increase over 1996.

Other Factors

Our production costs per barrel have increased over the last two years. This increase is due to higher depreciation expenses and production costs associated with the acquired Monterey properties. However, applying our enhanced oil recovery techniques to the acquired Monterey fields has reduced cash lifting costs for these properties by over $1 per barrel.

ITEM 4
U.S. PRODUCTION COSTS PER BARREL

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

Special Items

Results for 1998 included asset write-downs of $51 million for impaired properties in Louisiana and Canada and $29 million for employee separation costs.

The employee separation costs result from our announced worldwide restructuring which should be completed by the end of the first quarter of 1999. This restructuring is expected to yield significant annual cost savings.

The impaired Louisiana property represents an unsuccessful enhanced recovery project. We determined in the fourth quarter of 1998 that the carrying value of this property exceeded future undiscounted cash flows. Fair value was determined by discounting expected future cash flows. The Canadian properties were impaired following our decision in October 1998 to exit the upstream business in Canada. These properties were written down to their sales price with the sale closing in December 1998.

Results for 1997 included a charge of $31 million for asset write-downs, a gain of $26 million from the sale of gas properties in Canada and a $43 million charge for expense accruals associated with royalty and tax issues.

International Upstream

(Millions of dollars, except as indicated)	1998	1997	1996
Operating income before special items	$ 172	$ 474	$ 466
Special items:			
Asset write-downs	(42)	(10)	--
Employee separation costs	(10)	--	--
Gains on major asset sales	--	328	--
Tax and other issues	--	15	27
Total special items	(52)	333	27
Operating income	$ 120	$ 807	$ 493
Selected Operating Data:			
Net production			
Crude oil and NGL (thousands of barrels a day)	497	437	399
Natural gas available for sale (millions of cubic feet a day)	548	471	382
Average realized crude price (dollars per barrel)	$ 11.20	$ 17.64	$ 19.55
Average realized natural gas price (dollars per MCF)	$ 1.62	$ 1.66	$ 1.79
Exploratory expenses (millions of dollars)	$ 204	$ 282	$ 226
Production costs (dollars per barrel)	$ 3.74	$ 4.30	$ 4.47
Return on average capital employed before special items	5.5%	17.9%	19.1%
Return on average capital employed	3.9%	30.5%	20.2%

WHAT HAPPENED IN THE INTERNATIONAL AREAS?

Business Factors

PRICES Lower prices reduced 1998 earnings by $503 million. Our average realized crude oil price decreased 37% to $11.20 per barrel. This follows a 10% decrease in 1997. This trend of lower prices began in late 1997 and continued throughout 1998 with prices dropping to over 20 year lows in the fourth quarter. Our average realized natural gas price decreased 2% in 1998 to $1.62 per MCF. This follows a 7% decrease in 1997.

PRODUCTION Our production had double-digit growth over the last two years. The 1998 increase is attributable to a full year's production in the U.K. North Sea from the Captain and Erskine fields and new production from the Galley field. Combined production from these fields averaged 78 thousand barrels-of-oil-equivalent per day in 1998. Production also grew in the Partitioned Neutral Zone and Indonesia. Our natural gas production at the Dolphin field in Trinidad and from the Chuchupa field offshore Colombia also contributed to our production growth over the last two years. Our 1998 production increased 14% following an 11% increase in 1997.

ITEM 5
INTERNATIONAL PRODUCTION

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

- --

EXPLORATORY EXPENSES We expensed $204 million on exploration activity in 1998, a decrease of 28%. During the last half of 1998 we slowed activities in the Far East. However, we continued our initiatives to increase future production as we focused on new prospects in the U.K. North Sea and West Africa.

ITEM 6
INTERNATIONAL EXPLORATORY EXPENSES

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

- --

Other Factors

Our production costs per barrel for 1998 were $3.74, down 13%. As we raised production and maintained control of expenses, our costs per barrel decreased.

Operating results included non-cash currency translation effects. Years 1998 and 1996 included charges of $2 million and $38 million while 1997 included a benefit of $21 million. These effects are derived from our British pound deferred income tax liability. When the pound strengthens against the U.S. dollar, we recognize a charge and when the pound weakens we experience a benefit.

ITEM 7
INTERNATIONAL PRODUCTION COSTS PER BARREL

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

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Special Items

Results for 1998 included a write-down of $42 million for the impairment of our investment in the Strathspey field in the U.K. North Sea and employee separation costs of $10 million from an announced restructuring which is expected to yield annual cost savings.

The Strathspey impairment was caused by a downward revision in the fourth quarter of 1998 of the estimated volume of the field's proved reserves. Fair value was determined by discounting expected future cash flows.

Results for 1997 included a $10 million charge for asset write-downs and gains on asset sales of $328 million. These sales included a 15% interest in the Captain field in the U.K. and investments in an Australian pipeline system and the company's Myanmar operations. Also, 1997 included a $15 million prior period tax benefit. Results for 1996 included a non-cash gain of $27 million for a Danish deferred tax benefit.

LOOKING FORWARD IN THE WORLDWIDE UPSTREAM

We will continue to cost-effectively explore for, develop and produce crude oil and natural gas reserves. Our areas of focus include:

- The Gulf of Mexico where we hold a significant inventory of valuable exploration and development acreage

- Areas rich in heavy oil reserves, where we will apply our world class enhanced oil recovery techniques

- In the U.K. North Sea, where several fields are slated to phase in production in the years 1999 - 2001

- In Kazakhstan, where we have a 20% interest in the Karachaganak oil and gas field

- In West Africa, where we recently announced a major oil discovery offshore Nigeria, and in Latin America

We expect $200 million in annual pre-tax cost savings from our recent upstream restructuring.

Downstream

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

Our U.S. downstream includes operations in the Equilon area and the Motiva area. The Equilon area includes western and midwestern refining and marketing operations, and nationwide trading, transportation and lubricants activities. Our 1998 results in this area are our share of the earnings of our joint venture with Shell, named Equilon, which began operations on January 1, 1998. We have a 44% interest in Equilon. Results for 1997 and 1996 are for our subsidiary operations in this same area. The Motiva area includes eastern and Gulf Coast refining and marketing operations. Our 1998 results are, for the last half of the year, our share of the earnings of our joint venture with Shell and Saudi Refining, Inc., named Motiva, which began operations on July 1, 1998. We have a 32.5% interest in Motiva. Results for the first half of 1998 and the years 1997 and 1996 are for our share of our joint venture with Saudi Refining, Inc., named Star. We had a 50% interest in Star.

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

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

We will present our U.S. and international results and conclude our discussion with some forward-looking comments.

United States Downstream

(Millions of dollars, except as indicated)	1998	1997	1996
Operating income before special items	$ 278	$ 311	$ 236
Special items:			
Inventory valuation adjustments	(34)	--	--
Employee separation costs	--	--	(1)
U.S. joint venture formation issues	(21)	--	--
Gains (losses) on major asset sales	--	13	(25)
Total special items	(55)	13	(26)
Operating income	$ 223	$ 324	$ 210
Selected Operating Data:			
Refinery input (thousands of barrels a day)	698	747	724
Refined product sales (thousands of barrels a day)	1,203	1,022	1,036
Return on average capital employed before special items	9.6%	9.8%	7.4%
Return on average capital employed	7.7%	10.2%	6.6%

WHAT HAPPENED IN THE UNITED STATES?

Equilon Area These operations contributed 79% of our 1998 operating income before special items. The 1998 earnings were flat when compared with 1997. Strong transportation and lubricants earnings as well as cost and expense reductions were offset by the effects of significant downtime at certain refineries, lower margins and interest expense. Refined product sales volumes increased. This includes a 4% growth in Texaco branded gasoline sales. We achieved higher results for 1997 from improved refining margins, better run-rates at our refineries and effective cost cutting. In 1996, increased crude oil costs late in the year sent margins downward from a second quarter peak.

Motiva Area These operations contributed 21% of our 1998 operating income before special items. The 1998 earnings were lower due to refinery downtime coupled with lower refining margins. Refined product sales were higher as a result of our new joint venture and an increase in Texaco branded gasoline sales of 2%. The year 1997 benefited from improved Gulf Coast refining margins while 1996 earnings were adversely affected by refinery disruptions that lowered yields.

Special Items Results for 1998 included a charge for inventory valuation adjustments of $34 million to reflect lower market prices for crude oil and refined products and a net charge of $21 million for U.S. alliance formation issues. This net charge includes charges of $52 million for employee separations and $45 million for asset write-downs of closed facilities and surplus equipment and other expenses. Also included in other net charges were gains of $76 million for the Federal Trade Commission-mandated sales of the Anacortes refinery and Plantation pipeline. Results for 1997 included a gain of $13 million from the sale of our credit card business. Results for 1996 included charges of $26 million primarily related to the sale of a propylene oxide/methyl tertiary butyl ether (PO/MTBE) manufacturing site in Texas.

International Downstream

(Millions of dollars, except as indicated)	1998	1997	1996
Operating income before special items	$ 503	$ 524	$ 249
Special items:			
Inventory valuation adjustments	(108)	--	--
Employee separation costs	(20)	--	(21)
Caltex reorganization	(43)	--	--
Gains on major asset sales	--	--	219
Tax and other issues	--	(16)	--
Total special items	(171)	(16)	198
Operating income	$ 332	$ 508	$ 447
Selected Operating Data:			
Refinery input (thousands of barrels a day)	832	804	762
Refined product sales (thousands of barrels a day)	1,685	1,563	1,552
Return on average capital employed before special items	8.1%	8.9%	4.5%
Return on average capital employed	5.3%	8.7%	8.0%

WHAT HAPPENED IN THE INTERNATIONAL AREAS?

Latin America and West Africa Our operations in Latin America and West Africa contributed 63% of 1998 operating income before special items. Refined product sales volumes increased due to service station acquisitions and the expansion of our industrial customer base. We also realized improved refinery operations in Panama. In 1997, earnings increased due to higher refining margins and a growth in product sales volumes.

Europe Our European operations contributed 25% of 1998 operating income before special items. Earnings increased significantly from improved refining and marketing margins. Additionally, we grew our refined product sales volumes by increasing retail outlets and obtaining new commercial business. In 1997, earnings increased as general industry conditions improved from the historically low levels experienced in 1996.

Results for 1998 and 1996 included non-cash currency charges of $3 million and $20 million related to deferred income taxes that are denominated in British pounds while 1997 had a $7 million benefit.

Caltex Our Caltex operations contributed 9% of 1998 operating income before special items. In 1998, our share of Caltex' results was $163 million lower. The dramatic earnings decline was due to currency-related losses in 1998 versus gains in 1997. The year-to-year earnings decline due to currency effects was $204 million. Excluding currency effects, Caltex' results in 1998 improved as both margins and volumes were higher. This improvement was accomplished in spite of the economic downturn experienced by many Asian economies. Our share of Caltex' results in 1997, excluding currency-related gains of $101 million, was basically unchanged from 1996. Strong operational results in the first nine months of 1997 eroded in the fourth quarter due to the economic crisis in Southeast Asia.

In the Caltex area, most of our operations have a net liability exposure which creates currency losses when foreign currencies strengthen against the U.S. dollar and currency gains when these currencies weaken against the U.S. dollar. Effective October 1, 1997, Caltex changed the functional currency used to account for operations in Korea and Japan to the U.S. dollar.

ITEM 8
INTERNATIONAL REFINERY INPUT

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

Special Items Results for 1998 included a charge for inventory valuation adjustments of $108 million to reflect lower market prices for crude oil and refined products, employee separation costs of $20 million associated with various cost-cutting initiatives, mostly in the U.K., Panama and Brazil, and a charge of $43 million for a reorganization program in Caltex.

The Caltex charge results from their decision to structure their organization along functional lines and to reduce costs by establishing a shared service center in the Philippines. In implementing this change, Caltex will relocate its headquarters from Dallas to Singapore. About $35 million of the charge relates to severance and other retirement benefits for about 200 employees not relocating, write-downs of surplus furniture and equipment and other costs. The balance of the charge is for severance costs in other affected areas and amounts spent in relocating employees to the new shared service center.

Results for 1997 included a charge of $16 million primarily for a European deferred tax adjustment. Results for 1996 included a charge for employee separations of $21 million and a gain of $219 million related to the sale of Caltex' interest in Nippon Petroleum Refining Company, Limited.

LOOKING FORWARD IN THE WORLDWIDE DOWNSTREAM

We anticipate that our joint ventures with Shell and Saudi Refining, Inc. will continue to lower costs and capture synergies. Our share of these annual pre-tax cost reductions is expected to be over $300 million. We will continue to expand in Latin America. In addition, our share of the annual pre-tax cost savings from the Caltex reorganization is expected to be $25 million.

Global Gas Marketing

(Millions of dollars, except as indicated)	1998	1997	1996
Operating income (loss) before special items	$ (35)	$ (43)	$ 34
Special items:			
Employee separation costs	(3)	--	--
Gain on major asset sales	20	--	--
Total special items	17	--	--
Operating income (loss)	$ (18)	$ (43)	$ 34
Natural gas sales (millions of cubic feet per day)	3,764	3,452	2,937

Global gas marketing purchases natural gas and natural gas products from our upstream operations and others for resale, and operates natural gas processing plants and pipelines in the United States.

Our global gas marketing results in both 1998 and 1997 were adversely affected by losses associated with our start-up wholesale and retail marketing activities in the United Kingdom. We exited the U.K. wholesale gas marketing business in October 1998. Weak natural gas and natural gas liquids margins in the U.S. also contributed to the poor results. Milder than normal temperatures reduced demand and squeezed margins. In 1996, natural gas marketing margins in the U.S. were strong, especially in the first quarter.

Special Items Results for 1998 included employee separation costs of $3 million associated with an announced restructuring and a gain of $20 million on the sale of an interest in our Discovery pipeline affiliate. The restructuring is expected to yield annual pre-tax cost savings of $20 million.

LOOKING FORWARD IN GLOBAL GAS MARKETING

Operations will focus on more profitable trading markets. We will also exit the retail gas marketing business in the United Kingdom.

Other Business Units

(Millions of dollars)	1998	1997	1996
Operating income	$ 7	$ 5	$ 10

Our other business units include insurance activity and power generation and gasification operations. There were no significant items in our three-year results.

Corporate/Non-operating

(Millions of dollars)	1998	1997	1996
Results before special items	$(412)	$(415)	$(404)
Special items:			
Employee separation costs	(18)	--	(43)
Tax benefits on asset sales	43	--	188
Tax and other issues	25	488	9
Total special items	50	488	154
Total Corporate/ Non-operating	$(362)	$ 73	$(250)

Corporate/Non-operating includes our corporate center and financing activities. Over the last three years, our corporate and non-operating results before special items have been relatively flat. The year 1998 includes lower overhead and tax expense as well as higher interest income mostly offset by interest expense from higher average debt levels.

Special Items Results for 1998 included a charge of $18 million for employee separation costs associated with our corporate center reorganization and other cost-cutting initiatives which are expected to reduce annual pre-tax costs by $60 million. Also included in 1998 results are tax benefits of $43 million for the sales of interests in a subsidiary and a benefit of $25 million to adjust for prior years' federal tax liabilities. The year 1997 included a tax benefit of $488 million for an IRS settlement. Results for 1996 included a charge of $43 million for employee separation costs, a tax benefit of $188 million from the sale of an interest in a subsidiary, a tax benefit of $41 million from adjusting prior years' state tax expenses, and a charge of $32 million for expense accruals for litigation issues.

Other Items

Liquidity and Capital Resources

INTRODUCTION The Statement of Consolidated Cash Flows on page 45 reports the changes in cash balances for the last three years, and summarizes the inflows and outflows of cash between operating, investing and financing activities. Our cash-requirement strategy is to rely on cash from operations, supplemented by outside borrowings and the proceeds from the sale of non-strategic assets.

The main components of cash flows are:

INFLOWS Cash from operating activities represents net income adjusted for non-cash charges or credits, such as depreciation, depletion and amortization, and changes in working capital and other balances. Cash from operating activities excludes exploratory expenses, which we show as an investing activity. In 1998, cash from operating activities of $2,544 million is significantly lower than the prior year primarily due to lower prices. For more detailed insight into our financial and operational results, see Analysis of Income by Operating Segments on the preceding pages.

Net new borrowings in 1998 were $1,052 million compared to $498 million in 1997. Our strong cash management policies have provided us with the resources to obtain cash necessary to supplement our funding requirements when faced with deteriorating market conditions such as lower crude oil and natural gas prices. During the year, we borrowed $280 million associated with assets in the U.K. North Sea, $691 million from our existing "shelf" registrations, including $191 million under our medium-term note program, and $94 million from the issuance of Zero Coupon Notes in Brazil. We also increased the amount

of our commercial paper by $725 million during the year, to a total of $1.6 billion at year-end. See Note 10 to the financial statements for total outstanding debt, including 1998 borrowings.

After December 31, 1998, we issued an additional $500 million from our existing "shelf" registration to refinance existing short-term debt.

We maintain strong credit ratings and access to global financial markets providing us flexibility to borrow funds at low capital costs. Our senior debt is rated A+ by Standard & Poor's Corporation and A1 by Moody's Investors Service. Our U.S. commercial paper is rated A-1 by Standard & Poor's and Prime-1 by Moody's. These ratings denote high quality investment grade securities. Our debt has an average maturity of 10 years and a weighted average interest rate of 7.0%. We also maintain $2.05 billion in revolving credit facilities, which remain unused, to provide additional support for liquidity and our commercial paper program.

Cash from affiliates of $612 million was received from Equilon, representing formation payments. In February 1999, we received $101 million from Equilon for the payment of notes receivable.

OUTFLOWS Capital and exploratory expenditures (Capex) were $3,101 million in 1998 -- The section on page 37 describes in more detail the uses of our Capex dollars.

We continue our commitment to return value to our shareholders through a sustained dividend policy.

Payments of dividends were $1,057 million in 1998 -- $952 million to common, $53 million to preferred and $52 million to shareholders who hold a minority interest in Texaco subsidiary companies.

Purchases of common stock were $579 million in 1998 -- In the first quarter of 1998, we purchased $105 million of our common stock. In March 1998, we announced our intention to purchase up to an additional $1 billion of our common stock, subject to market conditions, through open market purchases or privately negotiated transactions. Under this program, we purchased $474 million in the second and third quarters of 1998. Purchases under this program have been suspended for an indefinite period.

The following table reflects our key financial indicators:

(Millions of dollars, except as indicated)	1998	1997	1996
Current ratio	1.07	1.07	1.24
Total debt	$ 7,291	$ 6,392	$ 5,590
Average years debt maturity	10	11	12
Average interest rates	7.0%	7.2%	7.5%
Minority interest in subsidiary companies	$ 679	$ 645	$ 658
Stockholders' equity	$11,833	$12,766	$10,372
Total debt to total borrowed and invested capital	36.8%	32.3%	33.6%

OUTLOOK We consider our financial position to be sufficiently strong to meet our anticipated future financial requirements. Our financial policies and procedures afford us flexibility to meet the changing landscape of our financial environment while assuring that the appropriate safeguards are in effect to provide adequate internal controls for all transactions. Cash required to service debt maturities in 1999 is projected to be about $500 million, which we intend to refinance.

While projections for a low price scenario extend through 1999, we feel that our cash from operating activities, coupled with our borrowing capacity, will allow us to meet our Capex requirements and continue to provide substantial return to our shareholders in the form of dividends.

MANAGING MARKET RISK We are exposed to the following types of market risks:

- The price of crude oil, natural gas and petroleum products
- The value of foreign currencies in relation to the U.S. dollar
- Interest rates

We enter into arrangements such as futures contracts, swaps and options to manage our exposure to these risks within established guidelines. Our written policies for engaging in these transactions limit our exposure and do not allow for speculation. These arrangements do not expose us to material adverse effects. See Notes 10, 15 and 16 to the financial statements and Supplemental Market Risk Disclosures on page 76 for additional information.

Capital and Exploratory Expenditures

1998 ACTIVITY Worldwide capital and exploratory expenditures, including our share of affiliates, were $4.0 billion for the year 1998, $5.9 billion for 1997 and $3.4 billion in 1996. The year 1997 included the $1.4 billion acquisition of Monterey Resources Inc., a producing company primarily in California. Excluding this acquisition, Texaco's expenditures in 1998 reflect the deferral of certain projects due to the low-price environment. Expenditures were geographically and functionally split as follows:

ITEM 9
CAPITAL AND EXPLORATORY EXPENDITURES--GEOGRAPHICAL

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

ITEM 10
CAPITAL AND EXPLORATORY EXPENDITURES--FUNCTIONAL

[GRAPHIC/IMAGE/ILLUSTRATION MATERIAL APPEARS HERE.
SEE APPENDIX, ITEM 10.]

EXPLORATION AND PRODUCTION Significant areas of investment included:

- High-impact development and exploratory projects in the deepwater Gulf of Mexico
- Enhanced oil recovery spending in California and Indonesia
- Exploratory activity in promising international areas, including Nigeria, the U.K., Angola and Trinidad
- Development work in the U.K. North Sea, Indonesia and other promising areas
- Continued investments, though at a slowed pace, in Eurasia

MANUFACTURING, MARKETING AND DISTRIBUTION AND OTHER Investments in downstream facilities included:

- Refining and marketing investments by two newly formed alliances in the United States
- Marketing expansion throughout promising areas of Latin America
- Investments associated with the Caltex refinery in Thailand

The following table details our capital and exploratory expenditures:

(Millions of dollars)	1998 U.S.	1998 International	1998 Total	1997 U.S.	1997 International	1997 Total	1996 U.S.	1996 International	1996 Total
Exploration and production									
Exploratory expenses	$ 257	$ 204	$ 461	$ 189	$ 282	$ 471	$ 153	$ 226	$ 379
Capital expenditures									
Acquisition of Monterey Resources Inc.	--	--	--	1,448	--	1,448	--	--	--
Other	1,182	1,068	2,250	1,406	1,127	2,533	990	902	1,892
Total exploration and production	1,439	1,272	2,711	3,043	1,409	4,452	1,143	1,128	2,271
Manufacturing, marketing and distribution	433	726	1,159	429	848	1,277	357	658	1,015
Global gas marketing	115	--	115	142	2	144	103	7	110
Other	33	1	34	55	2	57	33	2	35
Total	$2,020	$1,999	$4,019	$3,669	$2,261	$5,930	$1,636	$1,795	$3,431
Total, excluding affiliates	$1,528	$1,496	$3,024	$3,421	$1,718	$5,139	$1,535	$1,338	$2,873

1999 AND BEYOND Spending for 1999 is expected to be $3.7 billion. We realize that future profitability is in large part dependent upon successful investments today. Even in the current low-price environment, we feel it is important to continue to prudently allocate capital resources on projects which often have long lead times and which will generate attractive returns in the future.

In the upstream, development spending will be directed toward projects in the U.S. deepwater Gulf of Mexico, the U.K. North Sea and Denmark. Major exploration projects will include Nigeria, Angola and Trinidad. In the downstream, capital requirements funded by our affiliates Equilon, Motiva and Caltex, will be slightly lower in 1999. In the European and Latin American downstream areas, 80% of the expenditures relate to marketing operations. Most of the manufacturing capital will be spent at the Pembroke plant in the U.K. We will also increase our capital spending for power generation projects, mostly through affiliates.

Environmental Matters

The cost of compliance with federal, state and local environmental laws in both the U.S. and international continues to be substantial. Using definitions and guidelines established by the American Petroleum Institute, our 1998 environmental spending was $807 million. This includes our equity share in the environmental expenditures of our major affiliates, Equilon, Motiva and its predecessor Star, and the Caltex Group of Companies. The following table provides our environmental expenditures for the past three years:

(Millions of dollars)	1998	1997	1996
Capital expenditures	$175	$162	$185
Non-capital:			
Ongoing operations	495	538	561
Remediation	93	79	111
Restoration and abandonment	44	46	48
Total environmental expenditures	$807	$825	$905

CAPITAL EXPENDITURES

Our spending for capital projects in 1998 was $175 million. These expenditures were made to comply with clean air and water regulations as well as waste management requirements. In the United States, reformulated gasoline must meet more stringent emission requirements in the year 2000. As a result, additional investments will be made to meet these new standards. Worldwide capital expenditures projected for 1999 and 2000 are $194 million and $183 million.

ONGOING OPERATIONS

In 1998, environmental expenses charged to current operations were $495 million. These expenses related largely to the production of cleaner-burning gasoline and the management of our environmental programs.

REMEDIATION

Remediation Costs and Liabilities Our worldwide remediation expenditures in 1998 were $93 million. This included $14 million spent on the remediation of Superfund waste sites. At the end of 1998, we had liabilities of $468 million for the estimated cost of our known environmental liabilities. This includes $46 million for the cleanup of Superfund waste sites. We have accrued for these remediation liabilities based on currently available facts, existing technology and presently enacted laws and regulations. It is not possible to project overall costs beyond amounts disclosed due to the uncertainty surrounding future developments in regulations or until new information becomes available.

Superfund Sites Under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the U.S. Environmental Protection Agency (EPA) and other regulatory agencies have identified us as a potentially responsible party (PRP) for cleanup of hazardous waste sites. We have determined that we may have potential exposure, though limited in most cases, at 260 multi-party hazardous waste sites. Of these sites, 73 are on the EPA's National Priority List. Under Superfund, liability is joint and several, that is, each PRP at a site can be held liable individually for the entire cleanup cost of the site. We are, however, actively pursuing the sharing of Superfund costs with other identified PRP's. The sharing of these costs is on the basis of weight, volume and toxicity of the materials contributed by the PRP.

RESTORATION AND ABANDONMENT COSTS AND LIABILITIES Expenditures in 1998 for restoration and abandonment amounted to $44 million. At year-end 1998, accruals to cover the cost of restoration and abandonment or "closure" of our oil and gas producing properties were $851 million.

We make every reasonable effort to fully comply with applicable governmental regulations. Changes in these regulations as well as our continuous re-evaluation of our environmental programs may result in additional future costs. We believe that any mandated future costs would be recoverable in the marketplace, since all companies within our industry would be facing similar requirements. However, we do not believe that such future costs will be material to our financial position or to our operating results over any reasonable period of time.

New Accounting Standards

Note 2 to the financial statements discusses accounting standards adopted in 1998.

In June 1998, SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. SFAS 133 establishes new accounting rules and disclosure requirements for most derivative instruments and for hedging related to those instruments. We will adopt this Statement effective January 1, 2000 and are currently assessing the initial effects of adoption.

Euro Conversion

On January 1, 1999, 11 of the 15 member countries of the European Union established fixed conversion rates between their existing legacy currencies and one common currency -- the euro. The euro began trading on world currency exchanges and may be used in business transactions. On January 1, 2002, new euro-denominated bills and coins will be issued, and legacy currencies will be completely withdrawn from circulation by June 30 of that year.

Our operating subsidiaries affected by the euro conversion have been actively addressing our computer systems and overall fiscal and operational activities to ensure our euro readiness. We are adapting our computer, financial and operating systems and equipment to accommodate euro-denominated transactions. We are also reviewing our marketing and operational policies and procedures to ensure our ability to continue to successfully conduct all aspects of our business in this new, price-transparent market. We believe that the euro conversion will not have a material adverse impact on our financial condition or results of operations.

Year 2000

THE PROBLEM The Year 2000 (Y2K) problem concerns the inability of information and technology based operating systems to properly recognize and process date-sensitive information beyond December 31, 1999. This could result in systems failures and miscalculations, which could cause business disruptions. Equipment that uses a date, such as computers and operating control systems, may be affected. This includes equipment used by our customers and suppliers, as well as by utilities and governmental entities that provide critical services to us.

OUR STATE OF READINESS We started working on the Y2K problem in early 1995. By early 1996, we formed a Business Unit Steering Team and a Corporate Year 2000 Office. Our progress is reported monthly to our Chief Executive Officer, and quarterly to our Board of Directors. Additionally, we are actively performing both internal audits and external reviews to ensure that we reach our objectives.

We recognize that the Y2K issue affects every aspect of our business, including computer software, computer hardware, telecommunications, industrial automation and relationships with our suppliers and customers. Our Y2K effort has included an extensive program to educate our employees, and development of detailed guidelines for project management, testing and remediation. Each business unit is periodically graded on their progress toward reaching their project milestones. Our major affiliates have undertaken similar programs.

In our computers and computer software, most of the problems we have found involve our corporate financial software applications. Approximately 95% of these need some type of modification or upgrade. In our industrial automation systems, which we use in our refinery, lubricant plant, gas plant and oil well operations to monitor, control and log data about the processes, approximately 5% need modification or upgrade. The majority of these are auxiliary systems, such as laboratory analyzers and alarm logging functions, but several of the higher level supervisory data acquisition systems and flow metering systems also require upgrades.

At the end of 1998, we were approximately 80% through our Y2K efforts of inventorying, assessing and fixing our systems. Almost all systems should be ready by the end of the first quarter of 1999, but a few will be delayed until later in 1999 as we wait for vendor upgrades. If any of these late-scheduled upgrades are delayed, we will seek alternate vendors or develop contingency plans, as appropriate. We are also progressing in our reviews with critical suppliers and customers as to their Y2K state of readiness.

COSTS Because we began early, we have been able to do most of the work ourselves. This has kept our costs low, and we project that we will spend no more than $75 million on making our systems Y2K ready. As of December 31, 1998, we have incurred costs of approximately $37 million.

RISKS Certain Y2K risk factors which could have a material adverse effect on our results of operations, liquidity and financial condition include, but are not limited to: failure to identify critical systems which will experience failures, errors in efforts to correct problems, unexpected failures by key business suppliers and customers, extended failures by public and private utility companies or common carriers supplying services to us and failures in global banking systems and capital markets.

If we have missed a potential Y2K problem, it will most likely be in our financial software, or in auxiliary systems in our operations, such as laboratory analyzers and alarm logging functions, where we have found the majority of the problems. We do not anticipate that a problem in these areas will have a significant impact on our ability to pursue our primary business objectives. We routinely analyze all of our production and automation systems for potential failures and appropriate responses are identified and documented. Any problems in our primary industrial automation systems can be dealt with using our existing engineering procedures.

The worst case scenario would be that our failure or failures by our important suppliers and customers to correct material Y2K problems could result in serious disruptions in normal business activities and operations. Such disruptions could prevent us from producing crude oil and natural gas, and manufacturing and delivering refined products to customers. For example, failure by a utility company to deliver electricity to our producing operations could cause us to shut-in production leading to lost sales and income. We do not expect a worst case scenario. However, if it occurs, Y2K failures, if not corrected on a timely basis or otherwise mitigated by our contingency plans, could have a material adverse effect on our results of operations, liquidity and overall financial condition.

CONTINGENCY PLANS We are well into our program to identify and assess our Y2K readiness and the Y2K readiness of our critical and important suppliers and customers. We will either seek alternative suppliers and customers for those we assess as risky, or we will develop and test contingency plans. We have begun to develop these contingency plans. In addition, we are reviewing our existing business resumption plans. We expect to arrange alternative suppliers or develop and complete the testing of contingency plans no later than July 1, 1999.

Description of Significant Accounting Policies

Principals of Consolidation

The consolidated financial statements consist of the accounts of Texaco Inc. and subsidiary companies owned directly or indirectly more than 50% except when voting control does not exist. Intercompany accounts and transactions are eliminated.

The U.S. dollar is the functional currency of all our operations and substantially all of the operations of affiliates accounted for on the equity method. For these operations, translation effects and all gains and losses from transactions not denominated in the functional currency are included in income currently, except for certain hedging transactions. The cumulative translation effects for the equity affiliates using functional currencies other than the U.S. dollar are included in the currency translation adjustment in stockholders' equity.

Use of Estimates

In preparing Texaco's consolidated financial statements in accordance with generally accepted accounting principles, we are required to use estimates and management's judgment. While we have considered all available information, actual amounts could differ from those reported as assets and liabilities and related revenues, costs and expenses and the disclosed amounts of contingencies.

Revenues

We recognize revenues for crude oil, natural gas and refined product sales at the point of passage of title specified in the contract. We record revenues on forward sales where cash has been received to deferred income until the passage of title during delivery.

Cash Equivalents

We generally classify highly liquid investments with a maturity of three months or less when purchased as cash equivalents.

Inventories

We value inventories at the lower of cost or market, after initial recording at cost. For virtually all inventories of crude oil, petroleum products and petrochemicals, cost is determined on the last-in, first-out (LIFO) method. For other merchandise inventories, cost is on the first-in, first-out (FIFO) method. For materials and supplies, cost is at average cost.

Investments and Advances

We use the equity method of accounting for investments in certain affiliates owned 50% or less, including corporate joint ventures, limited liability companies and partnerships. Under this method, we record equity in the pre-tax income or losses of limited liability companies and partnerships, and in the net income or losses of corporate joint-venture companies currently in Texaco's revenues, rather than when realized through dividends or distributions.

We record the net income of affiliates accounted for at cost in net income when realized through dividends.

We account for investments in debt securities and in equity securities with readily determinable fair values at fair value if classified as available-for-sale.

Properties, Plant and Equipment and Depreciation, Depletion and Amortization

We follow the "successful efforts" method of accounting for our oil and gas exploration and producing operations.

We capitalize as incurred the lease acquisition costs of properties held for oil, gas and mineral production. We expense as incurred exploratory costs other than wells. We initially capitalize exploratory wells, including stratigraphic test wells, pending further evaluation of whether economically recoverable proved reserves have been found. If such reserves are not found, we charge the well costs to exploratory expenses. For locations not requiring major capital expenditures, we record the charge within one year of well completion. We capitalize intangible drilling costs of productive wells and of development dry holes, and tangible equipment costs. Also capitalized are costs of injected carbon dioxide related to development of oil and gas reserves.

We base our evaluation of impairment for properties, plant and equipment intended to be held on comparison of carrying value against undiscounted future net pre-tax cash flows, generally based on proved developed reserves. If an impairment is identified, we adjust the asset's carrying amount to fair value. We generally account for assets to be disposed of at the lower of net book value or fair value less cost to sell.

We amortize unproved oil and gas properties, when individually significant, by property using a valuation assessment. We generally amortize other unproved oil and gas properties on an aggregate basis over the average holding period, for the portion expected to be nonproductive. We amortize productive properties and other tangible and intangible costs of producing activities principally by field. Amortization is based on the unit-of-production basis by applying the ratio of produced oil and gas to

estimated recoverable proved oil and gas reserves. We include estimated future restoration and abandonment costs in determining amortization and depreciation rates of productive properties.

We apply depreciation of facilities other than producing properties generally on the group plan, using the straight-line method, with composite rates reflecting the estimated useful life and cost of each class of property. We depreciate facilities not on the group plan individually by estimated useful life using the straight-line method. We exclude estimated salvage value from amounts subject to depreciation. We amortize capitalized nonmineral leases over the estimated useful life of the asset or the lease term, as appropriate, using the straight-line method.

We record periodic maintenance and repairs at manufacturing facilities on the accrual basis. We charge to expense normal maintenance and repairs of all other properties, plant and equipment as incurred. We capitalize renewals, betterments and major repairs that materially extend the useful life of properties and record a retirement of the assets replaced, if any.

When capital assets representing complete units of property are disposed of, we credit or charge to income the difference between the disposal proceeds and net book value.

Environmental Expenditures

When remediation of a property is probable and the related costs can be reasonably estimated, we expense environmentally-related remediation costs and record them as liabilities. We expense or capitalize other environmental expenditures, principally maintenance or preventive in nature, as appropriate.

Deferred Income Taxes

We determine deferred income taxes utilizing a liability approach. The income statement effect is derived from changes in deferred income taxes on the balance sheet. This approach gives consideration to the future tax consequences associated with differences between financial accounting and tax bases of assets and liabilities. These differences relate to items such as depreciable and depletable properties, exploratory and intangible drilling costs, nonproductive leases, merchandise inventories and certain liabilities. This approach gives immediate effect to changes in income tax laws upon enactment.

We reduce deferred income tax assets by a valuation allowance when it is more likely than not (more than 50%) that a portion will not be realized. Deferred income tax assets are assessed individually by type for this purpose. This process requires the use of estimates and judgment, as many deferred income tax assets have a long potential realization period.

We do not make provision for possible income taxes payable upon distribution of accumulated earnings of foreign subsidiary companies and affiliated corporate joint-venture companies when such earnings are deemed to be permanently reinvested.

Accounting for Contingencies

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

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

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

Statement of Consolidated Cash Flows

We present cash flows from operating activities using the indirect method. We exclude exploratory expenses from cash flows of operating activities and apply them to cash flows of investing activities. On this basis, we reflect all capital and exploratory expenditures as investing activities.

Statement of Consolidated Income

(Millions of dollars) For the years ended December 31	1998	1997	1996
Revenues			
Sales and services (includes transactions with significant affiliates of $4,169 million in 1998, $3,633 million in 1997 and $3,867 million in 1996)	$ 30,910	$ 45,187	$ 44,561
Equity in income of affiliates, interest, asset sales and other	797	1,480	939
Total revenues	31,707	46,667	45,500
Deductions			
Purchases and other costs (includes transactions with significant affiliates of $1,669 million in 1998, $2,178 million in 1997 and $2,048 million in 1996)	24,179	35,230	34,643
Operating expenses	2,508	3,251	3,235
Selling, general and administrative expenses	1,224	1,755	1,803
Exploratory expenses	461	471	379
Depreciation, depletion and amortization	1,675	1,633	1,455
Interest expense	480	412	434
Taxes other than income taxes	423	520	496
Minority interest	56	68	72
	31,006	43,340	42,517
Income before income taxes and cumulative effect of accounting change	701	3,327	2,983
Provision for income taxes	98	663	965
Income before cumulative effect of accounting change	603	2,664	2,018
Cumulative effect of accounting change	(25)	--	--
Net income	$ 578	$ 2,664	$ 2,018
Net Income per Common Share (Dollars)			
Basic:			
Income before cumulative effect of accounting change	$ 1.04	$ 4.99	$ 3.77
Cumulative effect of accounting change	(.05)	--	--
Net income	$ .99	$ 4.99	$ 3.77
Diluted:			
Income before cumulative effect of accounting change	$ 1.04	$ 4.87	$ 3.68
Cumulative effect of accounting change	(.05)	--	--
Net income	$ .99	$ 4.87	$ 3.68
Average Number of Common Shares Outstanding (for computation of earnings per share) (thousands)			
Basic	528,416	522,234	520,392
Diluted	528,965	542,570	541,824

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

(Millions of dollars) As of December 31	1998	1997
Assets		
Current Assets		
Cash and cash equivalents	$ 249	$ 311
Short-term investments - at fair value	22	84
Accounts and notes receivable (includes receivables from significant affiliates of $694 million in 1998 and $234 million in 1997), less allowance for doubtful accounts of $28 million in 1998 and $22 million in 1997	3,955	4,230
Inventories	1,154	1,483
Deferred income taxes and other current assets	256	324
Total current assets	5,636	6,432
Investments and advances	7,184	5,097
Net properties, plant and equipment	14,761	17,116
Deferred charges	989	955
Total	$ 28,570	$ 29,600
Liabilities and Stockholders' Equity		
Current Liabilities		
Notes payable, commercial paper and current portion of long-term debt	$ 939	$ 885
Accounts payable and accrued liabilities (includes payables to significant affiliates of $395 million in 1998 and $106 million in 1997)		
Trade liabilities	2,302	2,669
Accrued liabilities	1,368	1,480
Estimated income and other taxes	655	960
Total current liabilities	5,264	5,994
Long-term debt and capital lease obligations	6,352	5,507
Deferred income taxes	1,644	1,825
Employee retirement benefits	1,248	1,224
Deferred credits and other noncurrent liabilities	1,550	1,639
Minority interest in subsidiary companies	679	645
Total	16,737	16,834
Stockholders' Equity		
Market auction preferred shares	300	300
ESOP convertible preferred stock	428	457
Unearned employee compensation and benefit plan trust	(334)	(389)
Common stock - 567,606,290 shares issued	1,774	1,774
Paid-in capital in excess of par value	1,640	1,688
Retained earnings	9,561	9,987
Other accumulated nonowner changes in equity	(101)	(95)
	13,268	13,722
Less - Common stock held in treasury, at cost	1,435	956
Total stockholders' equity	11,833	12,766
Total	$ 28,570	$ 29,600

See accompanying notes to consolidated financial statements.

Statement of Consolidated Cash Flows

(Millions of dollars) For the years ended December 31	1998	1997	1996
Operating Activities			
Net income	$ 578	$ 2,664	$ 2,018
Reconciliation to net cash provided by (used in) operating activities			
Cumulative effect of accounting change	25	--	--
Depreciation, depletion and amortization	1,675	1,633	1,455
Deferred income taxes	(152)	451	(20)
Exploratory expenses	461	471	379
Minority interest in net income	56	68	72
Dividends from affiliates, greater than (less than) equity in income	224	(370)	167
Gains on asset sales	(109)	(558)	(19)
Changes in operating working capital			
Accounts and notes receivable	125	718	(1,072)
Inventories	(51)	(56)	(104)
Accounts payable and accrued liabilities	16	(856)	716
Other - mainly estimated income and other taxes	(205)	(64)	97
Other - net	(99)	(186)	73
Net cash provided by operating activities	2,544	3,915	3,762
Investing Activities			
Capital and exploratory expenditures	(3,101)	(3,628)	(2,897)
Proceeds from asset sales	282	1,036	125
Proceeds from sale of discontinued operations	--	--	344
Sales (purchases) of leasehold interests	25	(503)	261
Purchases of investment instruments	(947)	(1,102)	(1,668)
Sales/maturities of investment instruments	1,118	1,096	1,816
Formation payments from U.S. affiliate	612	--	--
Other - net	--	(57)	70
Net cash used in investing activities	(2,011)	(3,158)	(1,949)
Financing Activities			
Borrowings having original terms in excess of three months			
Proceeds	1,300	507	307
Repayments	(741)	(637)	(802)
Net increase (decrease) in other borrowings	493	628	(143)
Purchases of common stock	(579)	(382)	(159)
Dividends paid to the company's stockholders			
Common	(952)	(918)	(859)
Preferred	(53)	(55)	(58)
Dividends paid to minority stockholders	(52)	(81)	(87)
Net cash used in financing activities	(584)	(938)	(1,801)
Cash and Cash Equivalents			
Effect of exchange rate changes	(11)	(19)	(2)
Increase (decrease) during year	(62)	(200)	10
Beginning of year	311	511	501
End of year	$ 249	$ 311	$ 511

See accompanying notes to consolidated financial statements.

Statement of Consolidated Stockholders' Equity

(Shares in thousands; amounts in millions of dollars)	1998 Shares	1998 Amount	1997 Shares	1997 Amount	1996 Shares	1996 Amount
Preferred Stock par value $1; Shares authorized - 30,000,000						
Market Auction Preferred Shares (Series G, H, I and J) - liquidation preference of $250,000 per share						
Beginning and end of year	1	$ 300	1	$ 300	1	$ 300
Series B ESOP Convertible Preferred Stock - liquidation value of $600 per share						
Beginning of year	693	416	720	432	751	450
Retirements	(44)	(27)	(27)	(16)	(31)	(18)
End of year	649	389	693	416	720	432
Series F ESOP Convertible Preferred Stock - liquidation value of $737.50 per share						
Beginning of year	56	41	57	42	60	45
Retirements	(3)	(2)	(1)	(1)	(3)	(3)
End of year	53	39	56	41	57	42
Unearned Employee Compensation (related to ESOP preferred stock and restricted stock awards)						
Beginning of year		(149)		(175)		(234)
Awards		(36)		(16)		(22)
Amortization and other		91		42		81
End of year		(94)		(149)		(175)
Benefit Plan Trust (common stock)						
Beginning of year	9,200	(240)	8,000	(203)	8,000	(203)
Additions	--	--	1,200	(37)	--	--
End of year	9,200	(240)	9,200	(240)	8,000	(203)
Common Stock par value $3.125; Shares authorized - 700,000,000						
Beginning of year	567,606	1,774	548,587	1,714	548,587	1,714
Issued for Monterey acquisition	--	--	19,019	60	--	--
End of year	567,606	1,774	567,606	1,774	548,587	1,714
Common Stock Held in Treasury, at cost						
Beginning of year	25,467	(956)	21,191	(628)	20,152	(517)
Purchases of common stock	9,572	(551)	7,423	(410)	3,515	(159)
Transfer to benefit plan trust	--	--	(1,200)	37	--	--
Other - mainly employee benefit plans	(2,063)	72	(1,947)	45	(2,476)	48
End of year	32,976	$ (1,435)	25,467	$ (956)	21,191	$ (628)

See accompanying notes to consolidated financial statements.

(Continued on next page)

Statement of Consolidated Stockholders' Equity

(Millions of dollars)	1998	1997	1996
Paid-in Capital in Excess of Par Value			
Beginning of year	$ 1,688	$ 630	$ 655
Monterey acquisition	--	1,091	--
Treasury stock transactions relating to investor services plan and employee compensation plans	(48)	(33)	(25)
End of year	1,640	1,688	630
Retained Earnings			
Balance at beginning of year	9,987	8,292	7,186
Add:			
Net income	578	2,664	2,018
Tax benefit associated with dividends on unallocated ESOP Convertible Preferred Stock	3	4	5
Deduct: Dividends declared on			
Common stock ($1.80 per share in 1998, $1.75 per share in 1997 and $1.65 per share in 1996)	952	918	859
Preferred stock			
Series B ESOP Convertible Preferred Stock	38	40	42
Series F ESOP Convertible Preferred Stock	4	4	4
Market Auction Preferred Shares (Series G, H, I and J)	13	11	12
Balance at end of year	9,561	9,987	8,292
Other Accumulated Nonowner Changes in Equity			
Currency translation adjustment			
Beginning of year	(105)	(65)	61
Change during year	(2)	(40)	(126)
End of year	(107)	(105)	(65)
Minimum pension liability adjustment			
Beginning of year	(16)	--	--
Change during year	(8)	(16)	--
End of year	(24)	(16)	--
Unrealized net gain on investments			
Beginning of year	26	33	62
Change during year	4	(7)	(29)
End of year	30	26	33
Total other accumulated nonowner changes in equity	(101)	(95)	(32)
Stockholders' Equity			
End of year (including preceding page)	$ 11,833	$ 12,766	$ 10,372

See accompanying notes to consolidated financial statements.

Statement of Consolidated Nonowner Changes in Equity

(Millions of dollars)	1998	1997	1996
Net income	$ 578	$ 2,664	$ 2,018
Other nonowner changes in equity:			
Currency translation adjustment			
Reclassification to net income of realized gain on sale of affiliate	--	--	(60)
Other unrealized net change during period	(2)	(40)	(66)
Total	(2)	(40)	(126)
Minimum pension liability adjustment			
Before income taxes	(16)	(21)	--
Income taxes	8	5	--
Total	(8)	(16)	--
Unrealized net gain on investments			
Net gain (loss) arising during period			
Before income taxes	35	22	9
Income taxes	(11)	(9)	(7)
Reclassification to net income of net realized (gain) or loss			
Before income taxes	(31)	(29)	(43)
Income taxes	11	9	12
Total	4	(7)	(29)
Total other nonowner changes in equity	(6)	(63)	(155)
Total nonowner changes in equity	$ 572	$ 2,601	$ 1,863

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 Segment Information

We are presenting below information about our operating segments for the years 1998, 1997 and 1996, according to Statement of Financial Accounting Standards 131, Disclosures about Segments of an Enterprise and Related Information, which we adopted this year.

We determined our operating segments based on differences in the nature of their operations and geographic location. The composition of segments and measure of segment profit is consistent with that used by our Executive Council in making strategic decisions. The Executive Council is headed by the Chairman and Chief Executive Officer and includes, among others, the Senior Vice Presidents having oversight responsibility for our business units.

Operating Segments 1998

(Millions of dollars)	Sales and Services Outside	Inter-segment	Total	After Tax Profit (Loss)	Income Tax Expense (Benefit)	DD&A Expense	Other Non-cash Items	Capital Expen-ditures	Assets at Year-End
Exploration and production									
United States	$ 1,712	$ 1,660	$ 3,372	$ 301	$ 34	$ 892	$ 1	$ 1,200	$ 8,699
International	2,028	1,358	3,386	120	127	513	20	951	4,352
Manufacturing, marketing and distribution									
United States	2,582	107	2,689	223	96	6	228	1	4,095
International	19,835	86	19,921	332	130	204	135	403	8,306
Global gas marketing	4,692	84	4,776	(18)	5	14	50	61	879
Segment totals	$ 30,849	$ 3,295	34,144	958	392	1,629	434	2,616	26,331
Other business units			91	7	4	2	(2)	--	506
Corporate/Non-operating			4	(362)	(298)	44	(67)	33	1,945
Intersegment eliminations			(3,329)	--	--	--	--	--	(212)
Consolidated, before cumulative effect of accounting change			$ 30,910	$ 603	$ 98	$ 1,675	$ 365	$ 2,649	$ 28,570

Operating Segments 1997

(Millions of dollars)	Sales and Services Outside	Inter-segment	Total	After Tax Profit (Loss)	Income Tax Expense (Benefit)	DD&A Expense	Other Non-cash Items	Capital Expen-ditures	Assets at Year-End
Exploration and production									
United States	$ 365	$ 4,156	$ 4,521	$ 990	$ 487	$ 783	$ 281	$ 1,349	$ 8,769
International	2,575	1,751	4,326	807	566	442	105	934	4,036
Manufacturing, marketing and distribution									
United States	16,992	357	17,349	324	172	178	169	262	5,668
International	19,992	235	20,227	508	117	173	(166)	482	8,048
Global gas marketing	5,207	254	5,461	(43)	(9)	14	61	75	1,012
Segment totals	$ 45,131	$ 6,753	51,884	2,586	1,333	1,590	450	3,102	27,533
Other business units			101	5	5	2	4	--	544
Corporate/Non-operating			6	73	(675)	41	242	57	2,030
Intersegment eliminations			(6,804)	--	--	--	--	--	(507)
Consolidated			$ 45,187	$ 2,664	$ 663	$ 1,633	$ 696	$ 3,159	$ 29,600

Operating Segments 1996

(Millions of dollars)	Sales and Services Outside	Sales and Services Inter-segment	Sales and Services Total	After Tax Profit (Loss)	Income Tax Expense (Benefit)	DD&A Expense	Other Non-cash Items	Capital Expen-ditures	Assets at Year-End
Exploration and production									
United States	$ 204	$ 4,146	$ 4,350	$ 1,074	$ 528	$ 670	$ 109	$ 990	$ 6,067
International	2,384	1,930	4,314	493	523	393	(21)	755	3,651
Manufacturing, marketing and distribution									
United States	18,424	493	18,917	210	143	176	92	271	6,310
International	18,750	363	19,113	447	127	161	201	356	7,751
Global gas marketing	4,754	342	5,096	34	19	13	(7)	110	1,152
Segment totals	$ 44,516	$ 7,274	51,790	2,258	1,340	1,413	374	2,482	24,931
Other business units			112	10	10	7	3	--	530
Corporate/Non-operating			5	(250)	(385)	35	332	35	2,216
Intersegment eliminations			(7,346)	--	--	--	--	--	(714)
Consolidated			$ 44,561	$ 2,018	$ 965	$ 1,455	$ 709	$ 2,517	$ 26,963

Our exploration and production segments explore for, find, develop and produce crude oil and natural gas. The U.S. segment includes minor operations in Canada. Our manufacturing, marketing and distribution segments process crude oil and other feedstock into refined products and purchase, sell and transport crude oil and refined petroleum products. Global gas marketing purchases natural gas and natural gas products from our exploration and production operations and others for resale, and operates natural gas processing plants and pipelines in the United States. This segment, which operates primarily in the U.S., sold its U.K. wholesale gas business in 1998 and announced its intention to dispose of its U.K. retail gas marketing business as well. Other business units include our insurance, power generation and gasification operations and investments in undeveloped mineral properties. None of these units is individually significant in terms of revenue, income or assets.

You are encouraged to read Note 6 - Investments and Advances, beginning on page 52, which includes information about our affiliates and the formation of the Equilon and Motiva alliances in 1998.

Corporate and non-operating includes the assets, income and expenses relating to cash management and financing activities, our corporate center and other items not directly attributable to the operating segments.

We apply the same accounting policies to each of the segments as we do in preparing the consolidated financial statements. Intersegment sales and services are generally representative of market prices or arms-length negotiated transactions. Intersegment receivables are representative of normal trade balances. Other non-cash items principally include deferred income taxes, the difference between cash distributions and equity in income of affiliates, and non-cash charges and credits associated with asset sales. Capital expenditures are presented on a cash basis, excluding exploratory expenses.

The countries in which we have significant sales and services and long-lived assets are listed below. Sales and services are based on the origin of the sale. Long-lived assets include properties, plant and equipment and investments in foreign producing operations where the host governments own the physical assets under terms of the operating agreements.

(Millions of dollars)	Sales and Services 1998	Sales and Services 1997	Sales and Services 1996	Long-lived assets at December 31 1998	Long-lived assets at December 31 1997	Long-lived assets at December 31 1996
United States	$ 8,184	$21,657	$22,643	$ 8,757	$11,437	$ 8,683
International - Total	22,726	23,530	21,918	6,250	5,876	4,914
Significant countries included above:						
Brazil	3,175	3,175	2,670	301	266	235
Netherlands	1,636	1,901	2,129	257	250	212
United Kingdom	7,529	6,862	5,846	2,257	2,384	1,846

Note 2 Adoption of New Accounting Standards

SFAS 128 and 129 -- During 1997, we adopted SFAS 128, "Earnings per Share." Our basic and diluted net income per common share under SFAS 128 were approximately the same as under the comparable prior basis of reporting. In 1997, we also adopted SFAS 129, "Disclosure of Information about Capital Structure." Our existing disclosures complied with this standard.

SFAS 130, 131 and 132 -- In 1998, Texaco adopted SFAS 130, 131 and 132. SFAS 130, "Reporting Comprehensive Income," requires that we report all items classified as comprehensive income under its provisions as separate components within a financial statement. SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," requires the reporting of certain income, revenue, expense and asset data about operating segments of public enterprises. Operating segments are based upon a company's internal management structure. SFAS 131 also requires data for revenues and long-lived assets by major countries of operation. SFAS 132, "Employer's Disclosures about Pensions and Other Postretirement Benefits," requires disclosure of new information on changes in plan benefit obligations and fair values of plan assets.

SOP 98-5 -- Effective January 1, 1998, Caltex, our affiliate, adopted Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," issued by the American Institute of Certified Public Accountants. This Statement requires that the costs of start-up activities and organization costs, as defined, be expensed as incurred. The cumulative effect of adoption on Texaco's net income for 1998 was a net loss of $25 million. This Statement will be adopted by Texaco and our other affiliates effective January 1, 1999. We do not expect the effect to be material.

Note 3 Income Per Common Share

Basic net income per common share is based on net income less preferred stock dividend requirements divided by the average number of common shares outstanding. Diluted net income per common share assumes issuance of the net incremental shares from stock options and full conversion of all dilutive convertible securities at the later of the beginning of the year or date of issuance. Common shares held by the benefit plan trust are not considered outstanding for purposes of net income per common share.

In July 1997, the Board of Directors approved a two-for-one split of the company's common stock, effective September 29, 1997. The par value was halved and the number of authorized shares was doubled. We have restated prior years' financial statements and all references to number of shares and per share amounts for the stock split. Also, we have adjusted all agreements that include exchange, conversion or other rights based on the company's common stock for the stock split.

(Millions, except per share amounts)	1998			1997			1996		
For the years ended December 31	Income	Shares	Per Share	Income	Shares	Per Share	Income	Shares	Per Share
Basic net income:									
Income before cumulative effect of accounting change	$ 603			$ 2,664			$ 2,018		
Less: Preferred stock dividends	(54)			(56)			(58)		
Income before cumulative effect of accounting change, for basic income per share	$ 549	528.4	$ 1.04	$ 2,608	522.2	$ 4.99	$ 1,960	520.4	$ 3.77
Effect of dilutive securities:									
ESOP Convertible preferred stock	--	--		34	19.3		34	20.0	
Stock options and restricted stock	--	.4		--	.8		--	1.1	
Convertible debentures	1	.2		--	.3		--	.3	
Income before cumulative effect of accounting change, for diluted income per share	$ 550	529.0	$ 1.04	$ 2,642	542.6	$ 4.87	$ 1,994	541.8	$ 3.68

Note 4 Acquisition of Monterey Resources

In November 1997, we acquired all of the outstanding common stock of Monterey Resources (Monterey) in exchange for approximately 19 million shares of our common stock valued at $1.1 billion. We accounted for the transaction as a purchase. The total purchase price was $1.4 billion, including existing Monterey debt of $.3 billion; $2.2 billion was assigned to properties, plant and equipment, and $.7 billion was assigned to deferred income tax liabilities. Monterey was an oil and gas company with mostly crude oil properties in California.

Our financial statements reflect the consolidation of Monterey assets and liabilities at fair value effective from November 1, 1997. The pro forma effects had Monterey been consolidated at the beginning of either 1997 or 1996 would not have been material to Texaco's revenues, net income, and basic and diluted net income per common share for those years.

Note 5 Inventories

(Millions of dollars)

As of December 31	1998	1997
Crude oil	$ 116	$ 308
Petroleum products and petrochemicals	799	893
Other merchandise	40	59
Materials and supplies	199	223
Total	$ 1,154	$ 1,483

The book value of inventories at December 31, 1998 is net of a valuation allowance of $99 million to adjust from cost to market. At December 31, 1997, the excess of estimated market over the book value of inventories was $204 million.

Note 6 Investments and Advances

We account for our investments in affiliates, including corporate joint ventures and partnerships owned 50% or less, on the equity method. Our total investments and advances are summarized as follows:

(Millions of dollars)

As of December 31	1998	1997
Affiliates accounted for on the equity method		
Exploration and production		
United States	$ 230	$ 126
International		
CPI	452	437
Other	24	15
	706	578
Manufacturing, marketing and distribution		
United States		
Equilon	2,266	--
Motiva	896	--
Star	--	889
Other	29	178
International		
Caltex	1,747	1,860
Other	215	191
	5,153	3,118
Global gas marketing	71	55
Other affiliates	86	70
Total	6,016	3,821
Miscellaneous investments, long-term receivables, etc., accounted for at:		
Fair value	470	537
Cost, less reserve	698	739
Total	$ 7,184	$ 5,097

Our equity in the net income of affiliates is adjusted to reflect income taxes for limited liability companies and partnerships whose income is directly taxable to us:

(Millions of dollars) For the years ended December 31	1998	1997	1996
Equity in net income (loss)			
Exploration and production			
United States	$ 37	$ 40	$ 36
International			
CPI	107	171	188
Other	(12)	--	1
	132	211	225
Manufacturing, marketing and distribution			
United States			
Equilon	199	--	--
Motiva	22	--	--
Star	(3)	95	14
Other	3	48	51
International			
Caltex	(36)	252	347
Other	15	20	22
	200	415	434
Global gas marketing	(26)	(20)	(3)
Other affiliates	12	10	13
Total	$ 318	$ 616	$ 669
Dividends received	$ 709	$ 332	$ 878

The undistributed earnings of these affiliates included in our retained earnings were $2,409 million, $2,658 million and $2,609 million as of December 31, 1998, 1997 and 1996.

Caltex Group

We have investments in the Caltex Group of Companies, owned 50% by Texaco and 50% by Chevron Corporation. The Caltex group consists of P.T. Caltex Pacific Indonesia (CPI), American Overseas Petroleum Limited and subsidiary and Caltex Corporation and subsidiaries (Caltex). This group of companies is engaged in the exploration for and production, transportation, refining and marketing of crude oil and products in Africa, Asia, Australia, the Middle East and New Zealand.

Results for the Caltex Group in 1998 include an after-tax charge of $50 million (Texaco's share $25 million) for the cumulative effect of accounting change. See Note 2 for additional information.

In 1996, Caltex 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' net income for 1996 includes a gain of $621 million associated with this sale. Our results include a net gain of $219 million relating to this sale, comprised of our equity share of the gain, less an adjustment in the carrying value of our investment and further reduced by a tax on the dividend distributed to the shareholders.

Equilon Enterprises LLC

Effective January 1, 1998, Texaco and Shell Oil Company formed Equilon Enterprises LLC (Equilon), a Delaware limited liability company. Equilon is a joint venture that combined major elements of the companies' western and midwestern U.S. refining and marketing businesses and their nationwide trading, transportation and lubricants businesses. We own 44% and Shell Oil Company owns 56% of Equilon.

The carrying amounts at January 1, 1998, of the principal assets and liabilities of the businesses we contributed to Equilon were $.2 billion of net working capital assets, $2.8 billion of net properties, plant and equipment and $.2 billion of debt. These amounts were reclassified to investment in affiliates accounted for by the equity method.

In April 1998, we received $463 million from Equilon, representing reimbursement of certain capital expenditures incurred prior to the formation of the joint venture. In July 1998, we received $149 million from Equilon for certain specifically identified assets transferred for value to Equilon.

Motiva Enterprises LLC

Effective July 1, 1998, Texaco, Shell and Saudi Aramco formed Motiva Enterprises LLC (Motiva), a Delaware limited liability company. Motiva is a joint venture that combined Texaco's and Saudi Aramco's interests and major elements of Shell's eastern and Gulf Coast U.S. refining and marketing businesses. Texaco's and Saudi Aramco's interest in these businesses were previously conducted by Star Enterprise (Star), a joint-venture partnership owned 50% by Texaco and 50% by Saudi Refining, Inc., a corporate affiliate of Saudi Aramco. Texaco and Saudi Refining, Inc., each owns 32.5% and Shell owns 35% of Motiva.

The investment in Motiva at date of formation approximated the previous investment in Star. The Motiva investment and previous Star investment are

recorded as investment in affiliates accounted for on the equity method.

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The following table provides summarized financial information on a 100% basis
for the Caltex Group, Equilon, Motiva, Star and all other affiliates that we
account for on

the equity method, as well as Texaco's share. The net income of all limited liability companies and partnerships is net of estimated income taxes. The actual income tax liability is reflected in the accounts of the respective members or partners and not shown in the following table.

Motiva's and 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 of Star. Our investment and equity in the income of Motiva and Star, as reported in our consolidated financial statements, reflect the remaining unamortized historical carrying cost of the assets transferred to Star at formation of Star. Additionally, our investments in Motiva and Star include adjustments necessary to reflect contractual arrangements on the formation of Star, principally involving contributed inventories.

(Millions of dollars)	Equilon	Motiva	Star	Caltex Group	Other Affiliates	Total Texaco's Share
1998						
Gross revenues	$ 22,246	$ 5,371	$ 3,190	$ 17,174	$ 2,541	$ 22,856
Income (loss) before income taxes and cumulative effect of accounting change	$ 502	$ 78	$ (128)	$ 519	$ 170	$ 662
Net income (loss)	$ 326	$ 51	$ (83)	$ 143	$ 84	$ 318
As of December 31:						
Current assets	$ 2,648	$ 1,435		$ 1,974	$ 687	$ 2,757
Noncurrent assets	7,758	5,306		7,684	2,021	9,332
Current liabilities	(4,058)	(1,248)		(2,840)	(727)	(3,932)
Noncurrent liabilities	(382)	(1,665)		(2,421)	(672)	(2,141)
Net equity	$ 5,966	$ 3,828		$ 4,397	$ 1,309	$ 6,016

(Millions of dollars)	Star	Caltex Group	Other Affiliates	Total Texaco's Share
1997				
Gross revenue	$ 7,758	$ 18,357	$ 4,028	$ 14,641
Income before income taxes	$ 301	$ 1,210	$ 605	$ 940
Net income	$ 196	$ 846	$ 400	$ 616
As of December 31:				
Current assets	$ 1,042	$ 2,521	$ 947	$ 1,965
Noncurrent assets	3,260	7,193	3,607	6,324
Current liabilities	(769)	(2,991)	(1,032)	(2,270)
Noncurrent liabilities	(1,072)	(2,131)	(2,022)	(2,198)
Net equity	$ 2,461	$ 4,592	$ 1,500	$ 3,821

(Millions of dollars)	Star	Caltex Group	Other Affiliates	Total Texaco's Share
1996				
Gross revenue	$ 8,006	$ 18,166	$ 3,940	$ 14,644
Income before income taxes	$ 38	$ 2,175	$ 697	$ 1,310
Net income	$ 25	$ 1,193	$ 451	$ 669
As of December 31:				
Current assets	$ 816	$ 2,681	$ 1,049	$ 1,937
Noncurrent assets	3,204	6,714	3,853	6,354
Current liabilities	(704)	(2,999)	(1,182)	(2,329)
Noncurrent liabilities	(1,141)	(2,140)	(1,845)	(2,151)
Net equity	$ 2,175	$ 4,256	$ 1,875	$ 3,811

Note 7 Properties, Plant and Equipment

	Gross		Net	
(Millions of dollars) As of December 31	1998	1997	1998	1997
Exploration and production				
United States	$ 21,993	$ 21,698	$ 7,963	$ 7,951
International	7,532	6,789	2,929	2,692
Total	29,525	28,487	10,892	10,643
Manufacturing, marketing and distribution				
United States	74	4,600	26	2,743
International	4,486	4,309	3,054	2,894
Total	4,560	8,909	3,080	5,637
Global gas marketing	647	593	271	224
Other	762	967	518	612
Total	$ 35,494	$ 38,956	$ 14,761	$ 17,116
Capital lease amounts included above	$ 264	$ 450	$ 79	$ 105

Accumulated depreciation, depletion and amortization totaled $20,733 million and $21,840 million at December 31, 1998 and 1997. Interest capitalized as part of properties, plant and equipment was $21 million in 1998, $20 million in 1997 and $12 million in 1996.

In 1998, we recorded pre-tax charges of $150 million for the write-downs of impaired assets. These charges were recorded to depreciation, depletion and amortization expense.

In the U.S. exploration and production operating segment, pre-tax asset write-downs for impaired properties in Louisiana and Canada were $64 million. The Louisiana property represents an unsuccessful enhanced recovery project. We determined in the fourth quarter of 1998 that the carrying value of this property exceeded future undiscounted cash flows. Fair value was determined by discounting expected future cash flows. Canadian properties were impaired following our decision in October 1998 to exit the upstream business in Canada. These properties were written down to their sales price with the sale closing in December 1998.

In the international exploration and production operating segment, the pre-tax asset write-down for the impairment of our investment in the Strathspey field in the U.K. North Sea was $58 million. The Strathspey impairment was caused by a downward revision in the fourth quarter of the estimated volume of the field's proved reserves. Fair value was determined by discounting expected future cash flows.

In the U.S. downstream operating segment, the pre-tax asset write-downs for the impairment of surplus facilities and equipment not transferred to the Equilon joint venture was $28 million. Fair value was determined by an independent appraisal.

In 1997, we recorded pre-tax charges of $63 million for the write-downs of impaired assets. These assets, consisting of producing properties and gas plants, were in the U.S. and international exploration and production operating segments. These charges were recorded to depreciation, depletion and amortization expense. Fair values were based on expected future discounted cash flows.

Note 8 Foreign Currency

Currency translations resulted in a pre-tax loss of $80 million in 1998, $59 million in 1997 and $60 million in 1996. After applicable taxes, 1998 included a loss of $94 million compared to a gain of $154 million in 1997 and a loss of $66 million in 1996.

After-tax currency impacts for the years 1998 and 1997 were largely due to currency volatility in Asia. In 1998, our Caltex affiliate incurred significant currency-related losses due to the strengthening of the Korean won and Japanese yen against the U.S. dollar. In contrast, those currencies weakened against the U.S. dollar in 1997 which resulted in significant currency-related gains.

Results for 1996 through 1998 were also impacted by the effect of currency rate changes on deferred income taxes denominated in British pounds. In 1998 and 1996, the U.S. dollar weakened against that currency causing us to record losses of $5 million and $58 million. In 1997, when the U.S. dollar strengthened, we recorded a gain of $28 million.

Effective October 1, 1997, Caltex changed the functional currency for its operations in its Korean and Japanese affiliates to the U.S. dollar.

Currency translation adjustments shown in the separate stockholders' equity account result from translation items

pertaining to certain affiliates of Caltex. For the years 1998, 1997 and 1996 these adjustments were losses of $2 million, $40 million and $126 million. The year 1996 includes the reversal of $60 million of previously deferred gains which were recognized in earnings due to the sale by Caltex of its investment in its Japanese affiliate, NPRC.

Note 9 Taxes

(Millions of dollars)	1998	1997	1996
Federal and other income taxes			
Current			
U.S. Federal	$ (45)	$ (538)	$ 359
Foreign	283	689	642
State and local	12	61	(16)
Total	250	212	985
Deferred			
U.S.	(104)	457	13
Foreign	(48)	(6)	(33)
Total	(152)	451	(20)
Total income taxes	98	663	965
Taxes other than income taxes			
Oil and gas production	70	127	114
Property	108	139	119
Payroll	119	125	120
Other	126	129	143
Total	423	520	496
Import duties and other levies			
U.S.	36	53	38
Foreign	6,843	5,414	4,127
Total	6,879	5,467	4,165
Total direct taxes	7,400	6,650	5,626
Taxes collected from consumers	2,148	3,370	3,237
Total all taxes	$ 9,548	$ 10,020	$ 8,863

The deferred income tax assets and liabilities included in the Consolidated Balance Sheet as of December 31, 1998 and 1997 amounted to $205 million and $145 million, as net current assets and $1,644 million and $1,825 million, as net noncurrent liabilities. The table that follows shows deferred income tax assets and liabilities by category:

	(Liability) Asset	
(Millions of dollars) As of December 31	1998	1997
Depreciation	$(1,079)	$(1,054)
Depletion	(429)	(601)
Intangible drilling costs	(726)	(826)
Other deferred tax liabilities	(686)	(755)
Total	(2,920)	(3,236)
Employee benefit plans	532	526
Tax loss carryforwards	641	728
Tax credit carryforwards	368	237
Environmental liabilities	116	167
Other deferred tax assets	639	580
Total	2,296	2,238
Total before valuation allowance	(624)	(998)
Valuation allowance	(815)	(682)
Total	$(1,439)	$(1,680)

The preceding table excludes certain potential deferred income tax asset amounts for which possibility of realization is extremely remote.

The valuation allowance relates principally to upstream operations in Denmark. The related deferred income tax assets result from tax loss carryforwards and book versus tax asset basis differences for hydrocarbon tax. Loss carryforwards from this tax are generally determined by individual field and, in that case, are not usable against other fields' taxable income.

The following schedule reconciles the differences between the U.S. Federal income tax rate and the effective income tax rate excluding the cumulative effect of accounting change in 1998:

	1998	1997	1996
U.S. Federal income tax rate assumed to be applicable	35.0%	35.0%	35.0%
IRS settlement	--	(14.7)	--
Net earnings and dividends attributable to affiliated corporations accounted for on the equity method	(7.0)	(4.7)	(5.5)
Aggregate earnings and losses from international operations	10.4	6.2	12.7
Tax adjustments	(8.7)	(.3)	(.4)
Sales of stock of subsidiaries	(6.1)	--	(6.3)
Energy credits	(11.7)	(1.4)	(1.9)
Other	2.1	(.2)	(1.2)
Effective income tax rate	14.0%	19.9%	32.4%

The year 1997 included a $488 million benefit resulting from an IRS settlement.

For companies operating in the United States, pre-tax earnings before the cumulative effect of an accounting change aggregated $194 million in 1998, $1,527 million in 1997 and $1,783 million in 1996. For companies with operations located outside the United States, pre-tax earnings on that basis aggregated $507 million in 1998, $1,800 million in 1997 and $1,200 million in 1996.

Income taxes paid, net of refunds, amounted to $430 million, $285 million and $917 million in 1998, 1997 and 1996.

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, 1998, amounted to $1,328 million and $2,226 million. The corresponding amounts at December 31, 1997 were $1,482 million and $2,313 million. Determination of the unrecognized U.S. deferred income taxes on these amounts is not practicable.

For the years 1998 and 1997, no loss carryforward benefits were recorded for U.S. Federal income taxes. For the year 1996, we recorded a benefit of $184 million for loss carryforwards. For the years 1998, 1997 and 1996, the tax benefits recorded for loss carryforwards were $30 million, $31 million and $16 million in foreign income taxes.

At December 31, 1998, we had worldwide tax basis loss carryforwards of approximately $1,692 million, including $967 million which do not have an expiration date. The remainder expire at various dates through 2019.

Foreign tax credit carryforwards available for U.S. Federal income tax purposes amounted to approximately $113 million at December 31, 1998, expiring at various dates through 2003. Alternative minimum tax and other tax credit carryforwards available for U.S. Federal income tax purposes were $368 million at December 31, 1998, of which $317 million have no expiration date. The remaining credits expire at various dates through 2013. The credits that are not utilized by the expiration dates may be taken as deductions for U.S. Federal income tax purposes. For the year 1998, we recorded tax credit carryforwards of $52 million for U.S. Federal income tax purposes.

Note 10 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	1998	1997
Notes payable to banks and others with originating terms of one year or less	$ 368	$ 473
Commercial paper	1,617	892
Current portion of long-term debt and capital lease obligations		
Indebtedness	991	1,005
Capital lease obligations	13	15
	2,989	2,385
Less short-term obligations intended to be refinanced	2,050	1,500
Total	$ 939	$ 885

The weighted average interest rates of commercial paper and notes payable to banks at December 31, 1998 and 1997 were 5.9% and 6.1%.

Long-term Debt and Capital Lease Obligations

(Millions of dollars) As of December 31	1998	1997
Long-Term Debt		
3-1/2% convertible notes due 2004	$ 204	$ 205
5.7% notes due 2008	201	--
6% notes due 2005	299	--
6-7/8% notes due 1999	200	200
6-7/8% debentures due 2023	196	195
7.09% notes due 2007	150	150
7-1/2% debentures due 2043	198	198
7-3/4% debentures due 2033	199	199
8% debentures due 2032	147	147
8-1/4% debentures due 2006	150	150
8-3/8% debentures due 2022	198	198
8-1/2% notes due 2003	199	199
8-5/8% debentures due 2010	150	150
8-5/8% debentures due 2031	199	199
8-5/8% debentures due 2032	199	199
8.65% notes due 1998	--	200
8-7/8% debentures due 2021	150	150
9% notes due 1999	200	200
9-3/4% debentures due 2020	250	250
10.61% notes due 2005	--	206
Medium-term notes, maturing from 1999 to 2043 (7.5%)	543	489
Revolving Credit Facility, due 1999-2002 - variable rate (5.9%)	309	330
Pollution Control Revenue Bonds, due 2012 - variable rate (3.3%)	166	166
Other long-term debt:		
Texaco Inc. - Guarantee of ESOP Series F loan - variable rate (6.6%)	2	76
U.S. dollars (6.5%)	335	417
Other currencies (11.2%)	394	20
Total	5,238	4,893
Capital Lease Obligations (see Note 11)	68	134
	5,306	5,027
Less current portion of long-term debt and capital lease obligations	1,004	1,020
	4,302	4,007
Short-term obligations intended to be refinanced	2,050	1,500
Total long-term debt and capital lease obligations	$ 6,352	$ 5,507

The percentages shown for variable-rate debt are the interest rates at December 31, 1998. The percentages shown for the categories "Medium-term notes" and "Other long-term debt" are the weighted average interest rates at year-end 1998. Where applicable, principal amounts shown in the preceding schedule include unamortized premium or discount. Interest paid, net of amounts capitalized, amounted to $474 million in 1998, $395 million in 1997 and $433 million in 1996.

At December 31, 1998, we had revolving credit facilities with commitments of $2.05 billion with syndicates of major U.S. and international banks. These facilities are available as support for our issuance of commercial paper as well as for working capital and other general corporate purposes. We had no amounts outstanding under these facilities at year-end 1998. We pay commitment fees on these facilities. The banks reserve the right to terminate the credit facilities upon the occurrence of certain specific events, including change in control.

At December 31, 1998, our long-term debt included $2.05 billion of short-term obligations scheduled to mature during 1999, which we have both the intent and the ability to refinance on a long-term basis through the use of our $2.05 billion revolving credit facilities.

Contractual annual maturities of long-term debt, including sinking fund payments and potential repayments resulting from options that debtholders might exercise, for the five years subsequent to December 31, 1998 are as follows (in millions):

1999	2000	2001	2002	2003
$ 991	$ 211	$ 219	$ 246	$ 272

Debt-related Derivatives

We seek to maintain a balanced capital structure that provides financial flexibility and supports our strategic objectives while achieving a low cost of capital. This is achieved by balancing our liquidity and interest rate exposures. We manage these exposures primarily through long-term and short-term debt on the balance sheet. As part of our interest rate exposure management, we seek 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. To achieve this objective, we also use off-balance sheet derivative instruments,

primarily interest rate swaps, to manage identifiable exposures on a non-leveraged, non-speculative basis.

Summarized below are the carrying amounts and fair values of our debt and debt-related derivatives at December 31, 1998 and 1997, excluding a combined interest rate and

equity swap entered into in 1997. Derivative usage during the periods presented was limited to interest rate swaps, where we either paid or received the net effect of a fixed rate versus a floating rate (commercial paper or LIBOR) index at specified intervals, calculated by reference to an agreed notional principal amount.

(Millions of dollars) As of December 31	1998	1997
Notes Payable and Commercial Paper:		
Carrying amount	$ 1,985	$ 1,365
Fair value	1,985	1,365
Related Derivatives - Payable (Receivable):		
Carrying amount	$ --	$ --
Fair value	17	3
Notional principal amount	$ 300	$ 300
Weighted average maturity (years)	8.3	9.3
Weighted average fixed pay rate	6.42%	6.42%
Weighted average floating receive rate	5.32%	6.09%
Long-Term Debt, including Current maturities:		
Carrying amount	$ 5,238	$ 4,893
Fair value	5,842	5,289
Related Derivatives - Payable (Receivable):		
Carrying amount	$ --	$ --
Fair value	(9)	(1)
Notional principal amount	$ 449	$ 544
Weighted average maturity (years)	8.4	.7
Weighted average fixed receive rate	6.24%	5.71%
Weighted average floating pay rate	5.03%	5.76%
Unamortized net gain on terminated swaps		
Carrying amount	$ 5	$ 8

Excluded from this table is an interest rate and equity swap with a notional principal amount of $200 million entered into in 1997, related to the 3-1/2% notes due 2004. We pay floating rate and receive fixed rate. Also, the counterparty assumes all exposure for the potential equity-based cash redemption premium on the notes. The fair value of this swap at year-end 1998 and 1997 was not material.

During 1998, floating rate pay swaps having an aggregate notional principal amount of $503 million were amortized or matured. We initiated $466 million of new floating rate pay swaps. There was no activity in fixed rate pay swaps during 1998.

Fair values of debt are based upon quoted market prices, as well as rates currently available to us for borrowings with similar terms and maturities. We estimate the fair value of swaps as the amount that would be received or paid to terminate the agreements at year-end, taking into account current interest rates and the current creditworthiness of the swap counterparties. The notional amounts of derivative contracts do not represent cash flow and are not subject to credit risk.

Amounts receivable or payable based on the interest rate differentials of derivatives are accrued monthly and are reflected in interest expense as a hedge of interest on outstanding debt. Gains and losses on terminated swaps are deferred and amortized over the life of the associated debt or the original term of the swap, whichever is shorter.

Note 11 Lease Commitments and Rental Expense

We have leasing arrangements involving service stations, tanker charters, crude oil production and processing equipment and other facilities. We reflect amounts due under capital leases in our balance sheet as obligations, while we reflect our interest in the related assets as properties, plant and equipment. The remaining lease commitments are operating leases, and we record payments on such leases as rental expense.

As of December 31, 1998, we 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
1999	$ 154	$ 13
2000	112	12
2001	95	18
2002	323	8
2003	56	8
After 2003	320	21
Total lease commitments	$ 1,060	$ 80
Less interest		12
Present value of total capital lease obligations		$ 68

Operating lease commitments for 2002 include a $213 million residual value guarantee of leased production facilities. Payment is required only if we do not renew the lease.

Rental expense relative to operating leases, including contingent rentals based on factors such as gallons sold, is provided in the table below. Such payments do not include rentals on leases covering oil and gas mineral rights.

(Millions of dollars)	1998	1997	1996
Rental expense			
Minimum lease rentals	$ 208	$ 270	$ 259
Contingent rentals	--	3	10
Total	208	273	269
Less rental income on properties subleased to others	50	78	53
Net rental expense	$ 158	$ 195	$ 216

Note 12 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.

Employee Stock Ownership Plans (ESOP)

We recorded ESOP expense of $1 million in 1998, $2 million in 1997 and $15 million in 1996. Our contributions to the Employees Thrift Plan of Texaco Inc. and the Employees Savings Plan of Texaco Inc. amounted to $1 million in 1998, $2 million in 1997 and $26 million in 1996. These plans are designed to provide participants with a benefit of approximately 6% of base pay, as well as any benefits earned under the current employee Performance Compensation Program. ESOP expenses in 1996 included $9 million for the 1995 employee incentive award program.

In 1998, 1997 and 1996, we paid $42 million, $44 million and $46 million in dividends on Series B and Series F stock. The trustee applies the dividends to fund interest payments which amounted to $5 million, $7 million and $10 million for 1998, 1997 and 1996, 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. In November 1998 and December 1997, a portion of the original Thrift Plan ESOP loan was refinanced through a company loan. The refinancing will extend the ESOP for a period of up to six years.

We reflect in our long-term debt the plans' original ESOP loans guaranteed by Texaco Inc. As we repay the original and refinanced ESOP loans, we reduce the remaining ESOP-related unearned employee compensation included as a component of stockholders' equity.

Benefit Plan Trust

We have established a benefit plan trust for funding company obligations under some of our benefit plans. At year-end 1998, the trust contained 9.2 million shares of treasury stock. We intend to continue to pay our obligations under our benefit plans. The trust will use the shares, proceeds from the sale of such shares and dividends on such shares to pay benefits only to the extent that we do not pay such benefits. The trustee will vote the shares held in the trust as instructed by the trust's beneficiaries. The shares held by the trust are not considered outstanding for earnings per share purposes until distributed or sold by the trust in payment of benefit obligations.

Termination Benefits

In the fourth quarter of 1998, we recorded an after-tax charge of $80 million for employee separations, curtailment costs and special termination benefits associated with our previously-announced restructuring of our worldwide upstream and natural gas businesses, along with our corporate center restructuring and other cost-cutting initiatives, primarily in the international downstream areas. The charge was comprised of $88 million of operating expenses, $27 million of selling, general and administrative expenses and $35 million in related income tax benefits. Under the restructuring program, we estimate that over 1,400 employee reductions worldwide will occur, substantially by the end of the first quarter of 1999. Through December 31, 1998, we have terminated 433 employees and we paid $15 million of benefits under this program. The remaining benefits will be paid in future periods in accordance with plan provisions.

We recorded an after-tax charge of $56 million in the fourth quarter of 1996 to cover the costs of employee

separations, including employees of affiliates, as a result of a companywide realignment and consolidation of our operations. We recorded an adjustment of $6 million in the fourth quarter of 1997 to increase the accrual from the previous amount. The program was completed by the end of 1997 with the reduction of approximately 920 employees. During 1998, we paid $8 million of benefits under this program. The remaining benefits of $12 million will be paid in future periods in accordance with plan provisions.

Pension Plans

We sponsor pension plans that cover the majority of our employees. Generally, these plans provide defined pension benefits based on years of service and final average pay. Pension plan assets are principally invested in equity and fixed income securities and deposits with insurance companies.

Total worldwide expense for all employee pension plans of Texaco, including pension supplementations and smaller non-U.S. plans, was $92 million in 1998 and 1997 and $91 million in 1996. The following data are provided for principal U.S. and non-U.S. plans:

	Pension Benefits					
	1998		1997		Other U.S. Benefits	
(Millions of dollars) As of December 31	U.S.	Int'l	U.S.	Int'l	1998	1997
Changes in Benefit (Obligations)						
Benefit (obligations) at January 1	$(1,769)	$ (835)	$(1,657)	$ (801)	$ (756)	$ (699)
Service cost	(60)	(21)	(54)	(17)	(9)	(6)
Interest cost	(117)	(86)	(117)	(85)	(50)	(49)
Amendments	--	(3)	(18)	--	--	(5)
Actuarial gain/(loss)	(191)	(117)	(85)	(74)	8	(39)
Employee contributions	(4)	(3)	(4)	(1)	(12)	(10)
Benefits paid	240	70	182	59	56	53
Curtailments/settlements	17	--	--	--	(7)	--
Special termination benefits	(12)	--	--	(1)	(3)	--
Currency adjustments	--	16	--	85	--	--
Acquisitions/joint ventures	12	--	(16)	--	--	(1)
Benefit (obligations) at December 31	$(1,884)	$ (979)	$(1,769)	$ (835)	$ (773)	$ (756)
Changes in Plan Assets						
Fair value of plan assets at January 1	$ 1,702	$ 900	$ 1,483	$ 829	$ --	$ --
Actual return on plan assets	293	142	304	166	--	--
Company contributions	90	32	87	27	44	43
Employee contributions	4	3	4	1	12	10
Expenses	(6)	(2)	(5)	(2)	--	--
Benefits paid	(240)	(70)	(182)	(59)	(56)	(53)
Currency adjustments	--	23	--	(62)	--	--
Acquisitions/joint ventures	(17)	--	11	--	--	--
Fair value of plan assets at December 31	$ 1,826	$ 1,028	$ 1,702	$ 900	$ --	$ --

(Millions of dollars) As of December 31	Pension Benefits 1998 U.S.	Pension Benefits 1998 Int'l	Pension Benefits 1997 U.S.	Pension Benefits 1997 Int'l	Other U.S. Benefits 1998	Other U.S. Benefits 1997
Funded Status of the Plans						
Obligation (greater than) less than assets	$ (58)	$ 49	$ (67)	$ 65	$(773)	$(756)
Unrecognized net transition asset	(14)	(14)	(21)	(23)	--	--
Unrecognized prior service cost	68	52	85	46	4	5
Unrecognized actuarial (gain)/loss	(93)	4	(100)	(53)	(92)	(94)
Net (liability)/asset recorded in Texaco's Consolidated Balance Sheet	$ (97)	$ 91	$(103)	$ 35	$(861)	$(845)
Net (liability)/asset recorded in Texaco's Consolidated Balance Sheet consists of:						
Prepaid benefit asset	$ 72	$ 346	$ 64	$ 303	$ --	$ --
Accrued benefit liability	(215)	(268)	(195)	(299)	(861)	(845)
Intangible asset	23	12	21	22	--	--
Other accumulated nonowner equity	23	1	7	9	--	--
Net (liability)/asset recorded in Texaco's Consolidated Balance Sheet	$ (97)	$ 91	$(103)	$ 35	$(861)	$(845)
Assumptions as of December 31						
Discount rate	6.75%	9.5%	7.0%	10.9%	6.75%	7.0%
Expected return on plan assets	10.0%	8.4%	10.0%	8.5%	--	--
Rate of compensation increase	4.0%	6.1%	4.0%	6.2%	4.0%	4.0%
Health care cost trend rate	--	--	--	--	4.0%	4.0%

(Millions of dollars) As of December 31	Pension Benefits 1998 U.S.	Pension Benefits 1998 Int'l	Pension Benefits 1997 U.S.	Pension Benefits 1997 Int'l	Pension Benefits 1996 U.S.	Pension Benefits 1996 Int'l	Other U.S. Benefits 1998	Other U.S. Benefits 1997	Other U.S. Benefits 1996
Components of Net Periodic Benefit Expenses									
Service cost	$ 60	$ 21	$ 54	$ 17	$ 57	$ 16	$ 9	$ 6	$ 12
Interest cost	117	86	117	85	117	81	50	49	51
Expected return on plan assets	(136)	(79)	(132)	(66)	(130)	(64)	--	--	--
Amortization of transition asset	(4)	(10)	(5)	(8)	(5)	(8)	--	--	--
Amortization of prior service cost	11	7	10	6	10	6	--	--	--
Amortization of (gain)/loss	6	(2)	3	--	3	2	(4)	(5)	(1)
Curtailments/settlements	6	--	--	--	--	--	1	--	--
Special termination charges	8	--	--	--	--	--	2	--	--
Net periodic benefit expense	$ 68	$ 23	$ 47	$ 34	$ 52	$ 33	$ 58	$ 50	$ 62

For pension plans with accumulated obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets were $414 million, $383 million and $0 as of December 31, 1998, and $412 million, $384 million and $11 million as of December 31, 1997.

We acquired Monterey on November 1, 1997, including their pension and postretirement benefit plans. We amended our plans to authorize Monterey to become a participating employer in our plans. In connection with the formation of Equilon, effective January 1, 1998, we transferred to Equilon pension benefit obligations of $12 million and related plan assets of $17 million.

Other U.S. Benefits

We sponsor postretirement plans in the U.S. that provide health care and life insurance for retirees and eligible dependents. Our U.S. health insurance obligation is our fixed dollar contribution. The plans are unfunded, and the costs are shared by us and our employees and retirees. Certain of the company's non-U.S. subsidiaries have postretirement benefit plans, the cost of which is not significant to the company. For measurement purposes, the fixed dollar contribution is expected to increase by 4% per annum for all future years.

A change in our fixed dollar contribution has a significant effect on the amounts we report. A 1% change in our contributions would have the following effects:

(Millions of dollars)	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on annual total of service and interest cost components	$ 5	$ (4)
Effect on postretirement benefit obligation	$ 52	$(45)

Note 13 Stock Incentive Plan

Under our Stock Incentive Plan, stock options, restricted stock and other incentive award forms may be granted to executives, directors and key employees to provide motivation to enhance the company's success and increase shareholder value. The maximum number of shares that may be awarded as stock options or restricted stock under the plan is 1% of the common stock outstanding on December 31 of the previous year. The following table summarizes the number of shares at December 31, 1998, 1997 and 1996 available for awards during the subsequent year:

(Shares) As of December 31	1998	1997	1996
To all participants	12,677,325	9,607,506	7,027,010
To those participants not officers or directors	1,967,715	2,362,273	1,932,796
Total	14,645,040	11,969,779	8,959,806

Restricted shares granted under the plan contain a performance element which must be satisfied in order for all or a specified portion of the shares to vest. Restricted performance shares awarded in each year under the plan were as follows:

	1998	1997	1996
Shares	334,798	281,174	282,476
Weighted average fair value	$ 61.59	$ 55.09	$ 42.43

Stock options granted under the plan extend for 10 years from the date of grant and vest over a two year period at a rate of 50% in the first year and 50% in the second year. The exercise price cannot be less than the fair market value of the underlying shares of common stock on the date of the grant. The plan provides for restored options. This feature enables a participant who exercises a stock option by exchanging previously acquired common stock or who has shares withheld by us to satisfy tax withholding obligations, to receive new options equal to the number of shares exchanged or withheld. The restored options are fully exercisable six months after the date of grant and the exercise price is the fair market value of the common stock on the day the restored option is granted.

We apply APB Opinion 25 in accounting for our stock-based compensation programs. Stock-based compensation expense recognized in connection with the plan was $17 million in 1998, $18 million in 1997 and $13 million in 1996. Had we accounted for our plan using the accounting method recommended by SFAS 123, net income and earnings per share would have been the pro forma amounts below:

	1998	1997	1996
Net income (Millions of dollars)			
As reported	$ 578	$ 2,664	$ 2,018
Pro forma	$ 524	$ 2,621	$ 1,997
Earnings per share (dollars)			
Basic-- as reported	$ .99	$ 4.99	$ 3.77
-- pro forma	$ .89	$ 4.91	$ 3.73
Diluted-- as reported	$ .99	$ 4.87	$ 3.68
-- pro forma	$ .89	$ 4.79	$ 3.64

We used the Black-Scholes model with the following assumptions to estimate the fair market value of options at date of grant:

	1998	1997	1996
Expected life	2 yrs	2 yrs	3 yrs
Interest rate	5.4%	6.0%	6.1%
Volatility	22.5%	18.6%	15.0%
Dividend yield	3.0%	3.0%	3.3%

Option award activity during 1998, 1997 and 1996 is summarized in the following table:

(Stock Options)	1998 Shares	1998 Weighted-Average Exercise Price	1997 Shares	1997 Weighted-Average Exercise Price	1996 Shares	1996 Weighted-Average Exercise Price
Outstanding January 1	10,071,307	$53.31	9,436,406	$42.73	9,335,288	$33.45
Granted	2,388,593	61.56	2,084,902	55.06	2,040,530	42.43
Exercised	(7,732,978)	53.18	(9,533,861)	44.86	(8,088,040)	34.22
Restored	6,889,941	60.77	8,103,502	55.32	6,271,720	45.52
Canceled	(814)	78.08	(19,642)	51.43	(123,092)	36.77
Outstanding December 31	11,616,049	59.48	10,071,307	53.31	9,436,406	42.73
Exercisable December 31	5,945,445	58.93	3,197,262	51.21	2,853,236	39.20
Weighted-average fair value of options granted during the year		$ 8.48		$ 6.92		$ 5.50

The following table summarizes information on stock options outstanding at December 31, 1998:

Exercisable Price Range (per share)	Options Outstanding Shares	Options Outstanding Weighted-Average Remaining Life	Options Outstanding Weighted-Average Exercise Price	Options Exercisable Shares	Options Exercisable Weighted-Average Exercise Price
$23.39 - 31.84	54,329	3.6 yrs.	$ 30.00	54,329	$ 30.00
$32.06 - 78.08	11,561,720	6.2 yrs.	$ 59.62	5,891,116	$ 59.20
$23.39 - 78.08	11,616,049	6.2 yrs.	$ 59.48	5,945,445	$ 58.93

Note 14 Preferred Stock and Rights

Series B ESOP Convertible Preferred Stock

At December 31, 1998, the outstanding shares of Series B ESOP Convertible Preferred Stock (Series B) were held by an ESOP. Dividends on each share of Series B are cumulative and payable semiannually at the rate of $57 per annum.

Participants may partially convert Series B holdings into common stock beginning at age 55, and may elect full conversion upon retirement or separation from the company. Presently, each share of Series B entitles a participant to 25.7 votes, voting together with the holders of common stock, and is convertible into 25.736 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 cash, we will cause shares of common stock to be sold to fund such election. We may redeem the outstanding shares of Series B at $600 per share, subject to the participants' right to elect conversion to common stock at that time.

Series D Junior Participating Preferred Stock and Rights

In 1989, we declared a dividend distribution of one Right for each outstanding share of common stock. This was adjusted to one-half Right when we declared a two-for-one stock split in 1997. In 1998, our shareholders approved the extension of the Rights until May 1, 2004. Unless we redeem the Rights, the Rights will be exercisable only after a person(s) acquires, obtains the right to acquire or commences a tender offer that would result in that person(s) acquiring 20% or more of the outstanding common stock other than pursuant to a Qualifying Offer. A Qualifying Offer is an all-cash, fully financed tender offer for all outstanding shares of common stock which remains open for 45 days, which results in the acquiror owning a majority of the company's voting stock, and in which the acquiror agrees to purchase for cash all remaining shares of common stock. The Rights entitle holders to purchase from the company Units of Series D Junior Participating Preferred Stock (Series D). In general, each Right entitles the holder to acquire shares of Series D, or in certain cases common stock, property or other securities at a formula value equal to two times the exercise price of the Right.

We can redeem the Rights at one cent per Right at any time prior to 10 days after the Rights become exercisable. Until a Right becomes exercisable, the holder has no additional voting or dividend rights and it will not have any

dilutive effect on the company's earnings. We have reserved and designated 3 million shares as Series D for issuance upon exercise of the Rights. At December 31, 1998, the Rights are not exercisable.

Series F ESOP Convertible Preferred Stock

At December 31, 1998, the outstanding shares of Series F ESOP Convertible Preferred Stock were held by an ESOP. Dividends on each share of Series F were cumulative and payable semiannually at the rate of $64.53 per annum.

On February 16, 1999, each share of Series F was converted into 20 shares of common stock, after we called the Series F for redemption.

Market Auction Preferred Shares

There are outstanding 1,200 shares of cumulative variable rate preferred stock, called Market Auction Preferred Shares. The MAPS are grouped into four series (300 shares each of Series G, H, I and J) of $75 million each, with an aggregate value of $300 million.

The dividend rates for each series are determined by Dutch auctions conducted at seven-week intervals.

During 1998, the annual dividend rate for the MAPS ranged between 3.96% and 4.50% and dividends totaled $13 million ($11,280, $11,296, $11,227 and $11,218 per share for Series G, H, I and J).

For 1997, the annual dividend rate for the MAPS ranged between 3.88% and 4.29% and dividends totaled $11 million ($9,689, $9,650, $9,675 and $9,774 per share for Series G, H, I and J). For 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).

We may redeem the MAPS, in whole or in part, at any time at a liquidation preference of $250,000 per share, plus premium, if any, and accrued and unpaid dividends thereon.

The MAPS are non-voting, except under limited circumstances.

Note 15 Financial Instruments

In the normal course of our business, we utilize various types of financial instruments. These instruments include recorded assets and liabilities, and also items such as derivatives which principally involve off-balance sheet risk.

Derivatives are contracts whose value is derived from changes in an underlying commodity price, interest rate or other item. We use derivatives to reduce our exposure to changes in foreign exchange rates, interest rates and crude oil and natural gas prices. We do not use derivatives for speculative purposes. Derivative transactions expose us to counterparty credit risk. We place contracts only with parties where credit-worthiness has been pre-determined under credit policies. Also, we employ dollar limits. Therefore, risk of counterparty non-performance and exposure to concentrations of credit risk are limited.

CASH AND CASH EQUIVALENTS Fair value approximates cost as reflected in the Consolidated Balance Sheet at December 31, 1998 and 1997 because of the short-term maturities of these instruments. Cash equivalents are classified as held-to-maturity. The amortized cost of cash equivalents at December 31, 1998 and 1997 includes $72 million and $129 million of time deposits and $109 million and $47 million of commercial paper.

SHORT-TERM AND LONG-TERM INVESTMENTS Fair value is primarily based on quoted market prices and valuation statements obtained from major financial institutions. At December 31, 1998, our available-for-sale securities had an estimated fair value of $492 million, including gross unrealized gains and losses of $40 million and $8 million. At December 31, 1997, our available-for-sale securities had an estimated fair value of $621 million, including gross unrealized gains and losses of $47 million and $13 million. The available-for-sale securities consist primarily of debt securities issued by U.S. and foreign governments and corporations. The majority of these investments mature within five years.

Proceeds from sales of available-for-sale securities were $1,011 million in 1998, $1,040 million in 1997 and $1,503 million in 1996. These sales resulted in gross realized gains of $53 million in 1998, $48 million in 1997 and $51 million in 1996, and gross realized losses of $22 million, $19 million, and $17 million.

The estimated fair value of other long-term investments qualifying as financial instruments but not included above, for which it is practicable to estimate fair value, approximated the December 31, 1998 and 1997 carrying values of $331 million and $197 million.

SHORT-TERM DEBT, LONG-TERM DEBT AND RELATED DERIVATIVES Refer to Note 10 for additional information about debt and related derivatives outstanding at December 31, 1998 and 1997.

FORWARD EXCHANGE AND OPTION CONTRACTS As an international company, we are exposed to currency exchange risk. To hedge against adverse changes in foreign currency

exchange rates, we will enter into forward and option contracts to buy and sell foreign currencies. Shown below in U.S. dollars are the notional amounts of outstanding forward exchange contracts to buy and sell foreign currencies.

(Millions of dollars)	Buy	Sell
Australian dollars	$ 370	$ 60
British pounds	1,476	440
Danish krone	449	237
Dutch guilders	303	13
New Zealand dollars	126	13
Other European currencies	179	77
Other currencies	50	43
Total at December 31, 1998	$ 2,953	$ 883
Total at December 31, 1997	$ 1,845	$ 606

Market risk exposure on these contracts is essentially limited to currency rate movements. At year-end 1998, there were $8 million unrealized gains and $19 million unrealized losses related to these contracts. At year-end 1997, there were $5 million unrealized gains and $29 million unrealized losses.

We use forward exchange contracts to buy foreign currencies primarily to hedge the net monetary liability position of our European, Australian and New Zealand operations and to hedge portions of significant foreign currency capital expenditures and lease commitments. These contracts generally have terms of 60 days or less. Contracts that hedge foreign currency monetary positions are marked-to-market monthly. Any resultant gains and losses are included in income currently as other costs. At year-end 1998 and 1997, hedges of foreign currency commitments principally involved capital projects requiring expenditure of British pounds and Danish krone. The percentages of planned capital expenditures hedged at year-end were: British pounds - 54% in 1998 and 62% in 1997; Danish krone - 40% in 1998 and 74% in 1997. 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 1998 and 1997, net hedging gains of $50 million and $51 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 our investment portfolio denominated in foreign currencies. Our strategy is to hedge the full value of this portion of our investment portfolio and to close out forward contracts upon the sale or maturity of the corresponding investments. We value these contracts at market based on the foreign exchange rates in effect on the balance sheet dates. We record changes in the value of these contracts as part of the carrying amount of the related investments. We record related gains and losses, net of applicable income taxes, to stockholders' equity until the underlying investments are sold or mature.

PREFERRED SHARES OF SUBSIDIARIES Refer to Note 16 regarding derivatives related to subsidiary preferred shares.

PETROLEUM AND NATURAL GAS HEDGING We hedge a portion of the market risks associated with our crude oil, natural gas and petroleum product purchases, sales and exchange activities to reduce price exposure. All hedge transactions are subject to the company's corporate risk management policy which sets out dollar, volumetric and term limits, as well as to management approvals as set forth in our delegations of authorities.

We use established petroleum futures exchanges, as well as "over-the-counter" hedge instruments, including futures, options, swaps and other derivative products. In carrying out our hedging programs, we analyze our major commodity streams for fixed cost, fixed revenue and margin exposure to market price changes. Based on this corporate risk profile, forecasted trends and overall business objectives, we determine an appropriate strategy for risk reduction.

Hedge positions are marked-to-market for valuation purposes. Gains and losses on hedge transactions, which offset losses and gains on the underlying "cash market" transactions, are recorded to deferred income or charges until the hedged transaction is closed, or until the anticipated future purchases, sales or production occur. At that time, any gain or loss on the hedging contract is recorded to operating revenues as an increase or decrease in margins, or to inventory, as appropriate.

At December 31, 1998 and 1997, there were open derivative commodity contracts required to be settled in cash, consisting mostly of basis swaps related to location differences in prices. Notional contract amounts, excluding unrealized gains and losses, were $4,397 million and $974 million at year-end 1998 and 1997. These amounts principally represent future values of contract volumes over the remaining duration of outstanding swap contracts at the respective dates. These contracts hedge a small fraction of our business activities, generally for the next twelve months. Unrealized gains and losses on contracts outstanding at year-end 1998 were $161 million and $140 million, respectively. At year-end 1997, unrealized gains and losses were $93 million and $58 million, respectively.

Note 16 Other Financial Information, Commitments and Contingencies

Environmental Liabilities

Texaco Inc. and subsidiary companies have financial liabilities relating to environmental remediation programs which we believe are sufficient for known requirements. At December 31, 1998, the balance sheet includes liabilities of $285 million for future environmental remediation costs. Also, we have accrued $794 million for the future cost of restoring and abandoning existing oil and gas properties.

We have accrued for our probable environmental remediation liabilities to the extent reasonably measurable. We based our accruals for these obligations on technical evaluations of the currently available facts, interpretation of the regulations and our experience with similar sites. Additional accrual requirements for existing and new remediation sites may be necessary in the future when more facts are known. The potential also exists for further legislation which may provide limitations on liability. It is not possible to project the overall costs or a range of costs for environmental items beyond that disclosed above. This is due to uncertainty surrounding future developments, both in relation to remediation exposure and to regulatory initiatives. However, while future environmental expenditures in the petroleum industry are expected to be significant, 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 our financial position or to our operating results over any reasonable period of time.

Preferred Shares of Subsidiaries

Minority holders own $602 million of preferred shares of our subsidiary companies, which is reflected as minority interest in subsidiary companies in the Consolidated Balance Sheet.

MVP Production Inc., a subsidiary, has variable rate cumulative preferred shares of $75 million owned by one minority holder. The shares have voting rights and are redeemable in 2003. Dividends on these shares were $4 million in 1998, 1997 and 1996.

Texaco Capital LLC, another subsidiary, has three classes of preferred shares, all held by minority holders. The first class is 14 million shares totaling $350 million of Cumulative Guaranteed Monthly Income Preferred Shares, Series A (Series A). The second class is 4.5 million shares totaling $112 million of Cumulative Adjustable Rate Monthly Income Preferred Shares, Series B (Series B). The third class, issued in Canadian dollars, is 3.6 million shares totaling $65 million of Deferred Preferred Shares, Series C (Series C). Texaco Capital LLC's sole assets are notes receivable from Texaco Inc. The payment of dividends and payments on liquidation or redemption with respect to Series A, Series B and Series C are guaranteed by Texaco Inc.

The fixed dividend rate for Series A is 6-7/8% per annum. The annual dividend rate for Series B averaged 5.1% for 1998 and 5.9% for both 1997 and 1996. The dividend rate on Series B is reset quarterly per contractual formula. Dividends on Series A and Series B are paid monthly. Dividends on Series A for 1998, 1997 and 1996 totaled $24 million for each year. Annual dividends on Series B totaled $6 million for 1998 and $7 million for both 1997 and 1996.

Series A and Series B are redeemable under certain circumstances and, 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.

Dividends on Series C at a rate of 7.17% per annum, compounded annually, will be paid at the redemption date of February 28, 2005, unless earlier redemption occurs. Early redemption may result upon the occurrence of certain specific events.

We have entered into an interest rate and currency swap related to Series C preferred shares. The swap matures in the year 2005. Over the life of the interest rate swap component of the contract, we will make LIBOR-based floating rate interest payments based on a notional principal amount of $65 million. Canadian dollar interest will accrue to us at a fixed rate applied to the accreted notional principal amount, which was Cdn. $87 million at the inception of the swap.

The currency swap component of the transaction calls for us to exchange at contract maturity date $65 million for Cdn. $170 million, representing Cdn. $87 million plus accrued interest. The carrying amount of this contract represents the Canadian dollar accrued interest receivable by us. At year-end 1998 and 1997, the carrying amount and the fair value of this transaction were not material.

Series A, Series B and Series C preferred shares are non-voting, except under limited circumstances.

The above preferred stock issues currently require annual dividend payments of approximately $34 million. We are required to redeem $75 million of this preferred stock in 2003, $65 million (plus accreted dividends of $59 million) in 2005, $112 million in 2024 and $350 million in 2043. We have the ability to extend the required redemption dates for the $112 million and $350 million of preferred stock beyond 2024 and 2043.

Financial Guarantees

We have guaranteed the payment of certain debt, lease commitments and other obligations of third parties and affiliate companies. These guarantees totaled $797 million and $372 million at December 31, 1998 and 1997. The year-end 1998 amount includes $387 million of operating lease commitments of Equilon, our affiliate.

Exposure to credit risk in the event of non-payment by the obligors is represented by the contractual amount of these instruments. No loss is anticipated under these guarantees.

Additionally, in June 1997, our 50% owned affiliate, Caltex Petroleum Corporation (Caltex), received a claim from the United States Internal Revenue Service for $292 million in excise taxes, $140 million in penalties and $1.6 billion in interest. The IRS claim relates to sales of crude oil by Caltex to Japanese customers beginning in 1980. Caltex believes that the underlying claim for excise taxes and penalties is wrong and that the claim for interest is flawed. We believe that this claim is without merit and is not anticipated to be materially important in relation to our consolidated financial position or results of operations. In February 1999, the original letter of credit to the IRS for $2.3 billion, which Caltex arranged in order to litigate this claim, was increased to $2.5 billion. Texaco and its 50% partner, Chevron Corporation, have severally guaranteed Caltex' letter of credit obligation to a syndicate of banks.

Throughput Agreements

Texaco Inc. and certain of its subsidiary companies previously entered into certain long-term agreements wherein we committed to ship through affiliated pipeline companies and an offshore oil port sufficient volume of crude oil or petroleum products to enable these affiliated companies to meet a specified portion of their individual debt obligations, or, in lieu thereof, to advance sufficient funds to enable these affiliated companies to meet these obligations. In 1998, we assigned the shipping obligations to Equilon, our affiliate, but Texaco remains responsible for deficiency payments on virtually all of these agreements. Additionally, Texaco has entered into long-term purchase commitments with third parties for take or pay gas transportation. At December 31, 1998 and 1997, our maximum exposure to loss was estimated to be $500 million and $525 million.

However, based on our right of counterclaim against Equilon and unaffiliated third parties in the event of nonperformance, our net exposure was estimated to be $195 million and $422 million at December 31, 1998 and 1997.

No significant losses are anticipated as a result of these obligations.

Other Commitments

During 1997, 1996 and 1995, we sold leasehold interests in certain equipment not yet in service and received British pound payments totaling $530 million. Under a related agreement, in 1997 we leased back these leasehold interests. We made a British pound payment in 1997, which released us from future lease commitments under this agreement. This payment effectively repurchased the leasehold interests previously sold.

Litigation

Texaco and approximately fifty other oil companies are defendants in seventeen purported class actions. The actions are pending in Texas, New Mexico, Oklahoma, Louisiana, Utah, Mississippi and Alabama. The plaintiffs allege that the defendants undervalued oil produced from properties leased from the plaintiffs by establishing artificially low selling prices. They allege that these low selling prices resulted in the defendants underpaying royalties or severance taxes to them. Plaintiffs seek to recover royalty underpayments and interest. In some cases plaintiffs also seek to recover severance taxes and treble and punitive damages. Texaco and twenty-four other defendants have executed a settlement agreement with most of the plaintiffs that will resolve many of these disputes. The federal court in Texas has preliminarily approved the settlement and is considering final approval. Similar claims by the federal and various state governments remain unresolved.

It is impossible for us to ascertain the ultimate legal and financial liability with respect to contingencies and commitments. However, we do not anticipate that the aggregate amount of such liability in excess of accrued liabilities will be materially important in relation to our consolidated financial position or results of operations.

Report of Management

We are responsible for preparing Texaco's consolidated financial statements in accordance with generally accepted accounting principles. In doing so, we must use judgment and estimates when the outcome of events and transactions is not certain. Information appearing in other sections of this Annual Report is consistent with the financial statements.

Texaco's financial statements are based on its financial records. We rely on Texaco's internal control system to provide us reasonable assurance that these financial records are being accurately and objectively maintained and that the company's assets are being protected. The internal control system comprises:

- Corporate Conduct Guidelines that require all employees to obey all applicable laws, comply with company policies and maintain the highest ethical standards in conducting company business,

- An organizational structure in which responsibilities are defined and divided, and

- Written policies and procedures that cover initiating, reviewing, approving and recording transactions.

We require members of our management team to formally certify each year that the internal controls for their business units are operating effectively.

Texaco's internal auditors review and report on the effectiveness of internal controls during the course of their audits. Arthur Andersen LLP, selected by the Audit Committee and approved by stockholders, independently audits Texaco's financial statements. Arthur Andersen assesses the adequacy and effectiveness of Texaco's internal controls when determining the nature, timing and scope of their audit. We seriously consider all suggestions for improving Texaco's internal controls that are made by the internal and independent auditors.

The Audit Committee is comprised of seven directors who are not employees of Texaco. This Committee reviews and evaluates Texaco's accounting policies and reporting practices, internal auditing, internal controls, security and other matters. The Committee also evaluates the independence and professional competence of Arthur Andersen LLP and reviews the results and scope of their audit. The internal and independent auditors have free access to the Committee to discuss financial reporting and internal control issues.

/s/ Peter I. Bijur

Peter I. Bijur
Chairman of the Board and Chief Executive Officer

/s/ Patrick J. Lynch

Patrick J. Lynch
Senior Vice President and Chief Financial Officer

/s/ Robert C. Oelkers

Robert C. Oelkers
Vice President and 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, 1998 and 1997, and the related statements of consolidated income, cash flows, stockholders' equity and nonowner changes in equity for each of the three years in the period ended December 31, 1998. 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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

Arthur Andersen LLP
February 25, 1999

New York, N.Y.

Supplemental Oil and Gas Information

The following pages provide information required by Statement of Financial Accounting Standards No. 69, Disclosures about Oil and Gas Producing Activities.

Table I - Net Proved Reserves

The reserve quantities include only those quantities that are recoverable based upon reasonable estimates from sound geological and engineering principles. As additional information becomes available, these estimates may be revised. Also, we have a large inventory of potential hydrocarbon resources that we expect will increase our reserve base, as future investments are made in exploration and development programs.

- Proved developed reserves are reserves that we expect to be recovered through existing wells with existing equipment and operating methods.

- Proved undeveloped reserves are reserves that we expect to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for completion of development.

Table I

Net Proved Reserves of Crude Oil and Natural Gas Liquids (Millions of Barrels)

Net Proved Reserves of Natural Gas (Billions of Cubic Feet)

	Consolidated Subsidiaries					Equity	
	United States	Other West	Europe	Other East	Total	Affiliate - Other East	World-wide
Developed reserves	1,125	52	142	413	1,732	350	2,082
Undeveloped reserves	216	2	208	62	488	88	576
As of December 31, 1995	1,341	54	350	475	2,220	438	2,658
Discoveries & extensions	82	4	80	29	195	1	196
Improved recovery	20	--	--	--	20	81	101
Revisions	44	2	6	21	73	(3)	70
Net purchases (sales)	(23)	--	3	(1)	(21)	--	(21)
Production	(142)	(4)	(42)	(58)	(246)	(54)	(300)
Total changes	(19)	2	47	(9)	21	25	46
Developed reserves	1,100	50	165	418	1,733	354	2,087
Undeveloped reserves	222	6	232	48	508	109	617
As of December 31, 1996*	1,322	56	397	466	2,241	463	2,704
Discoveries & extensions	107	13	34	61	215	4	219
Improved recovery	15	--	65	--	80	18	98
Revisions	55	3	11	100	169	22	191
Net purchases (sales)	413	(2)	(31)	(8)	372	--	372
Production	(145)	(5)	(45)	(66)	(261)	(56)	(317)
Total changes	445	9	34	87	575	(12)	563
Developed reserves	1,374	54	210	463	2,101	354	2,455
Undeveloped reserves	393	11	221	90	715	97	812
As of December 31, 1997*	1,767	65	431	553	2,816	451	3,267
Discoveries & extensions	70	2	8	32	112	1	113
Improved recovery	136	--	16	3	155	156	311
Revisions	46	(15)	22	55	108	137	245
Net purchases (sales)	(38)	--	--	26	(12)	--	(12)
Production	(157)	(4)	(58)	(71)	(290)	(61)	(351)
Total changes	57	(17)	(12)	45	73	233	306
Developed reserves	1,415	39	246	490	2,190	456	2,646
Undeveloped reserves	409	9	173	108	699	228	927
As of December 31, 1998*	1,824	48	419	598	2,889	684	3,573
*Includes net proved NGL reserves							
As of December 31, 1996	207	1	54	1	263	6	269
As of December 31, 1997	246	--	71	--	317	4	321
As of December 31, 1998	272	--	68	--	340	6	346

	Consolidated Subsidiaries					Equity	
	United States	Other West	Europe	Other East	Total	Affiliate - Other East	World-wide
Developed reserves	3,666	522	452	84	4,724	140	4,864
Undeveloped reserves	396	325	492	3	1,216	15	1,231

As of December 31, 1995	4,062	847	944	87	5,940	155	6,095
Discoveries and extensions	436	263	34	3	736	15	751
Improved recovery	8	--	--	--	8	1	9
Revisions	(99)	(1)	58	13	(29)	--	(29)
Net purchases (sales)	(53)	(7)	--	1	(59)	--	(59)
Production	(626)	(71)	(75)	(4)	(776)	(18)	(794)
Total changes	(334)	184	17	13	(120)	(2)	(122)
Developed reserves	3,360	893	452	96	4,801	136	4,937
Undeveloped reserves	368	138	509	4	1,019	17	1,036
As of December 31, 1996*	3,728	1,031	961	100	5,820	153	5,973
Discoveries and extensions	692	26	92	346	1,156	2	1,158
Improved recovery	7	--	22	--	29	5	34
Revisions	228	75	41	(22)	322	19	341
Net purchases (sales)	10	(118)	(7)	(310)	(425)	--	(425)
Production	(643)	(96)	(81)	(2)	(822)	(17)	(839)
Total changes	294	(113)	67	12	260	9	269
Developed reserves	3,379	792	576	110	4,857	145	5,002
Undeveloped reserves	643	126	452	2	1,223	17	1,240
As of December 31, 1997*	4,022	918	1,028	112	6,080	162	6,242
Discoveries and extensions	599	6	47	98	750	1	751
Improved recovery	4	--	7	--	11	3	14
Revisions	152	(12)	(6)	34	168	10	178
Net purchases (sales)	(39)	--	--	250	211	--	211
Production	(633)	(92)	(112)	(17)	(854)	(25)	(879)
Total changes	83	(98)	(64)	365	286	(11)	275
Developed reserves	3,345	688	615	374	5,022	135	5,157
Undeveloped reserves	760	132	349	103	1,344	16	1,360
As of December 31, 1998*	4,105	820(a)	964	477	6,366(a)	151	6,517(a)

(a) Additionally, there is approximately 586 BCF of natural gas in Other West which will be available from production during the period 2005-2016 under a long-term purchase associated with a service agreement.

The following chart summarizes our experience in finding new quantities of oil and gas to replace our production. Our reserve replacement performance is calculated by dividing our reserve additions by our production. Our additions relate to new discoveries, existing reserve extensions, improved recoveries and revisions to previous reserve estimates. The chart excludes oil and gas quantities from purchases and sales.

	Worldwide	United States	International
Year 1998	166%	144%	191%
Year 1997	167%	132%	212%
Year 1996	113%	83%	154%
3 year average	150%	120%	187%
5 year average	138%	113%	171%

Table II - Standardized Measure

The standardized measure provides a common benchmark among those companies that have exploration and producing activities. This measure may not necessarily match our view of the future cash flows from our proved reserves.

The standardized measure is calculated at a 10% discount. Future revenues are based on year-end prices for liquids and gas. Future production and development costs are based on current year costs. Extensive judgement is used to estimate the timing of production and future costs over the remaining life of the reserves. Future income taxes are calculated using each country's statutory tax rate.

Our inventory of potential hydrocarbon resources, which may become proved in the future, are excluded. This could significantly impact our standardized measure in the future.

Table II - Standardized Measure of Discounted Future Net Cash Flows

	Consolidated Subsidiaries					Equity	
(Millions of dollars)	United States	Other West	Europe	Other East	Total	Affiliate - Other East	Worldwide
As of December 31, 1998							
Future cash inflows from sale of oil & gas, and service fee revenue	$ 23,147	$ 1,657	$ 6,581	$ 4,816	$ 36,201	$ 4,708	$ 40,909
Future production costs	(10,465)	(605)	(2,574)	(2,551)	(16,195)	(1,992)	(18,187)
Future development costs	(4,055)	(142)	(1,695)	(761)	(6,653)	(803)	(7,456)
Future income tax expense	(2,583)	(419)	(715)	(1,023)	(4,740)	(967)	(5,707)
Net future cash flows before discount	6,044	491	1,597	481	8,613	946	9,559
10% discount for timing of future cash flows	(2,626)	(244)	(644)	(167)	(3,681)	(391)	(4,072)
Standardized measure of discounted future net cash flows	$ 3,418	$ 247	$ 953	$ 314	$ 4,932	$ 555	$ 5,487
As of December 31, 1997							
Future cash inflows from sale of oil & gas, and service fee revenue	$ 34,084	$ 2,305	$ 9,395	$ 7,690	$ 53,474	$ 5,182	$ 58,656
Future production costs	(10,980)	(807)	(2,854)	(2,303)	(16,944)	(1,840)	(18,784)
Future development costs	(4,693)	(132)	(1,809)	(749)	(7,383)	(476)	(7,859)
Future income tax expense	(5,512)	(652)	(898)	(3,445)	(10,507)	(1,519)	(12,026)
Net future cash flows before discount	12,899	714	3,834	1,193	18,640	1,347	19,987
10% discount for timing of future cash flows	(5,361)	(252)	(1,424)	(374)	(7,411)	(519)	(7,930)
Standardized measure of discounted future net cash flows	$ 7,538	$ 462	$ 2,410	$ 819	$ 11,229	$ 828	$ 12,057
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 of discounted future net cash flows	$ 11,891	$ 612	$ 3,094	$ 1,129	$ 16,726	$ 1,240	$ 17,966

Table III - Changes in the Standardized Measure

The annual change in the standardized measure is explained in this table by the major sources of change, discounted at 10%.

o Sales & transfers, net of production costs capture the current year's revenues less the associated producing expenses. The net amount reflected here correlates to Table VII for revenues less production costs.

o Net changes in prices, production & development costs are computed before the effects of changes in quantities. The beginning-of-the-year production forecast is multiplied by the net annual change in the unit sales price and production cost. The large reduction in the 1998 standardized measure due to change in price reflects the sharp drop in crude oil and natural gas prices during 1998.

o Discoveries & extensions indicate the value of the new reserves at year-end prices, less related costs.

o Development costs incurred during the period capture the current year's development costs that are shown in Table V. These costs will reduce the previously estimated future development costs.

o Accretion of discount represents 10% of the beginning discounted future net cash flows before income tax effects.

o Net change in income taxes is computed as the change in present value of future income taxes.

Table III - Changes in the Standardized Measure

	Worldwide Including Equity in Affiliate - Other East		
(Millions of dollars)	1998	1997	1996
Standardized measure - beginning of year	$ 12,057	$ 17,966	$ 11,872
Sales of minerals-in-place	(160)	(79)	(458)
	11,897	17,887	11,414
Changes in ongoing oil and gas operations:			
Sales and transfers of produced oil and gas, net of production costs during the period	(3,129)	(4,921)	(4,859)
Net changes in prices, production and development costs	(11,205)	(14,632)	8,820
Discoveries and extensions and improved recovery, less related costs	728	2,681	3,182
Development costs incurred during the period	1,770	1,976	1,575
Timing of production and other changes	(1,170)	(969)	(251)
Revisions of previous quantity estimates	852	1,476	527
Purchases of minerals-in-place	48	449	138
Accretion of discount	1,916	3,027	1,952
Net change in discounted future income taxes	3,780	5,083	(4,532)
Standardized measure - end of year	$ 5,487	$ 12,057	$ 17,966

Table IV - Capitalized Costs

Costs of the following assets are capitalized under the "successful efforts" method of accounting. These costs include the activities of Texaco's upstream operations but exclude the crude oil marketing activities, geothermal and other non-producing activities. As a result, this table will not correlate to information in Note 7 to the financial statements.

o Proved properties include mineral properties with proved reserves, development wells and uncompleted development well costs.

o Unproved properties include leaseholds under exploration (even where hydrocarbons were found but not in sufficient quantities to be considered proved reserves) and uncompleted exploratory well costs.

o Support equipment and facilities include costs for seismic and drilling equipment, construction and grading equipment, repair shops, warehouses and other supporting assets involved in oil and gas producing activities.

o The accumulated depreciation, depletion and amortization represents the portion of the assets that have been charged to expense in prior periods. It also includes provisions for future restoration and abandonment activity.

Table IV - Capitalized Costs

(Millions of dollars)	Consolidated Subsidiaries					Equity Affiliate -	
	United States	Other West	Europe	Other East	Total	Other East	Worldwide
As of December 31, 1998							
Proved properties	$ 20,601	$ 515	$ 4,709	$ 1,799	$ 27,624	$ 1,015	$ 28,639
Unproved properties	1,188	53	71	390	1,702	408	2,110
Support equipment and facilities	437	27	37	342	843	768	1,611
Gross capitalized costs	22,226	595	4,817	2,531	30,169	2,191	32,360
Accumulated depreciation, depletion and amortization	(14,140)	(277)	(3,381)	(1,253)	(19,051)	(1,119)	(20,170)
Net capitalized costs	$ 8,086	$ 318	$ 1,436	$ 1,278	$ 11,118	$ 1,072	$ 12,190
As of December 31, 1997							
Proved properties	$ 20,196	$ 581	$ 4,584	$ 1,623	$ 26,984	$ 1,112	$ 28,096
Unproved properties	1,248	16	89	225	1,578	338	1,916
Support equipment and facilities	438	26	37	228	729	578	1,307
Gross capitalized costs	21,882	623	4,710	2,076	29,291	2,028	31,319
Accumulated depreciation, depletion and amortization	(13,849)	(298)	(3,135)	(1,131)	(18,413)	(1,013)	(19,426)
Net capitalized costs	$ 8,033	$ 325	$ 1,575	$ 945	$ 10,878	$ 1,015	$ 11,893

Table V - Costs Incurred

This table summarizes how much we spent to explore and develop our existing reserve base, and how much we spent to acquire mineral rights from others (classified as proved or unproved).

- Exploration costs include geological and geophysical costs, the cost of carrying and retaining undeveloped properties and exploratory drilling costs.

- Development costs include the cost of drilling and equipping development wells and constructing related production facilities for extracting, treating, gathering and storing oil and gas from proved reserves.

- Exploration and development costs may be capitalized or expensed, as applicable. Such costs also include administrative expenses and depreciation applicable to support equipment associated with these activities. As a result, the costs incurred will not correlate to Capital and Exploratory Expenditures.

On a worldwide basis, in 1998 we spent $3.45 for each BOE we added. Finding and development costs averaged $3.91 for the three-year period 1996-1998 and $3.75 per BOE for the five-year period 1994-1998.

Table V - Costs Incurred

(Millions of dollars)	Consolidated Subsidiaries United States	Other West	Europe	Other East	Total	Equity Affiliate - Other East	Worldwide
For the year ended December 31, 1998							
Proved property acquisition	$ 27	$ --	$ --	$ 199	$ 226	$ --	$ 226
Unproved property acquisition	85	1	--	32	118	--	118
Exploration	417	92	65	277	851	19	870
Development	1,073	25	308	204	1,610	160	1,770
Total	$ 1,602	$ 118	$ 373	$ 712	$ 2,805	$ 179	$ 2,984
For the year ended December 31, 1997							
Proved property acquisition	$ 1,099*	$ --	$ --	$ --	$ 1,099	$ --	$ 1,099
Unproved property acquisition	527*	1	--	23	551	--	551
Exploration	480	15	59	234	788	18	806
Development	1,220	62	419	108	1,809	167	1,976
Total	$ 3,326	$ 78	$ 478	$ 365	$ 4,247	$ 185	$ 4,432
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

*Includes the acquisition of Monterey Resources on a net cost basis of $1,520 million, which is net of deferred income taxes amounting to $469 million and $245 million for the acquired proved and unproved properties, respectively.

Table VI - Unit Prices

Average sales prices are calculated using the gross revenues in Table VII. Average production costs equal producing (lifting) costs, other taxes and the depreciation, depletion and amortization of support equipment and facilities.

	Average sales prices 1998 Crude oil and NGL per barrel	1998 Natural gas per thousand cubic feet	1997 Crude oil and NGL per barrel	1997 Natural gas per thousand cubic feet	1996 Crude oil and NGL per barrel	1996 Natural gas per thousand cubic feet	Average production costs (per composite barrel) 1998	1997	1996
United States	$ 10.14	$ 1.93	$ 16.32	$ 2.32	$ 16.97	$ 2.10	$ 4.07	$ 3.94	$ 3.82
Other West	9.65	.92	14.40	1.03	16.80	.96	1.86	2.80	3.44
Europe	11.73	2.42	18.41	2.42	20.37	2.47	5.24	5.58	5.95
Other East	9.61	.38	16.87	1.89	18.61	3.20	3.65	4.11	4.07
Affiliate - Other East	9.81	--	14.89	--	16.30	--	2.68	3.76	3.71

Table VII - Results of Operations

Results of operations for exploration and production activities consist of all the activities within our upstream operations, except for crude oil marketing activities, geothermal and other non-producing activities. As a result, this table will not correlate to the Analysis of Income by Operating Segments.

o Revenues are based upon our production that is available for sale and excludes revenues from resale of third party volumes, equity earnings of certain smaller affiliates, trading activity and miscellaneous operating income. Expenses are associated with current year operations but do not include general overhead and special items.

o Production costs consist of costs incurred to operate and maintain wells and related equipment and facilities. These costs also include taxes other than income taxes and administrative expenses.

o Exploration costs include dry hole, leasehold impairment, geological and geophysical expenses, the cost of retaining undeveloped leaseholds and administrative expenses. Also included are taxes other than income taxes.

o Depreciation, depletion and amortization includes the amount for support equipment and facilities.

o Estimated income taxes are computed by adjusting each country's income before income taxes for permanent differences related to the oil and gas producing activities, then multiplying the result by the country's statutory tax rate and adjusting for applicable tax credits.

Table VII - Results of Operations

	Consolidated Subsidiaries					Equity	
(Millions of dollars)	United States	Other West	Europe	Other East	Total	Affiliate - Other East	Worldwide
For the year ended December 31, 1998							
Gross revenues from:							
Sales and transfers, including affiliate sales	$ 2,570	$ --	$ 438	$ 571	$ 3,579	$ 454	$ 4,033
Sales to unaffiliated entities	218	120	509	122	969	28	997
Production costs	(1,066)	(35)	(400)	(250)	(1,751)	(150)	(1,901)
Exploration costs	(286)	(31)	(53)	(137)	(507)	(16)	(523)
Depreciation, depletion and amortization	(832)	(22)	(422)	(113)	(1,389)	(106)	(1,495)
Other expenses	(198)	--	(4)	(10)	(212)	(1)	(213)
Results before estimated income taxes	406	32	68	183	689	209	898
Estimated income taxes	(49)	(14)	(27)	(166)	(256)	(102)	(358)
Net results	$ 357	$ 18	$ 41	$ 17	$ 433	$ 107	$ 540
For the year ended December 31, 1997							
Gross revenues from:							
Sales and transfers, including affiliate sales	$ 3,492	$ --	$ 495	$ 934	$ 4,921	$ 610	$ 5,531
Sales to unaffiliated entities	312	165	499	178	1,154	43	1,197
Production costs	(986)	(57)	(323)	(249)	(1,615)	(192)	(1,807)
Exploration costs	(238)	(10)	(60)	(195)	(503)	(16)	(519)
Depreciation, depletion and amortization	(735)	(27)	(382)	(129)	(1,273)	(110)	(1,383)
Other expenses	(249)	--	--	(24)	(273)	9	(264)
Results before estimated income taxes	1,596	71	229	515	2,411	344	2,755
Estimated income taxes	(511)	(40)	(85)	(418)	(1,054)	(173)	(1,227)
Net results	$ 1,085	$ 31	$ 144	$ 97	$ 1,357	$ 171	$ 1,528
For the year ended December 31, 1996							
Gross revenues from:							
Sales and transfers, including affiliate sales	$ 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 costs	(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

Supplemental Market Risk Disclosures

We use derivative financial instruments to hedge interest rate, foreign currency exchange and market rate risks. Derivatives principally include interest rate and/or currency swap contracts, forward and option contracts to buy and to sell foreign currencies, and commodity futures, options, swaps and other instruments. We hedge only a portion of our risk exposures for assets, liabilities, commitments and future production, purchases and sales. We remain exposed on the unhedged portion of such risks.

The estimated sensitivity effects below assume that valuations of all items within a risk category will move in tandem. This cannot be assured for exposures involving interest rates, currency exchange rates, petroleum and natural gas. Users should realize that actual impacts from future interest rate, currency exchange and petroleum and natural gas price movements will likely differ from the disclosed impacts due to ongoing changes in risk exposure levels and concurrent adjustments of hedging derivative positions. Additionally, the range of variability in prices and rates is representative only of past fluctuations for each risk category. Past fluctuations in rates and prices may not necessarily be an indicator of probable future fluctuations.

Notes 10, 15 and 16 to the financial statements include details of our hedging activities, fair values of financial instruments, related derivatives exposures and accounting policies.

Debt and Debt-Related Derivatives

We had variable rate debt of approximately $2.7 billion and $2.0 billion at year-end 1998 and 1997, before effects of related interest rate swaps. Interest rate swap notional amounts at year-end 1998 decreased by less than $100 million from year-end 1997.

Based on our overall interest rate exposure on variable rate debt and interest rate swaps at December 31, 1998 (including the interest rate and equity swap), a hypothetical two percentage points increase or decrease in interest rates would not materially affect our consolidated financial position, net income or cash flows.

Forward Exchange and Option Contracts

In 1998, the net notional amount of open forward contracts increased by $831 million. This related mostly to hedging of increased balance sheet monetary exposures.

The effect on fair value of our forward exchange contracts at year-end 1998 from a hypothetical 10% change in currency exchange rates would be an increase or decrease of approximately $207 million. This would be offset by an opposite effect on the related hedged exposures.

Petroleum and Natural Gas Hedging

In 1998, the notional amount of open derivative contracts increased by $3,423 million, mostly related to natural gas hedging.

For commodity derivatives permitted to be settled in cash or another financial instrument, sensitivity effects are as follows. At year-end 1998, the aggregate effect of a hypothetical 25% change in natural gas prices, a 15% change in crude oil prices and a 16-21% change in petroleum product prices (dependent on product and location) would not materially affect our consolidated financial position, net income or cash flows.

Investments in Debt and Publicly Traded Equity Securities

We are subject to price risk on this unhedged portfolio of available-for-sale securities. During 1998, market risk exposure decreased by $129 million. At year-end 1998, a 10% appreciation or depreciation in debt and equity prices would change portfolio fair value by about $49 million. This assumes no fluctuations in currency exchange rates.

Preferred Shares of Subsidiaries

We are exposed to interest rate risk on dividend requirements of Series B preferred shares of Texaco Capital LLC.

We are exposed to currency exchange risk on the Canadian dollar denominated Series C preferred shares of Texaco Capital LLC. We are exposed to offsetting currency exchange risk as well as interest rate risk on a swap contract used to hedge the Series C.

Based on the above exposures, a hypothetical two percentage points increase or decrease in the applicable variable interest rates and a hypothetical 10% appreciation or depreciation in the Canadian dollar exchange rate would not materially affect our consolidated financial position, net income or cash flows.

Market Auction Preferred Shares (MAPS)

We are exposed to interest rate risk on dividend requirements of MAPS. A hypothetical two percentage points increase or decrease in interest rates would not materially affect our consolidated financial position or cash flows. There are no derivatives related to MAPS.

Selected Financial Data

Selected Quarterly Financial Data

(Millions of dollars)	First Quarter 1998	Second Quarter 1998	Third Quarter 1998	Fourth Quarter 1998	First Quarter 1997	Second Quarter 1997	Third Quarter 1997	Fourth Quarter 1997
Revenues								
Sales and services	$ 7,922	$ 7,729	$ 7,481	$ 7,778	$11,813	$10,983	$10,834	$11,557
Equity in income of affiliates, interest, asset sales and other	225	315	226	31	216	513	259	492
	8,147	8,044	7,707	7,809	12,029	11,496	11,093	12,049
Deductions								
Purchases and other costs	6,114	5,972	5,836	6,257	9,298	8,671	8,355	8,906
Operating expenses	580	645	593	690	781	790	806	874
Selling, general and administrative expenses	276	296	290	362	419	417	450	469
Exploratory expenses	141	90	93	137	99	93	114	165
Depreciation, depletion and amortization	388	375	409	503	385	372	388	488
Interest expense, taxes other than income taxes and minority interest	249	240	237	233	261	247	220	272
	7,748	7,618	7,458	8,182	11,243	10,590	10,333	11,174
Income (loss) before income taxes and cumulative effect of accounting change	399	426	249	(373)	786	906	760	875
Provision for (benefit from) income taxes	140	84	34	(160)	(194)	335	270	252
Income (loss) before cumulative effect of accounting change	259	342	215	(213)	980	571	490	623
Cumulative effect of accounting change	(25)	--	--	--	--	--	--	--
Net income (loss)	$ 234	$ 342	$ 215	$ (213)	$ 980	$ 571	$ 490	$ 623
Total nonowner changes in equity	$ 264	$ 344	$ 210	$ (246)	$ 939	$ 596	$ 476	$ 590
Net income (loss) per common share (dollars)								
Basic								
Income (loss) before cumulative effect of accounting change	$ .46	$ .62	$ .38	$ (.43)	$ 1.86	$ 1.07	$ .91	$ 1.15
Cumulative effect of accounting change	(.05)	--	--	--	--	--	--	--
Net income (loss)	$ .41	$ .62	$ .38	$ (.43)	$ 1.86	$ 1.07	$ .91	$ 1.15
Diluted								
Income (loss) before cumulative effect of accounting change	$ .46	$ .61	$ .38	$ (.43)	$ 1.80	$ 1.05	$ .90	$ 1.12
Cumulative effect of accounting change	(.04)	--	--	--	--	--	--	--
Net income (loss)	$ .42	$ .61	$ .38	$ (.43)	$ 1.80	$ 1.05	$ .90	$ 1.12

See accompanying notes to consolidated financial statements.

Five-Year Comparison of Selected Financial Data

(Millions of dollars)	1998	1997	1996	1995	1994
For the year:					
Revenues from continuing operations	$ 31,707	$ 46,667	$ 45,500	$ 36,787	$ 33,353
Net income (loss) before cumulative effect of accounting changes					
Continuing operations	$ 603	$ 2,664	$ 2,018	$ 728	$ 979
Discontinued operations	--	--	--	--	(69)
Cumulative effect of accounting changes	(25)	--	--	(121)	--
Net income	$ 578	$ 2,664	$ 2,018	$ 607	$ 910
Total nonowner changes in equity	$ 572	$ 2,601	$ 1,863	$ 592	$ 972
Net income (loss) per common share (dollars)					
Basic					
Income (loss) before cumulative effect of accounting changes					
Continuing operations	$ 1.04	$ 4.99	$ 3.77	$ 1.29	$ 1.72
Discontinued operations	--	--	--	--	(.14)
Cumulative effect of accounting changes	(.05)	--	--	(.24)	--
Net income	$ .99	$ 4.99	$ 3.77	$ 1.05	$ 1.58
Diluted					
Income (loss) before cumulative effect of accounting changes					
Continuing operations	$ 1.04	$ 4.87	$ 3.68	$ 1.28	$ 1.72
Discontinued operations	--	--	--	--	(.14)
Cumulative effect of accounting changes	(.05)	--	--	(.23)	--
Net income	$ .99	$ 4.87	$ 3.68	$ 1.05	$ 1.58
Cash dividends per common share (dollars)	$ 1.80	$ 1.75	$ 1.65	$ 1.60	$ 1.60
Total cash dividends paid on common stock	$ 952	$ 918	$ 859	$ 832	$ 830
At end of year:					
Total assets	$ 28,570	$ 29,600	$ 26,963	$ 24,937	$ 25,505
Debt and capital lease obligations					
Short-term	$ 939	$ 885	$ 465	$ 737	$ 917
Long-term	6,352	5,507	5,125	5,503	5,564
Total debt and capital lease obligations	$ 7,291	$ 6,392	$ 5,590	$ 6,240	$ 6,481

See accompanying notes to consolidated financial statements.

Investor Information

Common Stock -- Market
and Dividend Information:

Texaco Inc. common stock (symbol TX) is traded principally on the New York Stock Exchange. As of February 25, 1999, there were 209,728 shareholders of record. In 1998, Texaco's common stock price reached a high of $65.00, and closed December 31, 1998, at $53.00.

	Common Stock Price Range				Dividends	
	High	Low	High	Low		
	1998		1997*		1998	1997*
First Quarter	$ 65	$ 49 1/16	$ 55 3/4	$ 48 7/8	$ .45	$ .425
Second Quarter	63 3/4	55 3/4	57 7/16	50 1/2	.45	.425
Third Quarter	64 7/8	55 1/4	61 11/16	54 11/32	.45	.45
Fourth Quarter	63 7/8	50 1/4	63 7/16	51 1/8	.45	.45

*Reflects two-for-one stock split, effective September 29, 1997.

Stock Transfer Agent and
Shareholder Communications

For information about Texaco
or assistance with your account,
please contact:

Texaco Inc.
Investor Services
2000 Westchester Avenue
White Plains, NY 10650-0001
Phone: 1-800-283-9785
Fax: (914) 253-6286
E-mail: invest@texaco.com

NY Drop Agent

ChaseMellon 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

Security analysts and institutional
investors should contact:

Elizabeth P. Smith
Vice President, Texaco Inc.
Phone: (914) 253-4478
Fax: (914) 253-6269
E-mail: smithep@texaco.com

Annual Meeting

Texaco Inc.'s Annual Shareholders Meeting will be held at the Rye Town Hilton, Rye Brook, NY, on Tuesday, April 27, 1999. 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 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 family or friends. For a complete informational package, including a Plan prospectus, call 1-800-283-9785, e-mail at invest@texaco.com, or visit Texaco's Internet home page at www.texaco.com.

EXHIBIT 21

Subsidiaries of Registrant
1998

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
Bridgeline Gas Distribution LLC	Louisiana
FAMM LLC	Delaware
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 California Inc.	Delaware
Texaco Caribbean 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 Limited	England
Texaco Natural Gas Inc.	Delaware
Texaco Nederland B.V.	Netherlands
Texaco North Sea U.K. Company	Delaware
Texaco Oil (Britain) Ltd.	England
Texaco Overseas Holdings Inc.	Delaware
Texaco Panama Inc.	Panama
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 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 25, 1999 included or incorporated by reference in Texaco Inc.'s Form 10-K for the year ended December 31, 1998, 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-8	File Number 33-45952
8.	Form S-8	File Number 33-45953
9.	Form S-3	File Number 33-50553 and 33-50553-01
10.	Form S-8	File Number 333-11019
11.	Form S-3	File Number 333-46527 and 333-46527-01
12.	Form S-3	File Number 333-68217 and 333-68217-01
13.	Form S-8	File Number 333-73329

ARTHUR ANDERSEN LLP

New York, N.Y.
March 25, 1999

EXHIBIT 23.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

Texaco Inc.:

We hereby consent to the incorporation by reference of our report dated February 8, 1999 relating to the combined balance sheets of the Caltex Group of Companies as of December 31, 1998 and 1997, and the related combined statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 1998 Annual Report on Form 10-K of Texaco Inc., 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-8	File Number 33-45952
8.	Form S-8	File Number 33-45953
9.	Form S-3	File Number 33-50553 and 33-50553-01
10.	Form S-8	File Number 333-11019
11.	Form S-3	File Number 333-46527 and 333-46527-01
12.	Form S-3	File Number 333-68217 and 333-68217-01
13.	Form S-8	File Number 333-73329

KPMG LLP

Dallas, Texas
March 25, 1999

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference of our report dated March 5, 1999, on our audits of the consolidated balance sheets of Equilon Enterprises LLC as of December 31, 1998 and January 1, 1998, and the related statements of consolidated income, owners' equity and cash flows for the year ended December 31, 1998, included in the Annual Report on Form 10-K of Texaco Inc. for the year ended December 31, 1998, 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-8	File Number 33-45952
8.	Form S-8	File Number 33-45953
9.	Form S-3	File Number 33-50553 and 33-50553-01
10.	Form S-8	File Number 333-11019
11.	Form S-3	File Number 333-46527 and 333-46527-01
12.	Form S-3	File Number 333-68217 and 333-68217-01
13.	Form S-8	File Number 333-73329

PricewaterhouseCoopers LLP
Houston, Texas
March 25, 1999

Arthur Andersen LLP
Houston, Texas
March 25, 1999

EXHIBIT 23.4

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference of our report dated March 5, 1999, on our audits of the balance sheets of Motiva Enterprises LLC as of December 31, 1998 and July 1, 1998, and the related statements of income, owners' equity and cash flows for the period from inception (July 1, 1998) to December 31, 1998, included in the Annual Report on Form 10-K of Texaco Inc. for the year ended December 31, 1998, 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-8	File Number 33-45952
8.	Form S-8	File Number 33-45953
9.	Form S-3	File Number 33-50553 and 33-50553-01
10.	Form S-8	File Number 333-11019
11.	Form S-3	File Number 333-46527 and 333-46527-01
12.	Form S-3	File Number 333-68217 and 333-68217-01
13.	Form S-8	File Number 333-73329

Arthur Andersen LLP

Deloitte & Touche LLP

PricewaterhouseCoopers LLP

Houston, Texas
March 25, 1999

EXHIBIT 24.1

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, Chairman of the Board and Chief Executive Officer of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 1st day of February, 1999.

/S/ Peter I. Bijur

Peter I. Bijur
Chairman of the Board
and Chief Executive Officer

EXHIBIT 24.2

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, Senior Vice President and Chief Financial Officer of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 19th day of January, 1999.

/S/ Patrick J. Lynch

Patrick J. Lynch
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, Vice President and Comptroller of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 18th day of January, 1999.

/S/Robert C. Oelkers

Robert C. Oelkers
Vice President and Comptroller
(Principal Accounting Officer)

EXHIBIT 24.4

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 KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 22nd day of January, 1999.

/S/ A. Charles Baillie

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 KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 18th day of March, 1999.

/S/ John Brademas

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 KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set her name as of the 2nd day of February, 1999.

/S/ Mary K. Bush

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 KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 18th day of March, 1999.

/S/ 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 KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 25th day of January, 1999.

/S/ Edmund M. Carpenter

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 KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 19th day of January, 1999.

/S/ Michael C. Hawley

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 KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 25th day of January, 1999.

/S/ Franklyn G. Jenifer

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 KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 28th day of January, 1999.

/S/ Sam Nunn

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 KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 27th day of January, 1999.

/S/ Charles H. Price, II

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 KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 29th day of January, 1999.

/S/ Charles R. Shoemate

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 KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set her name as of the 27th day of January, 1999.

/S/ Robin B. Smith

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 KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 20th day of January, 1999.

/S/ William C. Steere, Jr.

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 KJESTINE M. ANDERSON 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 $3.125 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, 1998, 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, 2000.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 18th day of February, 1999.

/S/ Thomas A. Vanderslice

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM
TEXACO INC.'S 1998 ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS
ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

YEAR
DEC-31-1998
JAN-1-1998
DEC-31-1998
249
22
3,983
28
1,154
5,636
35,494
20,733
28,570
5,264
6,352
0
673
1,700
9,460
28,570
30,910
31,707
24,179
26,687
3,839
0
480
701
98
603
0
0
(25)
578
0.99
0.99

EPS-PRIMARY REPRESENTS BASIC EARNINGS PER SHARE IN ACCORDANCE WITH STATEMENT
OF FINANCIAL ACCOUNTING STANDARD 128.