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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended June 30, 1997

Commission file number 1-27

TEXACO INC.  
(Exact name of the registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

74-1383447  
(I.R.S. Employer  
Identification No.)

2000 Westchester Avenue  
White Plains, New York  
(Address of principal executive offices)

10650  
(Zip Code)

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

Texaco Inc. (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.

As of July 31, 1997, there were outstanding 264,107,386 shares of Texaco Inc. Common Stock - par value \$6.25.

PART I - FINANCIAL INFORMATION

TEXACO INC. AND SUBSIDIARY COMPANIES  
STATEMENT OF CONSOLIDATED INCOME  
FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 1997 AND 1996  
(Millions of dollars, except per share amounts)

|  | (Unaudited)                          |          |  |          |
|--|--------------------------------------|----------|--|----------|
|  | For the six months<br>ended June 30, |          | For the three months<br>ended June 30, |          |
|  | 1997                                 | 1996     | 1997                                   | 1996     |
|  | ----                                 | ----     | ----                                   | ----     |
| REVENUES   |                                      |          |  |          |
| Sales and services   | \$22,796                             | \$20,876 | \$10,983                               | \$10,817 |
| Equity in income of affiliates, interest, asset<br>sales and other | 729                                  | 656      | 513                                    | 444      |
|  | -----                                | -----    | -----                                  | -----    |
|  | 23,525                               | 21,532   | 11,496                                 | 11,261   |
|  | -----                                | -----    | -----                                  | -----    |
| DEDUCTIONS   |                                      |          |  |          |
| Purchases and other costs  | 17,969                               | 16,127   | 8,671                                  | 8,345    |
| Operating expenses   | 1,444                                | 1,384    | 728                                    | 700      |
| Selling, general and administrative expenses                       | 792                                  | 799      | 395                                    | 399      |
| Maintenance and repairs  | 171                                  | 178      | 84                                     | 90       |
| Exploratory expenses   | 192                                  | 159      | 93                                     | 90       |
| Depreciation, depletion and amortization                           | 757                                  | 704      | 372                                    | 354      |
| Interest expense   | 203                                  | 221      | 102                                    | 108      |
| Taxes other than income taxes                                      | 268                                  | 232      | 129                                    | 127      |
| Minority interest  | 37                                   | 33       | 16                                     | 17       |
|  | -----                                | -----    | -----                                  | -----    |
|  | 21,833                               | 19,837   | 10,590                                 | 10,230   |
|  | -----                                | -----    | -----                                  | -----    |
| Income before income taxes   | 1,692                                | 1,695    | 906                                    | 1,031    |
| Provision for income taxes   | 141                                  | 620      | 335                                    | 342      |
|  | -----                                | -----    | -----                                  | -----    |
| NET INCOME   | \$ 1,551                             | \$ 1,075 | \$ 571                                 | \$ 689   |
|  | =====                                | =====    | =====                                  | =====    |

|   |                   |                   |                 |                 |
|---|-------------------|-------------------|-----------------|-----------------|
| Preferred stock dividend requirements   | \$ 28<br>-----    | \$ 29<br>-----    | \$ 14<br>-----  | \$ 14<br>-----  |
| Net income available for common stock   | \$ 1,523<br>===== | \$ 1,046<br>===== | \$ 557<br>===== | \$ 675<br>===== |
| Per common share (dollars)  |                   |                   |                 |                 |
| Net income  | \$ 5.86           | \$ 4.01           | \$ 2.14         | \$ 2.59         |
| Cash dividends paid   | \$ 1.70           | \$ 1.60           | \$ .85          | \$ .80          |
| Average number of common shares outstanding<br>for computation of earnings per share<br>(thousands) | 260,080           | 260,709           | 260,090         | 260,764         |

See accompanying notes to consolidated financial statements.

TEXACO INC. AND SUBSIDIARY COMPANIES  
CONSOLIDATED BALANCE SHEET  
AS OF JUNE 30, 1997 AND DECEMBER 31, 1996  
(Millions of dollars)

|  | June 30,<br>1997<br>-----<br>(Unaudited)<br>----- | December 31,<br>1996<br>----- |
|--|---|-------------------------------|
| <b>ASSETS</b>  |   |                               |
| Current Assets   |   |                               |
| Cash and cash equivalents  | \$ 564  | \$ 511                        |
| Short-term investments - at fair value   | 46  | 41                            |
| Accounts and notes receivable, less allowance for doubtful accounts<br>of \$22 million and \$34 million in 1997 and 1996, respectively | 4,524   | 5,195                         |
| Inventories  | 1,632   | 1,460                         |
| Deferred income taxes and other current assets   | 289   | 458                           |
| Total current assets   | 7,055   | 7,665                         |
| Investments and Advances   | 5,438   | 4,996                         |
| Properties, Plant and Equipment - at cost  | 34,462  | 33,988                        |
| Less - accumulated depreciation, depletion and amortization  | 20,878  | 20,577                        |
| Net properties, plant and equipment  | 13,584  | 13,411                        |
| Deferred Charges   | 964   | 891                           |
| Total  | \$27,041<br>=====                                 | \$26,963<br>=====             |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |   |                               |
| Current Liabilities  |   |                               |
| Short-term debt  | \$ 472  | \$ 465                        |
| Accounts payable and accrued liabilities   |   |                               |
| Trade liabilities  | 2,524   | 3,472                         |
| Accrued liabilities  | 1,279   | 1,333                         |
| Estimated income and other taxes   | 1,156   | 914                           |
| Total current liabilities  | 5,431   | 6,184                         |
| Long-Term Debt and Capital Lease Obligations   | 5,067   | 5,125                         |
| Deferred Income Taxes  | 809   | 795                           |
| Employee Retirement Benefits   | 1,204   | 1,236                         |
| Deferred Credits and Other Noncurrent Liabilities  | 2,459   | 2,593                         |
| Minority Interest in Subsidiary Companies  | 656   | 658                           |
| Total  | 15,626  | 16,591                        |
| Stockholders' Equity   |   |                               |
| Market Auction Preferred Shares  | 300   | 300                           |
| ESOP Convertible Preferred Stock   | 464   | 474                           |
| Unearned employee compensation and benefit plan trust  | (362)   | (378)                         |
| Common stock (authorized: 350,000,000 shares, \$6.25 par<br>value; 274,293,417 shares issued)  | 1,714   | 1,714                         |
| Paid-in capital in excess of par value   | 608   | 630                           |
| Retained earnings  | 9,376   | 8,292                         |
| Currency translation adjustment  | (80)  | (65)                          |
| Unrealized net gain on investments   | 32  | 33                            |
| Total  | 12,052  | 11,000                        |
| Less - Common stock held in treasury, at cost  | 637   | 628                           |
| Total stockholders' equity   | 11,415  | 10,372                        |
| Total  | \$27,041<br>=====                                 | \$26,963<br>=====             |

See accompanying notes to consolidated financial statements.

TEXACO INC. AND SUBSIDIARY COMPANIES  
CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 1997 AND 1996  
(Millions of dollars)

|   | (Unaudited)                          |         |
|---|--------------------------------------|---------|
|   | For the six months<br>ended June 30, |         |
|   | 1997                                 | 1996    |
| <b>OPERATING ACTIVITIES</b>   |                                      |         |
| Net income  | \$1,551                              | \$1,075 |
| Reconciliation to net cash provided by (used in)<br>operating activities                |                                      |         |
| Receivable for refund of IRS deposits   | (700)                                | -       |
| Depreciation, depletion and amortization  | 757                                  | 704     |
| Deferred income taxes   | 185                                  | 55      |
| Exploratory expenses  | 192                                  | 159     |
| Minority interest in net income   | 37                                   | 33      |
| Dividends from affiliates, greater than (less than)<br>equity in income                 | (144)                                | 162     |
| Gains on asset sales  | (287)                                | (37)    |
| Changes in operating working capital  | (89)                                 | 53      |
| Other - net   | (52)                                 | (103)   |
|   | -----                                | -----   |
| Net cash provided by operating activities   | 1,450                                | 2,101   |
| <b>INVESTING ACTIVITIES</b>   |                                      |         |
| Capital and exploratory expenditures  | (1,451)                              | (1,231) |
| Proceeds from sale of discontinued operations, net of<br>cash and cash equivalents sold | -                                    | 344     |
| Proceeds from sales of assets   | 742                                  | 87      |
| Sale of leasehold interests   | -                                    | 147     |
| Purchases of investment instruments   | (608)                                | (970)   |
| Sales/maturities of investment instruments  | 657                                  | 963     |
| Other - net   | (142)                                | 5       |
|   | -----                                | -----   |
| Net cash used in investing activities   | (802)                                | (655)   |
| <b>FINANCING ACTIVITIES</b>   |                                      |         |
| Borrowings having original terms in excess<br>of three months                           |                                      |         |
| Proceeds  | 221                                  | 113     |
| Repayments  | (180)                                | (222)   |
| Net decrease in other borrowings  | (85)                                 | (576)   |
| Purchases of common stock   | (36)                                 | (55)    |
| Dividends paid to the company's stockholders  |                                      |         |
| Common  | (441)                                | (416)   |
| Preferred   | (28)                                 | (29)    |
| Dividends paid to minority shareholders   | (40)                                 | (35)    |
|   | -----                                | -----   |
| Net cash used in financing activities   | (589)                                | (1,220) |
| <b>CASH AND CASH EQUIVALENTS</b>  |                                      |         |
| Effect of exchange rate changes   | (6)                                  | (3)     |
|   | -----                                | -----   |
| Increase during period  | 53                                   | 223     |
| Beginning of year   | 511                                  | 501     |
|   | -----                                | -----   |
| End of period   | \$ 564                               | \$ 724  |
|   | =====                                | =====   |

See accompanying notes to consolidated financial statements.

TEXACO INC. AND SUBSIDIARY COMPANIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Discontinued Operations  
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On February 29, 1996, Texaco completed the disposition of its operations classified as discontinued operations by completing the sale of its worldwide lubricant additives business to Ethyl Corporation for \$136 million in cash and a three-year note with a face amount of \$60 million.

Revenues for the discontinued operations totaled \$33 million for the first two months of 1996, representing activities through the sale date.

Discontinued operations had no significant impact on 1996 results.

Note 2. Inventories  
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The inventories of Texaco Inc. and consolidated subsidiary companies were as follows:

|                                       | As of                 |                      |
|---------------------------------------|-----------------------|----------------------|
|                                       | June 30,<br>1997      | December 31,<br>1996 |
|                                       | (Unaudited)           |                      |
|                                       | (Millions of dollars) |                      |
| Crude oil                             | \$ 440                | \$ 296               |
| Petroleum products and petrochemicals | 923                   | 904                  |
| Other merchandise                     | 42                    | 58                   |
| Materials and supplies                | 227                   | 202                  |
|                                       | -----                 | -----                |
| Total                                 | \$1,632               | \$1,460              |
|                                       | =====                 | =====                |

Note 3. Contingent Liabilities  
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Information relative to commitments and contingent liabilities of Texaco Inc. and subsidiary companies is presented in Notes 14 and 16, pages 63-64 and 67, respectively, of Texaco Inc.'s 1996 Annual Report to Stockholders.

With respect to the U.S. Internal Revenue Service (IRS) claims discussed in Note 16, page 67, of Texaco Inc.'s 1996 Annual Report to Stockholders, on April 21, 1997 the U.S. Supreme Court decided not to review the decisions of the U.S. Court of Appeals for the Fifth Circuit and the U.S. Tax Court in the so-called "Aramco Advantage" case. As a result of this decision by the Supreme Court, Texaco recognized an after-tax earnings benefit of \$488 million in the first quarter 1997, representing the expected refund of the balance of deposits made to the IRS in previous years for potential tax claims and accrued interest. The expected refund, including interest, exceeds \$700 million. A significant portion of the refund is expected to be received in 1997.

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In the company's opinion, while it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities and commitments, including lawsuits, claims, guarantees, taxes and regulations, the aggregate amount of such liability in excess of financial reserves is not anticipated to be materially important in relation to the consolidated financial position or results of operations of Texaco Inc. and its subsidiaries.

Note 4. Caltex Group of Companies  
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Summarized unaudited financial information for the Caltex Group of Companies, owned 50% each by subsidiaries of Texaco and Chevron Corporation, is presented below and is reflected on a 100% Caltex Group basis:

|                            | For the six months<br>ended June 30,    |         | For the three months<br>ended June 30, |         |
|----------------------------|---|---------|--|---------|
|                            | 1997                                    | 1996    | 1997                                   | 1996    |
|                            | -----<br>(Millions of dollars)<br>----- |         |  |         |
| Gross revenues             | \$9,127                                 | \$9,160 | \$4,433                                | \$4,999 |
| Income before income taxes | \$ 639                                  | \$1,724 | \$ 319                                 | \$1,410 |
| Net income                 | \$ 386                                  | \$ 989  | \$ 200                                 | \$ 794  |

On April 2, 1996, Caltex Petroleum Corporation ("Caltex") completed the sale of its 50% interest in Nippon Petroleum Refining Company, Limited to its partner Nippon Oil Company for approximately \$2 billion. Caltex' net income for the second quarter of 1996 included a gain of \$621 million associated with this sale.

Effective April 1, 1997, Caltex' 40% interest in its Bahrain refining joint venture (Bapco) was sold to the Government of the State of Bahrain at approximately net book value.

On June 17, 1997, Caltex received a claim from the IRS for \$292 million in excise taxes, plus penalties and interest. The IRS claim relates to crude oil sales to Japanese customers beginning in 1980. Prior to 1980, Caltex directly supplied crude oil to its Japanese customers. In 1980, a Caltex subsidiary, Caltex Trading and Transport Corporation, also became a contractual supplier of crude oil to the Japanese customers. The IRS position is that this was a transfer of property, and thus taxable. Caltex is challenging the claim and fully expects to prevail, 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. Just as Caltex believes the underlying excise tax claim is wrong, Caltex also believes the related claim for approximately \$140 million in penalties is equally wrong and the IRS claim for almost \$1.6 billion in interest charges is flawed. Caltex believes that the likelihood that it will pay these charges is remote.

Note 5. Subsequent Events  
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On July 25, 1997, the company's Board of Directors approved a two-for-one split of the company's common stock effected in the form of a 100% stock dividend. The additional shares will be distributed on September 29, 1997, to shareholders of record on September 11, 1997.

The Board's action follows the approval by shareholders at the company's 1997 Annual Meeting to increase the number of authorized common shares to 700,000,000 and halve the par value to \$3.125 per share.

The proforma effect of the stock split would be as follows:

|  | For the six months<br>ended June 30, |         | For the three months<br>ended June 30, |         |
|--|--------------------------------------|---------|--|---------|
|  | 1997                                 | 1996    | 1997                                   | 1996    |
| Average number of common shares outstanding for<br>computation of earnings per share (thousands) |                                      |         |  |         |
| As reported  | 260,080                              | 260,709 | 260,090                                | 260,764 |
| Split basis  | 520,161                              | 521,418 | 520,180                                | 521,528 |
| Net income per common share  |                                      |         |  |         |
| As reported  | \$5.86                               | \$4.01  | \$2.14                                 | \$2.59  |
| Split basis  | \$2.93                               | \$2.01  | \$1.07                                 | \$1.29  |

The company also announced an increase in its quarterly dividend on its common stock to 90 cents per share from 85 cents per share, on a pre-split basis. This quarterly cash dividend will be payable on September 10, 1997 to shareholders of record on August 5, 1997.

\* \* \* \* \*

In the determination of preliminary and unaudited financial statements for the six-month and three-month periods ended June 30, 1997 and 1996, Texaco's accounting policies have been applied on a basis consistent with the application of such policies in Texaco's financial statements issued in its 1996 Annual Report to Stockholders. In the opinion of Texaco, all adjustments and disclosures necessary to present fairly the results of operations for such periods have been made. These adjustments are of a normal recurring nature. The information is subject to year-end audit by independent public accountants. Texaco makes no forecasts or representations with respect to the level of net income for the year 1997.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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RESULTS OF OPERATIONS

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Total worldwide net income for Texaco Inc. and subsidiary companies for the second quarter of 1997 was \$571 million, or \$2.14 per share, as compared with \$689 million, or \$2.59 per share, for the second quarter of 1996. Total net income for the first six months of 1997 was \$1,551 million, or \$5.86 per share, as compared with \$1,075 million, or \$4.01 per share, for the first six months of 1996. Both years included special items.

Net income before special items for the second quarter of 1997 was \$440 million, or \$1.64 per share, as compared with \$465 million, or \$1.73 per share, for the second quarter of 1996. For the first half of 1997, net income before special items was \$932 million, or \$3.48 per share, as compared with \$851 million, or \$3.15 per share, for the first half of 1996.

Volume growth in both the upstream and downstream and a continuing commitment to manage per barrel operating expenses were key drivers of Texaco's strong second quarter performance. However, abundant supplies of crude oil and products have put downward pressure on commodity prices and downstream margins.

During the second quarter of 1997:

- o Worldwide daily production rose four percent.
- o Branded gasoline sales in the U.S. increased two percent.
- o Year-to-date capital and exploratory expenditures grew 25 percent to \$1.8 billion.
- o Expenses per barrel continued to be managed at levels below inflation.

In Texaco's upstream business, the successful push to increase production, especially in the United Kingdom and Partitioned Neutral Zone, is key to the company's results. But, while production rose in this year's second quarter, unanticipated start-up problems slowed expected production in the U.K. Captain Field. Overall, earnings for this year's second quarter were slightly below last year. Commodity prices this year were lower, and the company increased exploratory spending focused on expanding its reserve base. International downstream results were higher this year. Earnings grew in Latin America and margins in Europe improved over depressed 1996 levels. However, in the U.S. downstream, 1997 results were significantly lower. A surplus of refined products, especially on the West Coast, and lackluster demand in the marketplace drove prices downward, negating the effects of improved refining operations and higher gasoline sales volumes.

In this year's second quarter, increased capital and exploratory spending accompanied the company's announcements of natural gas discoveries in Oklahoma and New Mexico, government approval of Texaco's Hamaca heavy oil project in Venezuela, the completion of a significant geothermal well in Indonesia and expansions of the company's natural gas liquids and refined products pipeline systems. Also, negotiations with Shell continued to combine major elements of Texaco's U.S. downstream operations.

Results for 1997 and 1996 are summarized in the following table. Details on special items are included in the functional analysis which follows this table.

|                                       | (Unaudited)                          |         |  |        |
|---------------------------------------|--------------------------------------|---------|--|--------|
|                                       | For the six months<br>ended June 30, |         | For the three months<br>ended June 30, |        |
|                                       | 1997                                 | 1996    | 1997                                   | 1996   |
|                                       | ----                                 | ----    | ----                                   | ----   |
|                                       | (Millions of Dollars)                |         |  |        |
| Net income before special items       | \$ 932                               | \$ 851  | \$440                                  | \$ 465 |
| Gains on major asset sales            | 174                                  | 224     | 174                                    | 224    |
| Financial reserves for various issues | (43)                                 | -       | (43)                                   | -      |
| U.S. tax issue                        | 488                                  | -       | -                                      | -      |
|                                       | -----                                | -----   | -----                                  | -----  |
|                                       | 619                                  | 224     | 131                                    | 224    |
|                                       | -----                                | -----   | -----                                  | -----  |
| Total net income                      | \$1,551                              | \$1,075 | \$571                                  | \$ 689 |
|                                       | =====                                | =====   | =====                                  | =====  |



## OPERATING EARNINGS

### PETROLEUM AND NATURAL GAS EXPLORATION AND PRODUCTION United States

Exploration and production earnings in the U.S. for the second quarter of 1997 were \$189 million, as compared with \$243 million for the second quarter of 1996. For the first six months of 1997 and 1996, earnings were \$500 million and \$510 million, respectively. Results for 1997 included a second quarter special charge of \$43 million for the establishment of financial reserves for royalty and severance tax issues. Excluding the special charge, results for the second quarter and first six months of 1997 totaled \$232 million and \$543 million, respectively.

In the U.S. upstream, lower commodity prices caused second quarter 1997 earnings to be below last year's level. Excess supplies in the global market led to the price declines. Average realized crude oil and natural gas prices for the second quarter of 1997 were \$16.95 per barrel and \$2.02 per thousand cubic feet (MCF), respectively, which were \$.35 per barrel and \$.05 per MCF, respectively, lower than the same period last year.

Earnings before special items for the first half of 1997 were six percent above 1996. The effects of higher commodity prices in the first quarter significantly exceeded the second quarter price declines. Lower gas trading results and higher exploratory activity, mostly in the Gulf of Mexico, partly negated the impact of higher prices.

Liquids and natural gas production in 1997 was maintained at prior-year levels. Continued success in enhancing liquids production from existing fields, particularly in the Gulf of Mexico and Louisiana, offset declines from maturing fields.

### International

Exploration and production earnings outside the U.S. for the second quarter of 1997 were \$240 million, as compared with \$103 million for the second quarter of 1996. For the first six months of 1997 and 1996, earnings were \$396 million and \$233 million, respectively. Results for 1997 included second quarter special gains of \$161 million from the sales of a 15 percent interest in the Captain Field in the U.K. North Sea, an interest in Canadian gas properties and an interest in an Australian pipeline system. Excluding the special gains, results for the second quarter and first six months of 1997 totaled \$79 million and \$235 million, respectively.

In the international upstream, higher production had a favorable impact on 1997 results. Total daily production in 1997 increased 11 percent over last year. New production from the Captain Field in the U.K. North Sea contributed to the increase. Also, new activities coming onstream late in 1996 in the Wafra field in the Partitioned Neutral Zone, between Saudi Arabia and Kuwait, in the Bagre Field offshore Angola and in the Danish North Sea led to higher liquids production. Natural gas production in 1997 benefited from a full six months operations at the Dolphin Field in Trinidad and from the Chuchupa "B" Field in Colombia. Crude oil prices were lower in 1997. Average crude oil prices were \$16.91 per barrel for the second quarter, \$1.50 per barrel below comparative 1996 prices.

Significantly higher activity levels associated with Texaco's aggressive exploration program contributed to lower overall results for the second quarter of 1997. Additionally, earnings for 1997 included lower gas trading results in the U.K.

## MANUFACTURING, MARKETING AND DISTRIBUTION

### United States

Manufacturing, marketing and distribution earnings in the U.S. for the second quarter of 1997 were \$100 million, as compared with \$144 million for the second quarter of 1996. For the first six months of 1997 and 1996, earnings were \$106 million and \$148 million, respectively. Results for 1997 included a second quarter special gain of \$13 million from the sale of credit card operations. Excluding the special gain, results for the second quarter and first six months of 1997 totaled \$87 million and \$93 million, respectively.

In the U.S. downstream, weak West Coast margins caused lower earnings in the second quarter and first half of 1997. West Coast product prices were higher in 1996 from shortages caused by regional refining problems and new California gasoline formulation requirements. Throughout the first half of 1997 branded gasoline sales volumes increased; however, surplus supplies led to a squeeze on West Coast gasoline margins. Additionally, while refinery operations improved this year, refinery upsets in late 1996 and early 1997 caused higher repair costs and lower product yields in the first quarter of 1997. Lower crude oil trading margins, cleanup costs associated with the Lake Barre, Louisiana pipeline break and the absence of earnings from a PO/MTBE business sold on March 1, 1997, also lowered 1997 results. Partially offsetting these negative factors were improved Gulf Coast sour crude cracking margins.

### International

Manufacturing, marketing and distribution earnings outside the U.S. for the second quarter of 1997 were \$132 million, as compared with \$304 million for the second quarter of 1996. For the first six months of 1997 and 1996, earnings were \$236 million and \$396 million, respectively. Results for 1996 included a first quarter special gain of \$224 million for Caltex' sale of its interest in a Japanese affiliate, including the tax on the portion of the sale proceeds distributed to the shareholders. Excluding the special gain, results for the second quarter and first six months of 1996 totaled \$80 million and \$172 million, respectively.

In the international downstream, both second quarter and first half 1997 operating earnings before special items were higher. Improved refining margins in the U.K. and Panama drove earnings upward this year. In addition, expense control at all refineries coupled with improved marketing margins and increased sales volumes in Latin America and the U.K. contributed to the higher earnings. Competitive pressures in the Norwegian marketplace led to lower results in Scandinavia.

Lower results in the Caltex area of operations partially offset the improved earnings in Latin America and Europe. Higher operating earnings in Korea were more than offset by currency impacts attributable to the South African Rand, and operational difficulties at the Thailand refinery that adversely affected product yields.

### NONPETROLEUM

Nonpetroleum earnings for the second quarter of 1997 were \$1 million, as compared with \$3 million for the second quarter of 1996. For the first six months of 1997 and 1996, earnings were \$13 million and \$5 million, respectively.

## CORPORATE/NONOPERATING RESULTS

Corporate and nonoperating charges for the second quarter of 1997 were \$91 million, as compared with charges of \$108 million for the second quarter of 1996. Corporate and nonoperating earnings for the first six months of 1997 were \$300 million, as compared with charges of \$217 million for the first six months of 1996. Results for the first six months of 1997 included a first quarter special benefit of \$488 million associated with the "Aramco Advantage" U.S. tax case. Excluding this benefit, corporate and nonoperating charges totaled \$188 million for the first six months of 1997.

Reduced interest expense due to lower debt levels and slightly lower interest rates led to a comparative improvement in second quarter and first half 1997 results. Additionally, these results included higher gains on sales of marketable securities held for investment by insurance operations.

### LIQUIDITY AND CAPITAL RESOURCES

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Texaco's cash, cash equivalents and short-term investments totaled \$610 million at June 30, 1997, as compared with \$552 million at year-end 1996. Cash provided by operating activities of \$1.5 billion for the first six months of 1997, supplemented by proceeds of \$742 million from the sale of nonstrategic assets, exceeded outlays of \$1.5 billion relative to the company's capital and exploratory program, \$509 million for payment of dividends to common, preferred and minority interest shareholders and \$80 million for the reduction of debt and purchases of common stock.

At June 30, 1997, Texaco's ratio of total debt to total borrowed and invested capital was 31.5%, as compared with 33.6% at year-end 1996. This improvement reflected strong operating results, the favorable resolution of the "Aramco Advantage" case and a reduction in debt to \$5.5 billion from \$5.6 billion at year-end 1996. At June 30, 1997, Texaco's long-term debt included \$968 million of debt scheduled to mature within one year, which the company has both the intent and the ability to refinance on a long-term basis. The company maintained a revolving credit facility with commitments of \$1.5 billion, which was unused at both June 30, 1997 and at year-end 1996.

During the first quarter of 1997, the company issued \$150 million of 7.09% Noncallable Notes Due 2007. Proceeds from this offering were used for working capital, retirement of existing debt and other general corporate purposes.

As of June 30, 1997, \$199 million has been expended under the \$500 million common stock repurchase program announced in 1995, of which \$36 million was expended during the first six months of 1997. The company will continue repurchasing shares from time to time based on market conditions.

During the first six months of 1997, the company completed various sales, as follows:

- o In March, Texaco exercised an option to terminate a lease arrangement and obtained ownership of the assets used in its propylene oxide/methyl tertiary butyl ether (PO/MTBE) business. Concurrent with this transaction, Texaco sold the PO/MTBE business to a Huntsman Corporation affiliate for cash and preferred stock. The cash proceeds of \$512 million were used to substantially offset the cost of exercising the option. The preferred stock, with a stated value of \$65 million, is mandatorily redeemable in eleven years.
- o During April, the company finalized the sale of a 15% interest in its U.K. North Sea Captain Field to an affiliate of Korea Petroleum Development Corporation for approximately \$210 million. Of this total amount, \$20 million was received during the first quarter of 1996.
- o In April, the company sold its interests in certain producing operations in Canada for approximately \$80 million.
- o In May, the company completed the previously announced sale of its credit card services unit, including its portfolio of proprietary credit card accounts receivable, to Associates First Capital Corporation, an indirect majority-owned subsidiary of the Ford Motor Company. As a result of this sale, Texaco received cash proceeds of approximately \$300 million for its proprietary credit card accounts receivable and associated processing assets.

On April 21, 1997, the United States Supreme Court decided not to review the decisions of the U.S. Court of Appeals for the Fifth Circuit and the U.S. Tax Court in the so-called "Aramco Advantage" case. In previous years, Texaco made payments, with associated interest, to the IRS for potential tax claims. As a result of the Supreme Court action, Texaco expects a refund in excess of \$700 million, which represents the remaining balance of these deposits and accrued interest. A significant portion of the refund is expected to be received in 1997.

On July 25, 1997, Texaco's Board of Directors approved a two-for-one split of the company's common stock effected in the form of a 100% stock dividend. The additional shares will be distributed on September 29, 1997, to shareholders of record on September 11, 1997. The company also announced an increase in its quarterly dividend on its common stock to 90 cents per share from 85 cents per share, on a pre-split basis, representing an increase of 5.9 percent. This quarterly cash dividend will be payable on September 10, 1997 to shareholders of record on August 5, 1997.

On August 5, 1997, the company issued \$200 million of 3.50% Cash-Settled Convertible Notes Due 2004. Concurrently with the issuance of these Notes, the company entered into an arrangement that effectively converts its interest cost relative to these Notes into a LIBOR-based floating rate and fixes Texaco's cost of future conversions at the face amount of the Notes. Proceeds from this offering will be used for working capital, retirement of existing debt and other general purposes. On August 12, 1997 Texaco repurchased certain equipment leasehold interests in conjunction with a sale/leaseback arrangement for somewhat less than the proceeds received. Through June 30, 1997, Texaco had received \$509 million and an additional \$20 million in July, 1997 for those leasehold interests.

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

#### EMPLOYEE SEVERANCE PROGRAM

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On October 30, 1996, Texaco announced a companywide realignment designed to enhance the company's ability to grow existing and new businesses. This realignment, coupled with other organizational enhancements such as the consolidation of operations, is designed to stimulate growth and improve efficiencies in both support and operating functions. However, it is expected that some overlapping activities will be eliminated resulting in the reduction of some 750 employees worldwide by the end of 1997. An after-tax provision of \$56 million was recorded in the fourth quarter of 1996 to cover the costs of employee separations, including employees of affiliates. Through June 30, 1997, approximately 750 employees have been terminated with a related commitment to severance payments of \$30 million after-tax. Of this commitment, payments of \$18 million have been made and charged against the reserve as of June 30, 1997. The remaining reserve balance will be used for ongoing employee separation benefits relating principally to affiliates, for which Texaco is responsible.

#### NEW ACCOUNTING STANDARD

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In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 128, Earnings per Share. Under SFAS 128, companies currently required to report primary and fully diluted earnings per share (EPS), will instead report basic and diluted EPS, respectively. Currently, primary EPS considers the average number of common shares outstanding and the potential dilution that would result if conversion rights associated with certain outstanding securities were exercised. Fully diluted EPS considers all potentially dilutive securities. Basic EPS, which will replace primary EPS, does not consider any potential dilution. Diluted EPS is essentially similar to fully diluted EPS.

Texaco must adopt SFAS 128 for its fiscal year 1997 financial statements and, at that time, restate the per share amounts of prior periods. Amounts to be reported as basic and diluted EPS in accordance with the new Statement will not differ significantly from previously reported primary and fully diluted EPS.

CAPITAL AND EXPLORATORY EXPENDITURES

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Capital and exploratory expenditures, including equity in such expenditures of affiliates, were \$1,798 million for the first half of 1997, as compared with \$1,437 million for the same period of 1996. Expenditures for the second quarter of 1997 amounted to \$999 million versus \$796 million for the second quarter of 1996.

Texaco's continued focus on high impact projects in the U.S. upstream, both onshore and offshore, generated increased exploration and development expenditures in the first half of 1997. In the deepwater Gulf of Mexico, platform construction and development drilling continued in the Arnold and Petronius fields while delineation drilling is underway in the Fuji and Gemini prospects. Aggressive drilling and development programs in the traditional offshore shelf area and onshore, as well as enhanced oil recovery efforts in California, also increased investments. Construction continued during the second quarter on a jointly owned natural gas pipeline and processing complex in the Gulf Coast area. There was, however, reduced spending this year on lease acquisitions compared to significant expenditures in 1996.

Internationally, upstream investments for the first half of 1997 exceeded the aggressive activity level of 1996. Higher expenditures reflected development work in the U.K. North Sea, principally for continuing activities in the Mariner and Galley fields. Exploration and development activities continued in China and Indonesia.

Downstream expenditures in the U.S. declined slightly in 1997. While spending for refinery upgrades and marketing investment decreased, construction continued on a major crude oil pipeline that will service new deepwater and subsalt production in the Gulf of Mexico.

Internationally, downstream spending increased due to marketing investments and initiatives in the Asia-Pacific area by Texaco's affiliate, Caltex Petroleum Corporation, principally in Hong Kong. Texaco also continued to invest in selected Latin American growth markets.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to the discussion of Contingent Liabilities in Note 3 to the Consolidated Financial Statements of this Form 10-Q, Item 1 of Texaco Inc.'s Form 10-Q for the quarterly period ended March 31, 1997 and to Item 3 of Texaco Inc.'s 1996 Annual Report on Form 10-K, which are incorporated herein by reference.

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

The Annual Meeting of the Stockholders of Texaco Inc. was held on May 13, 1997, for the purpose of (1) electing four directors, (2) approving the appointment of auditors for the year 1997, (3) amending the Certificate of Incorporation to increase the number of authorized shares and reduce the par value, (4) approving the Incentive Compensation Program of 1997 and (5) acting on three stockholder proposals concerning the establishment of a shareholders' advisory committee, classification of the Board of Directors and diversity on the Board of Directors. The following summarizes the stockholder voting results:

Stockholders elected Dr. Franklyn G. Jenifer and Messrs. Willard C. Butcher, Edmund M. Carpenter and Thomas A. Vanderslice, each for a three-year term expiring at the 2000 Annual Meeting. The vote tabulation for each individual director was as follows:

| Director              | Shares Voted for | % of Vote | Shares Withheld |
|-----------------------|------------------|-----------|-----------------|
| Willard C. Butcher    | 231,977,862      | 97.9      | 5,005,642       |
| Edmund M. Carpenter   | 232,455,636      | 98.1      | 4,527,868       |
| Franklyn G. Jenifer   | 232,168,142      | 98.0      | 4,815,362       |
| Thomas A. Vanderslice | 232,359,728      | 98.0      | 4,623,776       |

Directors continuing in office were Dr. John Brademas, Mrs. Robin B. Smith, and Messrs. Peter I. Bijur, Michael C. Hawley, Allen J. Krowe, Thomas S. Murphy, Charles H. Price II, William C. Steere and William Wrigley. Mr. Krowe, upon reaching the company's mandatory retirement age, retired from the company effective July 1, 1997 and resigned from the Board of Directors also effective July 1, 1997.

The appointment of Arthur Andersen LLP to audit the accounts of the company and its subsidiaries for the fiscal year 1997 was approved. Of those shares voted, 234,279,670 shares, or 99.3% voted in favor, 1,796,133 shares, or .7% voted against, and 934,700 shares abstained.

The proposal to amend the Certificate of Incorporation as set forth in Item 3 of the 1997 Proxy Statement, was approved. Of those shares voted, 217,469,056 shares, or 92.5% voted in favor, 17,656,932 shares, or 7.5% voted against, and 1,857,511 shares abstained.

The proposal to approve the Incentive Compensation Program of 1997 was approved. Of those shares voted, 173,228,950 shares, or 83.4% voted in favor, 34,517,604 shares, or 16.6% voted against and 2,763,394 shares abstained.

Stockholders rejected the three stockholder proposals. The proposal relating to the establishment of a shareholders' advisory committee, as set forth in Item 5 of the 1997 Proxy Statement, was rejected by a vote of 195,647,188 shares, or 95.4%, against. Shares voting for the proposal totaled 9,439,366 shares, or 4.6%, and 5,423,800 shares abstained.

The proposal relating to the classification of the Board of Directors, as set forth in Item 6 of the 1997 Proxy Statement, was rejected by a vote of 111,287,711 shares, or 53.7%, against. Shares voting for the proposal totaled 96,017,962 shares, or 46.3%, and 3,264,677 shares abstained.

The proposal relating to diversity on the Board of Directors, as set forth in Item 7 of the 1997 Proxy Statement, was rejected by a vote of 182,925,982 shares, or 89.3%, against. Shares voting for the proposal totaled 21,940,019 shares, or 10.7%, and 5,643,949 shares abstained.

Item 5. Other Information

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|   | (Unaudited)                          |                           |  |                          |
|---|--------------------------------------|---------------------------|--|--------------------------|
|   | For the six months<br>ended June 30, |                           | For the three months<br>ended June 30, |                          |
|   | 1997                                 | 1996                      | 1997                                   | 1996                     |
|   | ----                                 | ----                      | ----                                   | ----                     |
|   | (Millions of dollars)                |                           |  |                          |
| <b>FUNCTIONAL NET INCOME</b>                  |                                      |                           |  |                          |
| -----   |                                      |                           |  |                          |
| Operating earnings                            |                                      |                           |  |                          |
| Petroleum and natural gas                     |                                      |                           |  |                          |
| Exploration and production                    |                                      |                           |  |                          |
| United States                                 | \$ 500                               | \$ 510                    | \$ 189                                 | \$ 243                   |
| International                                 | 396                                  | 233                       | 240                                    | 103                      |
| Total   | -----<br>896                         | -----<br>743              | -----<br>429                           | -----<br>346             |
| Manufacturing, marketing and distribution     |                                      |                           |  |                          |
| United States                                 | 106                                  | 148                       | 100                                    | 144                      |
| International                                 | 236                                  | 396                       | 132                                    | 304                      |
| Total   | -----<br>342                         | -----<br>544              | -----<br>232                           | -----<br>448             |
| Total petroleum and natural gas               | 1,238                                | 1,287                     | 661                                    | 794                      |
| Nonpetroleum                                  | 13                                   | 5                         | 1                                      | 3                        |
| Total operating earnings                      | -----<br>1,251                       | -----<br>1,292            | -----<br>662                           | -----<br>797             |
| Corporate/Nonoperating                        | 300                                  | (217)                     | (91)                                   | (108)                    |
| Total net income                              | -----<br>\$1,551<br>=====            | -----<br>\$1,075<br>===== | -----<br>\$ 571<br>=====               | -----<br>\$ 689<br>===== |
| <br>  |                                      |                           |  |                          |
| <b>CAPITAL AND EXPLORATORY EXPENDITURES -</b> |                                      |                           |  |                          |
| -----   |                                      |                           |  |                          |
| INCLUDING EQUITY IN AFFILIATES                |                                      |                           |  |                          |
| -----   |                                      |                           |  |                          |
| Exploration and production                    |                                      |                           |  |                          |
| United States                                 | \$ 781                               | \$ 621                    | \$ 429                                 | \$ 355                   |
| International                                 | 546                                  | 450                       | 264                                    | 243                      |
| Total   | -----<br>1,327                       | -----<br>1,071            | -----<br>693                           | -----<br>598             |
| Manufacturing, marketing and distribution     |                                      |                           |  |                          |
| United States                                 | 152                                  | 156                       | 92                                     | 79                       |
| International                                 | 308                                  | 201                       | 207                                    | 114                      |
| Total   | -----<br>460                         | -----<br>357              | -----<br>299                           | -----<br>193             |
| Other   | 11                                   | 9                         | 7                                      | 5                        |
| Total, including equity in affiliates         | -----<br>\$1,798<br>=====            | -----<br>\$1,437<br>===== | -----<br>\$ 999<br>=====               | -----<br>\$ 796<br>===== |
| <br>  |                                      |                           |  |                          |
| Texaco Inc. and subsidiary companies          |                                      |                           |  |                          |
| Exploratory expenses included above:          |                                      |                           |  |                          |
| United States                                 | \$ 76                                | \$ 67                     | \$ 34                                  | \$ 44                    |
| International                                 | 116                                  | 92                        | 59                                     | 46                       |
| Total   | -----<br>\$ 192<br>=====             | -----<br>\$ 159<br>=====  | -----<br>\$ 93<br>=====                | -----<br>\$ 90<br>=====  |

(Unaudited)

|  | For the six months<br>ended June 30, |         | For the three months<br>ended June 30, |         |
|--|--------------------------------------|---------|--|---------|
|  | 1997                                 | 1996    | 1997                                   | 1996    |
| <b>OPERATING DATA - INCLUDING INTERESTS</b>                      |                                      |         |  |         |
| -----  |                                      |         |  |         |
| IN AFFILIATES  |                                      |         |  |         |
| -----  |                                      |         |  |         |
| Exploration and Production                                       |                                      |         |  |         |
| -----  |                                      |         |  |         |
| United States  |                                      |         |  |         |
| -----  |                                      |         |  |         |
| Net production of crude oil and natural gas liquids (000 BPD)    | 385                                  | 387     | 385                                    | 391     |
| Net production of natural gas - available for sale (000 MCFPD)   | 1,666                                | 1,666   | 1,677                                  | 1,685   |
| Total net production (000 BOEPD)                                 | 663                                  | 665     | 665                                    | 672     |
| Natural gas sales (000 MCFPD)                                    | 3,700                                | 3,120   | 3,561                                  | 3,007   |
| Natural gas liquids sales - (including purchased LPGs) (000 BPD) | 188                                  | 216     | 172                                    | 188     |
| Average U.S. crude (per bbl)                                     | \$18.29                              | \$16.90 | \$16.95                                | \$17.30 |
| Average U.S. natural gas (per mcf)                               | \$ 2.36                              | \$ 2.11 | \$ 2.02                                | \$ 2.07 |
| Average WTI (Spot) (per bbl)                                     | \$21.38                              | \$20.74 | \$19.97                                | \$21.73 |
| Average Kern (Spot) (per bbl)                                    | \$15.07                              | \$15.18 | \$14.11                                | \$15.46 |
| International  |                                      |         |  |         |
| -----  |                                      |         |  |         |
| Net production of crude oil and natural gas liquids (000 BPD)    |                                      |         |  |         |
| Europe   | 116                                  | 115     | 118                                    | 110     |
| Indonesia  | 147                                  | 140     | 153                                    | 144     |
| Partitioned Neutral Zone   | 92                                   | 74      | 94                                     | 75      |
| Other  | 67                                   | 60      | 68                                     | 60      |
| Total  | 422                                  | 389     | 433                                    | 389     |
| Net production of natural gas - available for sale (000 MCFPD)   |                                      |         |  |         |
| Europe   | 207                                  | 192     | 172                                    | 180     |
| Colombia   | 156                                  | 113     | 173                                    | 111     |
| Other  | 93                                   | 60      | 83                                     | 66      |
| Total  | 456                                  | 365     | 428                                    | 357     |
| Total net production (000 BOEPD)                                 | 498                                  | 450     | 504                                    | 449     |
| Natural gas sales (000 MCFPD)                                    | 574                                  | 459     | 528                                    | 442     |
| Natural gas liquids sales - (including purchased LPGs) (000 BPD) | 93                                   | 106     | 104                                    | 95      |
| Average International crude (per bbl)                            | \$18.22                              | \$18.25 | \$16.91                                | \$18.41 |
| Average U.K. natural gas (per mcf)                               | \$ 2.73                              | \$ 2.56 | \$ 2.59                                | \$ 2.48 |
| Average Colombia natural gas (per mcf)                           | \$ 1.09                              | \$ .93  | \$ 1.12                                | \$ .92  |



(Unaudited)

|   | For the six months<br>ended June 30, |       | For the three months<br>ended June 30, |       |
|---|--------------------------------------|-------|--|-------|
|   | 1997                                 | 1996  | 1997                                   | 1996  |
| OPERATING DATA - INCLUDING INTERESTS      |                                      |       |  |       |
| -----                                     |                                      |       |  |       |
| IN AFFILIATES                             |                                      |       |  |       |
| -----                                     |                                      |       |  |       |
| Manufacturing, Marketing and Distribution |                                      |       |  |       |
| -----                                     |                                      |       |  |       |
| United States                             |                                      |       |  |       |
| -----                                     |                                      |       |  |       |
| Refinery input (000 BPD)                  |                                      |       |  |       |
| Subsidiary                                | 413                                  | 399   | 418                                    | 403   |
| Affiliate - Star Enterprise               | 332                                  | 317   | 328                                    | 318   |
|   | -----                                | ----- | -----                                  | ----- |
| Total                                     | 745                                  | 716   | 746                                    | 721   |
| Refined product sales (000 BPD)           |                                      |       |  |       |
| Gasolines                                 | 505                                  | 491   | 512                                    | 507   |
| Avjets                                    | 92                                   | 129   | 94                                     | 127   |
| Middle Distillates                        | 215                                  | 212   | 216                                    | 205   |
| Residuals                                 | 72                                   | 62    | 59                                     | 62    |
| Other                                     | 119                                  | 133   | 117                                    | 133   |
|   | -----                                | ----- | -----                                  | ----- |
| Total                                     | 1,003                                | 1,027 | 998                                    | 1,034 |
| International                             |                                      |       |  |       |
| -----                                     |                                      |       |  |       |
| Refinery input (000 BPD)                  |                                      |       |  |       |
| Europe                                    | 341                                  | 337   | 335                                    | 340   |
| Affiliate - Caltex                        | 411                                  | 383   | 414                                    | 266   |
| Latin America/West Africa                 | 59                                   | 62    | 55                                     | 66    |
|   | -----                                | ----- | -----                                  | ----- |
| Total                                     | 811                                  | 782   | 804                                    | 672   |
| Refined product sales (000 BPD)           |                                      |       |  |       |
| Europe                                    | 495                                  | 473   | 494                                    | 467   |
| Affiliate - Caltex                        | 574                                  | 626   | 561                                    | 539   |
| Latin America/West Africa                 | 391                                  | 391   | 406                                    | 396   |
| Other                                     | 55                                   | 74    | 74                                     | 73    |
|   | -----                                | ----- | -----                                  | ----- |
| Total                                     | 1,515                                | 1,564 | 1,535                                  | 1,475 |

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- (3) Copy of By-Laws of Texaco Inc., as amended to and including July 25, 1997.
- (4.1) Form of First Supplemental Indenture, dated as of January 31, 1990, among Texaco Capital Inc., Texaco Inc. and The Chase Manhattan Bank (National Association), as Trustee. (This document was previously filed with the Securities and Exchange Commission, File No. 1-27, as Exhibit 4.1 to Texaco Capital Inc.'s Registration Statement on Form S-3 (Registration Nos. 33-33303 and 33-33303-01) on February 1, 1990, and is being filed herein only for EDGAR purposes.)
- (4.1(a)) Form of First Supplement to the First Supplemental Indenture, dated as of October 11, 1990. (This document was previously filed with the Securities and Exchange Commission, File No. 1-27, as Exhibit 4.1(a) to Texaco Inc.'s Current Report on Form 8-K, dated October 12, 1990 and filed on October 15, 1990, and is being filed herein only for EDGAR purposes.)
- (4.1(b)) Form of Second Supplement to the First Supplemental Indenture, dated as of August 5, 1997, including Forms of the Note representing Texaco Capital Inc.'s \$200 million 3.50% Guaranteed Cash-Settled Convertible Notes Due 2004.
- (11) Computation of Earnings Per Share of Common Stock of Texaco Inc. and Subsidiary Companies.
- (12) Computation of Ratio of Earnings to Fixed Charges of Texaco on a Total Enterprise Basis.
- (20) Copy of Texaco Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (including portions of Texaco Inc.'s Annual Report to Stockholders for the year 1996) and a copy of Texaco Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, as previously filed by the Registrant with the Securities and Exchange Commission, File No. 1-27.
- (22) Information relative to the various matters submitted to a vote of security holders are described on pages 9 through 27 of the 1997 Proxy Statement of Texaco Inc., relating to the Annual Meeting of Stockholders held on May 13, 1997, as previously filed by the Registrant with the Securities and Exchange Commission, File No. 1-27.
- (27) Financial Data Schedule.

(b) Reports on Form 8-K:

During the second quarter of 1997, the Registrant filed a Current Report on Form 8-K for the following events:

1. April 22, 1997 (date of earliest event reported: April 21, 1997)

Item 5. Other Events -- reported that Texaco (1) announced that it had been notified that the U.S. Supreme Court has decided not to review the decisions of the U.S. Court of Appeals for the Fifth Circuit and the U.S. Tax Court in the so-called "Aramco Advantage" case and (2) issued an Earnings Press Release for the first quarter 1997. Texaco appended as exhibits thereto a copy of the Press Release entitled "Texaco Advised Supreme Court Will Let Stand Favorable Decision in 'Aramco Advantage' Case," dated April 21, 1997 and "Texaco Reports Significant Increase in Net Income: First Quarter 1997 Earnings Reach \$980 Million," dated April 22, 1997, respectively.

2. June 19, 1997 (date of earliest event reported: June 17, 1997)

Item 5. Other Events -- reported that the Registrant's 50-percent owned affiliate, Caltex Petroleum Corporation, received a claim from the U.S. Internal Revenue Service for \$292 million in excise taxes, plus interest and penalties.

SIGNATURES  
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Pursuant to the requirements 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.

Texaco Inc.  
-----  
(Registrant)

By: R.C. Oelkers  
-----  
(Comptroller)

By: R.E. Koch  
-----  
(Assistant Secretary)

Date: August 13, 1997  
-----

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

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description of the business desired to be brought before the meeting and any material interest in such business of such stockholder, and (c) the number of shares of the Company which are beneficially owned by the stockholder. The chairman of the meeting may refuse to permit any business to be brought before an annual meeting by a stockholder without compliance with the procedure set forth in this Section 9.

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

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

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

order of the Board of Directors.

ARTICLE II.  
The Board of Directors.

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

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

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

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

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

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

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

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

#### ARTICLE IV. Officers.

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

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

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

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

SECTION 5. The Chief Executive Officer. Either the Chairman of the Board, or the President, as the Board of Directors may designate, shall be the Chief Executive Officer of the Company. The officer so designated shall have, in addition to the powers and duties applicable to the office set forth in either Section 2 or 4 of this Article IV, general active supervision over the business and affairs of the Company and over its several officers, agents, and employees,

subject, however, to the direction and control of the Board or the Executive Committee. The Chief Executive Officer shall see that all orders and resolutions of the Board or the Executive Committee are carried into effect, and, in general, shall perform all duties incident to the position of Chief Executive Officer and such other duties as may from time to time be assigned by the Board or the Executive Committee.

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

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

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

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

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

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

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



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

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

ARTICLE V.  
Indemnification.

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

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

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

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

commenced pursuant to this Article that the procedures and presumptions of this Article are not valid, binding and enforceable and shall stipulate in any such proceeding that the Company is bound by all the provisions of this Article.

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

ARTICLE VI.  
Capital Stock.

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

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

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

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

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

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

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

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

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

affirmative vote of the holders of at least a majority of the then outstanding shares of capital stock of the Company voting generally in the election of Directors, voting together as a single class, shall be required to repeal the foregoing provisions.

ARTICLE VII  
Fair Price.

A. Vote Required for Certain Business Combinations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VIII.

Seal.

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

ARTICLE IX.

By-Law Amendments.

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

-----

I, .....R.E.Koch..... Assistant Secretary of Texaco Inc., a Delaware corporation, do hereby certify that the above and foregoing is a true and correct copy of the by-laws of said Company as amended to July 25, 1997 and now in effect.

Dated Harrison, N.Y....August 13.... , 1997

.....R.E.Koch.....  
Assistant Secretary

=====

TEXACO CAPITAL INC.

Issuer

and

TEXACO INC.

Guarantor

and

THE CHASE MANHATTAN BANK  
(NATIONAL ASSOCIATION)

as Trustee  
-----

First Supplemental

Indenture

Dated as of January 31, 1990

Supplementing and Restating  
The Indenture

Dated as of August 24, 1984  
-----

Providing for issuance of  
Guaranteed Debt Securities in Series

=====

CROSS-REFERENCE TABLE

| TIA Section                 | Indenture Section |
|-----------------------------|-------------------|
| 310(a)(1).....              | 7.10              |
| (a)(2).....                 | 7.10              |
| (a)(3).....                 | N.A.              |
| (a)(4).....                 | N.A.              |
| (b).....                    | 7.08; 7.10; 10.02 |
| (c).....                    | N.A.              |
| 311(a).....                 | 7.11              |
| (b).....                    | 7.11              |
| (c).....                    | N.A.              |
| 312(a).....                 | 2.08              |
| (b).....                    | 10.03             |
| (c).....                    | 10.03             |
| 313(a).....                 | 7.06              |
| (b)( 1 ).....               | N.A.              |
| (b)(2).....                 | 7.06              |
| (c).....                    | 10.02             |
| (d).....                    | 7.06              |
| 314(a).....                 | 4.07; 10.02       |
| (b).....                    | N.A.              |
| (c)(1).....                 | 10.04             |
| (c)(2).....                 | 10.04             |
| (c)(3).....                 | N.A.              |
| (d).....                    | N.A.              |
| (e).....                    | 10.05             |
| (f).....                    | N.A.              |
| 315(a).....                 | 7.01 (b)          |
| (b).....                    | 7.05; 10.02       |
| (c).....                    | 7.01 (a)          |
| (d).....                    | 7.01(c)           |
| (e).....                    | 6.11              |
| 316(a) (last sentence)..... | 2.13              |
| (a)( 1 )(A).....            | 6.05              |
| (a)( 1 )(B).....            | 6.04              |
| (a)(2).....                 | N.A.              |
| (b).....                    | 6.07              |
| 317(a)(1).....              | 6.08              |
| (a)(2).....                 | 6.09              |
| (b).....                    | 2.07              |
| 318(a).....                 | 10.01             |

N.A. means Not Applicable.

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SIGNATURES

THIS FIRST SUPPLEMENTAL INDENTURE dated as of January 31, 1990, among TEXACO CAPITAL INC., a Delaware corporation ("company"), TEXACO INC., a Delaware corporation ("Guarantor") and The Chase Manhattan Bank (National Association), as Trustee ("Trustee").

#### RECITALS

The Company, the Guarantor and the Trustee are parties to an Indenture, dated as of August 24, 1984 (the "Original Indenture"), relating to the issuance from time to time by the Company of its Debt Securities guaranteed by the Guarantor on terms to be specified at the time of issuance. Capitalized terms herein, not otherwise defined, shall have the same meanings given them in the Original Indenture.

The Company and the Guarantor have requested the Trustee to join with it in the execution and delivery of this First Supplemental Indenture in order to provide for the issuance of global Securities in either registered or bearer form or in either temporary or global form, to provide for the issuance of Securities in currencies other than Dollars, and to make certain minor adjustments.

Section 9.01(3) of the Original Indenture provides that a supplemental indenture may be entered into by the Company, the Guarantor and the Trustee, without the consent of any Holders of Securities, to add to or change any of the provisions of the Original Indenture to the extent necessary to make any change that does not adversely affect the rights of any Securityholder.

The Company and the Guarantor have determined that this First Supplemental Indenture complies with said Section 9.01 and does not require the consent of any Holders of Securities. On the basis of the foregoing, the Trustee has determined that this First Supplemental Indenture is in form satisfactory to it.

All things necessary to make this First Supplemental Indenture a valid agreement of the Company, the Guarantor and the Trustee and a valid amendment of and supplement to the Original Indenture have been done.

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Securities issued under this Indenture to supplement and restate the Original Indenture in its entirety as follows:

#### ARTICLE I

##### DEFINITIONS AND INCORPORATION BY REFERENCE

###### SECTION 1.01. Definitions.

"Affiliate" means any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or the Guarantor.

"Agent" means any Authenticating Agent, Paying Agent or Registrar.

"Board of Directors" means, with respect to the Company, the Board of Directors of the Company or, with respect to the Guarantor, the Board of Directors or the Executive Committee of the Board of Directors of the Guarantor.

"Board Resolution" means a copy of a resolution certified, with respect to the Company by the Secretary or an Assistant Secretary of the Company or, with respect to the Guarantor, by the Secretary or an Assistant Secretary of the Guarantor, to have been adopted by the Board of Directors of the Company or the Guarantor and to be in full force and effect on the date of certification and delivery.

"Company" means the party named as such above until a successor replaces it and thereafter means the successor.

"Default" means any event which is, or after notice or passage of time would be, an Event of Default.

"Depository" means, with respect to the Securities of any series issuable or issued in the form of a Global Security, the person designated as Depository by the Company pursuant to Section 2.02(14) until a successor Depository shall have become such pursuant to the applicable provisions of this Indenture. and thereafter "Depository" shall mean or include each person who is then a Depository hereunder, and if at any time there is more than one such person. "Depository" as used with respect to the Securities of any such series shall mean the Depository with respect to the Securities of that series.

"Dollars" means the coin or currency of the United States as at the time of payment is legal tender for payment of public and private debts.

"ECU" means the European Currency Unit as defined and revised from time to time by the Council of European Communities.

"Foreign Currency" means a currency issued by the government of a country other than the United States.

"Global Security" means a Security issued to evidence all or a part of a series of Securities in accordance with Section 2.02(14).

"Guaranty" means the guarantee of the Company's obligations under a Security, by the Guarantor, as endorsed on a Security.

"Guarantor" means the party named as such above until a successor replaces it and thereafter means the successor.

"Holder" or "Securityholder" means a person in whose name a Security is registered.

"Indenture" means the Original Indenture, as supplemented by this First Supplemental Indenture, all as may be amended from time to time.

"Officer" means, with respect to either the Company or the Guarantor, the Chairman of the Board, the Vice Chairman, the President, any Vice President, the Treasurer, the Comptroller or the Secretary.

"Officers' Certificate" means a certificate signed by two Officers or by an Officer and a Deputy, Associate or Assistant Treasurer, Secretary or Comptroller of the Company or the Guarantor.

"Opinion of Counsel" means a written opinion of legal counsel for the Company or the Guarantor who may be an Officer or employee of the Company or the Guarantor.

"Order" means an order signed by two Officers or by any Officer and a Deputy, Associate or Assistant Treasurer, Secretary or Comptroller of the Company or the Guarantor directed to the Trustee.

"Original Issue Discount Security" means any Security which provides for an amount less than the stated principal amount thereof to be due and payable upon declaration of acceleration of the maturity thereof pursuant to Section 6.02.

"Registered Securities" means Securities which are issued in registered form without coupons.

"SEC" means the Securities and Exchange Commission.

"Series" or "Series of Securities" means the Series of debt security of the Company established pursuant to Section 2.02 and authenticated and delivered under the Indenture.

"Securities" means the debentures, notes or other evidence of indebtedness of the Company of any Series established pursuant to Section 2.02 and authenticated and delivered under this Indenture.

"TIA" means the Trust Indenture Act of 1939 (IS U.S. Code ss.ss.77aaa-77bbb) as in effect on the date shown above.

"Trustee" means the party named as such above until a successor replaces it and thereafter means the successor.

"Trust Officer" means the Chairman of the Board, the President or any other officer or assistant officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

SECTION 1.02. Other Definitions.

| Term<br>----                       | Defined In ss.<br>----- |
|------------------------------------|-------------------------|
| "Attributable Debt"                | 4.01                    |
| "Authenticating Agent"             | 2.05                    |
| "Bankruptcy Law"                   | 6.01                    |
| "Capital Stock"                    | 4.01                    |
| "Consolidated Net Tangible Assets" | 4.01                    |
| "Custodian"                        | 6.01                    |
| "Debt"                             | 4.01                    |
| "Event Of Default"                 | 6.01                    |
| "Improvements"                     | 4.01                    |
| "Legal Holiday"                    | 10.07                   |
| "Lien"                             | 4.01                    |
| "Long-Term Debt"                   | 4.01                    |
| "Outstanding"                      | 2.12                    |
| "Paying Agent"                     | 2.06                    |

| Term<br>-----                 | Defined In ss.<br>----- |
|-------------------------------|-------------------------|
| "Principal Property           | 4.01                    |
| "Principal Subsidiary"        | 4.01                    |
| "Registrar"                   | 2.06                    |
| "Sale-Leaseback Transaction"  | 4.01                    |
| "Subsidiary"                  | 4.01                    |
| "United States"               | 4.01                    |
| "U.S. Government Obligations" | 8.01                    |
| "Voting Stock"                | 4.01                    |

SECTION 1.03. Incorporation by Reference of Trust Indenture Act.

Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

"Commission" means the SEC.

"indenture securities" means the Securities.

"indenture security holder" means a Securityholder.

"indenture to be qualified" means this Indenture.

"indenture trustee" or "institutional trustee" means the Trustee.

"obligor" on the indenture securities means the Company and the Guarantor.

All other terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule under the TIA have the meanings assigned to them.

SECTION 1.04. Rules of Construction.

Unless the context otherwise requires:

- 1) a term has the meaning assigned to it;
- 2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles;
- 3) "or" is not exclusive; and
- 4) words in the singular include the plural, and in the plural include the singular.
- 5) words in the masculine include the feminine, and in the feminine include the masculine.

## ARTICLE 2

## THE SECURITIES

## SECTION 2.01. Issuable in Series.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited. The Securities may be issued in one or more Series. All Securities of a Series shall be identical in all respects except Securities of serial maturities which may differ with respect to maturity date, interest rate and redemption price. Securities may differ between Series in respect of any matters. All Series of Securities shall be equally and ratably entitled to the benefits of this Indenture.

## SECTION 2.02. Establishment of Terms of Series of Securities.

At or prior to the issuance of a Series of Securities, there shall be established by an indenture supplemental hereto, or by a Board Resolution of the Company or, if the authority has been delegated previously by the Board of Directors of the Company to an Officer, by an Officers' Certificate of the Company:

- 1) the title of the Securities of the Series (which shall distinguish the Securities of the Series from the Securities of other Series);
- 2) any limit upon the aggregate principal amount of the Securities of the Series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Sections 2.10, 2.11 or 2.14);
- 3) if other than Dollars, the coin or currency in which the Securities of that series are denominated (including, but not limited to, any Foreign Currency or ECU);
- 4) the date or dates on which the principal and the premium, if any, of the Securities of the Series are payable;
- 5) if the Securities of the Series are to bear interest, the rate or rates thereof, the date or dates from which such interest shall accrue, the dates on which such interest shall be payable and the record date for the interest payable on any interest payment date or the method by which such rate or rates or date or dates shall be determined;
- 6) the place or places where the principal and the premium and interest, if any, on the Securities of the Series shall be payable;
- 7) the period or periods within which, the price or prices at which and the terms and conditions upon which the Securities of the Series may be redeemed, in whole or in part, at the option of the Company;
- 8) the obligation, if any, of the Company to redeem or purchase the Securities of the Series pursuant to any sinking fund or analogous provisions or at the option of a Holder and the period or periods within which, the price or prices at which and the terms and conditions upon which the Securities of the Series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

- 9) if Registered Securities are to be issued in denominations other than denominations of \$1,000 and any integral multiple thereof, the denominations in which the Securities of the Series shall be issuable;
- 10) if other than the principal amount thereof, the portion of the principal amount of the Securities of the Series which shall be payable upon declaration of acceleration of the maturity thereof pursuant to Section 6.02;
- 11) if other than the coin or currency in which the Securities of that series are denominated, the coin or currency in which payment of the principal of or interest on the Securities of such series shall be payable;
- 12) if the principal of or interest on the Securities of such Series are to be payable, at the election of the Company or a Holder thereof, in a coin or currency other than that in which the Securities are denominated, the period or periods within which, and the terms and conditions upon which, such election may be made;
- 13) if the amount of payments of principal of and interest on the Securities of the series may be determined with reference to an index based on a coin or currency other than that in which the Securities of the Series are denominated, the manner in which such amounts shall be determined;
- 14) whether the Securities of the Series shall be issued in whole or in part in the form of a Global Security and, in such case, the Depository for such Global Security and whether such global form shall be permanent or temporary;
- 15) any other terms of the Securities of the Series not inconsistent with the provisions of this Indenture;
- 16) the form of the Securities of the Series and the Trustee's certificate of authentication;  
and
- 17) if other than the Trustee, the name of the trustee, and any Agents.

#### SECTION 2.03. Unconditional Guarantee.

The Guarantor unconditionally guarantees to each Holder of a Security and the Trustee, the due and punctual payment of principal and the premium and interest, if any, on such Security when the same becomes due and payable, whether at maturity or upon redemption, declaration or otherwise and agrees to pay the same if the Company fails to do so. The Guarantor's obligations are absolute and unconditional. The Guarantor shall not be entitled to enforce, or to receive any payments arising out of or based upon a right of subrogation with respect to any amounts paid by the Guarantor to the Holder of any Series of Securities until principal and the premium and interest, if any, on all Securities of that Series shall have been paid in full or payment provided for. The Guarantor's guaranty shall be endorsed on all Securities and executed as herein provided.



**SECTION 2.04. Documents Required for Issuance of a Series of Securities.**

The Securities of a Series may be executed by the Company and delivered to the Trustee at any time and the principal amount specified shall be authenticated by the Trustee and delivered in accordance with an Order of the Company and the Guarantor upon receipt by the Trustee of the following:

- 1) an Opinion of Counsel to the effect that: (i) all instruments furnished the Trustee conform to the requirements of the Indenture and constitute sufficient authority for the Trustee to authenticate and deliver the Securities of the Series; (ii) the Company has the corporate power and authority to issue and deliver the Securities of the Series; (iii) the issuance and delivery of the Securities of the Series have been authorized by all requisite corporate action and the Securities of the Series have been executed and delivered by the Company; (iv) the Securities of the Series are valid and legally binding obligations of the Company entitled to the benefits of the Indenture equally and ratably with all other Securities theretofore issued and then outstanding under the Indenture and are enforceable against the Company in accordance with their terms except as enforceability may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights in general; and (v) the amount of Securities then Outstanding under the Indenture, including the Series of Securities being issued, will not exceed the amount at the time permitted by law;
- 2) an Opinion of Counsel for the Guarantor to the effect that: (i) the Guarantor has the corporate power and authority to execute and deliver the Guaranties and to undertake the obligations set forth in the Guaranty; (ii) the Guaranties endorsed on the Securities have been duly authorized by all requisite corporate action and have been endorsed on the Securities by the Guarantor; and (iii) the Guaranties endorsed on the Series of Securities are valid and legally binding obligations of the Guarantor entitled to the benefits provided by the Indenture equally and ratably with all other Guaranties theretofore executed and delivered and then outstanding under the Indenture and enforceable against the Guarantor in accordance with their terms except as enforceability may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights in general;
- 3) an Officers' Certificate of the Company stating that the Company is not in default under the Indenture and that the execution and delivery of the Series of Securities will not conflict with or result in a violation of the Certificate of Incorporation or By-Laws of the Company or of any agreement, instrument, order, writ, judgment or decree to which the Company is a party or is subject; and that all conditions precedent provided in the Indenture relating to the execution and delivery of the Series of Securities have been complied with;

- 4) an Officers' Certificate of the Guarantor stating that the Guarantor is not in default under this Indenture and that the execution and delivery of the Guaranties will not conflict with or result in a violation of the Certificate of Incorporation or By-Laws of the Guarantor or of any agreement, instrument, order, writ, judgment or decree to which the Guarantor is a party or is subject; and that all conditions precedent provided in the Indenture relating to the execution and delivery of the Guaranties have been complied with;
- 5) a certified copy of a Board Resolution of the Company, an Officers' Certificate of the Company or an executed copy of a supplemental indenture, as required by Section 2.02, establishing the terms of the Securities of the Series; and
- 6) such other documents as the Trustee may reasonably require.

The Trustee shall have the right to decline to authenticate and deliver any Securities under this section if the Trustee, being advised by counsel, determines that such action may not lawfully be taken by the Company; or if the Trustee in good faith by action of its board of directors, or board of trustees, executive committee, or a trust committee of directors or trustees or Trust Officers determines that such action would expose the Trustee to personal liability to existing Holders.

SECTION 2.05. Execution and Authentication.

Securities shall be executed by two Officers for the Company and Guaranties shall be executed by an Officer for the Guarantor. Signatures shall be facsimile or manual.

If the person whose signature is on a Security no longer holds that office at the time the Security is authenticated, the Security shall be valid nevertheless.

The Trustee may appoint an authenticating agent ("Authenticating Agent") to authenticate Securities. An Authenticating Agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such Agent.

A Security or a Guaranty shall not be valid until the Security is authenticated by the manual signature of the Trustee or an Authenticating Agent. The manual signature shall be conclusive evidence that the Security has been authenticated under this Indenture. Each Security shall be dated the date of its authentication.

## SECTION 2.06. Registrar and Paying Agent.

The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange ("Registrar") and an office or agency where Registered Securities may be presented for payment ("Paying Agent"). The Registrar shall keep a separate register with respect to each Series of Registered Securities and of their transfers and exchanges. The Company may appoint one or more co-registrars and one or more additional paying agents for each Series of Registered Securities. The term "Registrar" includes any co-registrar and the term "Paying Agent" includes any additional paying agent. The Company shall notify the Trustee of the name and address of any Registrar or Paying Agent not a party to this Indenture. If the Company fails to maintain a Registrar or Paying Agent, the Trustee shall act as such.

The Company initially appoints the Trustee as Registrar and Paying Agent.

## SECTION 2.07. Paying Agent to Hold Money in Trust.

The Company shall require each Paying Agent, other than the Trustee, to agree in writing that the Paying Agent will hold in trust, for the benefit of Holders of a Series of Securities or the Trustee, all money held by the Paying Agent for the payment of principal and the premium and interest, if any, on the Series of Securities, and will notify the Trustee of any default by the Company in making any such payment. If the Company acts as Paying Agent, it shall segregate the money and hold it as a separate trust fund. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee. Upon doing so the Paying Agent shall have no further liability for the money.

## SECTION 2.08. Depositary and Global Security.

If the Company shall establish Securities of a series to be issued in the form of one or more Global Securities, then (i) the aggregate principal amount Outstanding of such series shall be represented by one or more Global Securities; (ii) the Global Security shall be registered in the name of the Depositary for such Global Security or the nominee of such Depositary; (iii) the Global Security shall be delivered by the Trustee to such Depositary or pursuant to such Depositary's instruction and (iv) the Global Security shall bear a legend substantially to the following effect: "UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF A NOMINEE OF SUCH DEPOSITARY OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY AND ANY PAYMENT IS MADE TO A NOMINEE OF SUCH DEPOSITARY, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE DEPOSITARY, AS REGISTERED OWNER HEREOF, HAS AN INTEREST HEREIN."

Each Depositary designated for a Global Security must, at the time of its designation and at all times while it serves as Depositary, be a clearing agency registered under the Securities Exchange Act of 1934 and any other applicable statute or regulation.

If at any time the Depositary for the Global Securities of a series notifies the Company that it is unwilling or unable to continue as Depositary or if at any time the Depositary shall no longer be eligible under this Section 2.08, the Company shall appoint a successor Depositary

with respect to the Securities for such series. If a successor Depositary for the Securities of such series is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such ineligibility, the Company's election to issue that series of Securities in the form of a Global Security shall no longer be effective with respect to the Securities for such series and the Company will execute, and the Trustee, upon receipt of an Order for the authentication and delivery of definitive Securities of such series, will authenticate and deliver Securities of such series in definitive form in an aggregate principal amount equal to the principal amount of the Global Security representing such series in exchange for such Global Security.

The Company may at any time and in its sole discretion determine that the Securities of any series issued in the form of one or more Global Securities shall no longer be represented by such Global Security. In such event the Company will execute, and the Trustee, upon receipt of an Order for the authentication and delivery of definitive Securities of such series, will authenticate and deliver, Securities of such series in definitive form and in an aggregate principal amount equal to the principal amount of the Global Security representing such series in exchange for such Global Security.

If specified by the Company pursuant to Section 2.02 with respect to a series of Securities, the Depositary for such series of Securities may surrender a Global Security for such series of Securities in exchange in whole or in part for Securities of such series of like tenor and terms and definitive form on such terms are acceptable to the Company and such Depositary. Thereupon the Company shall execute, and the Trustee shall authenticate and deliver, without service charge, (i) to each person specified by such Depositary a new Security of the same series, of like tenor and terms and of any authorized denomination as requested by such person in aggregate principal amount equal to and in exchange for such person's beneficial interest in the Global Security; and (ii) to such Depositary a new Global Security of like tenor and terms and in a denomination equal to the difference, if any, between the principal amount of the surrendered Global Security and the aggregate principal amount of Securities delivered to Holders thereof.

In any exchange provided for in any of the preceding paragraphs, the Company will execute and the Trustee will authenticate and deliver Securities in definitive registered form in authorized denominations without charge and the Trustee shall authenticate and deliver, in exchange for each portion of such Global Security, an equal aggregate principal amount of definitive Registered Securities of the same series of authorized denominations and of like tenor and terms as the portion of such temporary Global Security to be exchanged. Upon any exchange of a part of such Global Security for definitive Registered Securities, the portion of the principal amount and any interest thereon so exchanged shall be endorsed on a schedule to such temporary Global Security, whereupon the principal amount and interest payable with respect to such Global Security shall be reduced for all purposes by the amount so exchanged and endorsed.

#### SECTION 2.09. Securityholder Lists.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders of each Series of Securities. If the Trustee is not the Registrar, the Company shall furnish to the Trustee on or before each

interest payment date and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Securityholders of each Securities of a Series.

SECTION 2.10. Transfer and Exchange.

Where Registered Securities of a Series are presented to the Registrar with a request to register transfer or to exchange them for an equal principal amount of Registered Securities of the same Series and date of maturity of other denominations, the Registrar shall register the transfer or make the exchange if its requirements for such transactions are met. To permit transfers and exchanges, the Trustee shall authenticate Securities at the Registrar's request. The Company may charge a reasonable fee for any transfer or exchange but not for any exchange pursuant to Sections 2.14, 3.06 or 9.06.

SECTION 2.11. Replacement Securities.

If the Holder of a Security claims that the Security has been lost, mutilated, destroyed or wrongfully taken, the Company shall issue and the Trustee shall authenticate a replacement Security of the same Series amount and date of maturity if the Trustee's requirements are met. If required, an indemnity bond must be provided by the Holder sufficient in the judgment of the Company and the Trustee to protect the Company, the Guarantor, the Trustee and the Agent from any loss which any of them may suffer if a Security is replaced. The Company may charge for its expenses in replacing a Security.

Every replacement Security is an additional obligation of the Company and of the Guarantor.

SECTION 2.12. Outstanding Securities.

Securities of a Series outstanding ("Outstanding") at any time are all of the Securities of the Series authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation, and those described in this Section.

If a Security is replaced pursuant to Section 2.11, it ceases to be Outstanding until the Trustee receives proof satisfactory to it that the replaced Security is held by a bona fide purchaser.

If the Paying Agent holds on a redemption date or maturity date money sufficient to pay Securities of a Series payable on that date, then on and after that date such Securities of the Series cease to be Outstanding and interest on them ceases to accrue.

A Security does not cease to be Outstanding because the Company or an Affiliate holds the Security.

SECTION 2.13. Treasury Securities.

In determining whether the Holders of the required principal amount of Securities of a Series have concurred in any direction, waiver or consent. Securities of a Series owned by the Company, the Guarantor or a Subsidiary shall be disregarded, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or

consent, only Securities of a Series which the Trustee knows are so owned shall be so disregarded.

#### SECTION 2.14. Temporary Securities.

Until definitive Securities are ready for delivery, the Company may prepare temporary Securities, the Guarantor may endorse its Guaranties thereon and the Trustee shall authenticate such temporary Securities. Temporary Securities and Guaranties shall be substantially in the form of definitive Securities and Guaranties but may have variations that the Company and the Guarantor consider appropriate for temporary Securities and Guaranties. Without unreasonable delay, the Company and the Guarantor shall prepare and the Trustee shall authenticate definitive Securities of the same Series and date of maturity with appropriate Guaranties in exchange for temporary Securities.

#### SECTION 2.15. Cancellation.

The Company at any time may deliver Securities to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Securities surrendered to them for transfer, exchange or payment. The Trustee shall cancel all Securities surrendered for transfer, exchange, payment, redemption or cancellation and shall dispose of canceled Securities as the Company directs. The Company may not issue new Securities to replace Securities that it has paid or delivered to the Trustee for cancellation.

#### SECTION 2.16. Defaulted Interest.

If the Company defaults in a payment of interest on a Series of Securities, it shall pay the defaulted interest, plus any interest payable on the defaulted interest, to the persons who are Securityholders of the Series on a subsequent special record date. The Company shall fix the record date and payment date. At least 15 days before the record date, the Company shall mail to the Trustee and to each Securityholder of the Series a notice that states the record date, the payment date and the amount of interest to be paid. The Company may pay defaulted interest in any other lawful manner.

### ARTICLE 3

#### REDEMPTION

##### SECTION 3.01. Notice to Trustee.

The Company may, with respect to any Series of Securities, reserve the right to redeem and pay the Series of Securities before maturity at such time and on such terms as provided for when the Series of Securities were issued. If a Series of Securities is redeemable and the Company wants to redeem all or part of the Series of Securities pursuant to the terms under which the Series of Securities were issued, it shall notify the Trustee of the redemption date and the principal amount of Series of Securities to be redeemed. The Company shall give the notice at least 60 days before the redemption date unless shorter notice is acceptable to the Trustee.

##### SECTION 3.02. Selection of Securities to be Redeemed.

In the event of a redemption of less than all the Securities of a Series, the Trustee shall select the Securities of the Series to be redeemed by a method the Trustee considers fair and appropriate. The Trustee shall make the selection from Securities of the Series Outstanding. The

Trustee may select for redemption portions of the principal of Securities of the Series that have denominations larger than \$1,000. Securities of the Series and portions of them it selects shall be in amounts of \$1,000 or multiples of \$1,000. Provisions of this Indenture that apply to Securities of a Series called for redemption also apply to portions of Securities of that Series called for redemption.

SECTION 3.03. Notice of Redemption.

At least 30 days but not more than 60 days before a redemption date, the Company shall mail a notice of redemption by first-class mail to each Holder of the Series of Securities to be redeemed.

The notice shall identify the Securities of the Series to be redeemed (and, in the case of partial redemption, the principal amounts thereof) and shall state:

- 1) the redemption date;
- 2) the redemption price;
- 3) the name and address of the Paying Agent;
- 4) that Securities of the Series called for redemption must be surrendered to the Paying Agent to collect the redemption price; and
- 5) that interest on Securities of the Series called for redemption ceases to accrue on and after the redemption date.

At the Company's request, the Trustee shall give the notice of redemption in the Company's name and at its expense.

SECTION 3.04. Effect of Notice of Redemption.

Once notice of redemption is mailed, Securities of a Series called for redemption become due and payable on the redemption date and at the redemption price. Upon surrender to the Paying Agent, such Securities shall be paid at the redemption price plus accrued interest to the redemption date, except that if the redemption date is an interest payment date, interest shall be paid to the Holder registered as such on the applicable record date.

SECTION 3.05. Deposit of Redemption Price.

On or before the redemption date, the Company shall deposit with the Paying Agent money sufficient to pay the redemption price of and accrued interest on all Securities to be redeemed on that date.

SECTION 3.06. Securities Redeemed in Part.

Upon surrender of a Security that is redeemed in part, the Trustee shall authenticate for the Holder a new Security of the same Series, the same maturity and interest rate equal in principal amount to the unredeemed portion of the Security surrendered.

## ARTICLE 4

## COVENANTS

## SECTION 4.01. Certain Definitions.

"Attributable Debt" for a Sale-Leaseback Transaction means, as of the date of determination, the lesser of (a) the fair value of the property subject to the transaction (as determined by the Board of Directors of the Guarantor) or (b) the present value of rent for the remaining term of the lease. Rent shall be discounted to present value at the average of the rates borne by all of the Series of Securities that have been guaranteed compounded semiannually. Rent is the lesser of (a) rent for the remaining term of the lease assuming it is not terminated or (b) rent from the date of determination until the first possible termination date plus the termination payment then due, if any. The remaining term of a lease includes any period for which the lease has been extended. Rent does not include (i) amounts for maintenance, repairs, insurance, taxes, assessments and similar charges or (ii) contingent rent, such as that based on sales. Rent may be reduced by rent that any sublessee must pay from the date of determination for all or part of the same property.

"Capital Stock" means the shares of the common or preferred stock of a Principal Subsidiary.

"Consolidated Net Tangible Assets" means the total amount of Guarantor's assets (less applicable reserves and other properly deductible items) after deducting therefrom: (i) all current liabilities (excluding any which are, by their terms, extendible or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed) and (ii) all good will, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets, as reflected in the Guarantor's most recent consolidated balance sheet computed in accordance with generally accepted accounting principles preceding the date of a determination under Section 4.03.

"Debt" means any debt for borrowed money or any guarantee of such a debt.

"Improvements" means any exploration, drilling, development, construction, alteration, repair or improvement conducted, performed, installed or located on a Principal Property.

"Lien" means any mortgage, pledge, charge, encumbrance, security interest or lien; except such term shall not include a mortgage, pledge or security interest in favor of the United States or any state or political subdivision of either, or any department, agency or instrumentality of either; sales, reservations or other depositions of rights to receive a specified part of the oil, gas or other minerals to be recovered at specified locations or a specified amount of moneys, however determined or any other interest in property of the character commonly referred to as or similar to a production payment.

"Long-Term Debt" means Debt that by its terms matures on a date more than one year after the date it was incurred or Debt that the obligor may extend or renew without the obligee's consent to a date more than one year after the date the Debt was incurred.



"Principal Property" means any oil or gas producing property located in the United States, onshore or offshore, or any refinery or manufacturing plant located in the United States, in each case now owned or hereafter acquired by the Guarantor or a Principal Subsidiary, except any property, refinery or plant that in the opinion of the Board of Directors of the Guarantor is not of material importance to the total business conducted by the Guarantor and its consolidated Subsidiaries.

"Principal Subsidiary" means a Subsidiary that has substantially all of its assets located, and conducts substantially all of its operations in the United States, owns a Principal Property and in which the Guarantor's direct or indirect net investment exceeds \$100,000,000.

"Sale-Leaseback Transaction" means an arrangement (other than an arrangement made for the purposes of Section 168(f)(8) of the Internal Revenue Code) with any bank, insurance company or other lender or investor (collectively "lenders") or to which the lender is a party where the Guarantor or a Principal Subsidiary now owns or hereafter acquires a Principal Property, transfers it to a lender, or to any person to whom funds have been or are to be advanced by a lender on the security of such Principal Property or the rental payments under the lease, and leases it back from the lender or other person.

"Subsidiary" means a corporation a majority of whose Voting Stock is owned by the Guarantor or a Subsidiary.

"United States" means the United States of America. Territories and possessions are not part of the United States.

"Voting Stock" means the Capital Stock having voting power under ordinary circumstances to elect directors of a corporation.

#### SECTION 4.02. Payment of Securities.

The Company shall pay principal and the premium and interest, if any, on the Securities on the dates and in the manner provided in the Securities. An installment of principal, or premium or interest, if any, on a Security shall be considered paid on the date it is due if the Trustee or Paying Agent holds on that date money designated for and sufficient to pay the same.

The Company shall pay interest on overdue principal at the rate borne by the Securities; it shall pay interest on overdue installments of premium and interest, if any, at the same rate to the extent lawful.

#### SECTION 4.03. Limitation on Liens.

The Guarantor shall not, and it shall not permit any Principal Subsidiary to, incur a Lien to secure a Long-Term Debt on a Principal Property, or any Capital Stock or Long-Term Debt of a Principal Subsidiary unless:

- 1) the Lien equally and ratably secures the Securities and the Long-Term Debt. The Lien may equally and ratably secure the Securities and any other obligation of the Guarantor or a Subsidiary;
- 2) the Lien is in existence at the time the corporation merges into or consolidates with the Guarantor or a Principal Subsidiary or becomes a Principal Subsidiary;

- 3) the Lien is on a Principal Property at the time the Guarantor or a Principal Subsidiary acquires the Principal Property;
- 4) the Lien secures Long-Term Debt incurred to finance all or some of the purchase price of a Principal Property of the Guarantor or a Principal Subsidiary. The Long-Term Debt secured by the Lien may be incurred prior to, at the time of, or within 90 days after the acquisition, of the Principal Property subject to the Lien;
- 5) the Lien secures Long-Term Debt incurred to finance all or some of the cost of Improvements on a Principal Property of the Guarantor or a Principal Subsidiary. The Long-Term Debt secured by the Lien may be incurred prior to, at the time of, or within 90 days after completion, of the Improvements;
- 6) the Lien secures Long-Term Debt of a Principal Subsidiary owing to the Guarantor or to another Principal Subsidiary;
- 7) the Lien extends, renews or replaces in whole or in part a Lien permitted by any of clauses (1) through (6).

or

- 8) the Long-Term Debt plus all other Long-Term Debt secured by Liens on Principal Properties, Capital Stock or Long-Term Debt of a Principal Subsidiary at the time does not exceed 10% of Guarantor's Consolidated Net Tangible Assets. However, Long-Term Debt secured by a Lien permitted by any of clauses (1) through (7) shall be excluded from all other Long-Term Debt in the determination. Attributable Debt for any lease permitted by clause (4) of Section 4.04 shall be included in the determination and treated as Long-Term Debt secured by a Lien on a Principal Property not otherwise permitted by any of clauses (1) through (7)

**SECTION 4.04. Limitation on Sale and Leaseback.**

The Guarantor shall not, and it shall not permit any Principal Subsidiary to, enter into a Sale-Leaseback Transaction unless:

- 1) the lease has a term of three years or less;
- 2) the lease is between the Guarantor and a Principal Subsidiary or between Principal Subsidiaries;
- 3) the Guarantor or a Principal Subsidiary under any of clauses (2) through (6) of Section 4.03 could create a Lien on the Principal Property to secure a Long-Term Debt at least equal in amount to the Attributable Debt for the lease;
- 4) the Guarantor or a Principal Subsidiary under clause (8) of Section 4.03 could create a Lien on the Principal Property to secure a Long-Term Debt at least equal in amount to the Attributable Debt for the lease;

or

- 5) the Guarantor or a Principal Subsidiary within 120 days of the effective date of the Sale-Leaseback Transaction (i) retires Long-Term Debt of the Guarantor or of a Principal Subsidiary at least equal in amount to the fair value (as determined by the Board of Directors of the Guarantor) of the Principal Property at the time of the Sale-Leaseback Transaction or (ii) if the net proceeds of the Sale-Leaseback Transaction equal or exceed the fair value of the Principal Property (as determined by the Board of Directors of the Guarantor), applies the net proceeds to fund investment in other Principal Properties which investments were made within twelve months prior to or subsequent to the Sale-Leaseback Transaction.

SECTION 4.05. No Lien Created, etc.

This Indenture, the Securities and the Guaranties do not create a Lien on any property of the Guarantor or any Principal Subsidiary.

Long-Term Debt or Attributable Debt shall be counted only once even if more than one person is responsible for the obligation.

SECTION 4.06. Compliance Certificate.

The Company and the Guarantor shall each deliver to the Trustee within 120 days after the end of the calendar year in which the first Series of Securities is issued and each year thereafter an Officers' Certificate stating whether or not the signers know of any Default that occurred during such year. If they do, the Officers' Certificate shall describe the Default and its status.

SECTION 4.07. SEC Reports.

The Guarantor shall file with the Trustee, within 15 days after it files them with the SEC, copies of the annual reports and of the information, documents, and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) which the Guarantor is required to file with the SEC pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. The Guarantor also shall comply with the other provisions of TIA ss.314(a).

ARTICLE 5

SUCCESSOR CORPORATION

SECTION 5.01. When Company May Merge, etc.

Neither the Guarantor nor the Company shall consolidate or merge into, or transfer its properties and assets substantially as an entirety to another person unless the person assumes by supplemental indenture all the obligations of the Company or the Guarantor under the Securities and this Indenture and immediately after the transaction no Default exists. Thereafter all such obligations of the Company or the Guarantor shall terminate.

SECTION 5.02. When Securities Must Be Secured.

If upon a consolidation, merger or transfer, a Principal Property, or Capital Stock or Long-Term Debt of the Guarantor or a Principal Subsidiary would become subject to an attaching Lien that secures Long-Term Debt, then before the consolidation, merger or transfer occurs the Guarantor by supplemental indenture shall secure the Securities by a direct Lien on the Principal

Property, Capital Stock or Long-Term Debt. However, the Company and the Guarantor need not comply with this Section if:

- 1) upon the consolidation, merger or transfer the attaching Lien will secure the Securities equally and ratably with Long-Term Debt secured by the attaching Lien; or
- 2) the Guarantor or a Principal Subsidiary under any of clauses (2) through (8) of Section 4.03 could create a Lien on the Principal Property, Capital Stock or Long-Term Debt to secure Long-Term Debt at least equal in amount to that secured by the attaching Lien.

## ARTICLE 6

### DEFAULTS AND REMEDIES

#### SECTION 6.01. Events of Default.

An "Event of Default" occurs with respect to the Securities of any Series if:

- 1) the Company defaults in the payment of interest on any Security of that Series when the same becomes due and payable and the Default continues for a period of 30 days;
- 2) the Company defaults in the payment of principal or the premium, if any, or in the making of any sinking fund payments on any Security of that Series when the same becomes due and payable at maturity, upon redemption or otherwise;
- 3) the Company or the Guarantor fails to comply with any of its other agreements applicable to the Securities of that Series, this Indenture or any supplemental indenture under which the Securities may have been issued, and the Default continues for the period and after the notice specified below;
- 4) the Company or the Guarantor pursuant to or within the meaning of any Bankruptcy Law:
  - A) commences a voluntary case,
  - B) consents to the entry of an order for relief against it in an involuntary case,
  - C) consents to the appointment of a Custodian of it or for all or substantially all of its property, or
  - D) makes a general assignment for the benefit of its creditors: or
- 5) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:
  - A) is for relief against the Company or the Guarantor in an involuntary case,
  - B) appoints a Custodian of the Company or the Guarantor or for all or substantially all of the Company's or the Guarantor's property, or
  - C) orders the liquidation of the Company or the Guarantor and the order or decree remains unstayed and in effect for 90 days.

The term "Bankruptcy Law" means title 11, U.S. Code or any similar law for the relief of debtors. The term "Custodian" means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

A Default under clause (3) is not an Event of Default until the Trustee or the Holders of at least 25% in principal amount of all of the Securities of that Series Outstanding notify the Company of the Default and the Company or the Guarantor, as the case may be, does not cure the Default within 90 days after receipt of the notice. The notice must specify the Default, demand that it be remedied and state that the notice is a "Notice of Default."

#### SECTION 6.02. Acceleration.

If an Event of Default occurs and is continuing, with respect to the Securities of any Series, the Trustee by notice to the Company, or the Holders of at least 25% in principal amount of all of the Securities of that Series Outstanding by notice to the Company and the Trustee, may declare the principal and the premium and accrued interest, if any, on all the Securities of that Series to be due and payable immediately. Upon such a declaration, such principal and the premium and interest, if any (or, if the Securities of that Series are Original Issue Discount Securities, such portion of the principal amount as may be specified in the terms of that Series), on the Securities of that Series shall be due and payable immediately. The Holders of a majority in principal amount of all of the Securities of that Series Outstanding, by notice to the Trustee, may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree of a court of competent jurisdiction and if all existing Events of Default have been cured or waived except nonpayment of principal or premium or interest, if any, that has become due solely because of the acceleration.

#### SECTION 6.03. Other Remedies.

If an Event of Default occurs and is continuing with respect to the Securities of any Series, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the payment of principal and the premium and interest, if any, on the Securities of the Series that is in default or to enforce the performance of any provision of such Securities or this Indenture with respect to such Series of Securities.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

#### SECTION 6.04. Waiver of Past Defaults.

Subject to Section 9.03, the Holders of a majority in principal amount of all the Securities of a Series Outstanding by notice to the Trustee may waive an existing Default and its consequences with respect to the Securities of that Series.

#### SECTION 6.05. Control by Majority.

The Holders of a majority in principal amount of all the Securities of a Series Outstanding may direct the time, method and place of conducting any proceeding for any remedy available

to the Trustee or exercising any trust or power conferred on it with respect to the Securities of such Series. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture, that is unduly prejudicial to the rights of another Securityholder, or that would involve the Trustee in personal liability.

**SECTION 6.06. Limitation on Suits.**

A Holder of a Security may pursue a remedy with respect to the Security or this Indenture as it applies to such Security only if:

- 1) the Holder gives to the Trustee written notice of a continuing Event of Default;
- 2) the Holders of at least 25% in principal amount of the Securities of the Series Outstanding make a written request to the Trustee to pursue the remedy;
- 3) such Holder or Holders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense;
- 4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and
- 5) during such 60-day period the Holders of a majority in principal amount of the Securities of the Series Outstanding do not give the Trustee a direction inconsistent with the request.

A Securityholder may not use this Indenture to prejudice the rights of another Securityholder or to obtain a preference or priority over the other Securityholder.

**SECTION 6.07. Rights of Holders to Receive Payment.**

Notwithstanding any other provision of this Indenture, the right of any Holder of a Security to receive payment of principal and the premium and interest, if any, on the Security, on or after the respective due dates expressed in the Security, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of the Holder.

**SECTION 6.08. Collection Suit by Trustee.**

If an Event of Default specified in Section 6.01(1) or (2) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company or the Guarantor for the whole amount of principal and the premium and interest, if any, remaining unpaid.

**SECTION 6.09. Trustee May File Proofs of Claim.**

The Trustee may file proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Securityholders allowed in any judicial proceedings relative to the Company, the Guarantor, their creditors or their property.

**SECTION 6.10. Priorities.**

If the Trustee collects any money pursuant to this Article with respect to any Series of Securities it shall pay out the money in the following order:

First: to the Trustee for amounts due under Section 7.07;

Second: to Securityholders for amounts due and unpaid on the Securities of such Series for principal and the premium and interest, if any, ratably, without preference or priority of any kind, according to the amounts due and payable on the Securities of such Series for principal and the premium and interest, if any, respectively; and

Third: to the Company.

The Trustee may fix a record date and payment date for any payment to Securityholders.

#### SECTION 6.11. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under any Series of Securities or this Indenture with respect to any Series of Securities or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.07, or a suit by Holders of more than 10% in principal amount of the Securities of a Series Outstanding.

### ARTICLE 7

#### TRUSTEE

#### SECTION 7.01. Duties of Trustee.

- a) If an Event of Default has occurred and is continuing with respect to the Securities of a Series, as to that Series, the Trustee shall exercise its rights and powers and use the same degree of care and skill in its exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.
- b) Except during the continuance of an Event of Default:
  - 1) The Trustee need perform only those duties that are specifically set forth in this Indenture and no others.
  - 2) In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.
- c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:
  - 1) This paragraph does not limit the effect of paragraph (b) of this Section.
  - 2) The Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

- 3) The Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05.
- d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b) and (c) of this Section.
- e) The Trustee may refuse to perform any duty or exercise any right or power unless it receives indemnity satisfactory to it against any loss, liability or expense.
- f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree with the Company and the Guarantor. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

SECTION 7.02. Rights of Trustee.

- a) The Trustee may rely on any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document.
- b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on the Certificate or Opinion.
- c) The Trustee may act through agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.
- d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers.

SECTION 7.03. Individual Rights of Trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company, the Guarantor or an Affiliate with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights. However, the Trustee is subject to Sections 7.10 and 7.11.

SECTION 7.04. Trustee's Disclaimer.

The Trustee makes no representation as to the validity or adequacy of this Indenture or any Securities issued hereunder, it shall not be accountable for the Company's use of the proceeds from any Securities, and it shall not be responsible for any statement in any Securities other than its authentication.

SECTION 7.05. Notice of Defaults.

If a Default occurs and is continuing with respect to any Series of Securities and if it is known to the Trustee, the Trustee shall mail to each Securityholder of that Series notice of the Default within 90 days after it occurs. Except in the case of a Default in payment of principal, premium or interest on any Security of a Series, the Trustee may withhold the notice if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interests of Securityholders of that Series.



## SECTION 7.06. Reports by Trustee to Holders.

On or before December 15 in every year after the first Series of Securities is issued hereunder, so long as any Securities are Outstanding hereunder, the Trustee shall mail to each Securityholder a brief report dated as of the preceding October 15 that complies with TIA ss.313(a). The Trustee also shall comply with TIA ss.313(b).

A copy of each report at the time of its mailing to Securityholders shall be filed with the SEC and each stock exchange on which the Securities are listed.

## SECTION 7.07. Compensation and Indemnity.

The Company shall pay to the Trustee from time to time reasonable compensation for its services. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred by it. Such expenses shall include the reasonable compensation and expenses of the Trustee's agents and counsel.

The Company agrees to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the Trust or Trusts hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

The Company need not reimburse any expense or indemnify against any loss or liability incurred by the Trustee through negligence or bad faith.

To secure the Company's payment obligations in this Section, the Trustee shall have a lien prior to the Securities on all money or property held or collected by the Trustee, except that held in trust to pay principal and the premium and interest, if any, on particular Securities.

## SECTION 7.08. Replacement of Trustee.

A Trustee may resign with respect to the Securities of one or more Series by notifying the Company. The Holders of a majority in principal amount of the Securities of any Series Outstanding may remove a Trustee with respect to that Series by notifying the removed Trustee and the Company and may appoint a successor Trustee for that Series of Securities with the Company's consent. The Company may remove a Trustee with respect to Securities of one or more Series if:

- 1) a Trustee fails to comply with Section 7.10;
- 2) a Trustee is adjudged a bankrupt or an insolvent;
- 3) a receiver or public officer takes charge of a Trustee or its property; or
- 4) a Trustee becomes incapable of acting.

If a Trustee resigns or is removed or if a vacancy exists in the office of Trustee with respect to any Series of Securities for any reason, the Company shall promptly appoint a successor Trustee for that Series of Securities.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of a majority in principal amount Outstanding of the affected Series of Securities may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to such Series of Securities.

If the Trustee fails to comply with Section 7.10, any Holder of a Security may petition any court of competent jurisdiction for the removal of the Trustee with respect to the Series of Securities and the appointment of a successor Trustee.

A successor Trustee with respect to a Series of Securities shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Immediately after that, the retiring Trustee shall transfer all property held by it as Trustee with respect to the Series of Securities to the successor Trustee with respect to the Series of Securities subject to the lien provided for in Section 7.07, the resignation or removal of the retiring Trustee with respect to the Series of Securities shall become effective, and the successor Trustee with respect to such Series of Securities shall have all the rights, powers and duties of the Trustee with respect to such Series of Securities under this Indenture. A successor Trustee shall mail notice of its succession to each Securityholder of the Series of Securities.

**SECTION 7.09. Successor Trustee by Merger, etc.**

If a Trustee consolidates, merges or converts into, or transfers all or substantially all of its corporate trust assets to, another corporation, the successor corporation without any further act shall be a successor Trustee.

**SECTION 7.10. Eligibility; Disqualification.**

A Trustee under this Indenture with respect to each Series of Securities shall always satisfy the requirements of TIA ss.310(a)(1). The Trustee with respect to each Series of Securities shall always have a combined capital and surplus of at least \$50,000,000 as set forth in its most recent published annual report of condition. The Trustee with respect to each Series of Securities is subject to TIA ss.310(b), including the optional provision permitted by the second sentence of TIA ss.310(b)(9), provided, that there shall be excluded from the operation of TIA ss.310(b) as incorporated by this paragraph the Indenture dated as of April 1, 1976, under which the Guarantor's 8 1/2% Debentures Due 2006 are outstanding, the Indenture dated as of April 30, 1988, under which the Guarantor's 7 1/4% Serial Debentures due March 1, 1989/1998 are outstanding, and the Indenture dated as of June 27, 1983, as supplemented by a Supplemental Indenture dated as of July 10, 1984, under which the Company's Extendible Notes due 1999 and 13-5/8% Notes due 1994 are outstanding.

**SECTION 7.11. Preferential Collection of Claims Against Company.**

The Trustee with respect to each Series of Securities is subject to TIA ss.311(a), excluding any creditor relationship listed in TIA ss.311(b). A Trustee who has resigned or been removed with respect to any Series of Securities shall be subject to TIA ss.311(a) to the extent indicated.

## ARTICLE 8

## DISCHARGE OF INDENTURE

## SECTION 8.01. Termination of Company's Obligations.

The Company may terminate its obligations with respect to any Series of Securities, on the terms and subject to the conditions contained in this Indenture, by depositing in trust with the Trustee money or U.S. Government Obligations sufficient to pay principal, premium and interest, if any, on such Series to redemption or maturity, provided that the Company shall deliver to the Trustee an Opinion of Counsel based on the fact that (x) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (y) since the date hereof, there has been a change in the applicable Federal income tax law, in either case to the effect that, and such opinion shall confirm that, the Holders of the Securities of such Series will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to Federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit, defeasance and discharge had not occurred; and the Issuer has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to the defeasance contemplated by this provision have been complied with. Upon the termination of the Company's obligations with respect to all the Securities of a Series, the Trustee, at the request of the Company, shall release its rights and interests with respect to such Series of Securities in any security granted by the Company.

The Company's obligations in Sections 2.06, 2.07, 2.08, 2.09, 2.10, 7.07, 7.08 and 8.03 with respect to any Series of Securities shall survive until all the Securities of that Series are no longer Outstanding. Thereafter, the Company's obligations in Sections 7.07 and 8.03 shall survive.

"U.S. Government Obligations" means direct or indirect obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged.

## SECTION 8.02. Application of Trust Money.

The Trustee shall hold in trust money or U.S. Government Obligations deposited with it pursuant to Section 8.01. It shall apply the deposited money and the money from U.S. Government Obligations through the Paying Agent and in accordance with this Indenture to the payment as provided for in Section 8.01.

## SECTION 8.03. Repayment to Company.

The Trustee and the Paying Agent shall promptly pay to the Company upon request any money and any U.S. Government Obligations held by them not required for the payment of the principal and the premium and interest, if any, at any time.

The Trustee and the Paying Agent shall pay to the Company upon request any money held by them for the payment of principal and the premium and interest, if any, that remains unclaimed for two years after such payment has become due and payable. After that,

Securityholders entitled to the money must look to the Company for payment as general creditors unless an abandoned property law designates another person.

## ARTICLE 9

### AMENDMENTS AND WAIVERS

#### SECTION 9.01. Without Consent of Holders.

The Company, the Guarantor and the Trustee may enter into a supplemental indenture to amend a Series of Securities or this Indenture with respect to a Series of Securities without the consent of any Securityholder:

- 1) to cure any ambiguity, defect or inconsistency;
- 2) to comply with Section 5.01;
- 3) to make any change that does not adversely affect the rights of any Securityholder; or
- 4) to provide for an issue of and to establish the terms and conditions of a Series of Securities.

#### SECTION 9.02. With Consent of Holders.

Subject to Section 9.03, the Company, the Guarantor and the Trustee may enter into a supplemental indenture to amend a Series of Securities or this Indenture with respect to a Series of Securities with the written consent of the Holders of at least 50.1% in principal amount of the Securities of the Series affected Outstanding. The Holders of 50.1% in principal amount of the Securities of the affected Series Outstanding by notice to the Trustee may waive compliance by the Company or the Guarantor with any provision of this Indenture or the Securities of the affected Series.

#### SECTION 9.03. Limitations.

Without the consent of each Securityholder of a Series of Securities affected, an amendment or waiver may not:

- 1) reduce the amount of Securities whose Holders must consent to an amendment or waiver;
- 2) reduce the rate of or extend the time for payment of interest on any Security;
- 3) reduce the principal, or premium or extend the fixed maturity of, any Security;
- 4) waive a default, if any, in the payment of principal or the premium or interest, if any, on any Security; or
- 5) make any Security payable in money other than that stated in the Security.

#### SECTION 9.04. Compliance with Trust Indenture Act.

Every amendment to this Indenture or the Securities of any Series shall be set forth in a supplement to the Indenture that complies with the TIA as then in effect.

## SECTION 9.05. Revocation and Effect Of Consents.

Until an amendment or waiver becomes effective, a consent to it by a Holder of a Security is a continuing consent by the Holder and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent is not made on any Security. However, any such Holder or subsequent Holder may revoke the consent as to his Security or portion of a Security if the Trustee receives the notice of revocation before the date the amendment or waiver becomes effective.

After an amendment or waiver becomes effective, it shall bind every Securityholder unless it makes a change described in clause (2), (3), (4) or (5) of Section 9.03. In that case the amendment or waiver shall bind each Holder of a Security who has consented to it and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security.

## SECTION 9.06. Notation on or Exchange of Securities.

The Trustee may place an appropriate notation about an amendment or waiver on any Security thereafter authenticated. The Company in exchange for Securities may issue, the Guarantor may endorse Guaranties thereon and the Trustee shall authenticate new Securities that reflect the amendment or waiver.

## SECTION 9.07. Trustee Protected.

The Trustee need not sign any supplement to the Indenture that adversely affects its rights.

## ARTICLE 10

## MISCELLANEOUS

## SECTION 10.01. Trust Indenture Act Controls.

If any provision of this Indenture limits, qualifies, or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control.

## SECTION 10.02. Notices.

Any notice or communication by the Company, the Guarantor or the Trustee to any of the others is duly given if in writing and delivered in person or mailed by first-class mail:

if to the Company:

32 Loockerman Square, Suite L-100  
Dover, Delaware 19901  
(with a copy to the Guarantor at its address below)

if to the Guarantor:

Texaco Inc.  
2000 Westchester Avenue  
White Plains, NY 10650  
Attention: Treasurer

if to the Trustee:

The Chase Manhattan Bank (National Association), as Trustee  
 I New York Plaza  
 New York, New York 10081  
 Attention: Corporate Trust Administration Division

The Company, the Guarantor or the Trustee by notice to the others may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Securityholder shall be mailed to the Securityholder's address shown on the register kept by the Registrar. Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders.

If a notice or communication is mailed in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it, provided that notice to the Trustee, the Company and the Guarantor shall be effective only upon receipt.

SECTION 10.03. Communication by Holders with Other Holders.

Securityholders may communicate pursuant to TIA ss.312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, the Guarantor, the Trustee, the Registrar and anyone else shall have the protection of TIA ss.312(c).

SECTION 10.04. Certificate and Opinion as to Conditions Precedent.

Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

- 1) an Officers' Certificate of the Company stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and
- 2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

SECTION 10.05. Statements Required in Certificate or Opinion.

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

- 1) a statement that the person making such certificate or opinion has read such covenant or condition;
- 2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;
- 3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

- 4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

SECTION 10.06. Rules by Trustee and Agents.

The Trustee may make reasonable rules for action by or at a meeting of Securityholders. The Paying Agent or Registrar may make reasonable rules and set reasonable requirements for its functions.

SECTION 10.07. Legal Holidays.

Unless otherwise specified with respect to a Series of Securities, a "Legal Holiday" is a Saturday, a Sunday, a legal holiday or a day on which banking institutions are not required to be open in New York City. If a payment date is a Legal Holiday at a place of payment, payment may be made at the place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

SECTION 10.08. Governing Law.

The laws of the State of New York shall govern this Indenture and the Securities.

SECTION 10.09. No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Company, the Guarantor or a Subsidiary. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

SECTION 10.10. No Recourse Against Others.

All liability described in the Securities of any director, officer, employee or stockholder, as such, of the Company or the Guarantor is waived and released.

SECTION 10.11. Liability Regarding Global Security.

None of the Company, the Guarantor, the Trustee, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

SECTION 10.12. Duplicate Originals.

The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

(SEAL)  
  
Attest:  
R.E. Koch  
-----  
Assistant Secretary

TEXACO CAPITAL INC.  
By: R.W. Ulrich  
-----  
Vice President

(SEAL)  
  
Attest:  
R.E. Koch  
-----  
Assistant Secretary

TEXACO INC.  
By: David C. Crikelair  
-----  
Treasurer

(SEAL)  
  
Attest:  
Nancy Morreale  
-----  
Assistant Secretary

THE CHASE MANHATTAN BANK  
(NATIONAL ASSOCIATION),  
as TRUSTEE  
By: A.K. Crain  
-----  
Second Vice President



This First Supplement to the First Supplemental Indenture, dated as of October 11, 1990, among Texaco Capital Inc., a Delaware corporation (the "Company"), Texaco Inc., a Delaware corporation (the "Guarantor") and The Chase Manhattan Bank (National Association), as Trustee (the "Trustee").

#### RECITALS

The Company, the Guarantor and the Trustee are parties to a First Supplemental Indenture dated as of January 31, 1990, supplementing and restating an Indenture dated as of August 24, 1984, (the "Supplemental Indenture"), relating to the issuance from time to time by the Company of its Debt Securities guaranteed by the Guarantor on terms to be specified at the time of issuance. Capitalized terms herein, not otherwise defined, shall have the same meanings given them in the Supplemental Indenture.

The Company and the Guarantor have requested the Trustee to join with it in the execution and delivery of this First Supplement to the Supplemental Indenture in order to provide for limitations on the maturities of certain Securities.

Section 9.01 (3) of the Supplemental Indenture provides that a Supplemental Indenture may be entered into by the Company, the Guarantor and the Trustee, without the consent of any Holders of Securities, to amend the Supplemental Indenture to the extent necessary to make any change that does not adversely affect the rights of any Securityholder.

The Company and the Guarantor have determined that this First Supplement to the Supplemental Indenture complies with said Section 9.01 and does not require the consent of any Securityholder. On the basis of the foregoing, the Trustee has determined that this First Supplement to the Supplemental Indenture is in form satisfactory to it.

All things necessary to make this First Supplement to the Supplemental Indenture a valid agreement of the Company, the Guarantor and the Trustee and a valid supplement to the Supplemental Indenture have been done.

Each party agrees as follows for the benefit of the other parties and for the equal and ratable benefit of the Holders of the Securities issued under the Supplemental Indenture as follows:

#### ARTICLE I COVENANT

##### Section 1.01

With respect to any Securities issued pursuant to the Prospectus Supplement dated October 11, 1990, to the Prospectus dated February 28, 1990, and under the terms of a Distribution Agreement dated as of October 11, 1990 among the Company, the Guarantor, Morgan Stanley & Co. Incorporated, Salomon Brothers Inc, and The First Boston Corporation, the Company agrees that it shall not issue more than \$300,000,000 in aggregate principal amount of Securities having a maturity of more than four years; the Officers of the Company acting with respect to the issuance of any such Securities shall make the determination at the time of issuance that the Notes have been issued in accordance with the foregoing limitation; and the delivery of an Order to the Trustee shall be deemed to be conclusive evidence that the provisions of this First Supplement to the Supplemental Indenture have been complied with.

#### ARTICLE II GENERAL

##### Section 2.01

Except as supplemented herein, the Supplemental Indenture shall remain in full force and effect as written.

Section 2.02. Duplicate Originals.

The parties may sign any number of copies of this First Supplement to the Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

(seal)

TEXACO CAPITAL INC.

By: R. W. Ulrich  
-----  
Vice President

Attest:

R. E. Koch  
-----  
Assistant Secretary

TEXACO INC.

By: David C. Crikelair  
-----  
Treasurer

(seal)

Attest:

R. E. Koch  
-----  
Assistant Secretary

THE CHASE MANHATTAN BANK  
(National Association)  
As Trustee

By: R. J. Hollerin  
-----  
Second Vice President

(seal)

Attest:

Mary Jo Clarke  
-----  
Assistant Secretary

SECOND SUPPLEMENT TO THE FIRST SUPPLEMENTAL INDENTURE, dated as of August 5, 1997, among TEXACO CAPITAL INC., a Delaware corporation (the "Company"), TEXACO INC., a Delaware corporation (the "Guarantor"), and THE CHASE MANHATTAN BANK, as Trustee (the "Trustee").

#### RECITALS

The Company, the Guarantor and the Trustee are parties to a First Supplemental Indenture dated as of January 31, 1990, supplementing and restating an Indenture dated as of August 24, 1984, (the "Supplemental Indenture"), relating to the issuance from time to time by the Company of its Debt Securities guaranteed by the Guarantor on terms to be specified at the time of issuance.

The Company, the Guarantor and the Trustee entered into a First Supplement to the Supplemental Indenture on October 11, 1990.

The Company and the Guarantor have requested the Trustee to join with it in the execution and delivery of this Second Supplement to the Supplemental Indenture solely in order to establish the terms of a Series of Securities to be designated "3.50% Guaranteed Cash-Settled Convertible Notes Due 2004".

Section 2.02 of the Supplemental Indenture provides that the terms of a Series of Securities may be established by an indenture supplemental thereto.

Section 9.01(3) of the Supplemental Indenture provides that an indenture supplemental thereto may be entered into by the Company, the Guarantor and the Trustee, without the consent of any Holders of Securities, to amend the Supplemental Indenture to the extent necessary to make any change that does not adversely affect the rights of any Securityholder.

The Company and the Guarantor have determined that this Second Supplement to the Supplemental Indenture complies with said Section 9.01 and does not require the consent of any Securityholder. On the basis of the foregoing, the Trustee has determined that this Second Supplement to the Supplemental Indenture is in form satisfactory to it.

All things necessary to make this Second Supplement to the Supplemental Indenture a valid agreement of the Company, the Guarantor and the Trustee and a valid supplement to the Supplemental Indenture have been done.

(NY) / dpw/cw/031/06216/029/FORM/inden.sup.wpd

Each party agrees as follows for the benefit of the other parties hereto and for the equal and ratable benefit of the Holders of the Notes:

#### ARTICLE 1

##### DEFINITIONS

###### SECTION 1.01. Definitions.

Capitalized terms herein, not otherwise defined, shall have the same meanings given them in the Supplemental Indenture.

"Agency Agreement" means the Agency Agreement of even date herewith among the Company, the Guarantor, the Trustee, the Principal Paying Agent, the Principal Conversion Agent, the Paying Agent in Luxembourg, the Conversion Agent in Luxembourg and the Calculation Agent.

"Business Day" means any day that is not a Saturday, a Sunday or a day on which banking institutions or trust companies in The City of New York, the City of London or Luxembourg are authorized or obligated by law or executive order to close.

"Conversion Amount" shall have the meaning specified in the Notes.

"Conversion Date" shall have the meaning specified in the Notes.

"CSFP" means Credit Suisse Financial Products.

"Exchange Date" shall have the meaning specified in paragraph 6 the Temporary Global Note.

"Holder" or "Securityholder" of any Note or Coupon shall mean, for purposes hereof and, solely with respect to the Notes, for purposes of the Supplemental Indenture, the bearer thereof.

"Interest Payment Date" shall have the meaning specified in the Notes.

"Legal Holiday" means, for purposes of the Supplemental Indenture, solely with respect to the Notes, any day that is not a Business Day.

"Non-U.S. Paying Agent" means the Principal Paying Agent and any other Paying Agent for the Notes outside the United States.



SECTION 1.02. Other Definitions.

| Term<br>-----                | Defined in Section<br>----- |
|------------------------------|-----------------------------|
| "Calculation Agent"          | 5.04                        |
| "Cedel Bank"                 | 3.02                        |
| "Common Depository"          | 3.02                        |
| "Conversion Agent"           | 5.01                        |
| "Coupon"                     | 3.04                        |
| "Definitive Note"            | 3.04                        |
| "Euroclear Operator"         | 3.02                        |
| "Exchange Request"           | 3.04                        |
| "Notes"                      | 2.01                        |
| "Permanent Global Note"      | 3.03                        |
| "Principal Conversion Agent" | 5.01                        |
| "Principal Paying Agent"     | 4.01                        |
| "Temporary Global Note"      | 3.02                        |
| "United States"              | 3.06                        |

ARTICLE 2

ESTABLISHMENT OF TERMS OF NOTES

SECTION 2.01. Establishment of Terms of Notes.

Pursuant to Section 2.02 of the Supplemental Indenture, there is hereby established a Series of Securities designated the "3.50% Guaranteed Cash-Settled Convertible Notes Due 2004" (the "Notes") with the terms set forth herein and in the Notes. The Notes are limited to an aggregate principal amount of U.S.\$200,000,000. The terms set forth herein to establish the Notes shall not affect any other series of Securities issued under the Supplemental Indenture and the Supplemental Indenture shall remain in full force and effect and, except as otherwise expressly provided herein, shall govern the terms of the Notes.

ARTICLE 3

FORM, DENOMINATION, TRANSFER AND EXCHANGE

SECTION 3.01. Form and Denomination; Transfer.

Except as provided herein, the Notes shall be issued in bearer form, serially numbered, in denominations of U.S.\$10,000. Title to the Notes and Coupons will be transferable by delivery. Except as provided herein, the Company and any Agent may deem and treat the bearer of any Note or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes.

SECTION 3.02. Initial Form and Delivery.

The Notes shall be initially issued in temporary global bearer form, without interest coupons, in substantially the same form as set forth in Exhibit A-1 hereto (the "Temporary Global Note"). The Temporary Global Note shall be delivered to the Brussels office of a common depository (the "Common Depository") for the benefit of Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System (the "Euroclear Operator"), and Cedel Bank, societe anonyme ("Cedel Bank"), for credit to the account designated by or on behalf of the initial subscriber thereof.

SECTION 3.03. Exchange of Temporary Global Note for Permanent Global Note.

An interest in the Temporary Global Note shall be exchanged for an interest in a Note in permanent global bearer form, without interest coupons, in substantially the same form as set forth in Exhibit A-2 hereto (the "Permanent Global Note"), on or after the Exchange Date, upon the occurrence of each of the following events:

(i) the account holder having beneficial ownership of such interest instructs the Euroclear Operator or Cedel Bank, as the case may be, to request such exchange on its behalf and delivers to the Euroclear Operator or Cedel Bank, as the case may be, a certificate in the form set forth in Exhibit 1 to the Temporary Global Note, dated no earlier than 10 days prior to the Exchange Date, copies of which completed certificate shall be made available by the Euroclear Operator or Cedel Bank, as the case may be, to the Principal Paying Agent, which will make such certificate available to the Trustee; and

(ii) on or after the Exchange Date, the Common Depositary surrenders the Temporary Global Note to the Principal Paying Agent to be exchanged, in whole or from time to time in part, for an interest in the Permanent Global Note; provided, however, that, upon such presentation by the Common Depositary, the Temporary Global Note shall be accompanied by (i) a certificate dated on or after the Exchange Date and signed by the Euroclear Operator as to the portion of the Temporary Global Note held for its account then to be exchanged and (ii) a certificate dated on or after the Exchange Date and signed by Cedel Bank as to the portion of the Temporary Global Note held for its account then to be exchanged, each in the form set forth in Exhibit 2 to the Temporary Global Note.

Without unnecessary delay but, in any event, not later than the Exchange Date, the Company shall deliver to the Principal Paying Agent the Permanent Global Note. Upon the first occurrence of the events specified in paragraphs (i) and (ii) above, the Principal Paying Agent shall authenticate and deliver to the Common Depositary, in exchange for the portion of the Temporary Global Note being surrendered, the Permanent Global Note, in a principal amount equal to the aggregate principal amount of the Temporary Global Note so surrendered. The Principal Paying Agent shall endorse the Temporary Global Note to reflect a reduction in the principal amount equal to the principal amount thereupon represented by the Permanent Global Note and shall, after such endorsement, redeliver the Temporary Global Note to the Common Depositary. Upon any subsequent occurrence of the events specified in paragraph (i) and (ii) above, and upon surrender to the Principal Paying Agent of the Temporary Global Note to be exchanged and the Permanent Global Note, the Principal Paying Agent shall endorse the Temporary Global Note to reflect a reduction in the principal amount equal to the portion to be exchanged, and the Principal Paying Agent shall endorse the Permanent Global Note so as to increase the principal amount thereof by an amount equal to the portion being exchanged and shall thereupon redeliver the Permanent Global Note and the Temporary Global Note to the Common Depositary. At such time as the principal amount of the Temporary Global Note shall have been reduced to zero, the Trustee shall cancel the Temporary Global Note in accordance with Section 2.15 of the Supplemental Indenture. In each of the foregoing cases, the Euroclear Operator or Cedel Bank, as the case may be, shall then credit the portion of the Permanent Global Note being exchanged to the respective accounts of the beneficial owners of the portion of the Temporary Global Note so surrendered (or to such other accounts as such beneficial owners may direct).

SECTION 3.04. Exchange of Permanent Global Note for Definitive Notes.

The beneficial owner of an interest in the Permanent Global Note is entitled to exchange such interest for Notes in definitive bearer form, serially numbered, with interest coupons ("Coupons") attached, substantially in the form set forth in Exhibit A-3 hereto ("Definitive Notes"), in denominations of U.S. \$10,000 and in an aggregate principal amount equal to the amount of such beneficial interest, upon the occurrence of the following events:

(i) the account holder having beneficial ownership of such interest instructs the Euroclear Operator or Cedel Bank, as the case may be, to request such exchange on its behalf and delivers to any Non-U.S. Paying Agent (which Non-U.S. Paying Agent shall deliver such request to the Trustee and the Company), through the Euroclear Operator or Cedel Bank, as the case may be, at least 30 days' written notice of such exchange, which notice specifies the number of Definitive Notes into which such interest shall be exchanged (each an "Exchange Request"); and

(ii) on or after the earliest date on which such interests may be exchanged, the Common Depositary surrenders the Permanent Global Note to the Principal Paying Agent to be exchanged in whole for Definitive Notes.

All (but not less than all) interests in the Permanent Global Note shall be so exchanged for one or more Definitive Notes (i) upon receipt by the Company of a copy of an Exchange Request from the first beneficial owner of an interest in the Permanent Global Note to make such an Exchange Request or (ii) upon receipt by the Principal Paying Agent and the Trustee of a notice from the Company stating that (x) the Permanent Global Note has been accelerated following an Event of Default or (y) the Euroclear Operator or Cedel Bank has been closed for business for a continuous period of fourteen days (other than by reason of public holidays) or has announced its intention to cease business permanently or in fact has done so. The Company shall, promptly upon delivery of any such notice to the Principal Paying Agent and the Trustee, cause the Common Depositary (i) to instruct the Principal Paying Agent and the Company regarding the aggregate principal amount of Definitive Notes that must be authenticated and delivered to each relevant clearing system in exchange for the Permanent Global Note and (ii) to surrender the Permanent Global Note to the Principal Paying Agent to be exchanged in whole for Definitive Notes.

As soon as practicable after either (i) receiving a copy of an Exchange Request from a Non-U.S. Paying Agent or (ii) delivering to the Principal Paying



Agent and the Trustee such a notice of acceleration of the Permanent Global Note or of closure of a relevant clearing system, the Company shall deliver to the Principal Paying Agent Definitive Notes in authorized denominations equal in aggregate principal amount to the principal amount of the Permanent Global Note. Upon receiving an Exchange Notice or such a notice from the Company and the Permanent Global Note from the Common Depositary, the Principal Paying Agent shall authenticate and deliver to the Euroclear Operator or Cedel Bank, as the case may be, in exchange for each portion of the Permanent Global Note, such Definitive Notes. The Euroclear Operator or Cedel Bank, as the case may be, shall then deliver such Definitive Notes (A) in the case of an exchange initiated by an Exchange Request, (x) to the beneficial owner (or to such person as the beneficial owner may direct) of the portion of the Permanent Global Note with respect to which the Exchange Request was submitted and (y) to the Euroclear Operator and Cedel Bank, as the case may be, for the account of the beneficial owners of all remaining interests in the Permanent Global Note in accordance with their interests, or (B) in the case of an exchange following a notice of acceleration of the Permanent Global Note or of closure of a relevant clearing system, to the beneficial owners of all the interests in the Permanent Global Note in accordance with their interests.

SECTION 3.05. No Exchange in Certain Circumstances.

None of the Company, the Trustee and any Non-U.S. Paying Agent will be required to exchange Notes to be redeemed during the period of 15 calendar days preceding the first publication of notice of redemption.

SECTION 3.06. No Delivery into the United States.

No Definitive Note or Coupon delivered in exchange for a portion of the Permanent Global Note shall be mailed or otherwise delivered to any location in the United States. The term "United States" means the United States of America (including the States and the District of Columbia) and its "possessions", which include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

SECTION 3.07. Principal Paying Agent Shall be Authenticating Agent.

The Principal Paying Agent shall be an Authenticating Agent.

ARTICLE 4

PAYMENTS OF PRINCIPAL AND INTEREST

SECTION 4.01. Appointment of Paying Agents.

The Company initially appoints the Trustee, at its office in London at Trinity Tower, 9 Thomas More Street, London E19YT, England, as the principal Paying Agent for the Notes outside the United States (the "Principal Paying Agent"). The Company initially appoints Chase Manhattan Bank Luxembourg S.A., at its office in Luxembourg at 5 rue Plaetis, L-2338 Luxembourg, Luxembourg, as a Paying Agent in Luxembourg. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Company shall maintain a Paying Agent in Luxembourg.

SECTION 4.02. Payments on Global Notes.

Principal and interest payable on the Temporary Global Note or the Permanent Global Note shall be payable to the Euroclear Operator and Cedel Bank for credit to the respective accounts of the beneficial owners of the Temporary Global Note or the Permanent Global Note, as the case may be, provided, however, that in the case of the Temporary Global Note, (a) payment of such principal and interest to the Euroclear Operator or Cedel Bank, as the case may be, is conditioned upon the delivery by the Euroclear Operator or Cedel Bank, as the case may be, to the Principal Paying Agent of a certificate or certificates substantially in the form set forth in Exhibit 2 to the Temporary Global Note and (b) credit of the applicable portion of such principal and interest to the account of a beneficial owner of the Temporary Global Note is conditioned upon the delivery by such beneficial owner to the Euroclear Operator or Cedel Bank, as the case may be, of a certificate dated no earlier than the applicable payment date, in the form set forth in Exhibit 1 to the Temporary Global Note. Notwithstanding anything to the contrary herein contained, the certifications made pursuant to this Section shall satisfy the certification requirements of Section 3.03 hereof and the interests of the beneficial owners of the Temporary Global Note with respect to which such certification was made will be exchanged, without further act or deed by such beneficial owners, for interests in the Permanent Global Note on the Exchange Date or the date of certification if such date occurs after the Exchange Date. Except as otherwise provided in this Section, no payments of principal or interest owing with respect to a beneficial interest in the Temporary Global Note will be made to the beneficial owner thereof unless and until such interest shall have been exchanged for an interest in the Permanent Global Note. Any principal or interest received by the Euroclear Operator and Cedel Bank in respect of the Temporary Global Note or the Permanent Global

Note and not paid as herein provided shall be returned to the Trustee prior to the expiration of two years after the date of such payment in order to be repaid to the Company in accordance with Section 8.03 of the Supplemental Indenture.

SECTION 4.03. Payments on Definitive Notes.

Payment of principal and interest on a Definitive Note will be made in immediately available funds, subject to any applicable laws and regulations, only against presentation and surrender of such Definitive Note or the relevant Coupon, as the case may be, at the office outside the United States of any Non-U.S. Paying Agent by check or, at the option of the Holder, by wire transfer of immediately available funds to an account maintained by the payee with a bank located outside the United States if appropriate wire transfer instructions have been received by such Non-U.S. Paying Agent not less than 15 calendar days prior to an applicable payment date.

SECTION 4.04. No Service Charge.

No service charge shall be made for any exchange of Notes, except that the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

ARTICLE 5

CONVERSION AND REDEMPTION

SECTION 5.01. Appointment of Conversion Agents.

The Company initially appoints the Trustee, at its office in London at Trinity Tower, 9 Thomas More Street, London E19YT, England, as a conversion agent (a "Conversion Agent") and the principal Conversion Agent for the Notes outside the United States (the "Principal Conversion Agent"). The Company initially appoints Chase Manhattan Bank Luxembourg S.A., at its office in Luxembourg at 5 rue Plaetis, L-2338 Luxembourg, Luxembourg, as a Conversion Agent in Luxembourg. Each Conversion Agent shall be deemed a Paying Agent for purposes of the Supplemental Indenture solely as it relates to the Notes. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Company shall maintain a Conversion Agent in Luxembourg.

SECTION 5.02. Conversion.

The Notes shall be convertible into cash as provided therein.

Each Conversion Agent shall accept, on or before 5:00 P.M., London time, on any Business Day at its specified office, delivery of Conversion Notices and any Notes (including unmatured Coupons relating thereto) being surrendered for conversion, and will provide the person delivering any such Notes with a receipt therefor, and, in the event that an Interest Payment Date will fall on the next Business Day following delivery of such Conversion Notice and such Notes, a separate receipt representing the Coupon that would be redeemable on such Interest Payment Date. Any Conversion Notice delivered to a Conversion Agent after 5:00 P.M., London time, on any Business Day shall be deemed to have been delivered on the immediately succeeding Business Day. Each Conversion Agent other than the Principal Conversion Agent shall, immediately upon receipt of a Conversion Notice delivered to it as aforesaid (and in any event not later than 5:00 P.M., London time, on the Business Day delivered to it), send a copy of such Conversion Notice and the Notes (including all unmatured Coupons relating thereto) being surrendered for conversion by facsimile to the Principal Conversion Agent.

In respect of all valid Conversion Notices received on any Business Day (any determination as to whether a Conversion Notice is valid and has been properly and completely delivered as provided in the Notes shall be made by (i) the Principal Conversion Agent after consultation with the Euroclear Operator or Cedel Bank, as the case may be, if the Notes are represented by the Permanent Global Note or by Definitive Notes that are held by the Euroclear Operator or Cedel Bank or (ii) the Principal Conversion Agent if the Notes are represented by Definitive Notes not held by the Euroclear Operator or Cedel Bank, and shall, in either of cases (i) or (ii), absent manifest error, be conclusive and binding on the Company and the relevant Holder), the Principal Conversion Agent shall:

(i) prior to 4:30 P.M. (London time) on the Business Day immediately following the day on which a Conversion Agent receives such Conversion Notices, notify the Calculation Agent, the Company and, if CSFP is no longer acting in its capacity as Calculation Agent hereunder, CSFP by facsimile (which notification to the Calculation Agent shall be preceded by oral notification) of the following information with respect to the valid Conversion Notices received by it on the relevant Business Day;

(1) the name of each Holder delivering a Conversion Notice to each Conversion Agent;

(2) the principal amount of Notes being converted by each such Holder at each Conversion Agent and the aggregate principal amount of all Notes being converted by all Holders at each Conversion Agent; and

(3) the relevant Conversion Date;

(ii) confirm with the Euroclear Operator or Cedel Bank, if the relevant Notes are represented by the Permanent Global Note or by Definitive Notes held by the Euroclear Operator or Cedel Bank, the principal amount of Notes to which a Conversion Notice relates and the details of the account from which the Notes are to be debited;

(iii) arrange for the payment of the Conversion Amount in accordance with the instructions contained in the Conversion Notice; and

(iv) carry out such other acts as may be necessary to give effect to the provisions of the Notes.

On the next Business Day following a Conversion Date, the Calculation Agent shall provide written notice to the Company, the Trustee and the Principal Conversion Agent of the Conversion Amount to be delivered to all the converting Holders by each Conversion Agent and the related Settlement Date. Upon the occurrence of an event requiring an adjustment to the calculation of the Conversion Amount as set forth in the Notes, the Calculation Agent will promptly notify the Company and the Principal Conversion Agent, which in turn will notify the Holders, of such event and of the method of calculation to be used to make any such adjustment. So long as the Notes are listed on the Luxembourg Stock Exchange, the Calculation Agent will also notify the Luxembourg Stock Exchange with respect to any such adjustment.

#### SECTION 5.03. Conversion Notices.

Each Conversion Agent shall make available, and promptly upon request provide to any Holder, notices substantially in the form set forth in Exhibit B hereto (or such other form as shall be provided by the Company with the approval of the Principal Conversion Agent, which approval shall not be unreasonably withheld or delayed), and at the same time notify such Holder of any additional certifications or restrictions that may be notified to the Principal Conversion Agent by the Company.

SECTION 5.04. Calculation Agent.

The Company initially appoints CSFP as calculation agent (the "Calculation Agent") with respect to the Notes. All determinations or calculations made by the Calculation Agent shall be made without taking account of the interests of the Holders and without liability on its part (other than as provided in the Agency Agreement) and shall, in the absence of manifest error, be conclusive for all purposes and binding on the Company, the Agents and the Holders.

SECTION 5.05. Optional Redemption.

The Notes shall be redeemable at the option of the Company in the manner set forth therein. Notwithstanding Section 3.03 of the Supplemental Indenture, the Company may give notice of an optional redemption pursuant to this Section at least 15 but not more than 30 days before the date fixed for redemption.

SECTION 5.06. Tax Redemption; Withholding.

The Notes shall be redeemable upon the occurrence of certain events in the manner set forth therein and in Article 3 of the Supplemental Indenture.

If the Company is, in respect of any payment in respect of the Notes, compelled to withhold or deduct any amount for or on account of any taxes or to pay additional amounts in respect thereof or elects to withhold or deduct any amount for or on account of a backup withholding tax or similar charge or elects to pay additional amounts in respect thereof, in either case as provided in the Notes, the Company shall give notice to the Trustee and each Non-U.S. Paying Agent (with a copy to the Calculation Agent) as soon as it makes such election or becomes aware of the requirement to make the withholding or deduction or to pay such additional amounts, as the case may be, and shall give to each of the Trustee and each Non-U.S. Paying Agent such information as it shall require to enable it to comply with the requirement.

ARTICLE 6

MISCELLANEOUS

SECTION 6.01. Notices.

Notices to Holders will be given by publication in a newspaper in the English language of general circulation in the City of London or, if publication in London is not practical, in an English language newspaper with general circulation in Western Europe. Notwithstanding the foregoing, so long as the Notes are represented by the Temporary Global Note or the Permanent Global Note and such Note is held on behalf of the Euroclear Operator or Cedel Bank, any such notice may, at the Company's option in lieu of such publication, be given by delivery to the Euroclear Operator or Cedel Bank, as the case may be, in which event such notice shall be deemed to have been given to the Holders on the seventh business day in Brussels or Luxembourg, as the case may be, after the day on which such notice is so delivered. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notice to the Holders will also be published in English in a leading newspaper having general circulation in Luxembourg, or, if such Luxembourg publication is not practicable, in one other leading English language daily newspaper with general circulation in Europe, such newspaper being published on each Business Day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions. Except as set forth above, notices shall be deemed to have been given on the date of publication as aforesaid or, if published on different dates, on the date of the first such publication.

Notices to Cedel Bank shall be given to it at Cedel Bank, societe anonyme, 67 Boulevard Grande-Duchesse Charlotte, Luxembourg-Ville, L-1010 Luxembourg, Attention: OCE Department, Telex: 2791.

Notices to the Euroclear Operator shall be given to it at Morgan Guaranty Trust Company of New York (as operator of the Euroclear System), Brussels office, Boulevard Emile Jacqmain 151, B-1210 Brussels, Belgium, Attention: Custody Processing Department, Telex: 61025 MGTEC B.

Notices to the Principal Paying Agent and the Principal Conversion Agent shall be given to it at The Chase Manhattan Bank, Trinity Tower, Thomas More Street, London E19YT, England, Attention: Manager, Global Trust Operations, Fax: 44 1202 34 7945, Telex: 8954681 CMBG.

Notices to the Paying Agent and the Conversion Agent in Luxembourg shall be given to it at Chase Manhattan Bank Luxembourg S.A., 5 rue Plaetis, L-

2338 Luxembourg, Luxembourg, Attention: Manager, Global Trust Operations, Fax: 352 4626 85380, Telex: 1233 CHASLU.

Notices to the Luxembourg Stock Exchange shall be given to it c/o Banque Internationale a Luxembourg S.A., 69, route d'Esch, L-1470 Luxembourg, Luxembourg, attention: Jacques Kinnen, Fax: 352 4590 4227.

Notices to the Calculation Agent (and in the event that CSFP is no longer Calculation Agent, CSFP) shall be given to it c/o CSFP Capital, Inc., Eleven Madison Avenue, New York, N.Y. 10010, attention: Ricardo Harewood/Sharmila Ruder, Fax: (212) 325-8174.

SECTION 6.02. Securityholder Lists.

The provisions of Section 2.09 of the Supplemental Indenture shall not apply to the Notes.

SECTION 6.03. Collection Suit by Trustee; Trustee May File Proofs of Claim.

All rights of action and of asserting claims under the Notes or any Coupons or under the Supplemental Indenture, with respect to the Notes, may be enforced by the Trustee without the possession of any of the Notes or Coupons or the production thereof on any trial or other proceedings relative thereto.

SECTION 6.04. Evidence of Action Taken by Securityholders.

Any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Notes or the Supplemental Indenture, with respect to the Notes, to be given or taken by a specified percentage in principal amount of the Securityholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such specified percentage of Securityholders in person or by agent duly appointed in writing and, except as otherwise expressly provided in the Supplemental Indenture, such action shall become effective when such instrument or instruments are delivered to the Trustee. Proof of execution of any instrument or of a writing appointing any such agent shall be sufficient for any purpose of the Supplemental Indenture, with respect to the Notes, and (subject to Sections 7.01 and 7.02 of the Supplemental Indenture) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.



SECTION 6.05. Proof of Execution of Instruments and of Holding of Securities.

Subject to Sections 7.01 and 7.02 of the Supplemental Indenture, the execution of any instrument by a Securityholder or its agent or proxy may be proved in the following manner. The fact and date of the execution by any Holder of any instrument may be proved by the certificate of any notary public or other officer of any jurisdiction authorized to take acknowledgments of deeds or administer oaths that the person executing such instruments acknowledged to him the execution thereof, or by an affidavit of a witness to such execution sworn to before any such notary or other such officer. Where such execution is by or on behalf of any legal entity other than an individual, such certificate or affidavit shall also constitute sufficient proof of the authority of the person executing the same. The fact of the holding by any Holder of a Note, and the identifying number of such Note and the date of its holding the same, may be proved by the production of such Note or by a certificate executed by any trust company, bank, banker or recognized securities dealer wherever situated satisfactory to the Trustee, if such certificate shall be deemed by the Trustee to be satisfactory. Each such certificate shall be dated and shall state that on the date thereof a Note bearing a specified identifying number was deposited with or exhibited to such trust company, bank, banker or recognized securities dealer by the person named in such certificate. Any such certificate may be issued in respect of one or more Notes. The holding by the person named in any such certificate of any Notes specified therein shall be presumed to continue for a period of one year from the date of such certificate unless at the time of any determination of such holding (i) another certificate bearing a later date issued in respect of the same Notes shall be produced, (ii) the Notes specified in such certificate shall be produced by some other person, or (iii) the Notes specified in such certificate shall have ceased to be Outstanding. Subject to Sections 7.01 and 7.02 of the Supplemental Indenture, the fact and date of the execution of any such instrument and the amount and numbers of Notes held by the person so executing such instrument and the amount and numbers of Notes may also be proven in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in any other manner that the Trustee may deem sufficient.

SECTION 6.06. [Reserved].

SECTION 6.07. Exhibits.

The Exhibits hereto shall be deemed a part of this Second Supplement to the Supplemental Indenture.

SECTION 6.08. Duplicate Originals.

The parties may sign any number of copies of this Second Supplement to the Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

(seal)

TEXACO CAPITAL INC.

By: Peter M. Wissel

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Title:

Attest:

Eric B. Silberstein

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Title: Attorney

(seal)

TEXACO INC.

By: S. Faber

-----  
Title:

Attest:

Eric B. Silberstein

-----  
Title: Attorney

(seal)

THE CHASE MANHATTAN BANK,  
as Trustee

By: R.J. Hollerin

-----  
Title: Second Vice President

Attest:

John T. Needham, Jr.

-----  
Title: Trust Officer

[FORM OF TEMPORARY GLOBAL NOTE]

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE.

TEXACO CAPITAL INC.

Temporary Global Note

representing

U.S.\$200,000,000 3.50% Guaranteed Cash-Settled Convertible Notes Due 2004

Guaranteed by

TEXACO INC.

Interest Payable: August 5

Texaco Capital Inc. promises to pay to bearer, upon surrender hereof, the principal sum specified in Schedule A hereto on August 5, 2004 (except to the extent previously redeemed).

1. Interest.

Texaco Capital Inc. (the "Company"), a Delaware corporation, promises to pay interest on the principal amount of this Note from time to time specified in Schedule A hereto at the rate per annum shown above. The Company will pay interest annually on August 5 of each year. Interest on the Note will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from August 5, 1997. Except as provided in the Indenture, this Note will

cease to bear interest from and after the earlier of (a) August 5, 2004 or (b) the date fixed for redemption of this Note. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each.

## 2. Method of Payment.

Upon any payment of interest on this Note, the Principal Paying Agent (as defined below) shall cause Schedule A of this Note to be endorsed to reflect such payment. No payment on this Note will be made at any office or agency of the Company in the United States (as defined below) or by check mailed to an address in the United States or by wire transfer to an account maintained by the Holder of this Note with a bank in the United States except as may be permitted under United States federal tax laws and regulations then in effect without adverse tax consequences to the Company. Notwithstanding the foregoing, in the event that payment in U.S. dollars of the full amount payable on this Note at the offices of all Non-U.S. Paying Agents (as defined below) would be illegal or effectively precluded as a result of exchange controls or similar restrictions, payment on this Note will be made by a Paying Agent in the Borough of Manhattan, The City of New York, if and only if (i) such Paying Agent, under applicable law and regulations, would be able to make such payment and (ii) such payment would not involve, in the opinion of the Company, adverse tax consequences for the Company. Notwithstanding any other provision of this Note, no payment of principal or interest shall be made on any portion of this Note unless there shall have been delivered to the Principal Paying Agent a certificate substantially in the form of Exhibit 2 hereto with respect to the portion of this Note with respect to which such principal or interest is to be paid. Such certificate shall have been delivered to the Principal Paying Agent by Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System (the "Euroclear Operator"), or Cedel Bank, societe anonyme ("Cedel Bank") and shall be based on a certificate substantially in the form of Exhibit 1 hereto provided to the Euroclear Operator or Cedel Bank, as the case may be, by those of its account holders who are to receive such payment of principal or interest. Owners of beneficial interests in this Note must look solely to the Euroclear Operator or Cedel Bank, as the case may be, for their share of each payment made to the bearer of this Note.

## 3. Paying Agents.

Initially, The Chase Manhattan Bank, as Trustee (the "Trustee"), at its office in London at Trinity Tower, 9 Thomas More Street, London E19YT, England, will act as the principal Paying Agent for the Notes outside the United States (the "Principal Paying Agent"). Initially, Chase Manhattan Bank

Luxembourg S.A., at its office in Luxembourg at 5 rue Plaetis, L-2338 Luxembourg, Luxembourg, will act as a Paying Agent in Luxembourg. The Company may appoint additional Paying Agents or change any Paying Agent without notice to Holders (any such additional Paying Agent or other Paying Agent for the Notes outside the United States, a "Non-U.S. Paying Agent").

4. Indenture.

The Company issued this Note as part of a Series of Securities, designated as "3.50% Guaranteed Cash-Settled Convertible Notes Due 2004" (the "Notes"), under an indenture dated as of August 24, 1984, as supplemented and restated by the First Supplemental Indenture dated as of January 31, 1990, as further amended by the First Supplement to the First Supplemental Indenture dated as of October 11, 1990, and as further amended by the Second Supplement to the First Supplemental Indenture dated as of August 5, 1997 (as so supplemented and amended, the "Indenture"), among the Company, Texaco Inc. and the Trustee. The terms of this Note include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S. Code ss.ss. 7aaa-77bbb) as amended (the "Act"). This Note is subject to all such terms, and the Holder of this Note is referred to the Indenture and the Act for a statement of them. All terms used in this Note which are defined in the Indenture and not otherwise defined herein shall have the meanings assigned to them in the Indenture.

5. Guaranty.

The Notes are guaranteed by Texaco Inc.

6. Exchange for Permanent Global Note.

This Note is exchangeable in whole or from time to time in part on or after the Exchange Date (as defined below) for an interest (equal to the principal amount of the portion of this Note being exchanged) in a single permanent global note (the "Permanent Global Note") upon the request of the Euroclear Operator or Cedel acting on behalf of the owner of a beneficial interest in this Note, to the Principal Paying Agent upon delivery to the Principal Paying Agent of a certificate substantially in the form of Exhibit 2 hereto with respect to the portion of this Note to be exchanged; provided that the Company shall not be required to exchange this Note for a period of fifteen calendar days preceding the first publication of a notice of redemption of the Notes. Such certificate shall have been delivered to the Principal Paying Agent by the Euroclear Operator or Cedel, as the case may be, and shall be based on a certificate substantially in the form of

Exhibit 1 hereto provided to the Euroclear Operator or Cedel, as the case may be, by those of its account holders having an interest in the portion hereof to be exchanged. Notwithstanding the foregoing, if this Note is subject to a tax redemption as described on the reverse of the Permanent Global Note, the form of which is attached hereto, interests in this Note may be exchanged for interests in the Permanent Global Note on and after such redemption date as if such redemption date had been the Exchange Date, subject to receipt of the certificates described in the preceding sentence. Upon exchange of any portion of this Note for an interest in the Permanent Global Note, the Principal Paying Agent shall cause Schedule A of this Note to be endorsed to reflect the reduction of its principal amount by an amount equal to the aggregate principal amount being so exchanged. Except as otherwise provided herein, until exchanged for the Permanent Global Note, this Note is governed by the terms and conditions of the Permanent Global Note to be issued in exchange for this Note, which terms and conditions are hereby incorporated by reference herein MUTATIS MUTANDIS and shall be binding on the Company and the Holder hereof as if fully set forth herein, and shall in all respects be entitled to the same benefits under the Indenture as the Permanent Global Note duly authenticated and delivered. Notwithstanding the foregoing, the provisions of paragraph 6 of the Permanent Global Note shall not apply to this Note. The form of the Permanent Global Note is attached hereto.

As used herein:

(a) the term "Exchange Date" means September 15, 1997, PROVIDED that if an interest represented by this Note is held by Credit Suisse First Boston (Europe) Limited, Swiss Bank Corporation, UBS Limited or any other manager participating in the distribution of the Notes as part of an unsold allotment or subscription, the Exchange Date with respect to such interest shall be the day after the date such interest is sold by such manager, all as determined and notified to the Principal Paying Agent by Credit Suisse First Boston (Europe) Limited; and

(b) the term "United States" means the United States of America (including the States and the District of Columbia); and its "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

7. Authentication.

This Note shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent.

Dated: August 5, 1997

TEXACO CAPITAL INC.

By: \_\_\_\_\_  
[Title]

By: \_\_\_\_\_  
[Title]

Authenticated:  
THE CHASE MANHATTAN BANK  
as Trustee

By: \_\_\_\_\_  
Authorized Officer

GUARANTY

TEXACO INC., a Delaware corporation (the "Guarantor"), unconditionally guarantees to the Holder of this Note the due and punctual payment of the principal of and interest on this Note.

The Guarantor shall not be entitled to receive any payments based upon a right of subrogation with respect to any amounts paid by the Guarantor to Holders until the principal of and interest on all Notes shall have been paid in full or for which payment has been provided.

TEXACO INC.

By: \_\_\_\_\_  
[Title]





[FORM OF CERTIFICATE TO BE GIVEN BY  
AN ACCOUNT HOLDER OF THE EUROCLEAR OPERATOR  
AND CEDEL BANK]

CERTIFICATE

-----  
Texaco Capital Inc.  
3.50% Guaranteed Cash-Settled Convertible Notes Due 2004

Represented by the Temporary Global Note

This is to certify that as of the date hereof, and except as set forth below, the above-captioned Notes held by you for our account (i) are owned by person(s) that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States Federal income taxation regardless of its source ("United States person(s)"), (ii) are owned by United States person(s) that are (a) foreign branches of United States financial institutions (as defined in U.S. Treasury Regulations Section 1.165-12(c)(1)(v)) ("financial institutions") purchasing for their own account or for resale, or (b) United States person(s) who acquired the Notes through foreign branches of United States financial institutions and who hold the Notes through such United States financial institutions on the date hereof (and in either case (a) or (b), each such United States financial institution hereby agrees, on its own behalf or through its agent, that you may advise the Company or the Company's agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the U.S. Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) are owned by United States or foreign financial institution(s) for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and in addition if the owner of the Notes is a United States or foreign financial institution described in clause (iii) above (whether or not also described in clause (i) or (ii)) such financial institution has not acquired the Notes for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

As used herein, "United States" means the United States of America (including the States and the District of Columbia); and its "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We undertake to advise you promptly by tested telex on or prior to the date on which you intend to submit your certification relating to the Notes held by you for our account in accordance with your Operating Procedures if any applicable statement herein is not correct on such date, and in the absence of any such notification it may be assumed that this certification applies as of such date.

This certificate excepts and does not relate to U.S.\$ \_\_\_\_\_ of such interest in the above Notes in respect of which we are not able to certify and as to which we understand exchange for and delivery of definitive Notes (or, if relevant, exercise of any rights or collection of any principal or interest) cannot be made until we do so certify.

We understand that this certification is required in connection with certain tax laws and, if applicable, certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certification is or would be relevant, we irrevocably authorize you to produce this certification to any interested party in such proceedings.

Dated: \_\_\_\_\_, \_\_\_\_

[To be dated no earlier than the 10th day before September 15, 1997]

[NAME OF ACCOUNT HOLDER]

By: \_\_\_\_\_

(Authorized Signatory)

Name:

Title:

[FORM OF CERTIFICATE TO BE GIVEN BY  
THE EUROCLEAR OPERATOR AND CEDEL BANK]

CERTIFICATE

-----  
Texaco Capital Inc.  
3.50% Guaranteed Cash-Settled Convertible Notes Due 2004

Represented by the Temporary Global Note

This is to certify that, based solely on certifications we have received in writing, by tested telex or by electronic transmission from member organizations appearing in our records as persons being entitled to a portion of the principal amount set forth below (our "Member Organizations") substantially to the effect set forth in the Temporary Global Note, as of the date hereof, U.S.\$\_\_\_\_\_ principal amount of the above-captioned Notes (i) is owned by persons that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States Federal income taxation regardless of its source ("United States persons"), (ii) is owned by United States persons that are (a) foreign branches of United States financial institutions (as defined in U.S. Treasury Regulations Section 1.165-12(c)(1)(v)) ("financial institutions") purchasing for their own account or for resale, or (b) United States persons who acquired the Notes through foreign branches of United States financial institutions and who hold the Notes through such United States financial institutions on the date hereof (and in either case (a) or (b), each such United States financial institution has agreed, on its own behalf or through its agent, that we may advise the Company or the Company's agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the U.S. Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) is owned by United States or foreign financial institutions for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and in addition if the owners of the Notes are United States or foreign financial institutions described in clause (iii) above (whether or not also described in clause (i) or (ii)), such financial institutions have certified that they have not acquired the Notes for purposes of resale directly or

indirectly to a United States person or to a person within the United States or its possessions.

As used herein, "United States" means the United States of America (including the States and the District of Columbia); and its "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We further certify (i) that we are not making available herewith for exchange (or, if relevant, seeking to collect principal or interest with respect to) any portion of the temporary global Security representing the above-captioned Notes excepted in the above-referenced certificates of Member Organizations and (ii) that as of the date hereof we have not received any notification from any of our Member Organizations to the effect that the statements made by such Member Organizations with respect to any portion of the part submitted herewith (or, if relevant, with respect to which principal or interest is being requested) are no longer true and cannot be relied upon as of the date hereof.

We understand that this certification is required in connection with certain tax laws and, if applicable, certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certification is or would be relevant, we irrevocably authorize you to produce this certification to any interested party in such proceedings.

Dated: \_\_\_\_\_, \_\_\_\_

[To be dated no earlier than  
September 15, 1997]

[MORGAN GUARANTY TRUST  
COMPANY OF NEW YORK,  
BRUSSELS OFFICE, as Operator of the  
Euroclear System]

[CEDEL BANK S.A.]

By: \_\_\_\_\_  
Name:  
Title:

[FORM OF FACE OF PERMANENT GLOBAL NOTE]

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE.

TEXACO CAPITAL INC.

Permanent Global Note

representing up to

U.S.\$200,000,000 3.50% Guaranteed Cash-Settled Convertible Notes Due 2004

Guaranteed by

TEXACO INC.

Interest Payable: August 5

Texaco Capital Inc. promises to pay to bearer, upon surrender hereof, the principal sum specified in Schedule A hereto on August 5, 2004 (except to the extent previously redeemed or converted).

Dated: August 5, 1997

TEXACO CAPITAL INC.

By: \_\_\_\_\_  
[Title]

By: \_\_\_\_\_  
[Title]

Authenticated:  
THE CHASE MANHATTAN BANK  
as Trustee

By: \_\_\_\_\_  
Authorized Officer

1. Interest.

Texaco Capital Inc. (the "Company"), a Delaware corporation, promises to pay interest on the principal amount of this Note from time to time specified in Schedule A hereto at the rate per annum shown above. The Company will pay interest annually on August 5 of each year (each, an "Interest Payment Date"). Interest on the Note will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from August 5, 1997 (the "Issue Date"). Except as provided in the Indenture, this Note will cease to bear interest from and after the earlier of (a) August 5, 2004 or (b) the date fixed for redemption of this Note, and any portion of this Note with respect to which a Conversion Notice (as defined below) has been delivered will cease to bear interest from and after the Interest Payment Date immediately preceding the relevant Conversion Date (as defined below) or, if there is no such Interest Payment Date, the Issue Date. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each.

2. Method of Payment.

Payment of the principal of this Note and the interest due at maturity (or on any redemption date) will be made upon presentation and surrender of this Note at the office or of any Non-U.S. Paying Agent. No payment on this Note will be made at any office or agency of the Company in the United States (as defined below) or by check mailed to an address in the United States or by wire transfer to an account maintained by the Holder of this Note with a bank in the United States except as may be permitted under United States federal tax laws and regulations then in effect without adverse tax consequences to the Company. Notwithstanding the foregoing, in the event that payment in U.S. dollars of the full amount payable on this Note at the offices of all Non-U.S. Paying Agents (as defined below) would be illegal or effectively precluded as a result of exchange controls or similar restrictions, payment on this Note will be made by a Paying Agent in the Borough of Manhattan, The City of New York, if and only if (i) such Paying Agent, under applicable law and regulations, would be able to make such payment and (ii) such payment would not involve, in the opinion of the Company, adverse tax consequences for the Company. Owners of beneficial interests in this Note must look solely to Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System (the "Euroclear Operator") or



Cedel Bank, societe anonyme ("Cedel Bank"), as the case may be, for their share of each payment made to the bearer of this Note.

### 3. Paying and Conversion Agents.

Initially, The Chase Manhattan Bank, as Trustee (the "Trustee"), at its office in London at Trinity Tower, 9 Thomas More Street, London E19YT, England, will act as the principal Paying Agent for the Notes outside the United States (the "Principal Paying Agent") and as the principal Conversion Agent for the Notes outside the United States (the "Principal Conversion Agent"). Initially, Chase Manhattan Bank Luxembourg S.A., at its office in Luxembourg at 5 rue Plaetis, L-2338 Luxembourg, Luxembourg, will act as a Paying Agent and a Conversion Agent in Luxembourg. The Company may appoint additional Paying Agents or Conversion Agents or change any Paying Agent or Conversion Agent without notice to Holders (any such additional Paying Agent or other Paying Agent for the Notes outside the United States, a "Non-U.S. Paying Agent").

### 4. Indenture.

The Company issued this Note as part of a Series of Securities, designated as "3.50% Guaranteed Cash-Settled Convertible Notes Due 2004" (the "Notes"), under an indenture dated as of August 24, 1984, as supplemented and restated by the First Supplemental Indenture dated as of January 31, 1990, as further amended by the First Supplement to the First Supplemental Indenture dated as of October 11, 1990, and as further amended by the Second Supplement to the First Supplemental Indenture dated as of August 5, 1997 (as so supplemented and amended, the "Indenture"), among the Company, Texaco Inc. and the Trustee. The terms of this Note include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S. Code ss.ss. 7aaa-77bbb) as amended (the "Act"). This Note is subject to all such terms, and the Holder of this Note is referred to the Indenture and the Act for a statement of them. All terms used in this Note which are defined in the Indenture and not otherwise defined herein shall have the meanings assigned to them in the Indenture.

5. Guaranty.

The Notes are guaranteed by Texaco Inc.

6. Conversion.

At any time during the Conversion Period (as defined below), this Note may be surrendered for conversion into the cash Conversion Amount (as defined below) at the option of the owners of beneficial interests herein as follows. On any Business Day (as defined below) during the Conversion Period, the owner of a beneficial interest in this Note may give notice to any Conversion Agent, who will provide copies to the Company, the Calculation Agent, the Principal Conversion Agent and the Trustee, in writing in the form provided in the Indenture (a "Conversion Notice"), that such owner elects to convert this Note or a specified portion hereof into the Conversion Amount. In addition, the converting owner of a beneficial interest in this Note must deliver the Conversion Notice to the Euroclear Operator or Cedel Bank, as the case may be, together with an authority to debit such owner's account pro tanto. Interests in this Note may only be converted in a minimum principal amount of U.S.\$10,000 and integral multiples of U.S.\$10,000 in excess thereof. On the relevant Conversion Date (as defined below), the Conversion Agent to whom the Conversion Notice is delivered shall obtain confirmation from the Euroclear Operator or Cedel Bank, as the case may be, that such owner is shown on its records as the owner of at least the principal amount of Notes in respect of which the Conversion Notice is delivered, and the Euroclear Operator or Cedel Bank, as the case may be, shall debit such owner's account with the principal amount of this Note to be converted and the principal amount of this Note shall be reduced accordingly. Any question as to the validity of a Conversion Notice or as to whether such notice has been properly and timely given will be resolved finally by the Principal Conversion Agent in its sole discretion. No interest shall be payable on any portion of this Note with respect to which a Conversion Notice has been delivered on any Interest Payment Date occurring on or after the relevant Conversion Date.

On the Settlement Date (as defined below) with respect to the conversion of a beneficial interest in this Note, the Holder of this Note will be entitled to receive the Conversion Amount in cash. Any payment of the Conversion Amount shall be deemed to be a payment of principal for all purposes under the Indenture and the Notes. Owners of beneficial interests in this Note must look solely to the Euroclear Operator or Cedel Bank, as the case may be, for their share of each payment made to the bearer of this Note.

As used herein:

(a) the term "Business Day" means any day that is not a Saturday, a Sunday or a day on which banking institutions or trust companies in The City of New York, the City of London or Luxembourg are authorized or obligated by law or executive order to close;

(b) the term "Closing Price" means, with respect to any security on any date, the closing sale price or last reported sale price for the security on the principal securities exchange or national market system on which such security is listed for trading or quoted on such date or, if such security is not so listed or quoted on such date, the fair market value of such security on such date, as determined by the Calculation Agent, in each case subject to adjustment as described below;

(c) the term "Conversion Amount" means, with respect to the principal amount of this Note with respect to which a Conversion Notice has been given, (i) if the relevant Conversion Notice is delivered prior to notice of redemption having been given by the Company, an amount in cash determined by the Calculation Agent to be the Closing Price of the Texaco Common Stock on the related Conversion Date (or, if the Conversion Date is not a Trading Day, on the first following day that is a Trading Day) multiplied by the Conversion Ratio, or (ii) if the relevant Conversion Notice is delivered after the giving of a notice of redemption by the Company or within eight Business Days prior to July 22, 2004, an amount in cash determined by the Calculation Agent to be the average of the Closing Prices of the Texaco Common Stock on the five consecutive Trading Days commencing on the applicable Conversion Date multiplied by the Conversion Ratio;

(d) the term "Conversion Date" means, with respect to any portion of this Note with respect to which a Conversion Notice is given, the second Business Day immediately following the date of delivery of such Conversion Notice to the relevant Conversion Agent and the Euroclear Operator or Cedel Bank, as the case may be;

(e) the term "Conversion Period" means the period commencing on September 15, 1997 and ending at 5:00 P.M., London time, on July 22, 2004 or, if this Note shall have been called for redemption prior to August 5, 2004, ending at 5:00 P.M., London time, on the date eight Business Days prior to the date fixed for redemption thereof; provided that if the Company defaults in making payment in full in respect of this Note or

prior to the date fixed for redemption hereof, the Conversion Period will continue until 5:00 P.M., London time, on the date upon which the full amount of the moneys payable in respect of this Note has been duly received by the Trustee and notice of such receipt has been duly given to the Holders of the Notes by the Trustee;

(f) the term "Conversion Ratio" means 71.35 shares of Texaco Common Stock per U.S.\$10,000 principal amount of Notes;

(g) the term "Settlement Date" means the day as soon as reasonably practicable after the Conversion Date determined by the Calculation Agent and the Principal Conversion Agent to be the day for payment of the Conversion Amount;

(h) the term "Texaco Common Stock" means the common stock of Texaco Inc.; and

(i) "Trading Day" means, with respect to any security, any day that is a trading day on the principal securities exchange or national market system on which such security is then listed other than a day on which (i) trading on such exchange or national market system is scheduled to close prior to its regular weekday closing time or (ii) there occurs any suspension of or limitation imposed on trading of such security on such exchange during the one-half hour period that ends at its regular weekday closing time that is, in the determination of the Calculation Agent, material.

The Closing Price of the Texaco Common Stock on any of the Trading Days used to calculate the Conversion Amount will be subject to adjustment by the Calculation Agent as described below to the extent that any of the events requiring such adjustment occurs during the period commencing on the date of this Note and ending on such Trading Day.

#### Texaco Common Stock Dividends and Extraordinary Dividends and Distributions

In the event that a dividend or other distribution is declared (i) on any class of Texaco capital stock, payable in shares of Texaco Common Stock, (ii) on the Texaco Common Stock payable in cash in an amount greater than 10% of the Closing Price of the Texaco Common Stock on the date fixed for the determination of the shareholders of Texaco entitled to receive such cash dividend (an "Extraordinary Cash Dividend"), or (iii) on the Texaco Common Stock of

evidences of indebtedness or assets (including securities, but excluding any dividend or distribution covered by clause (i) or any Texaco Spin-off described under "-Dissolution of Texaco; Mergers, Consolidations or Sales of Assets; Spin-offs" below) (an "Extraordinary Distribution"), any Closing Price of the Texaco Common Stock used to calculate the Conversion Amount on any Trading Day that follows the date (the "Texaco Record Date") fixed for the determination of the shareholders of Texaco entitled to receive such dividend or other distribution shall be increased by multiplying such Closing Price by a fraction, the numerator of which shall be the number of shares of Texaco Common Stock outstanding on the Texaco Record Date plus the number of shares constituting such distribution or, in the case of any Extraordinary Cash Dividend or Extraordinary Distribution, plus the number of shares of Texaco Common Stock that could be purchased with the amount of such Extraordinary Cash Dividend or the fair market value (as determined by the Calculation Agent, whose determination shall be conclusive and binding) of the evidences of indebtedness or assets constituting such Extraordinary Distribution at the Closing Price on the Trading Day immediately subsequent to such Texaco Record Date, and the denominator of which shall be the number of shares of Texaco Common Stock outstanding on the Texaco Record Date.

#### Subdivisions and Combinations of the Texaco Common Stock

In the event that the outstanding shares of Texaco Common Stock are subdivided into a greater number of shares, the Closing Price of the Texaco Common Stock used to calculate the Conversion Amount on any Trading Day that follows the date on which such subdivision becomes effective will be proportionately increased and, conversely, in the event that the outstanding shares of Texaco Common Stock are combined into a smaller number of shares, such Closing Price of the Texaco Common Stock will be proportionately reduced.

#### Reclassifications of the Texaco Common Stock

In the event that the Texaco Common Stock is changed into the same or a different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (except to the extent otherwise provided under "-Texaco Common Stock Dividends and Extraordinary Dividends and Distributions" and "-Subdivisions and Combinations of Texaco Common Stock" above or pursuant to a Reorganization Event described under "-Dissolution of Texaco; Mergers, Consolidations or Sales of Assets; Spin-offs" below), the Conversion Amount will be calculated by using the aggregate Closing Prices of the shares of stock into which a share of Texaco Common Stock was changed on any Trading Day that follows the effectiveness of such change.

As a result of the foregoing provisions, in the case of a reorganization or reclassification of the Texaco Common Stock, the Closing Prices of one or more securities in addition to or in substitution for the Texaco Common Stock may be used to calculate the Conversion Amount. For example, if the Texaco Common Stock were reclassified into one share of Texaco Class A Common Stock and one share of Texaco Class B Common Stock, the Conversion Amount would be calculated by reference to the Closing Prices of the Texaco Class A Common Stock and the Texaco Class B Common Stock.

#### Other Dilution Events

In the event that the Company (with the prior written approval of the Calculation Agent) or the Calculation Agent determines that an adjustment should be made to the Closing Price of the Texaco Common Stock on any of the Trading Days used to calculate the Conversion Amount as a result of one or more events or circumstances not otherwise described above (even if such event or circumstance is specifically excluded from the operation of the provisions described above), the Company shall at its own expense and acting reasonably request the Calculation Agent to determine as soon as practicable what adjustment (if any) is fair and reasonable to take account thereof.

#### Dissolution of Texaco; Mergers, Consolidations or Sales of Assets; Spin-offs.

In the event of any (i) consolidation or merger of Texaco with or into another entity (other than a consolidation or merger that does not result in a reclassification, conversion, exchange or cancellation of outstanding Texaco Common Stock), (ii) sale, transfer, lease or conveyance of all or substantially all of the assets of Texaco, (iii) liquidation, dissolution or winding up of Texaco or (iv) declaration of a distribution on the Texaco Common Stock of the common stock of any subsidiary of Texaco (a "Texaco Spin-off") (any of the events described in (i), (ii), (iii) or (iv), a "Reorganization Event"), for purposes of determining the Conversion Amount, the Closing Price of the Texaco Common Stock on any Trading Day subsequent to, in the case of a Reorganization Event other than a Texaco Spin-off, the effective time of such Reorganization Event or, in the case of a Texaco Spin-off, the record date fixed for the determination of the shareholders of Texaco entitled to receive the securities distributed in such Texaco Spin-off (the "Spin-off Record Date") will be deemed to be the amount equal to (1) the value of the cash and other property (including securities) received by a holder of a share of Texaco Common Stock (assuming such holder of Texaco Common Stock failed to exercise any rights of election and received per share the kind and amount received by a plurality of non-electing shares) in any such Reorganization Event (plus, in the case of a Texaco Spin-off, the value of a share

of Texaco Common Stock), and (2) to the extent that such holder obtains securities in any Reorganization Event, the value of the cash and other property received by the holder of such securities in any subsequent event with respect to the issuer of such securities that would, if such issuer were Texaco, be a Reorganization Event. For purposes of determining any such Closing Prices, the value of (i) any cash and other property (other than securities) received in any such Reorganization Event will be an amount equal to the value of such cash and other property at the effective time of such Reorganization Event (as determined by the Calculation Agent, whose determination shall be conclusive and binding), and (ii) any property consisting of securities received in any such Reorganization Event will be an amount equal to the Closing Prices of such securities on any Trading Day following, in the case of a Reorganization Event other than a Texaco Spin-off, the effective time of such Reorganization Event or, in the case of a Texaco Spin-off, the Spin-off Record Date.

If any action would require adjustment of the Closing Price pursuant to more than one of the foregoing provisions, only one adjustment shall be made and such adjustment shall be the amount of adjustment that has the highest absolute value to the Holder of this Note. No adjustment in the Closing Price shall be required unless such adjustment would require an increase or decrease of at least 1% of the Closing Price, but any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment.

The Calculation Agent will promptly notify the Company and the Principal Conversion Agent, which will in turn notify the Holders, of any event requiring an adjustment and of the method of calculation to be used to make any dilution adjustment as described above.

All determinations made by the Calculation Agent shall be at the sole discretion of the Calculation Agent and, in the absence of manifest error, shall be conclusive for all purposes and binding on the Company and the Holders, and the Calculation Agent shall have no liability therefor. All results of any calculation of the Conversion Amount will be rounded, if necessary, to the nearest one-one-hundred-thousandth of a percent (with five one-millionths of a percentage point being rounded downward).

7. Redemption.

The Notes are redeemable, at the option of the Company, in whole but not in part, at any time on or after August 5, 1999, at the principal amount thereof upon not less than 15 days' nor more than 30 days' notice to Holders.

8. Tax Redemption.

The Notes may be redeemed as a whole, at the option of the Company at any time prior to maturity, upon the giving of a notice of redemption in the manner provided in the Indenture, at the principal amount thereof, together with accrued interest to the date fixed for redemption, if the Company determines that, as a result of any change in or amendment to the laws (or any regulations or rulings promulgated thereunder) of the United States or of any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment becomes effective on or after the date of this Note, the Company or Texaco Inc., as the case may be, has or will become obligated to pay Additional Amounts (as defined below) with respect to the Notes as described below under paragraph 9 hereof. Prior to the giving of any notice of redemption pursuant to this paragraph, the Company shall deliver to the Trustee (i) a certificate stating that the Company is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Company to so redeem have occurred (the date on which such certificate is delivered to the Trustee being the "Redemption Determination Date"), and (ii) an opinion of counsel reasonably acceptable to the Trustee to such effect based on such statement of facts; provided that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Company or Texaco Inc., as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of any Note were then due.

If the Company shall determine that any payment made outside the United States by the Company or Texaco Inc., as the case may be, by any Paying Agent of principal or interest due in respect of any Note or Coupon (as defined below) would, under any present or future laws or regulations of the United States, be subject to any certification, identification or other information reporting requirement of any kind, the effect of which is the disclosure to the Company, Texaco Inc., any Paying Agent or any governmental authority of the nationality, residence or identity of a beneficial owner of such Note or Coupon who is a United States Alien (as defined below under "Payment of Additional Amounts") (other than such a requirement (a) that would not be applicable to a payment made by the Company or Texaco Inc., as the case may be, or any Paying



Agent (i) directly to the beneficial owner or (ii) to a custodian, nominee or other agent of the beneficial owner, or (b) that can be satisfied by such custodian, nominee or other agent certifying to the effect that such beneficial owner is a United States Alien; provided that in each case referred to in clauses (a)(ii) and (b) payment by such custodian, nominee or agent to such beneficial owner would not otherwise be subject to any such requirement), the Company shall redeem the Notes, as a whole, at the principal amount thereof, together with accrued interest to the date fixed for redemption or, at the election of the Company or Texaco Inc., as the case may be, if the conditions of the next paragraph are satisfied, pay the additional amounts specified in such paragraph. The Company shall make such determination and election as soon as practicable and publish prompt notice thereof (the "Determination Notice") stating the effective date of such certification, identification or other information reporting requirements, whether the Company will redeem the Notes or has elected to pay the additional amounts specified in the next paragraph, and (if applicable) the last date by which the redemption of the Notes must take place, as provided in the next sentence. If the Company redeems the Notes, such redemption shall take place on such date, not later than one year after the publication of the Determination Notice, as the Company shall elect by notice to the Trustee. Notwithstanding the foregoing, the Company shall not so redeem the Notes if the Company or Texaco Inc., as the case may be, shall subsequently determine, not less than 30 days prior to the date fixed for redemption, that subsequent payments would not be subject to any such certification, identification or other information reporting requirement, in which case the Company shall publish prompt notice of such determination and any earlier redemption notice shall be revoked and of no further effect.

If and so long as the certification, identification or other information reporting requirements referred to in the preceding paragraph would be fully satisfied by payment of a backup withholding tax or similar charge, the Company or Texaco Inc., as the case may be, may elect to pay as additional amounts such amounts as may be necessary so that every net payment made outside the United States following the effective date of such requirements by the Company or Texaco Inc., as the case may be, or any Paying Agent of principal or interest due in respect of any Note or any Coupon of which the beneficial owner is a United States Alien (but without any requirement that the nationality, residence or identity of such beneficial owner be disclosed to the Company, Texaco Inc., any Paying Agent or any governmental authority, with respect to the payment of such additional amounts), after deduction or withholding for or on account of such backup withholding tax or similar charge (other than a backup withholding tax or similar charge that (i) would not be applicable in the circumstances referred to in the second parenthetical clause of the first sentence of the preceding paragraph, or (ii) is imposed as a result of presentation of such Note or Coupon for payment

more than 15 days after the date on which such payment becomes due and payable or on which payment thereof is duly provided for, whichever occurs later), will not be less than the amount provided for in such Note or Coupon to be then due and payable. In the event the Company or Texaco Inc., as the case may be, elects to pay any additional amounts pursuant to the applicable provisions of this paragraph, the Company shall have the right to redeem the Notes as a whole at any time pursuant to the provisions of the preceding paragraph and the redemption price of such Notes will not be reduced for applicable withholding taxes. If the Company or Texaco Inc., as the case may be, elects to pay additional amounts pursuant to this paragraph and the condition specified in the first sentence of this paragraph should no longer be satisfied, then the Company will redeem the Notes as a whole, pursuant to the applicable provisions of the preceding paragraph.

#### 9. Payment of Additional Amounts.

The Company will, subject to certain exceptions and limitations set forth below, pay such additional amounts (the "Additional Amounts") to the Holder of this Note who is a United States Alien as may be necessary in order that every net payment of the principal of and interest on this Note and any other amounts payable on such Note, after withholding for or on account of any present or future tax, assessment or governmental charge imposed upon or as a result of such payment by the United States (or any political subdivision or taxing authority thereof or therein), will not be less than the amount provided for in this Note to be then due and payable. The Company will not, however, be required to make any payment of Additional Amounts to any such Holder for or on account of:

(a) any such tax, assessment or other governmental charge that would not have been so imposed but for (i) the existence of any present or former connection between such Holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such Holder, if such Holder is an estate, a trust, a partnership or a corporation) and the United States and its possessions, including, without limitation, such Holder (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having or having had a permanent establishment therein or (ii) the presentation by the Holder of this Note for payment on a date more than 15 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;

(b) any estate, inheritance, gift, sales, transfer or personal property tax or any similar tax, assessment or governmental charge;

(c) any tax, assessment or other governmental charge imposed by reason of such Holder's past or present status as a personal holding company or foreign personal holding company or controlled foreign corporation or passive foreign investment company with respect to the United States or as a corporation that accumulates earnings to avoid United States federal income tax or as a private foundation or other tax-exempt organization;

(d) any tax, assessment or other governmental charge that is payable otherwise than by withholding from payments on or in respect of this Note;

(e) any tax, assessment or other governmental charge required to be withheld by any Paying Agent from any payment of principal or interest on this Note, if such payment can be made without such withholding by any other Paying Agent in a city in Western Europe;

(f) any tax, assessment or other governmental charge that would not have been imposed but for the failure to comply with certification, information or other reporting requirements concerning the nationality, residence or identity of the owner or beneficial owner of this Note, if such compliance is required by statute or by regulation of the United States or of any political subdivision or taxing authority thereof or therein as a precondition to relief or exemption from such tax, assessment or other governmental charge;

(g) any tax, assessment or other governmental charge imposed by reason of such Holder's past or present status as the actual or constructive owner of 10% or more of the total combined voting power of all classes of stock entitled to vote of the Company or as a direct or indirect subsidiary of the Company; or

(h) any combination of items (a), (b), (c), (d), (e), (f) or (g);

nor shall Additional Amounts be paid with respect to any payment on this Note to a United States Alien who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of the United States (or any political subdivision thereof) to be included in the income, for tax purposes, of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the Holder of this Note.

As used herein, the term "United States Alien" means any person who, for United States federal income tax purposes, is a foreign corporation, a nonresident alien individual, a nonresident alien fiduciary of a foreign estate or trust, or a foreign partnership one or more of the members of which is a foreign corporation, a nonresident alien individual or a nonresident alien fiduciary of a foreign estate or trust.

10. Transfer.

The Holder of this Note may transfer this Note in accordance with the Indenture; provided that this Note may be transferred only to a common depository outside the United States for the Euroclear Operator and Cedel Bank or to a nominee of such a depository. The Company may require the Holder of this Note, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture.

11. Persons Deemed Owners.

The bearer of this Note may be treated as the owner of it for all purposes.

12. Amendments and Waivers.

Subject to certain exceptions, the Notes or the Indenture with respect to the Notes may be amended with the consent of the Holders of at least 50.1% in principal amount of the Notes outstanding, and any past default or compliance with any provision may be waived with the consent of the Holders of at least 50.1% in principal amount of the Notes outstanding. Without the consent of any Holder, the Indenture or the Notes may be amended to cure any ambiguity, defect or inconsistency; to provide for assumption of the Company's obligations to Holders; or to make any change that does not adversely affect the rights of any Holder.

13. Restrictive Covenants.

The Notes are unsecured general obligation of the Company limited to \$200,000,000 in aggregate principal amount. The Indenture does not limit other unsecured debt. It does limit certain mortgages and sale-leaseback transactions of Texaco Inc. if the property mortgaged or leased is a refinery or a manufacturing plant in the United States or any oil or gas producing property onshore or offshore the United States that is of material importance to the total business of Texaco Inc. and its consolidated subsidiaries. The limitations are subject to a number of

important qualifications and exceptions. Once a year Texaco Inc. must report to the Trustee on compliance with the limitations.

When a successor corporation assumes all the obligations of the Company under the Notes and the Indenture with respect to the Notes, the Company will be released from those obligations.

14. Defaults and Remedies.

An Event of Default is: default for 30 days in payment of interest on the Notes; default in payment of principal on the Notes; failure by the Company or by Texaco Inc., as the case may be, for 90 days after notice to the Company to comply with any of its other agreements in the Notes or the Indenture; and certain events of bankruptcy or insolvency. If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the Notes may declare all the Notes to be due and payable immediately. Holders may not enforce the Notes or the Indenture with respect to the Notes except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Notes or the Indenture. Subject to certain limitations, Holders of a majority in principal amount of the Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders notice of any continuing default (except a default in payment of principal or interest) if it determines that withholding notice is in their interests.

15. Trustee Dealings with Company or Texaco Inc.

The Chase Manhattan Bank as Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company, Texaco Inc. or any affiliates of either, and may otherwise deal with the Company, Texaco Inc. or any affiliates of either, as if it were not Trustee.

16. No Recourse Against Others.

A director, officer, employee or stockholder, as such, of the Company or Texaco Inc. shall not have any liability for any obligations of the Company or Texaco Inc. under the Notes or the Indenture or for any claim based on, in respect of or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Notes.

17. Exchange for Definitive Notes.

The beneficial owner of all or a portion of this Note may exchange its interest in this Note upon not less than 30 days' written notice to any Non-U.S. Paying Agent through the relevant clearing system, in whole, for Notes in definitive bearer form with interest coupons ("Coupons") attached ("Definitive Notes") in denominations of U.S.\$10,000. Interests in this Note shall also be exchanged by the Company in whole, but not in part, for Definitive Notes if (i) this Note is accelerated following an Event of Default or (ii) either the Euroclear Operator or Cedel Bank is closed for business for a continuous period of fourteen days (other than by reason of public holidays) or announces an intention to cease business permanently or in fact does so. The Company shall give notice to the Principal Paying Agent promptly following any such acceleration or upon learning of any such closure. Any exchanges referred to above shall be made at the office of the Principal Paying Agent, upon compliance with the procedures set forth in the Indenture; provided that the Company shall not be required to exchange this Note for a period of fifteen calendar days preceding the first publication of a notice of redemption of the Notes. Upon exchange of this Note in whole for Definitive Notes, the Principal Paying Agent shall cause Schedule A of this Note to be endorsed to reflect the reduction of the principal amount hereof by an amount equal to the aggregate principal amount of such Definitive Notes, whereupon the principal amount hereof shall be reduced for all purposes by the amount so exchanged and noted. All such exchanges of this Note will be free of service charge, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. The date of any Definitive Note delivered upon any exchange of this Note shall be such that no gain or loss of interest results from such exchange.

All (and not less than all) interests in this Note will be exchanged for Definitive Notes as soon as practicable after (i) the first beneficial owner of an interest in this Note exchanges its interest for Definitive Notes or (ii) the Company gives notice to the Principal Paying Agent of an acceleration of the Note or the closure of a relevant clearing system as described above.

18. Authentication.

This Note shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent.

GUARANTY

TEXACO INC., a Delaware corporation (the "Guarantor"), unconditionally guarantees to the Holder of this Note the due and punctual payment of the principal of and interest on this Note.

The Guarantor shall not be entitled to receive any payments based upon a right of subrogation with respect to any amounts paid by the Guarantor to Holders until the principal of and interest on all Notes shall have been paid in full or for which payment has been provided.

TEXACO INC.

By: \_\_\_\_\_  
[Title]





[FORM OF FACE OF DEFINITIVE NOTE]

ISIN:

Serial No.: Certificate No.:

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE.

TEXACO CAPITAL INC.

3.50% Guaranteed Cash-Settled Convertible Notes Due 2004

Guaranteed by

TEXACO INC.

Interest Payable: August 5

Texaco Capital Inc. promises to pay to bearer, upon surrender hereof, the principal sum of U.S.\$10,000 on August 5, 2004 (except to the extent previously redeemed or converted).

Dated:

TEXACO CAPITAL INC.

By: \_\_\_\_\_  
[Title]

By: \_\_\_\_\_  
[Title]

Authenticated:  
[THE CHASE MANHATTAN BANK  
as Trustee

By: \_\_\_\_\_  
Authorized Officer]

[[Name of Authenticating Agent]  
as Authenticating Agent

By: \_\_\_\_\_  
Authorized Officer]

1. Interest.

Texaco Capital Inc. (the "Company"), a Delaware corporation, promises to pay interest on the principal amount of this Note at the rate per annum shown above. The Company will pay interest annually on August 5 of each year (each, an "Interest Payment Date"). Interest on the Note will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from August 5, 1997 (the "Issue Date"). Except as provided in the Indenture, this Note will cease to bear interest from and after the earliest of (a) August 5, 2004, (b) the Interest Payment Date immediately preceding the Conversion Date (as defined below) relating to the conversion of this Note into the Conversion Amount (as defined below) or, if there is no such Interest Payment Date, the Issue Date or (c) the date fixed for redemption of this Note. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each.

2. Method of Payment.

Payment of principal and interest on this Note will be made in immediately available funds, subject to any applicable laws and regulations, only against presentation and surrender of this Note or the relevant interest coupon (a "Coupon"), as the case may be, at the office of any Non-U.S. Paying Agent by check or, at the option of the Holder of this Note, by wire transfer of immediately available funds to an account maintained by the payee with a bank located outside the United States if appropriate wire transfer instructions have been received by such Non-U.S. Paying Agent not less than 15 calendar days prior to an applicable payment date. No payment on this Note or any Coupon appertaining hereto will be made at any office or agency of the Company in the United States (as defined below) or by check mailed to an address in the United States or by wire transfer to an account maintained by the Holder of this Note or such Coupon with a bank in the United States except as may be permitted under United States federal tax laws and regulations then in effect without adverse tax consequences to the Company. Notwithstanding the foregoing, in the event that payment in U.S. dollars of the full amount payable on this Note or any Coupon appertaining hereto at the offices of all Non-U.S. Paying Agents (as defined below) would be illegal or effectively precluded as a result of exchange controls or similar restrictions, payment on this Note or such Coupon will be made by a Paying Agent in the Borough of

Manhattan, The City of New York, if and only if (i) such Paying Agent, under applicable law and regulations, would be able to make such payment and (ii) such payment would not involve, in the opinion of the Company, adverse tax consequences for the Company.

### 3. Paying and Conversion Agents.

Initially, The Chase Manhattan Bank, as Trustee (the "Trustee"), at its office in London at Trinity Tower, 9 Thomas More Street, London E19YT, England, will act as the principal Paying Agent for the Notes outside the United States (the "Principal Paying Agent") and as the principal Conversion Agent for the Notes outside the United States (the "Principal Conversion Agent"). Initially, Chase Manhattan Bank Luxembourg S.A., at its office in Luxembourg at 5 rue Plaetis, L-2338 Luxembourg, Luxembourg, will act as a Paying Agent and a Conversion Agent in Luxembourg. The Company may appoint additional Paying Agents or Conversion Agents or change any Paying Agent or Conversion Agent without notice to Holders (any such additional Paying Agent or other Paying Agent for the Notes outside the United States, a "Non-U.S. Paying Agent").

### 4. Indenture.

The Company issued this Note as part of a Series of Securities, designated as "3.50% Guaranteed Cash-Settled Convertible Notes Due 2004" (the "Notes"), under an indenture dated as of August 24, 1984, as supplemented and restated by the First Supplemental Indenture dated as of January 31, 1990, as further amended by the First Supplement to the First Supplemental Indenture dated as of October 11, 1990, and as further amended by the Second Supplement to the First Supplemental Indenture dated as of August 5, 1997 (as so supplemented and amended, the "Indenture"), among the Company, Texaco Inc. and the Trustee. The terms of this Note include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S. Code ss.ss. 7aaa-77bbb) as amended (the "Act"). This Note is subject to all such terms, and the Holder of this Note is referred to the Indenture and the Act for a statement of them. All terms used in this Note which are defined in the Indenture and not otherwise defined herein shall have the meanings assigned to them in the Indenture.

5. Guaranty.

The Notes are guaranteed by Texaco Inc.

6. Conversion.

At any time during the Conversion Period (as defined below), this Note may be surrendered for conversion into the cash Conversion Amount (as defined below) at the option of the Holder hereof as follows. On any Business Day (as defined below) during the Conversion Period, the Holder of this Note may give notice to any Conversion Agent, who will provide copies to the Company, the Calculation Agent, the Principal Conversion Agent and the Trustee, in writing in the form provided in the Indenture (a "Conversion Notice"), that such Holder elects to convert this Note into the Conversion Amount. To be converted, this Note, together with all unmatured Coupons appertaining hereto (for this purpose treating any Coupon expressed to be payable on the relevant Conversion Date as an unmatured Coupon), must be surrendered to a Conversion Agent together with the Conversion Notice relating thereto. Any question as to the validity of a Conversion Notice or as to whether such notice has been properly and timely given will be resolved finally by the Principal Conversion Agent in its sole discretion. On and after the Conversion Date with respect to this Note, unmatured Coupons relating hereto (whether or not attached hereto) shall become void and no payment shall be made in respect thereof.

On the Settlement Date (as defined below) with respect to the conversion of this Note, the Holder of this Note will be entitled to receive the Conversion Amount in cash. Any payment of the Conversion Amount shall be deemed to be a payment of principal for all purposes under the Indenture and the Notes.

As used herein:

(a) the term "Business Day" means any day that is not a Saturday, a Sunday or a day on which banking institutions or trust companies in the City of New York, the City of London or Luxembourg are authorized or obligated by law or executive order to close;

(b) the term "Closing Price" means, with respect to any security on any date, the closing sale price or last reported sale price for the security on the principal securities exchange or national market system on which such security is listed for trading or quoted on such date or, if such security is not so listed or quoted on such date, the fair market value of

such security on such date, as determined by the Calculation Agent, in each case subject to adjustment as described below;

(c) the term "Conversion Amount" means, (i) if the relevant Conversion Notice is delivered prior to notice of redemption having been given by the Company, an amount in cash determined by the Calculation Agent to be the Closing Price of the Texaco Common Stock on the related Conversion Date (or, if the Conversion Date is not a Trading Day, on the first following day that is a Trading Day) multiplied by the Conversion Ratio, or (ii) if the relevant Conversion Notice is delivered after the giving of a notice of redemption by the Company or within eight Business Days prior to July 22, 2004, an amount in cash determined by the Calculation Agent to be the average of the Closing Prices of the Texaco Common Stock on the five consecutive Trading Days commencing on the applicable Conversion Date multiplied by the Conversion Ratio;

(d) the term "Conversion Date" means, with respect to any Note surrendered for conversion, the second Business Day immediately following the date of delivery of the related Conversion Notice to the relevant Conversion Agent;

(e) the term "Conversion Period" means the period commencing on September 15, 1997 and ending at 5:00 P.M., London time, on July 22, 2004 or, if this Note shall have been called for redemption prior to August 5, 2004, ending at 5:00 P.M., London time, on the date eight Business Days prior to the date fixed for redemption thereof; provided that if the Company defaults in making payment in full in respect of this Note or prior to the date fixed for redemption hereof, the Conversion Period will continue until 5:00 P.M., London time, on the date upon which the full amount of the moneys payable in respect of this Note has been duly received by the Trustee and notice of such receipt has been duly given to the Holders of the Notes by the Trustee;

(f) the term "Conversion Ratio" means 71.35 shares of Texaco Common Stock per U.S. \$10,000 principal amount of Notes;

(g) the term "Settlement Date" means the day as soon as reasonably practicable after the Conversion Date determined by the Calculation Agent and the Principal Conversion Agent to be the day for payment of the Conversion Amount;

(h) the term "Texaco Common Stock" means the common stock of Texaco Inc.; and

(i) "Trading Day" means, with respect to any security, any day that is a trading day on the principal securities exchange or national market system on which such security is then listed other than a day on which (i) trading on such exchange or national market system is scheduled to close prior to its regular weekday closing time or (ii) there occurs any suspension of or limitation imposed on trading of such security on such exchange during the one-half hour period that ends at its regular weekday closing time that is, in the determination of the Calculation Agent, material.

The Closing Price of the Texaco Common Stock on any of the Trading Days used to calculate the Conversion Amount will be subject to adjustment by the Calculation Agent as described below to the extent that any of the events requiring such adjustment occurs during the period commencing on the date of this Note and ending on such Trading Day.

#### Texaco Common Stock Dividends and Extraordinary Dividends and Distributions

In the event that a dividend or other distribution is declared (i) on any class of Texaco capital stock, payable in shares of Texaco Common Stock, (ii) on the Texaco Common Stock payable in cash in an amount greater than 10% of the Closing Price of the Texaco Common Stock on the date fixed for the determination of the shareholders of Texaco entitled to receive such cash dividend (an "Extraordinary Cash Dividend"), or (iii) on the Texaco Common Stock of evidences of indebtedness or assets (including securities, but excluding any dividend or distribution covered by clause (i) or any Texaco Spin-off described under "-Dissolution of Texaco; Mergers, Consolidations or Sales of Assets; Spin-offs" below) (an "Extraordinary Distribution"), any Closing Price of the Texaco Common Stock used to calculate the Conversion Amount on any Trading Day that follows the date (the "Texaco Record Date") fixed for the determination of the shareholders of Texaco entitled to receive such dividend or other distribution shall be increased by multiplying such Closing Price by a fraction, the numerator of which shall be the number of shares of Texaco Common Stock outstanding on the Texaco Record Date plus the number of shares constituting such distribution or, in the case of any Extraordinary Cash Dividend or Extraordinary Distribution, plus the number of shares of Texaco Common Stock that could be purchased with the amount of such Extraordinary Cash Dividend or

the fair market value (as determined by the Calculation Agent, whose determination shall be conclusive and binding) of the evidences of indebtedness or assets constituting such Extraordinary Distribution at the Closing Price on the Trading Day immediately subsequent to such Texaco Record Date, and the denominator of which shall be the number of shares of Texaco Common Stock outstanding on the Texaco Record Date.

#### Subdivisions and Combinations of the Texaco Common Stock

In the event that the outstanding shares of Texaco Common Stock are subdivided into a greater number of shares, the Closing Price of the Texaco Common Stock used to calculate the Conversion Amount on any Trading Day that follows the date on which such subdivision becomes effective will be proportionately increased and, conversely, in the event that the outstanding shares of Texaco Common Stock are combined into a smaller number of shares, such Closing Price of the Texaco Common Stock will be proportionately reduced.

#### Reclassifications of the Texaco Common Stock

In the event that the Texaco Common Stock is changed into the same or a different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (except to the extent otherwise provided under "-Texaco Common Stock Dividends and Extraordinary Dividends and Distributions" and "-Subdivisions and Combinations of Texaco Common Stock" above or pursuant to a Reorganization Event described under "-Dissolution of Texaco; Mergers, Consolidations or Sales of Assets; Spin-offs" below), the Conversion Amount will be calculated by using the aggregate Closing Prices of the shares of stock into which a share of Texaco Common Stock was changed on any Trading Day that follows the effectiveness of such change.

As a result of the foregoing provisions, in the case of a reorganization or reclassification of the Texaco Common Stock, the Closing Prices of one or more securities in addition to or in substitution for the Texaco Common Stock may be used to calculate the Conversion Amount. For example, if the Texaco Common Stock were reclassified into one share of Texaco Class A Common Stock and one share of Texaco Class B Common Stock, the Conversion Amount would be calculated by reference to the Closing Prices of the Texaco Class A Common Stock and the Texaco Class B Common Stock.



#### Other Dilution Events

In the event that the Company (with the prior written approval of the Calculation Agent) or the Calculation Agent determines that an adjustment should be made to the Closing Price of the Texaco Common Stock on any of the Trading Days used to calculate the Conversion Amount as a result of one or more events or circumstances not otherwise described above (even if such event or circumstance is specifically excluded from the operation of the provisions described above), the Company shall at its own expense and acting reasonably request the Calculation Agent to determine as soon as practicable what adjustment (if any) is fair and reasonable to take account thereof.

#### Dissolution of Texaco; Mergers, Consolidations or Sales of Assets; Spin-offs

In the event of any (i) consolidation or merger of Texaco with or into another entity (other than a consolidation or merger that does not result in a reclassification, conversion, exchange or cancellation of outstanding Texaco Common Stock), (ii) sale, transfer, lease or conveyance of all or substantially all of the assets of Texaco, (iii) liquidation, dissolution or winding up of Texaco or (iv) declaration of a distribution on the Texaco Common Stock of the common stock of any subsidiary of Texaco (a "Texaco Spin-off") (any of the events described in (i), (ii), (iii) or (iv), a "Reorganization Event"), for purposes of determining the Conversion Amount, the Closing Price of the Texaco Common Stock on any Trading Day subsequent to, in the case of a Reorganization Event other than a Texaco Spin-off, the effective time of such Reorganization Event or, in the case of a Texaco Spin-off, the record date fixed for the determination of the shareholders of Texaco entitled to receive the securities distributed in such Texaco Spin-off (the "Spin-off Record Date") will be deemed to be the amount equal to (1) the value of the cash and other property (including securities) received by a holder of a share of Texaco Common Stock (assuming such holder of Texaco Common Stock failed to exercise any rights of election and received per share the kind and amount received by a plurality of non-electing shares) in any such Reorganization Event (plus, in the case of a Texaco Spin-off, the value of a share of Texaco Common Stock), and (2) to the extent that such holder obtains securities in any Reorganization Event, the value of the cash and other property received by the holder of such securities in any subsequent event with respect to the issuer of such securities that would, if such issuer were Texaco, be a Reorganization Event. For purposes of determining any such Closing Prices, the value of (i) any cash and other property (other than securities) received in any such Reorganization Event will be an amount equal to the value of such cash and other property at the effective time of such Reorganization Event (as determined

by the Calculation Agent, whose determination shall be conclusive and binding), and (ii) any property consisting of securities received in any such Reorganization Event will be an amount equal to the Closing Prices of such securities on any Trading Day following, in the case of a Reorganization Event other than a Texaco Spin-off, the effective time of such Reorganization Event or, in the case of a Texaco Spin-off, the Spin-off Record Date.

If any action would require adjustment of the Closing Price pursuant to more than one of the foregoing provisions, only one adjustment shall be made and such adjustment shall be the amount of adjustment that has the highest absolute value to the Holder of this Note. No adjustment in the Closing Price shall be required unless such adjustment would require an increase or decrease of at least 1% of the Closing Price, but any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment.

The Calculation Agent will promptly notify the Company and the Principal Conversion Agent, which will in turn notify the Holders, of any event requiring an adjustment and of the method of calculation to be used to make any dilution adjustment as described above.

All determinations made by the Calculation Agent shall be at the sole discretion of the Calculation Agent and, in the absence of manifest error, shall be conclusive for all purposes and binding on the Company and the Holders, and the Calculation Agent shall have no liability therefor. All results of any calculation of the Conversion Amount will be rounded, if necessary, to the nearest one-one-hundred-thousandth of a percent (with five one-millionths of a percentage point being rounded downward).

#### 7. Redemption.

The Notes are redeemable, at the option of the Company, in whole but not in part, at any time on or after August 5, 1999, at the principal amount thereof upon not less than 15 days' nor more than 30 days' notice to Holders.

#### 8. Tax Redemption.

The Notes may be redeemed as a whole, at the option of the Company at any time prior to maturity, upon the giving of a notice of redemption in the manner provided in the Indenture, at the principal amount thereof, together with accrued interest to the date fixed for redemption, if the Company determines that,

as a result of any change in or amendment to the laws (or any regulations or rulings promulgated thereunder) of the United States or of any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment becomes effective on or after the date of this Note, the Company or Texaco Inc., as the case may be, has or will become obligated to pay Additional Amounts (as defined below) with respect to the Notes as described below under paragraph 9 hereof. Prior to the giving of any notice of redemption pursuant to this paragraph, the Company shall deliver to the Trustee (i) a certificate stating that the Company is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Company to so redeem have occurred (the date on which such certificate is delivered to the Trustee being the "Redemption Determination Date"), and (ii) an opinion of counsel reasonably acceptable to the Trustee to such effect based on such statement of facts; provided that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Company or Texaco Inc., as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of any Note were then due.

If the Company shall determine that any payment made outside the United States by the Company or Texaco Inc., as the case may be, by any Paying Agent of principal or interest due in respect of any Note or Coupon would, under any present or future laws or regulations of the United States, be subject to any certification, identification or other information reporting requirement of any kind, the effect of which is the disclosure to the Company, Texaco Inc., any Paying Agent or any governmental authority of the nationality, residence or identity of a beneficial owner of such Note or Coupon who is a United States Alien (as defined below under "Payment of Additional Amounts") (other than such a requirement (a) that would not be applicable to a payment made by the Company or Texaco Inc., as the case may be, or any Paying Agent (i) directly to the beneficial owner or (ii) to a custodian, nominee or other agent of the beneficial owner, or (b) that can be satisfied by such custodian, nominee or other agent certifying to the effect that such beneficial owner is a United States Alien; provided that in each case referred to in clauses (a)(ii) and (b) payment by such custodian, nominee or agent to such beneficial owner would not otherwise be subject to any such requirement), the Company shall redeem the Notes, as a whole, at the principal amount thereof, together with accrued interest to the date fixed for redemption or, at the election of the Company or Texaco Inc., as the case may be, if the conditions of the next paragraph are satisfied, pay the additional amounts specified in such paragraph. The Company shall make such determination and election as soon as practicable and publish prompt notice

thereof (the "Determination Notice") stating the effective date of such certification, identification or other information reporting requirements, whether the Company will redeem the Notes or has elected to pay the additional amounts specified in the next paragraph, and (if applicable) the last date by which the redemption of the Notes must take place, as provided in the next sentence. If the Company redeems the Notes, such redemption shall take place on such date, not later than one year after the publication of the Determination Notice, as the Company shall elect by notice to the Trustee. Notwithstanding the foregoing, the Company shall not so redeem the Notes if the Company or Texaco Inc., as the case may be, shall subsequently determine, not less than 30 days prior to the date fixed for redemption, that subsequent payments would not be subject to any such certification, identification or other information reporting requirement, in which case the Company shall publish prompt notice of such determination and any earlier redemption notice shall be revoked and of no further effect.

If and so long as the certification, identification or other information reporting requirements referred to in the preceding paragraph would be fully satisfied by payment of a backup withholding tax or similar charge, the Company or Texaco Inc., as the case may be, may elect to pay as additional amounts such amounts as may be necessary so that every net payment made outside the United States following the effective date of such requirements by the Company or Texaco Inc., as the case may be, or any Paying Agent of principal or interest due in respect of any Note or any Coupon of which the beneficial owner is a United States Alien (but without any requirement that the nationality, residence or identity of such beneficial owner be disclosed to the Company, Texaco Inc., any Paying Agent or any governmental authority, with respect to the payment of such additional amounts), after deduction or withholding for or on account of such backup withholding tax or similar charge (other than a backup withholding tax or similar charge that (i) would not be applicable in the circumstances referred to in the second parenthetical clause of the first sentence of the preceding paragraph, or (ii) is imposed as a result of presentation of such Note or Coupon for payment more than 15 days after the date on which such payment becomes due and payable or on which payment thereof is duly provided for, whichever occurs later), will not be less than the amount provided for in such Note or Coupon to be then due and payable. In the event the Company or Texaco Inc., as the case may be, elects to pay any additional amounts pursuant to the applicable provisions of this paragraph, the Company shall have the right to redeem the Notes as a whole at any time pursuant to the provisions of the preceding paragraph and the redemption price of such Notes will not be reduced for applicable withholding taxes. If the Company or Texaco Inc., as the case may be, elects to pay additional amounts pursuant to this paragraph and the condition specified in the first sentence of this

paragraph should no longer be satisfied, then the Company will redeem the Notes as a whole, pursuant to the applicable provisions of the preceding paragraph.

9. Payment of Additional Amounts.

The Company will, subject to certain exceptions and limitations set forth below, pay such additional amounts (the "Additional Amounts") to the Holder of this Note or of any Coupon appertaining hereto who is a United States Alien as may be necessary in order that every net payment of the principal of and interest on this Note and any other amounts payable on such Note, after withholding for or on account of any present or future tax, assessment or governmental charge imposed upon or as a result of such payment by the United States (or any political subdivision or taxing authority thereof or therein), will not be less than the amount provided for in this Note or such Coupon to be then due and payable. The Company will not, however, be required to make any payment of Additional Amounts to any such Holder for or on account of:

(a) any such tax, assessment or other governmental charge that would not have been so imposed but for (i) the existence of any present or former connection between such Holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such Holder, if such Holder is an estate, a trust, a partnership or a corporation) and the United States and its possessions, including, without limitation, such Holder (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having or having had a permanent establishment therein or (ii) the presentation by the Holder of this Note or any such Coupon for payment on a date more than 15 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;

(b) any estate, inheritance, gift, sales, transfer or personal property tax or any similar tax, assessment or governmental charge;

(c) any tax, assessment or other governmental charge imposed by reason of such Holder's past or present status as a personal holding company or foreign personal holding company or controlled foreign corporation or passive foreign investment company with respect to the United States or as a corporation that accumulates earnings to avoid United States federal income tax or as a private foundation or other tax-exempt organization;

(d) any tax, assessment or other governmental charge that is payable otherwise than by withholding from payments on or in respect of this Note;

(e) any tax, assessment or other governmental charge required to be withheld by any Paying Agent from any payment of principal or of interest on this Note, if such payment can be made without such withholding by any other Paying Agent in a city in Western Europe; (f) any tax, assessment or other governmental charge that would not have been imposed but for the failure to comply with certification, information or other reporting requirements concerning the nationality, residence or identity of the owner or beneficial owner of this Note, if such compliance is required by statute or by regulation of the United States or of any political subdivision or taxing authority thereof or therein as a precondition to relief or exemption from such tax, assessment or other governmental charge;

(g) any tax, assessment or other governmental charge imposed by reason of such Holder's past or present status as the actual or constructive owner of 10% or more of the total combined voting power of all classes of stock entitled to vote of the Company or as a direct or indirect subsidiary of the Company; or

(h) any combination of items (a), (b), (c), (d), (e), (f) or (g);

nor shall Additional Amounts be paid with respect to any payment on this Note to a United States Alien who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of the United States (or any political subdivision thereof) to be included in the income, for tax purposes, of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the Holder of this Note.

As used herein, the term "United States Alien" means any person who, for United States federal income tax purposes, is a foreign corporation, a nonresident alien individual, a nonresident alien fiduciary of a foreign estate or trust, or a foreign partnership one or more of the members of which is a foreign corporation, a nonresident alien individual or a nonresident alien fiduciary of a foreign estate or trust.

10. Transfer.

The Holder of this Note may transfer this Note in accordance with the Indenture. The Company may require the Holder of this Note, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture.

11. Persons Deemed Owners.

The bearer of this Note may be treated as the owner of it for all purposes.

12. Amendments and Waivers.

Subject to certain exceptions, the Notes or the Indenture with respect to the Notes may be amended with the consent of the Holders of at least 50.1% in principal amount of the Notes outstanding, and any past default or compliance with any provision may be waived with the consent of the Holders of at least 50.1% in principal amount of the Notes outstanding. Without the consent of any Holder, the Indenture or the Notes may be amended to cure any ambiguity, defect or inconsistency; to provide for assumption of the Company's obligations to Holders; or to make any change that does not adversely affect the rights of any Holder.

13. Restrictive Covenants.

The Notes are unsecured general obligation of the Company limited to \$200,000,000 in aggregate principal amount. The Indenture does not limit other unsecured debt. It does limit certain mortgages and sale-leaseback transactions of Texaco Inc. if the property mortgaged or leased is a refinery or a manufacturing plant in the United States or any oil or gas producing property onshore or offshore the United States that is of material importance to the total business of Texaco Inc. and its consolidated subsidiaries. The limitations are subject to a number of important qualifications and exceptions. Once a year Texaco Inc. must report to the Trustee on compliance with the limitations.

When a successor corporation assumes all the obligations of the Company under the Notes and the Indenture with respect to the Notes, the Company will be released from those obligations.

14. Defaults and Remedies.

An Event of Default is: default for 30 days in payment of interest on the Notes; default in payment of principal on the Notes; failure by the Company or by Texaco Inc., as the case may be, for 90 days after notice to the Company to comply with any of its other agreements in the Notes or the Indenture; and certain events of bankruptcy or insolvency. If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the Notes may declare all the Notes to be due and payable immediately. Holders may not enforce the Notes or the Indenture except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Notes or the Indenture with respect to the Notes. Subject to certain limitations, Holders of a majority in principal amount of the Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders notice of any continuing default (except a default in payment of principal or interest) if it determines that withholding notice is in their interests.

15. Trustee Dealings with Company or Texaco Inc.

The Chase Manhattan Bank as Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company, Texaco Inc. or any affiliates of either, and may otherwise deal with the Company, Texaco Inc. or any affiliates of either, as if it were not Trustee.

16. No Recourse Against Others.

A director, officer, employee or stockholder, as such, of the Company or Texaco Inc. shall not have any liability for any obligations of the Company or Texaco Inc. under the Notes or the Indenture or for any claim based on, in respect of or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Notes.

17. Authentication.

This Note shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent.



GUARANTY

TEXACO INC., a Delaware corporation (the "Guarantor"), unconditionally guarantees to the Holder of this Note the due and punctual payment of the principal of and interest on this Note.

The Guarantor shall not be entitled to receive any payments based upon a right of subrogation with respect to any amounts paid by the Guarantor to Holders until the principal of and interest on all Notes shall have been paid in full or for which payment has been provided.

TEXACO INC.

By: \_\_\_\_\_  
[Title]

[FORM OF FACE OF COUPON]

ISIN:

Serial No.:

No.:

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE.

TEXACO CAPITAL INC.

3.50% Guaranteed Cash-Settled Convertible Notes Due 2004

Guaranteed by

TEXACO INC.

Coupon for U.S. \$350, due on August 5, [1998, 1999, 2000, 2001, 2002, 2003, 2004].

This Coupon is separately negotiable, payable to bearer, subject to the terms of the Notes.

A-3-18

[FORM OF REVERSE OF COUPON]

TRUSTEE

The Chase Manhattan Bank  
450 West 33rd Street  
New York, New York 10001

PRINCIPAL PAYING AND CONVERSION AGENT

The Chase Manhattan Bank  
Trinity Tower  
9 Thomas More Street  
London E19YT  
England  
Attention: Global Trust Services

LUXEMBOURG PAYING AND CONVERSION AGENT

Chase Manhattan Bank Luxembourg S.A.  
5 rue Plaetis  
L-2338 Luxembourg  
Luxembourg

and such other or further Non-U.S. Paying Agents or Conversion Agents or specified offices as may from time to time be duly appointed by the Company.

[FORM OF CONVERSION NOTICE]

TEXACO CAPITAL INC.

3.50% Guaranteed Cash-Settled Convertible Notes Due 2004

Guaranteed by

TEXACO INC.

Delivery of Conversion Notice

Holders and beneficial owners wishing to convert Notes into the cash Conversion Amount should complete two original copies of this notice and deliver one (in person or by pre-paid mail) to Texaco Capital Inc. and the other in person, by pre-paid mail or by tested telex confirmed in writing, to:

If the Notes to be converted are represented by the Permanent Global Note or Definitive Notes held in a clearing system

The Euroclear Operator or Cedel Bank at the offices specified below or such other clearing system, as the case may be, with copies to the Principal Conversion Agent and the Trustee, each at its office specified below. A copy may also be sent to the Luxembourg Conversion Agent at its office specified below.

If the Notes to be converted are Definitive Notes not held in a clearing system

The Principal Conversion Agent or the Luxembourg Conversion Agent at its office specified below, together with the definitive individual certificate(s) representing the Notes to be converted, with copies of the Conversion Notice to the Trustee and, if the original Conversion Notice is delivered to the Luxembourg Conversion Agent, the Principal Conversion Agent, each at its office specified below.

Address for delivery of Conversion Notice:

Cedel Bank: Cedel Bank, societe anonyme  
67 Boulevard Grande-Duchesse Charlotte  
Luxembourg-Ville  
L-1010 Luxembourg

Attention: OCE Department  
Telex: 2791

Euroclear Operator: Morgan Guaranty Trust Company of New York  
(as operator of the Euroclear System)  
Brussels office  
Boulevard Emile Jacqmain 151  
B-1210 Brussels  
Belgium

Attention: Custody Processing Department  
Telex: 61025 MGTEC B

Principal Conversion  
Agent:

The Chase Manhattan Bank  
Trinity Tower  
Thomas More Street  
London E19YT  
England

Attention: Manager, Global Trust Operations  
Fax: 44 1202 34 7945  
Telex: 8954681 CMBG

Luxembourg  
Conversion Agent:

Chase Manhattan Bank Luxembourg S.A.  
5 rue Plaetis  
L-2338 Luxembourg  
Luxembourg

Attention: Manager, Global Trust Operations  
Fax: 352 4626 85380  
Telex: 1233 CHASLU

Texaco Capital Inc.: c/o Texaco Inc.  
2000 Westchester Avenue  
White Plains, New York 10650  
United States

Attention:  
Fax:

Trustee: The Chase Manhattan Bank  
450 West 33rd Street  
New York, New York 10001  
United States

Attention:  
Fax:

Failure to properly complete and deliver this Notice (in the determination of the Principal Conversion Agent (in consultation with the Euroclear Operator or Cedel Bank, as the case may be, if the Notes to be converted are represented by the Permanent Global Note or Definitive Notes held by the Euroclear Operator or Cedel Bank)) may result in this Notice being treated as null and void.

Terms defined in the Notes shall have the same meanings herein.

I, the Holder or beneficial owner specified in paragraph 1 below, being the Holder or beneficial owner of the Notes referred to above, acknowledge that such Notes are convertible into the cash Conversion Amount in accordance with the terms of the Notes and hereby irrevocably authorize Texaco Capital Inc. (the "Company") to convert such Notes as are specified in paragraph 2 below for the cash Conversion Amount to which I am entitled with respect to such Notes.

1. Name and address of Holder or beneficial owner:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Aggregate principal amount of Notes to be converted:

U.S.\$ \_\_\_\_\_

Certificate numbers of Notes (if relevant):1 \_\_\_\_\_

Details (including in respect of any missing unmatured Coupon):2 \_\_\_\_\_

3. Instructions to the Euroclear Operator/Cedel Bank3

I hereby irrevocably authorize and instruct the Euroclear Operator/Cedel Bank to debit the principal amount of Notes referred to above from the account referred to below on the Conversion Date.

- - - - -

1 Not required for Notes represented by the Permanent Global Note or those held in a clearing system.

2 An indemnity may be required in respect of missing unmatured Coupons.

3 Not required where Definitive Notes are held outside clearing systems.

Account No: \_\_\_\_\_  
Name of Account: \_\_\_\_\_

I confirm that the Account referred to above is outside the United States and is the account to be credited with the Conversion Amount.

4. Bank Account Details for Holders of Notes held outside clearing systems  
Details of my bank account (which is outside the United States) to which the Conversion Amount shall be paid are as follows:

Receiving Bank: \_\_\_\_\_  
Account Number: \_\_\_\_\_  
Name of Account: \_\_\_\_\_

5. Representations  
I hereby represent and warrant that the Notes referred to above (and any Coupons appertaining thereto) are free from all liens, charges, encumbrances and all other third party rights.

6. Authorization of production in proceedings  
I hereby authorize the production of this Notice in any administrative or legal proceedings instituted in connection with the Notes to which this Notice relates or otherwise in connection with establishing compliance with applicable laws.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_



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For Agent's use only:

1. (A) Conversion Date:
2. (A) Aggregate principal amount of Notes surrendered for conversion:  
(B) Conversion Amount deliverable:
3. Details of any indemnity obtained in respect of missing unmatured Coupons:

TEXACO INC. AND SUBSIDIARY COMPANIES  
 COMPUTATION OF EARNINGS PER SHARE OF COMMON STOCK  
 FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 1997 AND 1996

(Millions of dollars, except per share amounts)

| Primary Net Income Per Common Share   | (Unaudited)                          |          |  |         |
|---|--------------------------------------|----------|--|---------|
|   | For the six months<br>ended June 30, |          | For the three months<br>ended June 30, |         |
|   | 1997                                 | 1996     | 1997                                   | 1996    |
| Net income  | \$ 1,551                             | \$ 1,075 | \$ 571                                 | \$ 689  |
| Less: Preferred stock dividend requirements   | (28)                                 | (29)     | (14)                                   | (14)    |
| Primary net income available for common stock   | \$ 1,523                             | \$ 1,046 | \$ 557                                 | \$ 675  |
| Average number of primary common shares<br>outstanding for computation of earnings<br>per share (thousands)   | 260,080                              | 260,709  | 260,090                                | 260,764 |
| Primary net income per common share   | \$ 5.86                              | \$ 4.01  | \$ 2.14                                | \$ 2.59 |
| <br>  |                                      |          |  |         |
| Fully Diluted Net Income Per Common Share   |                                      |          |  |         |
| Net income  | \$ 1,551                             | \$ 1,075 | \$ 571                                 | \$ 689  |
| Less: Preferred stock dividend requirements of<br>non-dilutive and anti-dilutive issues and<br>adjustments to net income associated with<br>dilutive securities | (11)                                 | (12)     | (5)                                    | (6)     |
| Fully diluted net income  | \$ 1,540                             | \$ 1,063 | \$ 566                                 | \$ 683  |
| Average number of primary common shares<br>outstanding for computation of earnings<br>per share (thousands)   | 260,080                              | 260,709  | 260,090                                | 260,764 |
| Additional shares outstanding assuming full conversion<br>of dilutive convertible securities into common<br>stock (thousands):                                  |                                      |          |  |         |
| Convertible debentures  | 144                                  | 146      | 144                                    | 146     |
| Convertible Preferred Stock   |                                      |          |  |         |
| Series B ESOP   | 9,171                                | 9,475    | 9,114                                  | 9,423   |
| Series F ESOP   | 570                                  | 607      | 568                                    | 599     |
| Other   | 17                                   | 26       | 16                                     | 22      |
| Average number of fully diluted common<br>shares outstanding for computation of earnings<br>per share (thousands)   | 269,982                              | 270,963  | 269,932                                | 270,954 |
| Fully diluted net income per common share   | \$ 5.70                              | \$ 3.92  | \$ 2.10                                | \$ 2.52 |

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES  
OF TEXACO ON A TOTAL ENTERPRISE BASIS (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 1997 AND  
FOR EACH OF THE FIVE YEARS ENDED DECEMBER 31, 1996 (a)

(Millions of dollars)

|  | For the Six<br>Months Ended<br>June 30, 1997 | Years Ended December 31, |                |                |                |                |
|--|--|--------------------------|----------------|----------------|----------------|----------------|
|  |  | 1996                     | 1995           | 1994           | 1993           | 1992           |
| Income from continuing operations, before provision or benefit for income taxes and cumulative effect of accounting changes effective 1-1-92 and 1-1-95..... | \$1,813                                      | \$3,450                  | \$1,201        | \$1,409        | \$1,392        | \$1,707        |
| Dividends from less than 50% owned companies more or (less) than equity in net income.....   | (7)  | (4)                      | 1              | (1)            | (8)            | (9)            |
| Minority interest in net income.....   | 37   | 72                       | 54             | 44             | 17             | 18             |
| Previously capitalized interest charged to income during the period.....   | 19   | 27                       | 33             | 29             | 33             | 30             |
| <b>Total earnings.....</b>   | <b>1,862</b>                                 | <b>3,545</b>             | <b>1,289</b>   | <b>1,481</b>   | <b>1,434</b>   | <b>1,746</b>   |
| <b>Fixed charges:</b>  |  |                          |                |                |                |                |
| Items charged to income:   |  |                          |                |                |                |                |
| Interest charges.....  | 261  | 551                      | 614            | 594            | 546            | 551            |
| Interest factor attributable to operating lease rentals.....   | 64   | 129                      | 110            | 118            | 91             | 94             |
| Preferred stock dividends of subsidiaries guaranteed by Texaco Inc.....  | 16   | 35                       | 36             | 31             | 4              | -              |
| <b>Total items charged to income.....</b>  | <b>341</b>                                   | <b>715</b>               | <b>760</b>     | <b>743</b>     | <b>641</b>     | <b>645</b>     |
| Interest capitalized.....  | 10   | 16                       | 28             | 21             | 57             | 109            |
| Interest on ESOP debt guaranteed by Texaco Inc.....  | 4  | 10                       | 14             | 14             | 14             | 18             |
| <b>Total fixed charges.....</b>  | <b>355</b>                                   | <b>741</b>               | <b>802</b>     | <b>778</b>     | <b>712</b>     | <b>772</b>     |
| <b>Earnings available for payment of fixed charges.....</b><br>(Total earnings + Total items charged to income)  | <b>\$2,203</b>                               | <b>\$4,260</b>           | <b>\$2,049</b> | <b>\$2,224</b> | <b>\$2,075</b> | <b>\$2,391</b> |
| <b>Ratio of earnings to fixed charges of Texaco on a total enterprise basis.....</b>   | <b>6.21</b>                                  | <b>5.75</b>              | <b>2.55</b>    | <b>2.86</b>    | <b>2.91</b>    | <b>3.10</b>    |

(a) Excludes discontinued operations.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM  
 TEXACO INC.'S FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1997 AND  
 IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

|        |             |        |
|--------|-------------|--------|
| 6-MOS  | DEC-31-1997 |        |
|        | JAN-1-1997  |        |
|        | JUN-30-1997 | 564    |
|        |             | 46     |
|        |             | 4,546  |
|        |             | 22     |
|        |             | 1,632  |
|        |             | 7,055  |
|        |             | 34,462 |
|        |             | 20,878 |
|        |             | 27,041 |
|        | 5,431       | 5,067  |
|        | 0           | 633    |
|        |             | 1,454  |
|        |             | 9,328  |
| 27,041 |             | 22,796 |
|        | 23,525      | 17,969 |
|        |             | 19,413 |
|        |             | 2,217  |
|        |             | 0      |
|        |             | 203    |
|        |             | 1,692  |
|        |             | 141    |
|        | 1,551       | 0      |
|        |             | 0      |
|        |             | 0      |
|        |             | 1,551  |
|        |             | 5.86   |
|        |             | 5.70   |