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 September 30, 1998 Commission file number 1-27

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

Delaware	74-1383447
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2000 Westchester Avenue White Plains, New York	10650
(Address of principal executive offices)	(Zip Code)

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

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 October 30, 1998, there were outstanding 534,530,334 shares of Texaco Inc. Common Stock - par value $3.125.

PART I - FINANCIAL INFORMATION

TEXACO INC. AND SUBSIDIARY COMPANIES
STATEMENT OF CONSOLIDATED INCOME
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

(Millions of dollars, except as noted)

	(Unaudited)			
	For the nine months ended September 30,		For the three months ended September 30,	
	1998	1997	1998	1997
REVENUES				
Sales and services	$23,132	$33,630	$ 7,481	$10,834
Equity in income of affiliates, interest, asset sales and other	766	988	226	259
	23,898	34,618	7,707	11,093
DEDUCTIONS				
Purchases and other costs	17,922	26,324	5,836	8,355
Operating expenses	1,818	2,377	593	806
Selling, general and administrative expenses	862	1,286	290	450
Exploratory expenses	324	306	93	114
Depreciation, depletion and amortization	1,172	1,145	409	388
Interest expense	355	309	121	106
Taxes other than income taxes	328	365	103	97
Minority interest	43	54	13	17
	22,824	32,166	7,458	10,333
Income before income taxes	1,074	2,452	249	760
Provision for income taxes	258	411	34	270

NET INCOME	$ 816	$ 2,041	$ 215	$ 490
	=======	=======	=======	=======
Preferred stock dividend requirements	$ (40)	$ (42)	$ (13)	$ (14)
	-------	-------	-------	-------
Net income available for common stock	$ 776	$ 1,999	$ 202	$ 476
	=======	=======	=======	=======
Per common share (dollars)				
Basic net income	$ 1.47	$ 3.85	$ .38	$ .91
Diluted net income	$ 1.46	$ 3.75	$ .38	$ .90
Cash dividends paid	$ 1.35	$ 1.30	$ .45	$ .45
Average shares outstanding for computation of earnings per share (thousands)				
Basic	529,433	519,553	525,836	520,003
Diluted	548,575	540,040	526,382	540,193

See accompanying notes to consolidated financial statements.

TEXACO INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 1998 AND DECEMBER 31, 1997

(Millions of dollars)

	September 30, 1998 (Unaudited)	December 31, 1997
ASSETS		
Current Assets		
Cash and cash equivalents	$ 250	$ 311
Short-term investments - at fair value	35	84
Accounts and notes receivable, less allowance for doubtful accounts of $20 million in 1998 and $22 million in 1997	3,578	4,230
Inventories	1,269	1,483
Deferred income taxes and other current assets	262	324
Total current assets	5,394	6,432
Investments and Advances	7,370	5,097
Properties, Plant and Equipment - at cost	35,340	38,956
Less - accumulated depreciation, depletion and amortization	20,499	21,840
Net properties, plant and equipment	14,841	17,116
Deferred Charges	890	955
Total	$28,495	$29,600
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term debt	$ 899	$ 885
Accounts payable and accrued liabilities		
Trade liabilities	2,023	2,669
Accrued liabilities	1,179	1,480
Estimated income and other taxes	918	960
Total current liabilities	5,019	5,994
Long-Term Debt and Capital Lease Obligations	6,061	5,507
Deferred Income Taxes	1,779	1,825
Employee Retirement Benefits	1,209	1,224
Deferred Credits and Other Noncurrent Liabilities	1,459	1,639
Minority Interest in Subsidiary Companies	643	645
Total	16,170	16,834
Stockholders' Equity		
Market Auction Preferred Shares	300	300
ESOP Convertible Preferred Stock	435	457
Unearned employee compensation and benefit plan trust	(369)	(389)
Common stock (authorized: 700,000,000 shares, $3.125 par value; 567,606,290 shares issued)	1,774	1,774
Paid-in capital in excess of par value	1,662	1,688
Retained earnings	10,057	9,987
Other accumulated nonowner changes in equity		
Currency translation adjustment	(107)	(105)
Minimum pension liability adjustment	(14)	(16)
Unrealized net gain on investments	28	26
Total other accumulated nonowner changes in equity	(93)	(95)
	13,766	13,722
Less - Common stock held in treasury, at cost	1,441	956
Total stockholders' equity	12,325	12,766
Total	$28,495	$29,600

See accompanying notes to consolidated financial statements.

TEXACO INC. AND SUBSIDIARY COMPANIES
CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

(Millions of dollars)

	(Unaudited) For the nine months ended September 30, 1998	1997
OPERATING ACTIVITIES		
Net income	$ 816	$2,041
Reconciliation to net cash provided by (used in) operating activities		
Depreciation, depletion and amortization	1,172	1,145
Deferred income taxes	(36)	196
Exploratory expenses	324	306
Minority interest in net income	43	54
Dividends from affiliates, less than equity in income	(30)	(272)
Gains on asset sales	(61)	(295)
Changes in operating working capital	(164)	15
Other - net	14	(144)
Net cash provided by operating activities	2,078	3,046
INVESTING ACTIVITIES		
Capital and exploratory expenditures	(2,226)	(2,506)
Proceeds from asset sales	130	756
Sales (purchases) of leasehold interests	25	(503)
Purchases of investment instruments	(809)	(910)
Sales/maturities of investment instruments	806	913
Payments from affiliate for prior years' capital and other expenditures	612	--
Other - net	--	(57)
Net cash used in investing activities	(1,462)	(2,307)
FINANCING ACTIVITIES		
Borrowings having original terms in excess of three months		
Proceeds	1,028	427
Repayments	(493)	(216)
Net increase (decrease) in other borrowings	166	(156)
Purchases of common stock	(579)	(74)
Dividends paid to the company's stockholders		
Common	(716)	(676)
Preferred	(31)	(32)
Dividends paid to minority shareholders	(45)	(64)
Net cash used in financing activities	(670)	(791)
CASH AND CASH EQUIVALENTS		
Effect of exchange rate changes	(7)	(8)
Decrease during period	(61)	(60)
Beginning of year	311	511
End of period	$ 250	$ 451

See accompanying notes to consolidated financial statements.

TEXACO INC. AND SUBSIDIARY COMPANIES
CONDENSED STATEMENT OF CONSOLIDATED NONOWNER CHANGES IN EQUITY
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

(Millions of dollars)

	(Unaudited)			
	For the nine months ended September 30,		For the three months ended September 30,	
	1998	1997	1998	1997
NET INCOME	$ 816	$2,041	$ 215	$ 490
Other nonowner changes in equity (net of tax)				
Currency translation adjustment	(2)	(37)	-	(22)
Minimum pension liability adjustment	2	-	-	-
Unrealized net gain (loss) on investments	2	7	(5)	8
	2	(30)	(5)	(14)
TOTAL NONOWNER CHANGES IN EQUITY	$ 818	$2,011	$ 210	$ 476

TEXACO INC. AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Formation of Equilon Enterprises LLC

Effective January 1, 1998, Texaco and Shell Oil Company formed Equilon Enterprises LLC (Equilon), a Delaware limited liability company. Equilon is a joint venture that combined major elements of the companies' Western and Midwestern U.S. refining and marketing businesses and their nationwide trading, transportation and lubricants businesses. Texaco owns 44 percent and Shell owns 56 percent of Equilon. Further detail concerning Equilon was included in our Current Report on Form 8-K, filed with the Commission on January 30, 1998.

We are accounting for our interest in Equilon using the equity method. Under this method, we reclassified the net amount of assets and liabilities of the businesses contributed to Equilon to Investments and Advances in the Consolidated Balance Sheet. We record our share of Equilon's results of operations on a one-line basis to Equity in Income of Affiliates in the Consolidated Statement of Income. We record the provision for income taxes and related liability applicable to our share of Equilon's income in our consolidated financial statements, since Equilon is a limited liability company. Additionally, we now record transactions between Texaco and Equilon as outside third-party transactions. This change to the equity method of accounting results in significant variances between the 1998 and 1997 periods in the individual line captions appearing in the financial statements.

The carrying amounts at January 1, 1998, of the principal assets and liabilities of the businesses we contributed to Equilon were $.2 billion of net working capital assets, $2.8 billion of net properties, plant and equipment and $.2 billion of debt.

In April, 1998, we received $463 million from Equilon, representing reimbursement of certain capital expenditures incurred prior to the formation of the joint venture. In July 1998, we received $149 million from Equilon for certain specifically identified assets transferred for value to Equilon.

Summarized unaudited financial information for Equilon, for the nine and three month periods ended September 30, 1998, is presented below on a 100% Equilon basis (in millions of dollars):

	For the nine months ended September 30, 1998	For the three months ended September 30, 1998
Gross revenues	$18,195	$6,100
Income before income taxes	$ 542	$ 232

Note 2. Formation of Motiva Enterprises LLC

Effective July 1, 1998, Texaco, Shell Oil Company and Saudi Aramco formed Motiva Enterprises LLC (Motiva), a Delaware limited liability company. Motiva is a joint venture that combined Texaco's and Saudi Aramco's interests and major elements of Shell's Eastern and Gulf Coast U.S. refining and marketing businesses. Texaco's and Saudi Aramco's interest in these businesses were previously conducted by Star Enterprise (Star), a joint-venture partnership owned 50 percent by Texaco and 50 percent by Saudi Refining, Inc., a corporate affiliate of Saudi Aramco. Texaco and Saudi Refining, Inc., each owns 32.5 percent and Shell owns 35 percent of Motiva. Further detail concerning Motiva was included in our Current Report on Form 8-K, filed with the Commission on July 1, 1998.

Beginning July 1, 1998, we are accounting for our interest in Motiva using the equity method. Previously, our interest in Star was also accounted for on the equity method of accounting. Accordingly, our investment in Motiva approximates our previous investment in Star. We record the provision for income taxes and related liability applicable to our share of Motiva's income in our consolidated financial statements, since Motiva is a limited liability company.

Gross revenues and income before income taxes for the first three months of Motiva's operations (July 1, 1998 through September 30, 1998), on a 100% unaudited basis, were $2,877 million and $59 million, respectively.

Note 3. Inventories

The inventory accounts of Texaco Inc. and consolidated subsidiary companies are presented below (in millions of dollars):

	As of	
	September 30, 1998 (Unaudited)	December 31, 1997
Crude oil	$ 216	$ 308
Petroleum products and petrochemicals	828	893
Other merchandise	35	59
Materials and supplies	190	223
Total	$1,269	$1,483

Note 4. Contingent Liabilities

Information relative to commitments and contingent liabilities of Texaco Inc. and subsidiary companies is presented in Notes 16 and 18, pages 57-58 and 61, respectively, of Texaco Inc.'s 1997 Annual Report to Stockholders.

In the company's opinion, while it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities and commitments, 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.

Note 5. Caltex Group of Companies

Summarized unaudited financial information for the Caltex Group of Companies, owned 50% by Texaco and 50% by Chevron Corporation, is presented below on a 100% Caltex Group basis (in millions of dollars):

	For the nine months ended September 30,		For the three months ended September 30,	
	1998	1997	1998	1997
Gross revenues	$12,407	$13,217	$3,852	$4,090
Income before income taxes	$ 606	$ 859	$ 17	$ 220
Net income (loss)	$ 367	$ 556	$ (59)	$ 170

* * * * * * * * * * *

In the determination of preliminary and unaudited financial statements for the nine-month and three-month periods ended September 30, 1998 and 1997, our accounting policies have been applied on a basis consistent with the application of such policies in our financial statements issued in our 1997 Annual Report to Stockholders. In our opinion, we have made all adjustments and disclosures necessary to present fairly our results of operations for such periods. These adjustments include normal recurring adjustments. The information is subject to year-end audit by independent public accountants. We make no forecasts or representations with respect to the level of net income for the year 1998.

* * * * * * * * * * *

SUPPLEMENTAL MARKET RISK DISCLOSURES

Information relative to Texaco's market risk sensitive instruments by major category at December 31, 1997 is presented in the Supplemental Market Risk Disclosures on pages 69 and 70 of Texaco Inc.'s 1997 Annual Report to Stockholders.

Texaco's forward exchange contracts outstanding at September 30, 1998 of approximately $2,172 million net buy contracts increased by $933 million from the $1,239 million outstanding at December 31, 1997. This increase principally resulted from the hedging of increased exposures to foreign currency denominated net monetary assets and liabilities and from the hedging of increased exposures related to foreign currency denominated capital projects. As of September 30, 1998, a hypothetical 10% change in currency exchange rates would generate an increase or decrease in fair value of approximately $217 million, compared to $124 million at December 31, 1997. This would be offset by an opposite effect on the related hedged exposures.

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

RESULTS OF OPERATIONS

Our net income for the third quarter of 1998 was $215 million, or $0.38 per share, as compared with $490 million, or $0.90 per share, for the third quarter of 1997. Net income for the first nine months of 1998 was $816 million, or $1.46 per share, as compared with $2,041 million, or $3.75 per share, for the first nine months of 1997.

Net income before special items for the third quarter of 1998 was $208 million, or $0.37 per share. There were no special items in the third quarter of 1997. For the first nine months of 1998, net income before special items was $802 million, or $1.43 per share, as compared with $1,422 million, or $2.60 per share, for the first nine months of 1997.

Weak worldwide crude oil and natural gas prices and depressed downstream margins in the Far East eroded third quarter earnings. Worldwide production growth of nine percent and tight control over cash expenses helped to lessen these negative impacts.

During the third quarter of 1998:

- Average quarterly crude oil prices slumped to their lowest levels since 1986;
- Continued economic instability in the Far East depressed downstream margins;
- Worldwide daily production rose nine percent for the quarter and 12 percent for nine months; and
- Year-to-date cash operating expenses per barrel decreased six percent.

Average crude oil prices for the quarter reached a low point not seen since mid-1986. OPEC efforts to reduce production and lower inventory levels caused crude prices to rebound somewhat from their summer lows; however, prices have recently retreated and remain significantly below last year's levels. Storms in the Gulf of Mexico caused temporary production shut-ins which further dampened earnings.

Our worldwide downstream results decreased from sluggish margins, especially in the Far East, due to the impact of the Asian financial and economic crisis. As a result, Singapore refinery margins were negative in the third quarter from extremely weak demand. In the U.S., results were down from an extremely strong quarter last year; however, in Latin America and Europe, margins and sales volumes remained strong.

To remain competitive in this environment, our affiliate, Caltex, announced a reorganization program. This program will focus the organization functionally and better position Caltex to identify growth opportunities. When fully implemented, it is expected to yield expense savings in excess of $50 million annually. Also, our U.S. alliances with Shell Oil Company and Saudi Refining, Inc. continue to implement programs that will take advantage of existing synergies.

Results for 1998 and 1997 are summarized in the following table. Details on special items are included in the functional analysis which follows this table.

	(Unaudited)			
	For the nine months ended September 30,		For the three months ended September 30,	
	1998	1997	1998	1997
	(Millions of Dollars)			
Net income before special items	$ 802	$1,422	$ 208	$ 490
Caltex reorganization	(43)	-	(43)	-
U.S. alliance formation issues	(7)	-	25	-
U.S. tax issues	25	488	25	-
Gains on major asset sales	20	174	-	-
Tax benefits on asset sales	19	-	-	-
Financial reserves for various issues	-	(43)	-	-
	14	619	7	-
Total net income	$ 816	$2,041	$ 215	$ 490

OPERATING EARNINGS

PETROLEUM AND NATURAL GAS

EXPLORATION AND PRODUCTION

United States

Exploration and production earnings in the U.S. for the third quarter of 1998 were $92 million, as compared with $232 million for the third quarter of 1997. For the first nine months of 1998 and 1997, earnings were $319 million and $732 million, respectively. Results for 1998 included a second quarter special gain of $20 million from the sale of an interest in a natural gas pipeline. Excluding the special gain, results for the first nine months of 1998 totaled $299 million. Results for 1997 included a second quarter special charge of $43 million to establish financial reserves for royalty and severance tax issues. Excluding the special charge, results for the first nine months of 1997 totaled $775 million.

U.S. exploration and production earnings for the third quarter and nine months of 1998 were below last year's levels due to lower crude oil and natural gas prices. Average realized crude oil prices for the third quarter and nine months of 1998 were $10.06 and $10.87 per barrel; 39 percent lower than the 1997 periods. The dramatic price declines reflect a slowing in worldwide demand growth and continued high inventory levels. Crude oil prices recovered somewhat in late September as a result of the OPEC nations' efforts to cut production. For the third quarter and nine months of 1998, average natural gas prices were $1.89 and $2.03 per MCF; 11 percent lower than the 1997 periods. Lower natural gas prices were the result of excess supply in the marketplace.

Production increased four percent for this year's third quarter and nine percent for the year. The increased production in the quarter included new production from the Arnold, Oyster and Barite South fields located in the Gulf of Mexico. Both production and earnings were negatively impacted by the recent storms in the Gulf of Mexico. This year included production from the Monterey properties acquired in November 1997.

We continued to pursue new reserve opportunities in the Gulf of Mexico, leading to higher exploration expenses this year. Exploration expenses for the nine months of 1998 were $195 million before tax, $73 million higher than the same period of 1997. For the third quarter of 1998, exploration expenses were $48 million, $2 million higher than the third quarter of 1997.

International

Exploration and production earnings outside the U.S. for the third quarter of 1998 were $40 million, as compared with $103 million for the third quarter of 1997. For the first nine months of 1998 and 1997, earnings were $131 million and $499 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 first nine months of 1997 totaled $338 million.

International exploration and production earnings for the third quarter and nine months of 1998 declined significantly from the same periods of 1997 due to lower crude oil prices. Average realized crude oil prices in 1998 were $11.05 per barrel for the quarter and $11.55 for nine months. These average prices were 35 percent below 1997 levels. OPEC's efforts to reduce production and lower inventory levels caused prices to recover slightly from their summer lows; however, prices have recently retreated and remain substantially below last year's levels.

Daily production growth of 15 percent for this year's third quarter and 16 percent for the year benefited earnings. The combined production from the Captain, Erskine and Galley fields in the U.K. North Sea grew to 95 thousand barrels of oil equivalent per day in the third quarter. Production also grew in the Partitioned Neutral Zone, Indonesia and Colombia.

Exploration and production operating results outside the U.S. for the third quarter and nine months of 1998 included non-cash currency charges of $3 million and $6 million, respectively, related to deferred income taxes denominated in British Pound Sterling. This compares to benefits of $13 million for the third quarter and $26 million for nine months of 1997.

MANUFACTURING, MARKETING AND DISTRIBUTION

United States

Manufacturing, marketing and distribution earnings in the U.S. for the third quarter of 1998 were $124 million, as compared with $132 million for the third quarter of 1997. For the first nine months of 1998 and 1997, earnings were $235 million and $238 million, respectively. Results for 1998 included a third quarter net special gain of $25 million associated with the formation of the U.S. alliances. This net gain included gains on asset sales, asset writedowns and other formation charges. The second quarter of 1998 included a special charge of $32 million for alliance formation expenses, primarily employee severance programs. Excluding these special items, results for the third quarter and first nine months of 1998 totaled $99 million and $242 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 first nine months of 1997 totaled $225 million.

U.S. manufacturing, marketing and distribution earnings for the third quarter of 1998 included results from Motiva Enterprises LLC, our Eastern alliance with Shell Oil Company and Saudi Refining, Inc., that began operations in July. In addition, the quarter and year included operating results from Equilon Enterprises LLC, our Western alliance with Shell Oil Company, that began operations in the first quarter.

Results for the third quarter of 1998 reflected the industry trend of shrinking refining margins. Operating difficulties at certain refineries and the temporary shutdown of Gulf Coast refineries in September due to hurricane Georges negatively impacted earnings. Lower crude costs as well as strong transportation and lubricants earnings benefited the quarter and year.

Results for the third quarter of 1997 included minimum refinery downtime and solid West Coast margins. Both the quarter and year included strong Gulf Coast refining margins. However, refinery fires in late 1996 and early 1997 negatively affected product yields and caused casualty loss expense in the first quarter. Additionally, West Coast margins were weak during the first half of the year due to intense competitive pressures.

International

Manufacturing, marketing and distribution earnings outside the U.S. for the third quarter of 1998 were $38 million, as compared with $134 million for the third quarter of 1997. For the first nine months of 1998 and 1997, earnings were $414 million and $370 million, respectively. Results for 1998 included a third quarter net special charge of $43 million for a reorganization program in our affiliate, Caltex. Excluding the special charge, results for the third quarter and first nine months of 1998 totaled $81 million and $457 million, respectively.

International manufacturing and marketing earnings for the third quarter of 1998 declined significantly from 1997. The sharp decline was due to the Asian financial and economic crisis which weakened demand and created currency volatility. Caltex experienced a loss as a result of declining margins throughout the region from weak inland demand that caused higher volumes to be sold into the lower margin export markets. Singapore refinery margins were negative from extremely weak demand. However, in Latin America and Europe, third quarter earnings were up slightly.

Nine months 1998 results increased due to improved manufacturing and marketing results from higher margins and volumes, mainly in the U.K., Caribbean and Central America.

Manufacturing, marketing and distribution operating results outside the U.S. for the third quarter and nine months of 1998 included non-cash currency charges of $3 million and $5 million, respectively, related to deferred income taxes denominated in British Pound Sterling. This compares to benefits of $4 million for the third quarter and $8 million for nine months of 1997.

NONPETROLEUM

Nonpetroleum earnings for the third quarter of 1998 were $4 million, as compared with $3 million for the third quarter of 1997. For the first nine months of 1998 and 1997, earnings were $4 million and $16 million, respectively.

CORPORATE/NONOPERATING RESULTS

Corporate and nonoperating charges for the third quarter of 1998 were $83 million, as compared with charges of $114 million for the third quarter of 1997. Corporate and nonoperating charges for the first nine months of 1998 were $287 million, as compared with earnings of $186 million for the first nine months of 1997. Results for 1998 included a third quarter special benefit of $25 million to adjust prior year's tax liability and a second quarter special tax benefit of $19 million attributable to the sale of an interest in a subsidiary. Excluding the special benefits, charges for the third quarter and first nine months of 1998 totaled $108 million and $331 million, respectively. Results for the first nine months of 1997 included a first quarter special benefit of $488 million associated with an IRS settlement. Excluding this benefit, corporate and nonoperating charges totaled $302 million for the first nine months of 1997.

Corporate and nonoperating results for the third quarter and nine months of 1998 included increased net interest expense from higher debt levels; however, successful efforts to control expenses in overhead departments more than mitigated this impact. Results for nine months of 1998 included higher expenses for Texaco's corporate advertising campaign introduced in the second half of 1997.

LIQUIDITY AND CAPITAL RESOURCES

Our cash, cash equivalents and short-term investments were $285 million at September 30, 1998, as compared with $395 million at year-end 1997.

During 1998, our operations provided cash of $2,078 million. We raised an additional $701 million from net borrowings and $130 million from asset sales. We spent $2,226 million on our capital and exploratory program and paid $792 million in dividends to common, preferred and minority shareholders.

At September 30, 1998, our ratio of debt to total borrowed and invested capital was 34.9%, as compared with 32.3% at year-end 1997. At September 30, 1998, our long-term debt included $1.7 billion of debt scheduled to mature within one year, which we have both the intent and ability to refinance on a long-term basis. At September 30, 1998, we maintained $1.7 billion in revolving credit facilities, which were unused at quarter end. On November 9, 1998, we increased the amount of the commitments to $2.05 billion, which also remained unused.

Our major debt activity during the first nine months of 1998 was as follows. We:

- borrowed $300 million at 6% for seven years and issued $153 million of Medium-Term Notes.
- borrowed $150 million at 5.92% for seven years to cover expenditures at our Erskine field in the U.K. North Sea.
- borrowed $131 million for four years and entered into an associated LIBOR-based floating rate swap associated with existing assets of our Tartan Field in the U.K. North Sea.
- borrowed $94 million from the issuance of Zero Coupon Notes due 2005.

- increased the amount of our commercial paper by $300 million, to a total of $1.2 billion at September 30, 1998.
- repurchased approximately $200 million of 10.61% Notes that we assumed in last year's acquisition of Monterey Resources.

During the first quarter of 1998, we purchased about $125 million of common stock in the open market. This completed a two-year program under which we purchased $650 million of our common stock. On March 30, 1998, we announced that we will purchase up to an additional $1 billion of our common stock, subject to market conditions, through open market purchases or privately negotiated transactions. Under the current program, we purchased about $450 million during the first nine months of 1998.

In April 1998, we received $463 million from Equilon, representing reimbursement of certain capital expenditures incurred prior to the formation of Equilon. In addition, we received $149 million from Equilon in July 1998 for certain specifically identified assets transferred for value to Equilon.

We consider our financial position to be sufficiently strong to meet our anticipated future financial requirements.

NEW ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 requires that we report information about our business segments on the same basis used internally when assessing performance and allocating resources. We will adopt SFAS 131 for our 1998 audited financial statements. Presently, we disclose in our audited financial statements information about geographic segments only. We expect that our business segments will be substantially similar to those we presently identify in the Management's Discussion and Analysis section of our Forms 10-K and 10-Q.

In February 1998, the FASB issued SFAS 132, "Employers' Disclosure about Pension and Other Postretirement Benefits." We are required to adopt SFAS 132 for our 1998 audited financial statements and will modify our disclosures accordingly. SFAS 132 does not affect how we measure expense for pension or other postretirement benefits.

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," effective in the first quarter 2000. SFAS 133 establishes new accounting rules and disclosure requirements for derivative instruments. We are assessing the impacts of SFAS 133 on the balance sheet and on net income.

CAPITAL AND EXPLORATORY EXPENDITURES

Our capital and exploratory expenditures for the first nine months of 1998 and 1997 were $2,769 million and $3,023 million, respectively.

In the U.S., our exploration and development expenditures slowed during the third quarter, but were flat for the year. Activities continued to reflect our focus in both the traditional shelf and deepwater areas of the Gulf of Mexico. Using advanced technologies, we continue to grow oil and gas production and reserves.

Internationally, our expenditures decreased following the completion of several large projects in both the U.K. and Danish sectors of the North Sea. Development activity in Indonesia, the North Sea and other promising areas continued while exploratory spending decreased in China and other Far Eastern areas. Upstream expenditures in discovered reserve opportunities also continued in promising areas, including the Karachaganak venture in Kazakhstan.

Lower international downstream expenditures reflected a decrease in the Caltex marketing areas from higher 1997 service station investments in Hong Kong and slower re-imaging spending in Caltex areas and Europe. These decreases were partly offset by higher marketing and manufacturing expenditures in our newly formed U.S. alliances.

We continue to carefully assess investment projects given the current and projected industry environment. Adjustments in spending have been made by deferring non-critical projects into future periods. It is expected that our capital and exploratory expenditures for the year 1998 will be about 20 percent less than the $4.6 billion that we had budgeted for the year.

YEAR 2000

The Year 2000 ("Y2K") problem concerns the inability of information and technology-based operating systems to properly recognize and process date-sensitive information beyond December 31, 1999. This could result in systems failures and miscalculations, which could cause business disruptions. Equipment that uses a date, such as computers and operating control systems, may be affected. This includes equipment used by our customers and suppliers, as well as by utilities and governmental entities that provide critical services to us.

At Texaco, we started working on the Y2K problem in early 1995. By early 1996, we formed a Business Unit Steering Team and a Corporate Year 2000 Office. Our progress is reported monthly to the CEO, and quarterly to the Board of Directors. Additionally, we are actively performing both internal audits and external reviews to ensure that we reach our objectives. We project that we will spend no more than $75 million on making our systems Y2K ready. As of September 30, 1998, we have incurred costs of approximately $35 million.

We recognize that the Y2K issue affects every aspect of our business, including computer software, computer hardware, telecommunications, and industrial automation. Our Y2K effort has included an extensive program to educate our employees, and development of detailed guidelines for project management, testing, and remediation. Each business unit is periodically graded on their progress toward reaching their project milestones. Our major affiliates are undertaking similar programs.

In our computers and computer software, most of the problems we have found involve our corporate financial software applications. Approximately 95% of these need some type of modification or upgrade. In our industrial automation systems, which are used in our refinery, lubricant plant, gas plant and oil well operations to monitor, control and log data about the processes, approximately 5% need modification or upgrade. The majority of these are auxiliary systems, such as laboratory analyzers and alarm logging functions, but several of the higher level supervisory data acquisition systems and flow metering systems also require upgrades. We project that we will be approximately 80% through the effort of inventorying, assessing and fixing our systems by the end of 1998. Almost all systems should be ready by the end of the first quarter of 1999, but a few will be delayed until later in 1999 as we wait for vendor upgrades.

We are well into our program to identify and assess the Y2K readiness of our critical and important suppliers and customers. We will either seek alternative suppliers and customers for those we assess as risky, or we will develop and test contingency plans. We have begun to develop these contingency plans. In addition, we are reviewing our existing business resumption plans. We expect to arrange alternative suppliers or develop and complete the testing of contingency plans no later than July 1, 1999.

All of our production and automation systems are routinely analyzed for potential failures and appropriate responses are identified and documented. If we have missed a potential Y2K problem, it will most likely be in our financial software, or in auxiliary systems in our operations, such as laboratory analyzers and alarm logging functions, where we have found the majority of the problems. We do not anticipate that a problem in these areas will have a significant impact on our ability to pursue our primary business objectives. Any problems in our primary industrial automation systems can be dealt with using our existing engineering procedures. While there can be no assurance that all such modifications and plans will be successful, including contingency plans for our major suppliers and customers, we do not expect that any disruptions will have a material adverse effect on our overall financial position or results of operations.

EURO

On January 1, 1999, eleven of the fifteen member countries of the European Union are scheduled to establish fixed conversion rates between their existing currencies ("legacy currencies") and one common currency - the euro. The euro will begin to be traded on world currency exchanges and may be used in business transactions. On January 1, 2002, new euro-denominated bills and coins will be issued, and legacy currencies will be completely withdrawn from circulation by June 30 of that year.

Our operating subsidiaries affected by the euro conversion have been actively addressing our IT systems and overall fiscal and operational activities to ensure our euro readiness. We are adapting our computer, financial and operating systems and equipment to accommodate euro-denominated transactions. We are also reviewing our marketing and operational policies and procedures to ensure our ability to continue to successfully conduct all aspects of our business in this new, price transparent market. We believe that the euro conversion will not have a material adverse impact on our financial condition or results of operations.

WORLDWIDE UPSTREAM REORGANIZATION

On November 12, 1998, we announced a worldwide upstream reorganization designed to place greater emphasis on our long-term production and reserve growth, and to address the need for streamlining costs and improving competitiveness in the current low oil price environment. The reorganization is expected to result in the reduction of approximately 1,000 employees and contractors worldwide and to be completed by the end of the first quarter of next year.

* * * * * * *

FORWARD-LOOKING STATEMENTS

Portions of the foregoing discussion of YEAR 2000, the EURO and WORLDWIDE UPSTREAM REORGANIZATION contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on our current expectations, estimates and projections. Therefore, they could ultimately prove to be inaccurate. Factors which could affect our ability to be Y2K compliant by the end of 1999 include: the failure of customers, suppliers, governmental entities and others to achieve compliance and the inaccuracy of certifications received from them; our inability to identify and remediate every possible problem; a shortage of necessary programmers, hardware and software; and, similar circumstances. Factors which could alter the financial impact of our euro conversion include changes in current governmental regulations (and interpretations of such regulations), unanticipated implementation costs, and the effect of the euro conversion on product prices and margins. The extent and timing of the upstream reorganization will depend upon worldwide and industry economic conditions.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to the discussion of Contingent Liabilities in Note 4 to the Consolidated Financial Statements of this Form 10-Q, Item 1 of Texaco Inc.'s Forms 10-Q for the quarterly periods ended March 31, 1998 and June 30, 1998 and to Item 3 of Texaco Inc.'s 1997 Annual Report on Form 10-K, which are incorporated herein by reference.

Item 5. Other Information

	(Unaudited) For the nine months ended September 30, 1998	1997	For the three months ended September 30, 1998	1997
	(Millions of dollars)			
FUNCTIONAL NET INCOME				
Operating earnings				
Petroleum and natural gas				
Exploration and production				
United States	$ 319	$ 732	$ 92	$ 232
International	131	499	40	103
Total	450	1,231	132	335
Manufacturing, marketing and distribution				
United States	235	238	124	132
International	414	370	38	134
Total	649	608	162	266
Total petroleum and natural gas	1,099	1,839	294	601
Nonpetroleum	4	16	4	3
Total operating earnings	1,103	1,855	298	604
Corporate/Nonoperating	(287)	186	(83)	(114)
Total net income	$ 816	$2,041	$ 215	$ 490
CAPITAL AND EXPLORATORY EXPENDITURES				
Exploration and production				
United States	$1,251	$1,272	$ 352	$ 491
International	834	990	283	444
Total	2,085	2,262	635	935
Manufacturing, marketing and distribution				
United States	303	246	120	94
International	358	486	130	178
Total	661	732	250	272
Other	23	29	3	18
Total	$2,769	$3,023	$ 888	$1,225
Exploratory expenses included above:				
United States	$ 195	$ 122	$ 48	$ 46
International	129	184	45	68
Total	$ 324	$ 306	$ 93	$ 114

	(Unaudited)			
	For the nine months ended September 30,		For the three months ended September 30,	
	1998	1997	1998	1997
OPERATING DATA				
Exploration and Production				
United States				
Net production of crude oil and natural gas liquids (000 BPD)	443	387	432	391
Net production of natural gas - available for sale (000 MCFPD)	1,694	1,686	1,641	1,722
Total net production (000 BOEPD)	726	668	706	678
Natural gas sales (000 MCFPD)	3,926	3,570	3,963	3,312
Average U.S. crude (per bbl)	$10.87	$17.71	$10.06	$16.56
Average U.S. natural gas (per mcf)	$ 2.03	$ 2.28	$ 1.89	$ 2.13
Average WTI (Spot) (per bbl)	$14.89	$20.83	$14.16	$19.78
Average Kern (Spot) (per bbl)	$ 8.43	$14.81	$ 8.65	$14.30
International				
Net production of crude oil and natural gas liquids (000 BPD)				
Europe	157	116	163	118
Indonesia	159	148	168	150
Partitioned Neutral Zone	106	94	104	97
Other	66	67	59	64
Total	488	425	494	429
Net production of natural gas - available for sale (000 MCFPD)				
Europe	255	197	261	176
Colombia	185	168	165	190
Other	108	88	87	79
Total	548	453	513	445
Total net production (000 BOEPD)	579	501	580	503
Natural gas sales (000 MCFPD)	692	562	633	536
Average International crude (per bbl)	$11.55	$17.79	$11.05	$16.88
Average U.K. natural gas (per mcf)	$ 2.53	$ 2.68	$ 2.34	$ 2.55
Average Colombia natural gas (per mcf)	$ 0.88	$ 1.04	$ 0.79	$ 0.95
Worldwide				
Total net production (000 BOEPD)	1,305	1,169	1,286	1,181

	(Unaudited)			
	For the nine months ended September 30,		For the three months ended September 30,	
	1998	1997	1998	1997
OPERATING DATA				
Manufacturing, Marketing and Distribution				
United States				
Refinery input (000 BPD)				
Western U.S.	388	415	410	420
Eastern U.S.	316	334	301	339
Total	704	749	711	759
Refined product sales (000 BPD)				
Western U.S.	597	492	643	512
Eastern U.S.	387	323	486	327
Other Operations	228	205	216	222
Total	1,212	1,020	1,345	1,061
International				
Refinery input (000 BPD)				
Europe	356	337	326	329
Caltex	417	400	397	379
Latin America/West Africa	64	59	66	60
Total	837	796	789	768
Refined product sales (000 BPD)				
Europe	567	496	547	508
Caltex	580	564	563	545
Latin America/West Africa	455	408	474	440
Other	53	62	56	66
Total	1,655	1,530	1,640	1,559

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- (11) Computation of Earnings Per Share of Common Stock.

- (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, 1997 (including portions of Texaco Inc.'s Annual Report to Stockholders for the year 1997) and a copy of Texaco Inc.'s Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 1998 and June 30, 1998, 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 third quarter of 1998, the Registrant filed Current Reports on Form 8-K for the following events:

1. July 1, 1998 (date of earliest event reported: July 1, 1998)

   Item 5. Other Events -- reported that Texaco, Saudi Aramco and Shell Oil Company reached agreement on the formation and operational start-up, effective July 1, 1998, of Motiva Enterprises LLC.

2. July 21, 1998 (date of earliest event reported: July 21, 1998)

   Item 5. Other Events -- reported that Texaco issued an Earnings Press Release for the second quarter of 1998.

3. September 3, 1998 (date of earliest event reported: September 3, 1998)

   Item 5. Other Events -- reported that Texaco and Shell Oil Company signed a non-binding memorandum of understanding with the intention of forming an alliance for their European oil products marketing and manufacturing activities.

SIGNATURES

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
(Vice President and Comptroller)

By: R.E. Koch
(Assistant Secretary)

Date: November 12, 1998

EXHIBIT 11

TEXACO INC. AND SUBSIDIARY COMPANIES
COMPUTATION OF EARNINGS PER SHARE OF COMMON STOCK
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

(millions of dollars, except as noted)

	(Unaudited)			
	For the nine months ended September 30,		For the three months ended September 30,	
	1998	1997	1998	1997
Basic Net Income Per Common Share:				
Net income less preferred stock dividend requirements	$ 776	$ 1,999	$ 202	$ 476
Average shares outstanding (thousands)	529,433	519,553	525,836	520,003
Basic net income per share (dollars)	$ 1.47	$ 3.85	$ 0.38	$ 0.91
Diluted Net Income Per Common Share:				
Net income less preferred stock dividend requirements	$ 776	$ 1,999	$ 202	$ 476
Adjustments, mainly ESOP preferred stock dividends (a)	25	26	-	8
Net income for diluted net income per share	$ 801	$ 2,025	$ 202	$ 484
Average shares outstanding (thousands)	529,433	519,553	525,836	520,003
Adjustments, mainly ESOP preferred stock (a)	19,142	20,487	546	20,190
Shares outstanding for diluted computation (thousands)	548,575	540,040	526,382	540,193
Diluted net income per share (dollars)	$ 1.46	$ 3.75	$ 0.38	$ 0.90

(a) For the three months ended September 30, 1998, ESOP preferred stock had an anti-dilutive effect and, therefore, is excluded from the computation of diluted earnings per share .

EXHIBIT 12

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
OF TEXACO ON A TOTAL ENTERPRISE BASIS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND
FOR EACH OF THE FIVE YEARS ENDED DECEMBER 31, 1997

(Millions of dollars)

	For the Nine Months Ended September 30, 1998	Years Ended December 31, 1997	1996	1995	1994(a)	1993(a)
Income from continuing operations, before provision or benefit for income taxes and cumulative effect of accounting changes effective 1-1-95	$1,178	$3,514	$3,450	$1,201	$1,409	$1,392
Dividends from less than 50% owned companies more or (less) than equity in net income	(3)	(11)	(4)	1	(1)	(8)
Minority interest in net income	43	68	72	54	44	17
Previously capitalized interest charged to income during the period	12	25	27	33	29	33
Total earnings	1,230	3,596	3,545	1,289	1,481	1,434
Fixed charges:						
Items charged to income:						
Interest charges	490	528	551	614	594	546
Interest factor attributable to operating lease rentals	68	112	129	110	118	91
Preferred stock dividends of subsidiaries guaranteed by Texaco Inc	26	33	35	36	31	4
Total items charged to income	584	673	715	760	743	641
Interest capitalized	18	27	16	28	21	57
Interest on ESOP debt guaranteed by Texaco Inc	3	7	10	14	14	14
Total fixed charges	605	707	741	802	778	712
Earnings available for payment of fixed charges (Total earnings + Total items charged to income)	$1,814	$4,269	$4,260	$2,049	$2,224	$2,075
Ratio of earnings to fixed charges of Texaco on a total enterprise basis	3.00	6.04	5.75	2.55	2.86	2.91

(a) Excludes discontinued operations.

5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM TEXACO INC.'S THIRD QUARTER 1998 FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

9-MOS
DEC-31-1998
JAN-1-1998
SEP-30-1998
250
35
3,598
20
1,269
5,394
35,340
20,499
28,495
5,019
6,061
0
656
1,705
9,964
28,495
23,132
23,898
17,922
19,740
2,729
0
355
1,074
258
816
0
0
0
816
1.47
1.46