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**TEXACO
INC.**

2000 Westchester Avenue
White Plains, New York 10650



NOTICE OF ANNUAL MEETING

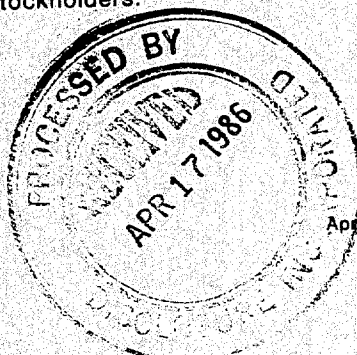
You are cordially invited to the Annual Meeting of the Stockholders of Texaco Inc. which will be held in the Plaza Ballroom of The Westin Hotel, 10 East Second Street, Tulsa, Oklahoma, on Tuesday, May 13, 1986, at 10:00 o'clock A.M. for the purpose of (1) electing four Directors, (2) approving the appointment of auditors for the year 1986, and (3) transacting such other business, including taking action upon a stockholder proposal, as may properly come before the meeting.

The Board of Directors has fixed March 18, 1986, as the record date for the determination of the stockholders entitled to notice of, and to vote at, this meeting. The list of stockholders entitled to vote will be available for the examination of any stockholder at the Company's offices at 1437 South Boulder, Tulsa, Oklahoma, 74119, for ten days prior to May 13, 1986.

It would be appreciated if you would kindly sign the enclosed proxy and return it promptly so that your shares may be represented. **Only those stockholders or their properly identified proxies with valid admission cards will be admitted to the meeting.** Accordingly, if you plan to attend the meeting, please mark the box provided on your proxy so that we may send you an admission card. A return envelope which requires no postage is enclosed for your convenience.

A report of the meeting will be mailed to all stockholders.

CARL B. DAVIDSON
Secretary



April 14, 1986



PROXY STATEMENT

Solicitation by Management

This proxy statement and the accompanying proxy card are being solicited by order of the Board of Directors of Texaco Inc. and the expense will be borne by the Company. Proxies may be solicited by mail, telephone, telegram, or in person. Morrow & Co. has been retained to assist in soliciting proxies at a fee not to exceed \$10,000, plus reasonable expenses. A copy of the Annual Report for 1985, including financial statements, has previously been sent to stockholders. It is not to be regarded as proxy solicitation material.

Vote Required for Approval

A majority of the shares voted in person or by proxy is required for approval of matters presented to the meeting. Your executed proxy will be voted at the meeting, unless you revoke it at any time before the vote by filing with the Secretary an instrument revoking it, duly executing a proxy bearing a later date, or appearing at the meeting and voting in person.

Stockholder Proposals

Stockholders may present proposals to be considered for inclusion in the 1987 Proxy Statement, provided they are received at the Company's principal executive office no later than December 16, 1986, and are in compliance with applicable laws and Securities and Exchange Commission regulations.

The Board of Directors and Its Committees

The Board of Directors held nineteen meetings in 1985. Each Director attended at least 75% of the aggregate of the total number of meetings of the Board and its Committees on which the Director served. Employee Directors receive no compensation for service on the Board or its Committees. Non-employee Directors receive an annual retainer of \$20,000, and \$500 for each Board and Committee meeting attended. Non-employee Directors on the Executive Committee also receive an annual retainer of \$6,000. The Chairmen of the Audit and the Non-Management Committees receive annual retainers of \$6,000 and

\$2,500, respectively. The Chairmen of the Compensation, Nominating and Pension Committees receive annual retainers of \$2,000. Directors have been permitted to defer compensation received for their services. Such deferred amounts accrue interest at the rates described in the discussion of the Cash Bonus Plan on page 13, or could be used to purchase stock units. Each stock unit is deemed to be equivalent to one share of Common Stock of the Company and dividend equivalents are paid on such stock units.

The Executive Committee may exercise all of the powers of the Board in the management and direction of the business and affairs of the Company. Action taken by the Committee is reported to and reviewed by the Board of Directors. This Committee consists of Messrs. McKinley (Chairman), Butcher, DeCrane, Kinnear, Murphy, Parker and Roosa and met fourteen times during 1985.

The Audit Committee was established in 1939. Its members are Mr. Vanderslice (Chairman), Mr. Butcher, Mr. Parker, Dr. Rogers and Mr. Roosa. Two meetings were held in 1985. The outside auditors, and such officers and other employees, as necessary, depending on the nature of the matters under review, are in attendance at meetings of the Committee. The Committee reviews and evaluates the scope of the audit, the accounting policies and reporting practices, internal auditing, internal controls, security procedures and other matters deemed appropriate. The Audit Committee also reviews the quality standards maintained by Arthur Andersen & Co. in their audit of the Company's financial statements and evaluates their independence and professional competence.

The Compensation Committee, which met nine times in 1985, is composed of Messrs. Mason (Chairman), Cary and Roosa. This Committee has the responsibility of reviewing the Company's compensation structure. To this end, the Committee surveys and reviews compensation practices in industry to make certain that the Company remains competitive and able to recruit and retain highly qualified personnel.

The Finance Committee consists of Messrs. McKinley (Chairman), Murphy, Vanderslice and Wrigley, Lord Granard and Dr. Rogers. The Committee met once in 1985 to review and to make recommendations to the Board concerning the Company's financial strategies, policies and structure.

The Nominating Committee, consisting of Lord Granard (Chairman), Mr. Parker, Mr. Roosa and Mr. Wrigley, met four times in 1985. Mr. McKinley is an *ex officio* member. This Committee reviews the size and composition of the Board of Directors, reviews qualifications of possible candidates for Board membership and recommends candidates to the Board as nominees for election as Directors. The Nominating Committee selects nominees for Directors on the basis of its assessment of the contributions such individuals can make in providing advice and guidance to management. It will consider proposals for nomination from stockholders which are made in writing to the Secretary, are timely, and contain sufficient background information concerning the nominee to enable a proper judgment to be made as to his or her qualifications. Persons who have attained the age of 72 generally are not eligible for nomination as Directors. However, the Board of Directors, acting upon the recommendation of the Nominating Committee, has concluded that during this period it is in the Company's interest to maintain continuity of leadership. Therefore, the Board has waived this policy for purposes of selection of Board candidates to be presented to stockholders at the 1986 Annual Meeting.

The Committee of Non-Management Directors held two meetings in 1985. The Committee, of which Mr. Roosa is Chairman, is composed of all of the non-employee Directors and is responsible for interpreting, administering and determining awards made under the Company's incentive plans, as well as for reviewing the Company's organization and personnel development.

The Pension Committee met three times in 1985. The members are Messrs. Cary (Chairman), Mason and Vanderslice. The Committee approves investment policy and guidelines, reviews investment performance, and appoints

and retains trustees, insurance carriers and investment managers for the Company's retirement plans.

Voting Securities

Excluding 35,267,184 shares of Common Stock held in the Company's treasury, there are outstanding 239,026,233 shares of Common Stock. Each outstanding share is entitled to one vote on all matters properly brought before the meeting.

Other Relationships

Mr. Wrigley is a controlling stockholder, President and Chief Executive Officer, and a Director of Santa Catalina Island Company. In 1985, the Company paid Wilmington Transportation Company, a wholly owned subsidiary of Santa Catalina Island Company, \$158,230 for tugboat and other services. During the early part of 1985, a subsidiary of the Company leased a surplus airplane to the Wm. Wrigley Jr. Company, of which Mr. Wrigley is a Director, a large stockholder and Chief Executive Officer, at a monthly rental of \$116,084.

Payments of \$2,617,500 for advertising were made in 1985 to media vehicles owned by Capital Cities/ABC, Inc., of which Mr. Murphy is Chairman and Chief Executive Officer.

During 1985, the Company engaged in insurance transactions amounting to \$9,671,025 with The Prudential Insurance Company of America, of which Mr. Beck is Chairman and Chief Executive Officer.

The above transactions were effected in the ordinary course of business on terms at least as favorable to the Company as those obtainable in similar transactions with unaffiliated parties.

As of April 1, 1986, fourteen purported derivative actions and one class action had been filed against various combinations of defendants, including Texaco Inc. and its directors, in connection with the acquisition of Getty Oil Company and the ensuing litigation with Pennzoil Company that resulted in the judgment of \$11.1 billion in favor of Pennzoil. *Good, et al. v. Butcher, et al.* and eleven other suits were brought in the Court of Chancery of New Castle County, Delaware;

Kirk v. McKinley, et al. was brought in the District Court of Harris County, Texas; and *Leslie v. Texaco, et al.* and the class action were brought in the United States District Court for the Southern District of New York. The derivative suits allege, among other things, that the directors violated their fiduciary duties by causing Texaco to take actions which resulted in the judgment. The Plaintiff in the class action alleges that the directors failed to make full and accurate disclosure concerning the Pennzoil case. The suits seek money damages.

As of January 1, 1986, all Directors and Officers as a group beneficially owned 605,089 shares of Common Stock, which were less than 1% of such shares outstanding.

Item 1 — Election of Directors

The Board is divided into three classes of Directors. At each annual meeting of stockholders, members of one of the classes, on a rotating basis, are elected for a three-year term.

In accordance with the Company's by-laws, the Board of Directors, by resolution at its regular

December 14, 1984 meeting, fixed the total number of Directors at 14. The four persons designated by the Board as nominees for election as Directors at the Annual Meeting in 1986, to serve for the term expiring in 1989, are Messrs. Cary, DeCrane and Murphy, and Dr. Rogers. All of the nominees are currently Directors and were previously elected by the stockholders.

Unless otherwise indicated on any proxy, the persons named as proxy voters in the proxy card intend to vote the shares it represents for all the nominees for a term expiring at the Annual Meeting in 1989 and until the due election and qualification of their successors. The Company has no reason to believe any of the nominees will be disqualified or unable or unwilling to serve if elected. However, if any nominee should become unavailable for any reason, proxies may be voted for another person nominated by the present Board of Directors to fill the vacancy or the size of the Board may be reduced. Following is certain biographical information concerning the nominees, and the Directors whose terms of office will continue after the meeting.

Nominees For Three-Year Term



Frank T. Cary, 65, former Chairman of the Board (1973-1983) and a Director of IBM Corporation, was elected a Director of Texaco Inc. in 1981. He is a Director of Capital Cities/ABC, Inc., DNA Plant Technology Corporation, Hospital Corporation of America, Merck & Co., Inc., J.P. Morgan & Co., Morgan Guaranty Trust Company, New York Stock Exchange, Inc. and PepsiCo., Inc.

2,195 shares and 928 stock equivalent units beneficially owned as of January 1, 1986.



Alfred C. DeCrane, Jr., 54, President of Texaco Inc., has been a Director since 1977. Prior to assuming his present position on March 1, 1983, he served as an Executive Vice President and as Senior Vice President and General Counsel. He is a Trustee of the American University of Beirut, and of the Committee for Economic Development; a Director of CIGNA Corporation; and a member of the Council for the College of Arts and Letters of Notre Dame University.

30,663 shares beneficially owned as of January 1, 1986



Thomas S. Murphy, 60, Chairman and Chief Executive Officer of Capital Cities /ABC, Inc., which is engaged in broadcasting, cable television and publishing, has been a Director since 1977. He is Chairman of the New York University Medical Center Board and a Director of Johnson & Johnson, General Housewares Corp. and the Madison Square Boys' Club.

2,117 shares and 9,800 stock equivalent units beneficially owned as of January 1, 1986



Dr. Lorene L. Rogers, 72, President (Retired), The University of Texas at Austin, has been a Director since 1976. She served as President of that University from 1974 to 1979. She is a Fellow of the American Institute of Chemists; a member of the American Chemical Society and the American Institute of Nutrition; and a Director of RepublicBank, Austin. She has also served as a Director of Gulf States Utilities Co.

500 shares and 4,781 stock equivalent units beneficially owned as of January 1, 1986

Directors Continuing in Office Until the 1987 Annual Meeting



Sir Arthur Patrick H. Forbes, The Earl of Granard, 71, has been a Director since 1972. He serves as a Director of various corporations, including Nabisco Group Ltd. and Reckitt and Colman.

113,018 shares beneficially owned as of January 1, 1986



John K. McKinley, 66, has been Chairman of the Board and Chief Executive Officer of Texaco Inc. since November 1, 1980. He was elected Chief Operating Officer in January 1980, served as President from 1971 to 1983 and has been a Director since 1971. He is a member of the National Petroleum Council, a Director of the American Petroleum Institute, and a Fellow of the American Institute of Chemical Engineers. He serves on the Boards of Directors of Burlington Industries, Inc., Manufacturers Hanover Corporation, Manufacturers Hanover Trust Company, Martin Marietta Corp. and Merck & Co., Inc., is a Managing Director of the Metropolitan Opera Association, and is a member of The Business Council and the Board of Managers of Memorial Sloan-Kettering Cancer Center.

76,844 shares beneficially owned as of January 1, 1986



George Parker, Jr., 65, a private investor associated with the Parker family enterprises, which involve investments and risk capital ventures, has been a Director since 1961. He is a Fellow of the J. P. Morgan Library; a sustaining member of the Dallas Museum of Fine Arts; and is active in various civic organizations, including, in France, Chevalier des Arts et des Lettres, Membre du Cercle des Amis de Versailles, and Vice-President, the International Committee, La Demure Historique, Paris.

140,349 shares beneficially owned as of January 1, 1986 (1)



Robert V. Roosa, 67, a Partner of Brown Brothers Harriman & Co., private bankers, has been a Director since 1969. He is a Director of American Express Co., Owens-Corning Fiberglas Corp. and the National Bureau of Economic Research, Inc.; a Trustee of the Sloan-Kettering Institute for Cancer Research; and Chairman of the Brookings Institution.

3,000 shares beneficially owned as of January 1, 1986 (2)



William Wrigley, 53, President and Chief Executive Officer and a Director of Wm. Wrigley Jr. Company, has been a Director since 1974. He is President and Chief Executive Officer, a Member of the Executive Committee and Director of Santa Catalina Island Company; a Director of American Home Products Corporation, Boulevard Bank, Wrigley Memorial Garden Foundation, and Northwestern Memorial Management Corporation. He also serves as a Trustee of the University of Southern California, and as a Benefactor and Life Member of the Santa Catalina Island Conservancy.

25,382 shares beneficially owned as of January 1, 1986 (3)

- (1) Does not include 11,361 shares held by the Parker Foundation, Inc., of which Mr. Parker is President. Mr. Parker disclaims beneficial interest in such shares.
- (2) Does not include 100 shares of the Company's Common Stock held by Mr. Roosa's wife, as to which Mr. Roosa disclaims beneficial ownership.
- (3) Does not include 124,796 shares of the Company's Common Stock owned of record by Wm. Wrigley, Jr. Company of which Mr. Wrigley is among the officers authorized to vote the shares owned by that company, or 1,000 shares held in a trust, of which Mr. Wrigley is the trustee, for the benefit of his son. Mr. Wrigley disclaims beneficial interest in such shares.

Directors Continuing in Office Until the 1988 Annual Meeting



Robert A. Beck, 60, Chairman of the Board and Chief Executive Officer of The Prudential Insurance Company of America, has been a Director since 1984. He joined Prudential in 1951, was elected President in 1974, and Chairman and Chief Executive Officer in 1978. He is Chairman of The Business Roundtable and Vice Chairman of the Kennedy Center Corporate Fund Board. He is a director of Campbell Soup Company, Xerox Corporation and the Boeing Company, and is a trustee of Syracuse University, Economic Club of New York, Renaissance Newark Inc. and the Committee for Economic Development. He served as a member of the National Committee on Social Security Reform and the Executive Committee of President Reagan's Private Sector Survey on Cost Control.

529 shares beneficially owned as of January 1, 1986



Willard C. Butcher, 59, Chairman of the Board and Chief Executive Officer of The Chase Manhattan Corporation and its principal subsidiary, The Chase Manhattan Bank, was elected a Director of Texaco Inc. in 1981. He became Chase Manhattan's Chief Executive Officer in 1980, and was elected Chairman in 1981. He is Vice Chairman of the American Enterprise Institute, and a member of The Business Council, The Policy Committee, The Business Roundtable, the Brown University Board of Fellows, the Board of Governors of the Joseph H. Lauder Institute of Management and International Studies, and the Executive Committee of the Board of Lincoln Center for the Performing Arts, Inc. He is a Director of ASARCO, Inc.

253 shares beneficially owned as of January 1, 1986



James W. Kinnear, 58, Vice Chairman of the Board of Texaco Inc., has been a Director since 1977. Prior to assuming his present position on March 1, 1983, he was an Executive Vice President and a Senior Vice President. He is a Director of Corning Glass Works; President of the Board of Trustees of St. Paul's School; and a member of the Board of Directors of the American Petroleum Institute.

43,881 shares beneficially owned as of January 1, 1986



Elvis L. Mason, 52, Managing Partner, the Mason Best Company, a privately held merchant banking concern, was elected a Director of Texaco Inc. in 1981. He joined InterFirst Corporation in 1974 as Vice Chairman and served as Chairman of the Board or President and Chief Executive Officer of InterFirst Bank Dallas, N.A., its lead bank, from April 1976 to November 1980. He was named Chairman of the Board and Chief Executive Officer of InterFirst in July 1980 and served in that capacity until January 1984. He is a Director of Associates Corporation of North America and Lone Star Steel Company.

500 shares beneficially owned as of January 1, 1986



Thomas A. Vanderslice, 54, Chairman, President and Chief Executive Officer of Apollo Computer Inc., has been a Director since 1980. He was formerly President and Chief Operating Officer of GTE Corporation. Prior to December 1, 1979 he served as an officer of General Electric Company. He is a Director of Emery Air Freight Corp. and Computer Consoles, Inc., a Trustee of Boston College, and the Committee for Economic Development; a member of the National Academy of Engineering, Connecticut Academy of Science and Engineering, the American Chemical Society, the American Institute of Physics, and member of the Steering Committee of the Economic Policy Council of the United Nations Association.

200 shares and 6,231 stock equivalent units beneficially owned as of January 1, 1986

Item 2 — Approval of Auditors

The following resolution concerning the appointment of independent auditors will be offered at the meeting:

"RESOLVED, that the appointment by the Board of Directors of the Company of Arthur Andersen & Co. to audit the accounts of the Company and its subsidiaries for the fiscal year 1986 is hereby ratified and approved."

Arthur Andersen & Co. have been auditing the accounts of the Company and its subsidiaries for many years. In recommending the approval by the stockholders of the appointment of that firm, the Board of Directors is acting upon the recommendation of the Audit Committee, which has satisfied itself as to the firm's professional competence and standing.

Representatives of Arthur Andersen & Co. will be present at the Annual Meeting with the opportunity to make a statement and to respond to appropriate questions.

The Board of Directors and the Company accept no responsibility for the following proposed stockholder resolution, which has been included in accordance with applicable proxy regulations.

Stockholder Proposal A

This stockholder proposal was submitted by the New York City Employees' Retirement System and the New York City Teachers' Retirement System, holders of 230,200 and 219,700 shares of Common Stock, respectively, through their trustee, Harrison J. Goldin, Comptroller, City of New York, One Canter Street, Room 530, New York, N.Y. 10107.

WHEREAS, in South Africa the black majority is forcibly controlled and oppressed by a white minority which comprises less than one-fifth of the population; and

WHEREAS, South Africa's apartheid system legalizes racial discrimination in all realms of life and deprives the black population of their

basic civil rights such as the right to vote, the right to assemble and speak freely, and the right to equal political participation and economic opportunity; and

WHEREAS, in the enforcement of apartheid the government of South Africa has systematically and brutally repressed nationwide demonstrations against that policy aided by the imposition of martial law and the arrest and imprisonment without trial of thousands of dissenters; and

WHEREAS, the overwhelming sentiment of the American people as expressed by President Reagan in his Executive Order of September 9, 1985 has declared the policy of apartheid to be "repugnant to the moral and political values of democratic and free societies"; and

WHEREAS, in the absence of any commercially proven domestic oil reserves, South Africa is required to import almost all of its petroleum; and

WHEREAS, we believe that South Africa's dependence upon imported oil presents an opportunity to pressure South Africa to alter its policy of apartheid; and

WHEREAS, Caltex Oil (S.A.) (Pty.) Ltd., a subsidiary of Caltex Petroleum, in which Texaco holds 50 percent interest, has been active in South Africa since 1936, and is principally engaged in refining and marketing petroleum;

THEREFORE, BE IT RESOLVED, that the shareholders request the Board to establish the following corporate policy:

Texaco and its subsidiary will terminate forthwith the sales of petroleum and petroleum products to any entity of the South African government for use by the South African military, police, and any of their agencies or instrumentalities until the Government of South Africa officially commits itself to the termination of apartheid and takes meaningful steps to achieve political and legal equality for the black majority population.

Statement of Support

Texaco, through Caltex Oil (S.A.) (Pty.) Ltd., has operated in South Africa since 1936. We have information that Caltex is selling petroleum products to the South African police and military. We believe that as a supplier of petroleum products to these instruments of apartheid, Texaco contributes significantly to the continued support and maintenance of the regime's oppressive policies.

We believe that effective pressure can be applied, via a partial oil boycott, on the government of South Africa to help convince it to ameliorate or abolish the apartheid system. The absence of any commercially proven domestic oil reserves in South Africa is an important gap in that nation's attempt to render itself totally economically self-sufficient and thus immune to economic pressure from abroad. Thus, of all the sectors of its economy, we believe that South Africa is most vulnerable to economic pressure and sanction in connection with its purchase of petroleum. Since Caltex is a major supplier of petroleum in South Africa, we urge Texaco to adopt a formal policy of not selling petroleum products to the South African military or police.

Board of Directors' Statement

The Board of Directors recommends a vote **Against** this proposal for the following reasons:

The Company's views on apartheid do not differ in any material way from those of the proponents. Apartheid is repugnant to American values. Apartheid constitutes a clear violation of basic human rights, and the Company is opposed to it. For many years Caltex has worked to improve the condition of blacks in South Africa. In March 1977, Caltex was one of the original 12 signatories to the resolution initiated by The Reverend Leon Sullivan agreeing to support a set of six principles aimed at achieving the goals of fair employment and improved quality of life for non-whites in South Africa. Caltex has also endorsed Reverend Sullivan's recent fourth amplification of

these principles, which embodies increased dimensions of activities outside the workplace in pursuit of peaceful change in South Africa. Caltex' presence in South Africa has produced, and we believe will continue to produce, increasing economic, social and educational benefits for the black population.

Texaco and Caltex are in full compliance with United States laws and regulations which prohibit export or re-export to South Africa of commodities or technical data where the exporter knows or has reason to know that such commodities are for use by South African military or police. Caltex conducts its operations in South Africa through a South African subsidiary, Caltex Oil (S.A.) (Pty.) Limited (COSA). South African law does not allow a South African company such as COSA to discriminate against any credit-worthy customer, or publish or disclose information about its customers. Therefore, the proposed resolution would do nothing insofar as COSA's operations are concerned to limit sales to the South African police or military since Caltex could not, in the Company's opinion, legally effectuate the action called for in the resolution.

For a number of years the stockholders of the Company have considered stockholder proposals regarding the activities in South Africa of Caltex Petroleum Corporation, of which Texaco is a 50% shareholder. In each instance, after careful consideration of the issues raised by the proponents and by the directors, the stockholders have overwhelmingly rejected these proposals. Texaco has, at appropriate intervals, reported on the progress Caltex has made in supporting fair and non-discriminatory conditions for its employees.

We believe that constructive change is possible and that Caltex can continue to assist by providing a leadership role in support of human rights and progress for all races in South Africa.

The Board of Directors, for these reasons, recommends a vote AGAINST stockholder proposal A.

Compensation of Executive Officers

The Company seeks to maintain a total compensation program which is competitive with other companies in the industry to attract and retain highly qualified personnel. The following compensation information is furnished for services performed by executive officers while serving in such capacities during 1985.

Cash Compensation Table			
Name of individual or group	Capacities in which served	Salary	Bonus
Alfred C. DeCraae, Jr.	President	\$ 410,000	\$ 150,000
James W. Kinnear	Vice Chairman	420,000	150,000
Robert C. McCay	Senior Vice President	251,667	80,000
John K. McKinley	Chairman of the Board(1)	721,336	462,500
Roland M. Routhier	Senior Vice President	252,500	80,000
William C. Weitzel, Jr.	Senior Vice President and General Counsel	256,667	75,000
All Executive Officers as a group (27 persons)		\$6,080,274(2)	\$1,962,500

1. Mr. McKinley serves as Chairman of the Board and Chief Executive Officer pursuant to an employment agreement dated November 14, 1983, under which he has agreed to hold himself available to serve if requested by the Company in such capacities until December 31, 1986. Pursuant to the agreement, his salary in each year will be not less than his salary in the prior year as adjusted for inflation. He is entitled to participate in the Company's benefit and incentive plans and to receive in each year under the incentive plans benefits of not less than the average of the benefits received by him under each such plan in respect of 1982 and subsequent years. Upon his retirement, he will receive his lump sum pension under the Company's retirement plan plus interest at the rate established in the Company's deferral plan from the date he became 65. The agreement provides that he is not entitled to, and has waived, any additional pension benefits to which he might otherwise be entitled after age 65. In the event of his death or physical disability, he or his estate will be entitled to receive an after-tax amount equal to the compensation provided for in the agreement for the remaining term. In addition, pursuant to a consulting agreement, for a fee of \$300,000 (payable after his retirement as Chief Executive Officer with interest from March 20, 1984 at the rate established by the Company's deferral plan) he has agreed to hold himself available to serve, if requested, as a director until 1992 and as a consultant for 90 working days in 1987, 60 in 1988, 30 in 1989, 20 in 1990, and 10 in 1991 and 1992, for which he will be paid an annual retainer that will average

over the six years of his consulting agreement approximately 25% of his 1985 salary and bonus. Payments will be made quarterly in direct proportion to the days he is obliged to make himself available to serve during each specified year under the agreement. In addition, he shall have the support services available to employ directors. No compensation will be paid under the consulting agreement for any period after his death or if he engages in certain competitive activities. In the event that a majority of the Board of Directors of the Company is replaced as a result of a tender offer, contested election of directors or sale of assets, he, at his option, will be relieved of all obligations under both the employment and consulting agreements and will be entitled to receive the compensation provided for therein.

2. Certain personal benefits are considered compensation under Securities and Exchange Commission regulations. Included in this category are: professional fees incurred in connection with tax, estate, and financial planning services, club memberships, and personal use of company leased automobiles. The aggregate incremental costs to the Company for such benefits, which exceeded the reporting threshold of \$25,000 per annum, were: Mr. McCay, \$51,376, Mr. McKinley, \$45,718, and Mr. Routhier, \$45,584. Other forms of compensation provided in 1985 to the other individuals named in the cash compensation table and to all executive officers as a group did not exceed the reporting thresholds.

Benefit Plans

Over the years, the Company has adopted a wide variety of benefit plans designed to provide employees and their families with additional financial security. All employees are eligible for these plans. They are administered on a nondiscriminatory basis for those who meet certain minimal service and other criteria.

Discussed below are the Employee Thrift Plan, Employee Stock Ownership Plan and Retirement Plan. In addition, the Company has a number of broad-based benefit plans including Vacation, Separation Pay, Short Term Disability, Long Term Disability, Term Life Insurance, Comprehensive Medical, Group Accident, and Dental Assistance Plans.

Plans providing similar coverage have been adopted by the Company for certain of its represented employees and employees of subsidiaries.

Employee Thrift Plan. United States payroll employees who have completed one year of service and who are employed by the Company or a participating subsidiary or affiliated company and are either not represented by a labor organization or represented by a labor organization that has agreed to participate are eligible to participate in this Plan, which has been qualified as a non-discriminatory plan under the Internal Revenue Code.

Prior to February 1, 1986, participating employees could make contributions to the Plan ranging from two to six percent of their base pay, and the Company contributed an amount equal to one-half of the participants' contributions (50c Match). Participants could also contribute an additional amount from one to four percent of their base pay, but no Company contributions were made with respect to these amounts.

On February 1, 1986, the Plan was amended in several respects including: (1) A new "Dollar Match Option" was added to the Plan, as an alternative to the 50c Match Option, effective retroactively to November 1, 1985, allowing participants

to make contributions, based on their years of service, ranging from two percent in all cases up to six percent (depending on years of service) of base pay and receive Company contributions equal to their contributions (Dollar Match). The participant's and Company's contributions under the Dollar Match Option are invested solely in Texaco Inc. Common Stock. In no event are in-service withdrawals of the Company's Dollar Match contributions permitted. In-service withdrawals of the participant's contributions under the Dollar Match are permitted, subject to a six-month suspension from the Plan. (2) Amounts which participants may voluntarily contribute in addition to amounts matched by the Company were increased from four percent to ten percent of base pay. (3) Forfeitures will be used to offset Company contributions to the Plan.

Participants may allocate up to 15% of their base pay to a deferred account pursuant to Section 401(k) of the Internal Revenue Code.

Company contributions accrued during the past year for the accounts of Messrs. DeCrane, Kinnear, McCay, McKinley, Routhier, Weitzel, all executive officers as a group, and all employees were \$11,898; \$12,192; \$7,302; \$7,500; \$7,206; \$7,446; \$169,266 and \$15,405,867, respectively.

Key management personnel are required to retire at age 65 and, therefore, lose the opportunity given to all other employees to invest in the Plan and receive the Company's contributions until age 70. To partially compensate them, the Company may pay them an amount equal to the present value of the Company's theoretical contribution to the Plan for those five years based upon the retiree's final salary and contribution level to the Plan prior to retirement. This amount may be paid in a lump sum or over five or ten years with interest.

Employee Stock Ownership Plan. All employees meeting certain eligibility requirements received from the Company the benefit of the Employee Stock Ownership Plan (ESOP), which was originally adopted in accordance with provisions of the Tax Reduction Act of 1975, which permitted the Company to claim an additional one percent investment tax credit on its federal income tax return provided the amount of such credit was used to purchase the Company's Common Stock for eligible employees under an ESOP. Stock was allocated to participants' accounts in the proportion that each participant's total annual W-2 earnings up to \$100,000 bore to the total earnings of all participants. As a result of the Economic Recovery Tax Act of 1981 (ERTA), the one percent investment-based tax credit was repealed for tax years after December 31, 1982, and a payroll-based tax credit was made available to employers. Accordingly, effective January 1, 1983 the Company amended the basis for determining the tax credit available for purposes of maintaining an ESOP for its employees. In 1985, \$3,461,810 was allocated among 24,890 employees. Each officer named in the compensation table received \$388, and all executive officers as a group received \$10,480.

Retirement Plan. 18,335 employees of the Company and its subsidiaries are eligible to participate in the Retirement Plan (the "Plan") and do so on the same basis. The Plan provides benefits based on Company contributions and has been qualified as a non-discriminatory plan under the Internal Revenue Code. In addition, participants have the option of making contributions to the Plan and receiving greater pension benefits. The amount of an employee's pension is the greater of a benefit based upon a final pay formula (applicable in most cases), a career average formula, or a minimum retirement benefit.

For purposes of calculating an employee's pension benefit, the Plan recognizes base pay only and does not take into account other forms of compensation. Contributions are paid to the Master Trustee and to insurance companies for investment and, at the time of the employee's retirement, these insurance companies assume full responsibility for the payment of the entire annuity.

A Supplemental Pension Benefits Plan, approved by the stockholders in 1981, and applicable to any employe receiving a cash bonus award, provides a benefit calculated by multiplying a percentage, up to 100%, of the monthly average of the three highest cash bonus awards received during the participant's last ten years prior to retirement or death, times years of service times the applicable non-contributory pension factors under the Plan (presently a maximum of 1.5%). In addition, for key management personnel subject to the Company's application of the mandatory retirement at age 65 provision of the

Age Discrimination in Employment Act who will lose the opportunity to work beyond that age, and thus the added years of benefit service under the Plan, the benefit includes an amount based on the difference, if any, in the final monthly base salary from the average monthly base salary in the highest three consecutive years of base salary during the last ten years of employment prior to retirement or death. In any event, the Company has established conditions for the payment of all or part of the supplemental pension benefits to any participant.

ESTIMATED ANNUAL RETIREMENT BENEFITS*

COVERED REMUNERATION	YEARS OF BENEFIT SERVICE			
	15	25	35	45
\$ 50,000	\$ 11,092	\$ 18,092	\$ 25,092	\$ 32,092
75,000	16,638	27,138	37,638	48,138
100,000	22,183	36,183	50,183	64,183
200,000	44,367	72,367	100,367	128,367
300,000	66,550	108,550	150,550	192,550
400,000	88,733	144,733	200,733	256,733
500,000	110,917	180,917	250,917	320,917
600,000	133,100	217,100	301,100	385,100
700,000	155,283	253,283	351,283	449,283

* 'Covered Remuneration' means the highest three-year average salary and bonus, if any, during the last ten years of employment. The years of benefit service for the following individuals are: Mr. DeCrane, 27; Mr. Kinnear, 31; Mr. Routhier, 37; and Mr. Weitzel, 19. With respect to the Plan, annual pension benefits are based on the non-contributory final pay formula (up to 1.5% of final average pay times benefit service, less a Social Security offset) and assume the participant retires at age 65 and has been a non-contributory member of the Plan throughout the period of service. These amounts, however, do not reflect a reduction for Social Security benefits pursuant to the provisions of the Plan. They do include those additional sums, if any, payable under a separate plan to compensate those employes whose annual pension benefits payable under the Plan would be limited by Section 415 of the Internal Revenue Code, and whose benefits under that separate plan have not been matured by the Company. Because no such additional sums are due Messrs. McCay and McKinley and because their annual pension benefits under the retirement plan are limited by applicable law to \$90,000 and \$136,425, respectively, the above table is not applicable to them.

Incentive Plans

The Company's objective is to assure that all employees are fairly compensated and are rewarded in accordance with their contributions to the Company's success. To this end, in addition to having adopted the foregoing broadly based benefit plans, the Company has, over a period of time, developed an incentive program designed to motivate and reward selected employees with short, intermediate and long-range incentives tailored to their respective levels of responsibility for the Company's policy and future planning. These incentive plans have all previously been approved by the Company's stockholders.

The Company has no stock option plans and has had none since 1963.

Cash Bonus Plan. Under this Plan, the Board of Directors may each year transfer to a Cash Bonus Reserve an amount up to 1% of the Company's consolidated net income from which the Committee of Non-Management Directors may make, in its sole discretion, annual cash awards to selected executive and key employees. For the year ended December 31, 1985, 0.59% (\$7,312,110) of the Company's consolidated net income was awarded in January 1986 to 708 employees. The unawarded portion of the Reserve is carried forward for possible use in future years at the discretion of the Committee, and may be used to fund other plans.

Payment of cash bonuses and other incentive compensation has been deferred at the request of some recipients and upon approval by the Company. Under this deferral plan, amounts deferred earn interest for the participant at rates established under the Employees Thrift Plan or such other interest-bearing investment option as may be established by the Company from time to time at its discretion. Amounts deferred are subject to forfeiture under certain circumstances.

Incentive Stock Appreciation Plan. Under this Plan, up to 275,000 units may be awarded to participants each year over its expected ten-year duration. The Committee of Non-Management Directors may make awards annually to selected

executive and key employees who execute Incentive Stock Appreciation Agreements. If fewer than 275,000 units are granted in any year, the difference between the units granted and 275,000 may be granted in any subsequent Plan year.

The Company credits on its books for each employee with whom an Incentive Stock Appreciation Agreement is made a specified number of Units and also credits dollar amounts corresponding to dividends paid on each share of Common Stock then corresponding to the Units held in the participant's account. Units previously credited to a participant's Incentive Stock Appreciation account will vest no later than the fifth anniversary date following the date on which the award is credited to the participant's account. In any year subsequent to each anniversary date following the crediting of an award, the participant may request earlier vesting of up to one-fifth of the Units credited to his account for each anniversary date since the award was credited. In its discretion, the Committee may provide for additional vesting prior to the fifth anniversary date. Incentive Stock Appreciation Agreements also contain provisions for earlier vesting in specific contingencies, such as death, retirement or total disability, and for cancellation at the option of the Company upon failure of the participant to uphold certain conditions of the agreements. The amount paid to the participant on each vested unit will be the greater of (1) the increase in the fair market value of a share of the Common Stock on the date the award vested over the fair market value of such a share on the date the unit was awarded, or (2) the increase in the book value of such a share during the same period.

In 1985, 201 participating employees, including officers, were granted awards totalling 251,505 units. Messrs. DeCrane, Kinnear, McCay, McKinley, Routhier, Weitzel, and all Officers as a group received the following number of units: 12,420; 12,420; 5,150; 24,000; 4,765; 5,345; and 118,540, respectively.

All such awards are contingent and will be paid only if the units vest after five years, or at death if earlier, and are not cancelled by the Committee.

Restricted Share and Performance Unit Plan. The Plan provides an additional incentive to a small number of selected officers and other key employes who have major responsibilities for the continued success of the Company. No more than 73,000 Restricted Shares may be awarded in any Plan Year. If a lesser number is awarded in any year, the difference between the number awarded and 73,000 may be awarded in any subsequent year while the Plan is in effect. Awards are made at the sole discretion of the Committee of Non-Management Directors, which retains the right to cancel any awards previously made upon failure of the participant to comply with certain conditions.

The Participant shall have the right to vote such Restricted Shares and to receive all dividends and distributions with respect to such Restricted Shares. The Restricted Shares, however, may not be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of except in accordance with the terms of the Plan.

At the discretion of the Board, Restricted Units may be awarded in lieu of Restricted Shares. Simultaneously with the award of Restricted Shares/Units, the Committee may contingently credit each participant's performance unit account with up to a like number of Performance Units upon which the Board may authorize the payment of cash dividend equivalents. The Committee administers and makes all interpretations under the Plan. With respect to the payout of awards, the Committee establishes performance goals which it believes will best advance the interests of the Company. In no case, however, shall the amount of the Performance Unit payout exceed 100% of the fair market value of a share of the Common Stock on the Award Maturity Date or 200% of the fair market value on the date of the award. An award will vest on the fifth anniversary date of the award unless earlier vested in the event the fair market value of a share of Common Stock reaches the 200% limitation set forth prior to the Award Maturity Date.

In 1985, the Committee awarded 49,050 Restricted Shares together with 46,500 Performance Units to 57 participants, including 25 officers at a base price of \$34.1875 each, which was the average sales price of the Common Stock on January 2, 1985. Restricted Share awards to Messrs. DeCrane, Kinneer, McCay, McKinley, Routhier, Weitzel, and all Officers as a group were: 4,000; 4,000; 2,000; 12,000; 2,000; 1,500; and 41,600, respectively.

Information Pertaining to Other Plans

The Committee of Non-Management Directors and the Compensation Committee of the Board of Directors retained the firm of Peat, Marwick, Mitchell & Co. to determine the competitiveness of Texaco's compensation methods. Based on their report the Company adopted certain programs in order to enhance the Company's ability to attract and retain in its employ highly qualified persons for the successful conduct of its business. These programs include certain supplemental plans for key employes, including elected officers, which: provide additional life, medical and dental insurance; increase benefits payable in the event of a participant's permanent total disability; and extend the Company's accidental death and dismemberment insurance to these employes to age 70.

A Key Employee Loan Program (the "Program") allows designated key employes, except officers who are also directors, to borrow from the Company. Each loan request must state the purpose of the loan, and each loan will be individually considered and approved by the Company only if such loan may reasonably be expected to benefit the Company.

The Company charges an interest rate for each loan equivalent to the interest being paid to employes of the Company under the Fixed Income Fund Option of the Employees Thrift Plan or the Federal Reserve Bank of New York discount rate plus one percent, whichever is lower. If the interest rate charged under the Program is less than the statutory Federal rate determined

semiannually by the Internal Revenue Service pursuant to the Tax Reform Act of 1984, the difference is treated as both imputed income subject to tax and a deductible interest expense to the employee.

Approximately 200 key employees, including 23 elected officers, two of whom are on leaves of absence, are eligible for the Program.

As of December 31, 1985, the applicable interest rate was 9% and there were \$13,060,592 in loans outstanding for 102 participants, with \$4,694,620 of that amount attributable to 17 officers. Of the officers named in the compensation table only Mr. Routhier and Mr. Weitzel participated in the Program. The amount of the loans which they had outstanding at year end were \$35,000 and \$405,000, respectively, and the largest amounts outstanding at any time during 1985 were \$35,000 and \$440,000, respectively.

Other Business

The Management is not aware of any matters, other than those indicated above, that will be presented for action at the meeting. If other proper matters are introduced, the persons named in the enclosed proxy will vote the shares they represent in accordance with their judgment.

By order of the Board of Directors.

CARL B. DAVIDSON
Secretary

April 14, 1986