

MEMORANDUM OF AGREEMENT

BETWEEN

**TEXACO EXPLORATION & PRODUCTION, INC.
BAKERSFIELD REGION**

AND

**PAPER, ALLIED-INDUSTRIAL, CHEMICAL AND ENERGY
WORKERS INTERNATIONAL UNION, AFL-CIO, CLC**

It is hereby agreed by and between Texaco Exploration & Production, Inc., Bakersfield Region (hereinafter called the "Company") and the Paper, Allied-Industrial, Chemical and Energy Workers International Union, AFL-CIO, CLC (hereinafter called "Union") that the following understandings have been reached in contract negotiation meetings.

On December 10, 1998 representatives of the Company and Union commenced discussing certain changes to Texaco's Employee Savings Plan, which is available for participation by employees represented by the OCAW and covered by the Articles of Agreement between the Company and the Union.

I. Employee Savings Plan

In February 1990, Texaco issued \$50 million worth of Series F Convertible Preferred Stock. The Savings ESOP then borrowed \$50 million from a group of banks to purchase the stock and place it in the ESOP. As the loan was repaid, these shares of preferred stock were released and allocated to participants' accounts.

With the December 31, 1998 allocation, the ESOP loan will be repaid in full and all of the remaining shares of Series F Preferred Stock will be allocated to participants' accounts.

There were not enough shares of Series F Preferred Stock left to cover the full December 31, 1998 allocation, and because about 75% of Savings Plan participants will be transferring to the Texaco/Shell Alliance on April 1, 1999, there will not be enough participants left in the plan to support a new ESOP program.

Therefore, the Company's proposed resolution of this situation consists of:

- Using Texaco Common Stock to cover the shortfall of Series F Preferred Stock for the December 31, 1998 ESOP allocation,
- Paying the February 13, 1999 Series F dividend in cash directly to Plan participants (the same as the dividends paid on ESOP Common Stock). The Company agrees that if United States tax laws change that would allow the same tax deduction of dividends reinvested in the Savings Plan as dividends currently paid to Plan participants, it would amend the Plan to permit the reinvestment of dividends in the Savings Plan,
- Making all future ESOP allocations monthly (instead of semi-annually) in Texaco Common Stock, and
- After the February Series F dividend payment, calling the Series F Preferred Stock, which will then be converted to Texaco Common Stock, at a rate of twenty (20) shares of Texaco Common Stock to one (1) share of Series F Preferred Stock.

It is agreed and understood that this Memorandum of Agreement is subject to the ratification of the membership.

The Union agrees to the proposed resolution as described above this _____ day of _____, 1999.

**Paper, Allied-Industrial, Chemical
And Energy Workers International
Union, AFL-CIO, CLC**

**Texaco Exploration &
Production, Inc.
Bakersfield Region**

Raul Ramirez
International Representative

Nancy W. Smith
Human Resources Manager