Cabot Announces Third Quarter Operating Results

July 24, 2002

EPS $0.28 versus $0.51, with $0.34 from continuing operations before special items, versus $0.55

BOSTON, MA (July 24, 2002) – Cabot Corporation (CBT/NYSE) today announced earnings of $19 million, or $0.28 per diluted common share for the third quarter ended June 30, 2002, compared with $38 million, or $0.51 for the year ago quarter. Results from continuing operations were $23 million, or $0.34 per diluted common share before special items, compared with $41 million, or $0.55 per diluted common share before special items, for the year ago quarter. Cabot reported operating profit before tax and special items of $36 million for the quarter, compared with $60 million for the same quarter of fiscal year 2001.

Kennett F. Burnes, Cabot Chairman and CEO, said, “We are pleased that our Chemical Businesses showed signs of recovery during the quarter. As expected, we experienced pressure on margins in the carbon black business as a result of rising feedstock costs and the contract related lag in pricing adjustments. We were, however, successful in implementing price increases in the non-contracted areas of the carbon black business as industry utilization rates rose. We expect that unit margins will improve in the fourth quarter as contract prices will increase to reflect the rise in feedstock costs during the third quarter. Our fumed metal oxides (FMO) business continued to experience volume improvements over the prior quarter and all indications are that this trend will continue.”

Burnes said, “During the quarter we continued our efforts to resolve certain issues under supply contracts with two of our tantalum customers. We were able to successfully resolve the contract dispute with Vishay. In exchange for volume and price concessions, Vishay has extended one of their contracts and has agreed to purchase tantalum products at regular intervals throughout the terms of the contracts, beginning late in the third quarter. Cabot is very pleased to have resolved this dispute and we look forward to continuing a strong and mutually beneficial relationship with Vishay. Ongoing litigation with another tantalum customer prevents us from commenting further, other than to say that we believe strongly that the purchase contract is valid and that our rights ultimately will be upheld.”

For the quarter ended June 30, 2002, the Chemical Businesses segment reported a year over year decline in operating profit of $3 million, from $30 million in the third quarter of fiscal year 2001 to $27 million in the third quarter of fiscal year 2002. Despite higher volumes in carbon black, unit margins declined, primarily due to contract related pricing adjustments. This quarter volumes improved, increasing 7% year over year, and the business experienced 6% higher volumes in this quarter versus the second quarter of fiscal 2002. During the month of June, volumes declined to 2001 levels due to customer plant shutdowns and inventory corrections in the pipeline. It is unclear if this is a short-term issue. As a result, heading into a seasonally slow period, the outlook for the coming months remains cautious. The impact of foreign exchange rates during the third quarter was flat year over year but compared to last quarter resulted in a $3 million benefit due to the weaker dollar. Overall, carbon black's operating profit was $4 million lower than the same quarter last year and $1 million higher than the second fiscal quarter of 2002. In the third quarter, Cabot's FMO business reported operating profit this quarter that was equal to the same period in fiscal 2001. This business also experienced 10% higher volumes compared to the same quarter of fiscal 2001 and 11% higher volumes compared to the second quarter of fiscal 2002. Additionally, the third quarter FMO business results also contained charges of $3 million related to cancelled projects which were intended to support electronics industry growth. It is possible, given recent market indicators, that the carbon black and FMO businesses may soon be coming out of the bottom of the cycle.

Cabot Performance Material's (CPM) third quarter operating profit decreased by $21 million, from $31 million in 2001 to $10 million in 2002. Volumes were approximately 60% lower than the year ago quarter due to slower market conditions and the customer contract disputes. However, average selling prices were somewhat higher due to improved mix and higher prices for some products. Volumes were flat sequentially. Despite this, operating profit for the CPM business was down from the second quarter of fiscal 2002 due to unfavorable product mix and the effect of high cost inventory related to the Cabot Supermetals acquisition. Finally, we experienced lower average ore costs as the spot price for tantalum ore is much lower this year than it was a year ago.

In the third quarter of fiscal 2002, Cabot Specialty Fluids (CSF) reported a $1 million operating loss, which was the same as the third quarter of 2001. While the business continues to work on increasing prices to better reflect the value of the product, total volumes were down due to the smaller size of the jobs completed this quarter.

Included in the Company's earnings are $7 million of charges for special items and a $1 million insurance recovery related to discontinued operations. Special items included a $5 million charge to increase our reserve for respirator claims, $2 million of which is related to Cabot's contribution toward the settlement of a large group of claims in Mississippi. Cabot also incurred a $3 million charge related to the Showa Cabot Supermetals acquisition and a $1 million benefit from insurance recoveries.

Burnes said, “While we are beginning to see some signs of recovery in our Chemical Businesses, we remain cautious about the current business environment. Our Chemical Businesses, and Cabot overall, are fundamentally strong, but it is unclear to us when we can expect a significant and sustainable recovery in volumes. In addition, until the electronics markets improve and the pending customer dispute in the tantalum business is resolved, we will have a very difficult time predicting the results of our Performance Materials business. For these reasons, we remain very cautious about the outlook for the fiscal year.”

“Finally,” Burnes continued, “we have entered into a very turbulent time for American business, with declining investor confidence and ever increasing regulatory scrutiny. Cabot's management is preparing to implement the various SEC, New York Stock Exchange and congressional proposals as they become final. With the support of an independent and excellent board of directors, we believe that we are on top of the relevant issues.”

For those interested in more detailed information on Cabot's Third Quarter 2002 results please see the Supplemental Business Information available today on the Company's website in the Investor Relations section: http://www.shareholder.com/cabot/earnings.cfm.

Cabot Corporation is a Fortune 500 global specialty chemicals and materials company headquartered in Boston, MA. Cabot's major products are carbon black, fumed silica, inkjet colorants, and capacitor materials.

Forward-Looking Information: Included above are forward-looking statements relating to management's expectations of future profits, the possible achievement of the Company's financial goals and objectives and management's expectations for shareholder value creation initiatives and for the Company's product development program. Actual results may differ materially from the results anticipated in the forward-looking statements included in this press release due to a variety of factors, including market supply and demand conditions, fluctuations in currency exchange rates, costs of raw materials, patent rights of others, stock market conditions, demand for our customers' products, competitors' reactions to market conditions, and the outcome of pending litigation and other factors discussed in the Company's 2001 Annual Report Form 10-K. Timely commercialization of products under development by the Company may be disrupted or delayed by technical difficulties, market acceptance, competitors' new products, as well as difficulties in moving from the experimental stage to the production stage.