



Cabot Announces Third Quarter Operating Results

July 28, 2005

BOSTON, July 27 /PRNewswire-FirstCall/ -- Cabot Corporation (NYSE: CBT) today announced net income of \$26 million (\$0.39 per diluted common share) for the third quarter of fiscal year 2005 ended June 30, 2005, compared with \$42 million (\$0.62 per diluted common share) for the year ago quarter. The third quarter fiscal year 2005 results included \$3 million (\$0.04 per diluted common share) of after tax charges from certain items and discontinued operations, compared with the third quarter of fiscal year 2004 in which there was no impact from certain items and discontinued operations. Further details concerning certain items and discontinued operations are included in Exhibit I of the press release.

Kennett F. Burnes, Cabot's Chairman and CEO, commented, "We are, of course, not pleased with our results for the quarter as we under performed our own expectations by roughly 20 cents per share. This shortfall was attributable to significantly higher feedstock costs in carbon black and costs related to the ongoing labor situation at our Supermetals facility in Pennsylvania. Notwithstanding these issues, we had strong volumes in the quarter, continue to have confidence in the underlying strength of our core businesses and remain excited about the growth potential in our new businesses."

The Chemicals Business reported operating profits of \$30 million compared to \$45 million for the same period in fiscal year 2004. Carbon black reported a decrease of \$13 million in operating profits compared to the third quarter of fiscal year 2004 and a \$16 million decrease compared to the second quarter of fiscal year 2005. Much of the impact on carbon black during the quarter was related to higher feedstock costs. In prior periods carbon black feedstock costs have not risen at the same rate as increases in crude oil prices. This quarter, however, carbon black saw significant increases in feedstock costs while crude prices were relatively flat. This impacted the profitability of the carbon black business by \$15 million when compared to the second quarter of fiscal year 2005 and by \$28 million when compared to the third quarter of fiscal year 2004. Additionally, lower operating rates due to inventory drawdowns resulted in higher per unit cost of sales during the quarter. These negative events were only partially offset by volume increases, which were 7% sequentially and 2% quarter over quarter.

"In the approximately ten year period that we have had carbon black supply contracts with this type of price adjuster in place, this is the first quarter in which fluctuations in feedstock costs have had such a significant impact on our profitability. Although we are confident that these swings in our variable margins, and thus our earnings, even out over time, we were surprised by the magnitude of the negative impact this quarter and will be looking at ways we might restructure the price adjustment formulas in these contracts to better reflect the current cost of feedstock in our pricing. Under the contracts feedstock cost increases were passed through to our customers as of the beginning of the current quarter," Burnes commented.

Burnes continued, "We need to do a better job of following feedstock costs during the quarter which will enable us to communicate any significant trends when we have a public opportunity. Despite the foregoing, carbon black had very strong volumes during the quarter and we remain confident in the underlying strength of the business."

Cabot's fumed metal oxides business reported relatively flat profitability when compared to both the third quarter of fiscal year 2004 and the second quarter of fiscal year 2005. Inkjet colorants reported continued strong volume growth during the quarter with volumes increasing 29% over the year ago quarter driven by both the OEM and aftermarket segments, and 10% over the second quarter of fiscal year 2005 driven primarily by growth in the OEM segment.

The Supermetals Business reported \$13 million in operating profits for the third quarter of fiscal year 2005 compared to \$18 million in the third quarter of fiscal year 2004 and \$16 million in the second quarter of fiscal year 2005. The Supermetals Business had increased volumes during the quarter, the benefit of which was offset by lower prices resulting from the continuing transition from fixed to market based pricing. In addition, the business incurred approximately \$4 million of incremental costs associated with the labor situation at its facility in Boyertown, PA and \$1 million of unabsorbed costs related to efforts to reduce inventory and ongoing operating expenses in that business. "I am pleased to report that despite the work stoppage we are fulfilling all customer orders by reducing inventory and running the plant as needed, largely with management personnel," commented Burnes.

For the third quarter of fiscal year 2005, the Specialty Fluids Business reported \$5 million in operating profits which was a \$5 million increase over the year ago quarter, and a \$1 million increase over the second quarter of fiscal year 2005. The improved performance was due to increased volumes associated with a higher number of completed jobs and an increase in rental revenue during the quarter. During the quarter, the business completed seven jobs. No jobs were completed in the same period last year.

With respect to the future, Burnes said, "We anticipate continued strong volumes in our core Chemicals Business for the remainder of the year. In carbon black, we will have higher prices in most of our contracted business and have implemented price increases in most of the remaining portions of that business. However, we remain cautious regarding raw material costs. We anticipate ongoing growth in the inkjet colorants and Specialty Fluids businesses. We continue to invest resources in market development and manufacturing operations for our new businesses, such as aerogels, and are confident in our progress. In the Supermetals Business, we continue to operate our facilities to meet customer demand. Although it is difficult to predict how long the work stoppage will continue or any additional costs resulting from the strike, we continue to believe that PBT (profit before tax) for the Supermetals Business will be between \$55 million and \$60 million for the year, which is in the range of our previously provided guidance."

For those interested in more detailed information on Cabot's third quarter fiscal year 2005 results, please see the Supplemental Business Information available on the Company's website in the Investor Relations section: <http://investor.cabot-corp.com>.

Included above are forward-looking statements relating to management's expectations regarding future business performance and profits, anticipated volumes in the Company's Chemicals Business, and growth in the inkjet colorants and Specialty Fluids Business. The following are some of the factors that could cause the Company's actual results to differ materially from those expressed in the forward-looking statements: fluctuations in feedstock costs; the length and resolution of the work stoppage at the Company's Supermetals facility in Pennsylvania; domestic and global economic

conditions, such as market supply and demand, prices and costs and availability of raw materials; fluctuations in currency exchange rates; the timely commercialization of products under development by the Company (which 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); patent rights of others; stock market conditions; demand for our customers' products; the accuracy of the assumptions used by the Company in establishing a reserve for its share of liability for respirator claims; and the outcome of pending litigation. Other factors and risks are discussed in the Company's 2004 Annual Report on Form 10-K and subsequent periodic reports and filings made with the Securities and Exchange Commission.

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