

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-5667

CABOT CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION
OF INCORPORATION OR ORGANIZATION)
75 STATE STREET
BOSTON, MASSACHUSETTS
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

04-2271897
(IRS EMPLOYER
IDENTIFICATION NO.)
02109
(ZIP CODE)

(617) 345-0100
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

COMMON STOCK, \$1.00 PAR VALUE PER SHARE:
70,446,881 SHARES OUTSTANDING
AT NOVEMBER 29, 1996

BOSTON STOCK EXCHANGE
NEW YORK STOCK EXCHANGE
PACIFIC STOCK EXCHANGE

PREFERRED STOCK PURCHASE RIGHTS

Indicate by check mark whether the Registrant (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 (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the Registrant's common stock held beneficially or of record by shareholders who are not directors or executive officers of the Registrant at November 29, 1996, was approximately \$1,634,283,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Stockholders for fiscal year 1996 are incorporated by reference in Parts II and IV, and portions of the Registrant's definitive Proxy Statement for its 1997 Annual Meeting of Stockholders are incorporated by reference in Part III.

PART I

ITEM 1. BUSINESS

GENERAL

Cabot's business was founded in 1882 and incorporated in the State of Delaware in 1960. The Company has businesses in specialty chemicals and materials and in energy. The Company and its affiliates have manufacturing facilities in the United States and 21 other countries.

The term "Cabot" as used in this Report refers to Cabot Corporation. The terms "Company" and "Registrant" mean Cabot and its consolidated subsidiaries.

The description of the Company's businesses is as of September 30, 1996, unless otherwise noted. Information regarding the revenues and operating profits of the Company's business segments and geographic areas appears on pages 19 and 38 and 39 of the Company's Annual Report to Stockholders for fiscal year 1996 ("Annual Report") which are incorporated herein by reference.

In February 1996, the Company acquired an 80% controlling interest in an Indonesian carbon black company for approximately \$50 million, plus the assumption of \$9 million of debt. In July 1996, the Company sold 1.85 million shares of the common stock of K N Energy, Inc., for which the Company received cash proceeds of \$57.6 million. See pages 5 and 6 for further information regarding the Company's investment in K N Energy, Inc.

Effective September 30, 1996, Cabot sold all of the stock of its subsidiary, TUCO INC., to TUCO Acquisition, Inc. for consideration of \$77 million (\$27 million in cash plus the repayment of \$50 million of TUCO INC. debt by the buyer), plus \$8 million of working capital adjustments.

On November 10, 1995, Cabot's Board of Directors authorized a two-for-one stock split of Cabot's common stock, \$1.00 par value per share ("Common Stock"), in the form of a stock dividend subject to stockholder approval of an amendment to Cabot's Certificate of Incorporation to increase the authorized number of shares to 200,000,000 shares. Stockholders approved such amendment at the Company's Annual Meeting on March 7, 1996. Pursuant to the previously authorized stock split, the shares of Common Stock were distributed on March 22, 1996 to stockholders of record on March 15, 1996.

In May 1996, Cabot's Board of Directors authorized the repurchase of up to 4,000,000 shares of its Common Stock in an effort to reduce the total number of shares of Common Stock outstanding. Pursuant to that authorization, Cabot purchased approximately 736,000 shares through September 30, 1996. Prior to that authorization, Cabot had purchased approximately 1,870,000 shares under a previous Common Stock repurchase authorization during fiscal year 1996 in open market transactions and 1,347,300 shares in private and open market transactions during fiscal 1995 for the purpose of reducing the total number of shares outstanding as well as replacing shares issued under the Company's employee incentive compensation programs.

Additional information regarding significant events affecting the Company in its fiscal year ended September 30, 1996, appears in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 17 through 24 of the Annual Report.

SPECIALTY CHEMICALS AND MATERIALS

CARBON BLACK DIVISIONS

The Company's Carbon Black Divisions manufacture and sell carbon black, a very fine black powder. Carbon black is used as a reinforcing agent in tires (tire blacks) and industrial rubber products such as extruded profiles, hoses and molded goods (industrial rubber blacks). Non-rubber grades of carbon black, known as special blacks, are used to provide pigmentation, conductivity and ultraviolet protection and for other purposes in many specialty applications such as inks, plastics, cables and coatings. The Company believes that it is the leading manufacturer of carbon black in the world. It estimates that it has about one quarter of the

worldwide production capacity and market share of carbon black. The Company competes in the manufacture of carbon black with two companies having an international presence and with at least 20 other companies in various regional markets in which it operates (see "General" on pages 4 and 5 of this Report).

The Company's carbon black business is operated through a matrix of four regional Divisions, European, North American, Pacific Asia and South American, and three sectors, industrial rubber blacks, special blacks and tire blacks. Carbon black plants owned by Cabot or a subsidiary are located in Argentina, Australia, Brazil, Canada, the Czech Republic, England, France (two plants), India, Indonesia (two plants), Italy, Japan, The Netherlands, Spain and the United States (four plants). Affiliates of the Company own carbon black plants in Colombia, Japan (two plants), Malaysia, Mexico, The People's Republic of China and Venezuela. The Company consolidated the operating results of its affiliates in the Czech Republic and India effective October 1, 1995.

The principal raw materials used in the manufacture of carbon black are carbon black oils derived from petroleum refining operations and from the distillation of coal tars and the production of ethylene throughout the world. The availability of raw materials has not been and is not expected to be a significant factor for the business. Raw material costs are influenced by the cost and availability of oil worldwide and the availability of various types of carbon black oils.

Sales are generally made by Company employees in the countries where carbon black plants are located. Export sales are generally made through distributors or sales representatives in conjunction with Company employees. Sales are made under various trademarks owned by Cabot, of which Cabot[Registered Trademark], Black Pearls[Registered Trademark], Elftex[Registered Trademark], Mogul[Registered Trademark], Monarch[Registered Trademark], Regal[Registered Trademark], Spheron[Trademark], Sterling[Registered Trademark] and Vulcan[Registered Trademark] are the best known.

The Company has developed three new carbon black products with substantial demand potential. The first such product is a tire innerliner carbon black which can reduce the amount of expensive halobutyl polymers in a tire. The innerliner carbon black can both lower the cost of producing tires and improve the tires' performance. The Company's best estimate, at this time, of the annual revenues innerliner carbon black may produce by the year 2000 is \$25 million to \$60 million*. Ecoblack[Trademark] carbon black, the second new product, utilizes a new technology for surface modification of the chemistry of carbon black. It can be used in place of silica to reduce a tire's rolling resistance and improve an automobile's gas mileage at a cost significantly less than that using a silica compound. The Company's best estimate, at this time, of the annual revenues to be derived from the Ecoblack[Trademark] product by the year 2000 is \$20 million to \$80 million*. The Company is building a semi-works plant in Malaysia in connection with its plans to commercially develop and produce elastomer composites, the third new product. The Company believes that its new elastomer composites will provide a significant improvement in tire performance. The Company estimates that by the year 2000 elastomer composites may produce revenues of \$200 million to \$250 million annually*.

CAB-O-SIL DIVISION

The Company's Cab-O-Sil Division manufactures and sells fumed silica and dispersions thereof under various trademarks including Cabot[Registered Trademark], Cab-O-Sil[Registered Trademark], Cab-O-Sperse[Registered Trademark] and Cab-O-Guard[Trademark]. Fumed silica is an ultra-fine, high-purity silica produced by a flame process for use as a reinforcing, thickening, thixotropic, suspending or anti-caking agent in a wide variety of products for the automotive industry, construction industry and consumer industries, including adhesives, cosmetics, inks, lubricants, paints and pharmaceuticals. The headquarters of the Cab-O-Sil Division is located in Aurora, Illinois, and its North American manufacturing plant is located in Tuscola, Illinois. A subsidiary of Cabot leases a manufacturing plant in Wales, and an affiliate of Cabot owns a manufacturing plant in Germany. A plant to manufacture fumed silica is under construction in India by a joint venture which is 50% owned by the Company and 50% owned by an Indian entity. Raw materials for the production of fumed silica are various chlorosilane feedstocks. The feedstocks are either purchased or toll converted for owners of the materials. The Division has long-term procurement contracts in place which it believes will enable it to meet its raw material requirements. Sales of

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*Estimates of future contributions and performance are contingent on various internal and external factors as described on page 7 of this Report.

fumed silica products are made by Company employees and through distributors and sales representatives. There are five principal producers of fumed silica in the world (see "General" on pages 4 and 5 of this Report). The Company believes it is the leading producer and seller of this chemical in the United States and second worldwide.

MICROELECTRONICS MATERIALS DIVISION

The Company's Microelectronics Materials Division manufactures and sells high-purity polishing compounds, made from fumed metal oxides and a variety of chemistries. The polishing compounds are used in the manufacture of wafers, chips and other electronic devices by the semiconductor industry. These products are sold under various Cabot trademarks including Cab-O-Sperse[Registered Trademark] and Semi-Sperse[Registered Trademark]. Sales of polishing compounds are made by Company employees and through distributors. Raw materials are readily available. The Microelectronics Materials Division has a newly constructed dispersion manufacturing facility and laboratory in Aurora, Illinois, as well as a dispersion manufacturing facility in Barry, Wales. The headquarters and technology center of the Microelectronics Materials Division is located in Aurora, Illinois. The Aurora, Illinois facility provides quality control management, operations management, marketing support and customer sales and service for the Division.

PLASTICS DIVISION

The Company's Plastics Division produces black and white thermoplastic concentrates and specialty compounds for sale to plastic resin producers and the plastics processing industry. Sales are made under various Cabot trademarks including Cabelec, Plasadd, Plasblak, Plasdeg, Plastech, Plaswite and Rainbow. Major applications for these materials include pipe and tubing, packaging and agricultural film, automotive components, cable sheathing and special packaging for use in the electronics industry. The plastics business is operated through four sectors: polymer producers, specialty compounds, proprietary products in Europe and proprietary products in Asia. Sales are made by Company employees and through sales representatives and distributors primarily in Europe and Asia. This business has manufacturing facilities in Belgium (two plants), England, Hong Kong and Italy. In Europe, the Company is one of the three leading producers of thermoplastic concentrates. The main raw materials used in this business are carbon black, titanium dioxide, thermoplastic resins and mineral fillers. Raw materials are in general readily available. The Company also operates a small plastics recycling facility in Belgium.

PERFORMANCE MATERIALS DIVISION

The Cabot Performance Materials Division serves the electronic materials and refractory metals industries and produces tantalum, niobium (columbium) and their alloys, and cesium, germanium, rubidium and tellurium and their compounds. Tantalum is produced in various forms including powder and wire for electronic capacitors. Tantalum and niobium and their alloys are also produced in wrought form for non-electronic applications such as chemical process equipment and the production of superalloys, and for various other industrial and aerospace applications. Tantalum is also used in ballistic munitions by the defense industry. The headquarters and the principal manufacturing facility of this business are in Boyertown, Pennsylvania. Subsidiaries in Canada hold leasehold interests in land and certain mineral rights with respect to such land in Manitoba, Canada. These subsidiaries mine and sell tantalite, spodumene, lepidolite and pollucite. An affiliate of the Company has a manufacturing plant in Japan. Raw materials are currently in adequate supply. The Company is presently seeking new sources of supply to support future demand. Raw materials are obtained by the Company from ores mined principally in Africa, Australia, Brazil and Canada and from by-product tin slags from tin smelting mainly in Malaysia. Sales in the United States are made by personnel of the Company with export sales to Europe handled by Company employees and independent European sales representatives. Sales in Europe are made by an affiliated company. Sales in Japan and other parts of Asia are handled primarily through employees of the Company's Japanese affiliate. There are currently two principal groups producing tantalum and niobium in the western world. The Company believes that it, together with its Japanese affiliate, is the leading producer of electronic grade tantalum powder and wire products with competitors having greater production in some other product lines (see "General" below).

OTHER

The Company has formed two new business units to develop and market two new products which are currently not providing a material amount of revenues for the Company. The first is the Ink Jet Colorants Division which manufactures a product for use in computer ink jet printers. Pigments based colorants are designed to replace traditional pigment dispersions and dyes. These colorants deliver enhanced color, stability, durability, ink formulation flexibility and high print quality. These new products serve printing markets, such as home and office printers, wide format, and commercial and industrial printing applications. The Company's best estimate, at this time, of the revenues from this product in the year 2000 is \$18 million to \$30 million*. The other new business is Cabot Specialty Fluids, Inc. which will develop and market cesium brine as a drilling fluid to be used when drilling oil and gas wells with high drilling temperatures. Cesium brine has a high density without solid additives, but a low viscosity so it will readily flow; it is resistant to high temperatures and yet it is biodegradable. The Company's best estimate, at this time, of the revenues from this product in the year 2000 is \$15 million to \$35 million*. The Company is constructing a manufacturing facility to produce cesium brine near its mine in Manitoba, Canada. This facility is scheduled for completion in March of 1997.

GENERAL

The Company owns and is a licensee of various patents, which expire from time to time, covering many products, processes and product uses of the Specialty Chemicals and Materials Group. Although the rights of the Company and the products made and sold under these patents and licenses are important to the Specialty Chemicals and Materials Group, the loss of any particular patent or license would not materially affect the businesses of this Group, taken as a whole. Products of this Group are also sold by the Company under a variety of trademarks, the loss of any one of which would similarly not materially affect the businesses of this Group, taken as a whole.

The Group's businesses are generally not seasonal in nature, although they experience some decline in sales in the fourth fiscal quarter due to European holiday plant shutdowns. Backlog orders for the Group believed to be firm as of September 30, 1996 were approximately \$103.1 million, compared to firm backlog orders as of September 30, 1995, of approximately \$104.8 million. All of the 1996 backlog orders are expected to be filled during fiscal year 1997.

Six major tire and rubber companies operating worldwide, several special blacks customers operating in Europe and the United States, and one fumed silica customer operating in Europe and the United States represent a material portion of the Group's total net sales and operating revenues; the loss of one or more of these customers might materially adversely affect the Group. The Cab-O-Sil Division's largest customer, Dow Corning Corp., filed for protection against its creditors under the bankruptcy laws in 1995. That filing is not expected to have a material adverse effect on the Cab-O-Sil Division.

The Company's specialty chemicals and materials are used in many end-uses associated with the automotive industry such as tires, extruded profiles, hoses, molded goods, capacitors and paints. The Company's financial results are affected by the cyclical nature of the automotive industry, although a large portion of the market is for replacement tires and other parts which are less subject to automobile industry cycles. The Company has long-term carbon black supply contracts with certain of its North American tire customers. These contracts are designed to provide such customers with a secure supply of carbon black and reduce the volatility in the Company's carbon black volumes and margins caused, in part, by automobile industry cycles.

Competition exists on the basis of price, service, quality, product performance and technical innovation in the businesses of this Group. Competitive conditions in the European market for carbon black are also affected by sales of carbon black produced in Croatia, Egypt, Hungary and Russia. Competitive conditions

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* Estimates of future contributions and performance are contingent on various internal and external factors as described on page 7 of this Report.

also result in the need to carry an inventory of raw materials and finished goods in order to meet the customers' needs for prompt delivery of products. Competition in quality, service, product performance and technical innovation is particularly significant for the fumed silica, industrial rubber blacks, special blacks and tantalum businesses. Competition affecting the businesses of the non-carbon black parts of the Group comes from different firms for each product group.

LIQUEFIED NATURAL GAS

The Company, through a subsidiary, purchases liquefied natural gas ("LNG") from Sonatrading, an affiliate of Sonatrach, the Algerian national oil and gas company, under a long-term and a medium-term supply contract and, when available at competitive prices, from other sources. Cabot and Sonatrach have each agreed to assure performance of the obligations of their respective affiliates under these agreements. The LNG is stored and resold in the northeastern United States from a terminal facility in Everett, Massachusetts. The Company has received authorizations from the U.S. Department of Energy to import LNG under the contracts with Sonatrading, as well as blanket authorization to import LNG from other foreign suppliers on both a long-term and short-term basis. The Company has also received authorization from the Federal Energy Regulatory Commission for sales services. Currently, the Company's supply of LNG is limited primarily by the amount of LNG available from Sonatrading/Sonatrach.

In 1993, the Company was notified by Sonatrach that the renovation of Sonatrach's Algerian LNG production facilities would likely result in a temporary reduction of LNG deliveries to its customers, including the Company. The Company expects the deliveries of LNG from its Algerian supplier to improve in fiscal year 1997 as Sonatrach's renovation project progresses. The Company has been able to continue to meet its firm sales obligations to customers and has secured an additional limited source of supply from ADGAS, an LNG exporter in the United Arab Emirates. The Company is not able to predict, at this time, what, if any, impact the political instability in Algeria may have on the future supply of LNG from its Algerian supplier, but to date, no direct adverse effect has been experienced. The loss of supply from the Algerian supplier could have a material adverse effect on the Company until additional sources of supply are obtained.

A consortium of companies consisting of Amoco Trinidad (LNG) B.V., British Gas Trinidad LNG Limited, Cabot Trinidad LNG Limited ("Cabot Trinidad", a wholly owned subsidiary of Cabot LNG Corporation), NGC Trinidad and Tobago LNG Limited and Repsol International Finance B.V. own Atlantic LNG Company of Trinidad and Tobago ("Atlantic LNG"), a corporation formed to construct, own and operate a new LNG plant in the Republic of Trinidad and Tobago designed to export 385 million cubic feet of natural gas per day in the form of LNG. Cabot Trinidad owns ten percent of Atlantic LNG. Cabot LNG Corporation and Enagas, S.A., the largest importer and wholesaler of natural gas in Spain, have entered into sales contracts with Atlantic LNG under which Cabot LNG Corporation will purchase 60% and Enagas, S.A. will purchase the remaining 40% of the LNG to be produced by Atlantic LNG's new plant. The plant is expected to be completed and deliveries of LNG to commence in fiscal year 1999. In fiscal year 1996, the consortium concluded agreements with subsidiaries of Bechtel Corporation to design and construct the new LNG plant. Construction is now underway. In November 1995, the Company received authorization from the U.S. Department of Energy to import up to 100 billion cubic feet of LNG per year from Trinidad and other countries for a period of 40 years.

The LNG business is not materially dependent upon any patent, trademark or other intellectual property license. Backlog orders are not significant to this business. Sales by the LNG business are stronger in the winter months because of heating demands in New England.

Price competition characterizes the markets served by the LNG business. The business has numerous competitors including natural gas suppliers and suppliers of alternative fuels.

OTHER

The Company acquired its investment in K N Energy, Inc. ("KNE") in connection with the merger of American Oil and Gas Corporation with a subsidiary of KNE in July 1994. The Company has reflected its

investment in the common stock of KNE at its fair market value on September 30, 1996. An officer of the Company is a director and a member of the Audit Committee of KNE.

The Company has maintained an approximately 42.5% ownership interest in Aearo Corporation (formerly Cabot Safety Holdings Corporation) after the restructuring of the Company's safety products and specialty composites business in July 1995. The Company has two representatives serving on the Board of Directors of Aearo Corporation and its principal subsidiaries ("Aearo"). Aearo manufactures and sells personal safety products, as well as energy absorbing, vibration damping and impact absorbing products for industrial noise control and environmental enhancement.

TUCO INC., which the Company sold effective September 30, 1996, purchases coal mined in Wyoming pursuant to long-term and short-term (spot) contracts and has it transported by rail to Texas where it is processed and sold to Southwestern Public Service Company pursuant to long-term sales contracts for use in generating electricity.

OTHER INFORMATION

EMPLOYEES

As of September 30, 1996, the Company had approximately 4,700 employees. Approximately 600 employees in the United States are covered by collective bargaining agreements. The Company believes that its relations with its employees are satisfactory.

RESEARCH AND DEVELOPMENT

The Company's Specialty Chemicals and Materials Group develops new and improved products and processes and greater operating efficiencies through Company-sponsored research and technical service activities including those initiated in response to customer requests. Expenditures by the Company for such activities are shown on page 25 of the Annual Report which is incorporated herein by reference.

SAFETY, HEALTH AND ENVIRONMENT

The Company's operations are subject to various environmental laws and regulations. Over the past several years, the Company has expended considerable sums to add, improve, maintain and operate facilities for environmental protection. Expenditures for equipment or facilities intended solely for environmental protection are estimated to have been approximately \$22 million in fiscal year 1996 and are expected to be approximately \$20 million in fiscal year 1997, and approximately \$20 million in fiscal year 1998. Most of these expenditures for fiscal years 1996-1998 are to enable Cabot's U.S. plants to comply with the new requirements of the Clean Air Act.

The Company has been named as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (the "Superfund law") with respect to several sites (see Item 3, "Legal Proceedings," on pages 8 through 10 of this Report for a description of various environmental proceedings). During the next several years, as remediation of various environmental sites is carried out, the Company expects to spend a significant portion of its \$44.5 million environmental reserve for costs associated with such remediation. Additions are made to the reserve based on the Company's continuing analysis of its share of costs likely to be incurred at each site. The sites are primarily associated with divested businesses.

The International Agency for Research on Cancer ("IARC") revised its evaluation of carbon black from Group 3 (insufficient evidence to make a determination regarding carcinogenicity) to Group 2B (known animal carcinogen, possible human carcinogen), based solely on results of studies of female rat response to the

inhalation of carbon black. The Company has communicated this change in IARC evaluation of carbon black to its customers and employees and has made changes to its material safety data sheets and elsewhere, as appropriate. The Company continues to believe that available evidence, taken as a whole, indicates that carbon black is not carcinogenic to humans, and does not present a health hazard when handled in accordance with good housekeeping and safe workplace practices as described in the Company's material safety data sheets.

*FORWARD LOOKING INFORMATION

Actual results may differ materially from the results anticipated in the statements included herein due to a variety of factors including market supply and demand conditions, costs of raw materials, demand for our customers' products and our competitors' reactions to market conditions. 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.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS, FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

Industry segment financial data are set forth in tables on pages 19 and 38 and 39 of the Annual Report and are incorporated herein by reference. A significant portion of the Company's revenues and operating profits is derived from overseas operations. The profitability of the Specialty Chemicals and Materials businesses is affected by fluctuations in the value of the U.S. dollar relative to foreign currencies. The Company's overseas operations do not currently include any energy-related businesses. (See Note N of the Notes to Consolidated Financial Statements for further information relating to sales and profits by geographic area and Management's Discussion and Analysis of Financial Condition and Results of Operations, appearing on pages 38 and 39 and pages 17 through 24, respectively, in the Annual Report and incorporated herein by reference). Currency fluctuations and nationalization and expropriation of assets are risks inherent in international operations. The Company has taken steps it deems prudent in its international operations to diversify and otherwise to protect against these risks, including the purchase of forward foreign currency contracts and options and writing of options to reduce the risk associated with changes in the value of certain foreign currencies compared to the U.S. dollar. (See Note M of the Notes to the Consolidated Financial Statements on page 38 of the Annual Report.)

ITEM 2. PROPERTIES

The Company owns, operates and leases office, manufacturing, production, storage, marketing and research and development facilities in the United States and in foreign countries.

The principal facilities of the Company's business units are described generally in Item 1 above.

The principal facilities owned by the Company in the United States are: (i) the administrative offices and manufacturing plants of its carbon black operations in Louisiana, Massachusetts, Texas and West Virginia (comprising approximately 90,400 square yards); (ii) its research and development facilities in Illinois, Massachusetts, Pennsylvania and Texas and its applications development facility in Georgia (comprising approximately 24,700 square yards); (iii) administrative offices and manufacturing plants of its Cab-O-Sil, Microelectronics Materials Division and Cabot Performance Materials business units in Illinois and Pennsylvania (comprising approximately 56,400 square yards); and (iv) its LNG terminalling and storage facility in Massachusetts (comprising approximately 3,200 square yards). Portions of plants in Louisiana referred to above are constructed on long-term ground leases.

The Company's principal foreign facilities are owned by subsidiaries and together they comprise approximately 670,700 square yards of manufacturing facilities, 4,300 square yards of research and development facilities, and 94,600 square yards of administrative facilities. Portions of the facilities in the Czech Republic, India and Indonesia are located on leased land.

The principal facilities leased by the Company in the United States are its corporate headquarters in Boston, Massachusetts, the carbon black administrative offices in Georgia and the administrative offices of the Cabot Performance Materials business in Pennsylvania (comprising approximately 16,200 square yards).

The principal facilities leased by subsidiaries in locations outside of the United States are administrative offices and manufacturing facilities of the Cab-O-Sil business in Wales and the Plastics business in Belgium and administrative offices and manufacturing and research and development facilities of the carbon black operations in France, Malaysia and Spain, as well as certain leasehold interests in Canada (collectively comprising approximately 109,800 square yards).

The Company's administrative offices are generally suitable and adequate for their intended purposes. Existing manufacturing facilities of the Company are not sufficient to meet the Company's increased requirements for the future and are being supplemented by additional production facilities in several locations in the U.S. and outside the U.S. A new plant to produce fumed silica is planned to be constructed in Midland, Michigan; projects to expand carbon black production capacity are being undertaken in North America, South America and Indonesia; projects to expand tantalum powder and wire capacity are planned in Boyertown, Pennsylvania; and a cesium brine plant is under construction in Manitoba, Canada. The cesium brine plant is scheduled for completion in March of 1997.

ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant in various lawsuits and environmental proceedings wherein substantial amounts are claimed. The following is a description of the significant proceedings pending as of September 30, 1996:

Environmental Proceedings

In 1994, Cabot and the State of Florida agreed to a settlement of a 1983 state court lawsuit requiring Cabot to pay the State \$650,000 in past costs associated with a site in Gainesville, Florida. The site included a parcel of land on which Cabot previously owned and operated a pine tar distillation plant. Cabot has filed a cost recovery suit against other responsible parties at the site seeking reimbursement of their share of response costs. Settlements have been reached with several defendants and the action is proceeding against the others.

In April 1985, Cabot and five other companies entered into a consent order with the U.S. Environmental Protection Agency ("EPA") under the Superfund law to perform a remedial investigation and feasibility study with respect to the King of Prussia Technical Corp. site in Winslow Township, New Jersey. A Record of Decision ("ROD") was issued by the EPA specifying a combination of remedial actions for the site at an estimated cost of almost \$15 million. The EPA issued an administrative order directing Cabot and four other companies to design and complete the remedial measures. Most of the work on site remediation has been completed. Cabot and the other companies involved have reached an agreement on the portions of the costs to be borne by each company.

Beginning in May 1986, the Department of Environmental Protection of the State of New Jersey ("NJDEP") issued directives under the New Jersey Spill Compensation and Control Act to Cabot and other potentially responsible parties ("PRPs") to fund a remedial investigation for the cleanup of a six acre site in Old Bridge Township near Perth Amboy, New Jersey. Cabot and other parties contributed funds for a remedial investigation and feasibility study which was conducted by a consultant to the NJDEP. In September 1992, the EPA issued a ROD specifying certain remedial actions and indicating that a second ROD would be issued following further study. Preliminary action on the first ROD has been taken by the NJDEP. A group of companies, including Cabot, has reached an agreement with the NJDEP to perform an additional study of the site and to handle minor remedial work. Until the study is complete, it will not be possible to identify what the remediation costs for this site will be or what Cabot's portion of such costs will be.

In 1989, the United States filed a claim in the U.S. District Court for the Eastern District of Pennsylvania against 18 defendants under the Superfund law for recovery of the EPA's cleanup costs at Moyer's Landfill in Collegeville, Pennsylvania. The Pennsylvania Department of Environmental Protection ("PADEP") intervened in this lawsuit. The government plaintiffs estimated their claims to total \$48 million. For several years

Moyer's Landfill was used for the disposal of municipal and industrial wastes by numerous parties, including Cabot. More than 100 additional parties, including Cabot, were brought into the litigation by means of a third-party complaint. Recently, the EPA and PADEP have reached settlements with numerous parties, including Cabot, and settlement documents have been filed with the Court.

In 1989 and 1990, respectively, Cabot completed a remedial investigation and feasibility study of its former beryllium processing plant in Hazleton, Pennsylvania, and submitted the study to the PADEP. An environmental consultant retained by Cabot has designed and implemented certain of the remedial measures described in the study after consultation with the PADEP. The remedial work was completed in 1996.

Cabot is one of approximately 25 parties identified by the EPA as PRPs under the Superfund law with respect to the cleanup of Fields Brook (the "Brook"), a tributary of the Ashtabula River in northeastern Ohio. From 1963 to 1972, Cabot owned two manufacturing facilities located beside the Brook. The EPA has specified a remedy for the site but continues to assess the condition of the Brook. Cleanup is expected to begin in 1997 or 1998. Pursuant to an EPA administrative order, 15 companies, including Cabot, are performing the design and other preliminary work relating to sediment cleanup. Concurrently, the companies and the EPA are evaluating remedial alternatives for the floodplain and wetlands areas adjacent to the Brook. The EPA has not selected the remedy for these areas. Consequently, it is not possible to determine future remedial costs for the floodplain and wetlands. The EPA's cost recovery claims through the end of 1989 have been settled; the companies, including Cabot, that have paid for work at the site are seeking to recover a share of those costs from other responsible parties. At one of the plants formerly operated by Cabot, two subsequent owners are working with Cabot in evaluating site conditions and potential remedies. The EPA has not selected the remedy for this plant site or any other plant along the Brook. It is not possible at this time to determine future remedial costs or Cabot's share of those costs. The State of Ohio has also notified Cabot and several other companies that it will seek damages for injury to natural resources at the Brook. Cabot is also engaged in arbitration proceedings with the succeeding plant owners regarding costs associated with remediation of the Brook and the plant site.

In 1994, Detrex Chemical Industries, Inc. filed third-party complaints against eight companies, including Cabot, in connection with material allegedly sent to the Koski/RES landfill in Ashtabula, Ohio. Cabot and other third-party defendants filed complaints against five additional companies that sent waste to the site. It is not possible at this time to determine future remedial costs or Cabot's share, if any, of such costs.

In 1994, five plaintiffs filed suit in the U.S. District Court for the Eastern District of Pennsylvania against 18 defendants, including Cabot, under the Superfund law and State law seeking recovery of remediation costs at the Berks Landfill site, which is located in the vicinity of Reading, Pennsylvania. The plaintiffs claim that a beryllium alloy plant formerly owned by Cabot and located in Reading, Pennsylvania sent waste to the Berks Landfill. The EPA has not selected a remedy for the site. It is not possible at this time to determine future remedial costs or the amount of those costs which Cabot may share with the current owner.

In 1994, the EPA issued a Unilateral Administrative Order to Cabot and 11 other respondents pursuant to the Superfund law with respect to the Revere Chemical Site (a/k/a Echo Site) in Nockamixon Township, Bucks County, Pennsylvania (the "Revere Site"). The Order requires the respondents to design and implement several remedial measures at the Revere Site, estimated to cost approximately \$15 million. Cabot's portion of that cost, if any, has not yet been determined. Cabot has responded to the EPA's Order by indicating that it should not have been named as a respondent and by raising several objections to the Order.

Cabot has received various requests for information and notifications that it may be a PRP at several other Superfund sites.

As of September 30, 1996, approximately \$44.5 million was accrued for environmental matters by the Company. The amount represents the Company's current best estimate of costs likely to be incurred based on its analysis of the extent of cleanup required, alternative cleanup methods available, abilities of other responsible parties to contribute and its interpretation of laws and regulations applicable to each site.

Breast Implant Litigation

Cabot was named as a defendant in fewer than 100 breast implant lawsuits. As a result of dismissals, without any settlement payments, in a number of cases and summary judgments granted to Cabot in the remainder of the cases, Cabot is not a defendant in any breast implant lawsuits. Cabot cannot at this time predict with accuracy whether any of the cases that were dismissed will be reinstated, or whether it will be added as a defendant in any other breast implant lawsuits.

Other Proceedings

The Company has various other lawsuits, claims and contingent liabilities arising in the ordinary course of its business. In the opinion of the Company, although final disposition of all of its suits and claims may impact the Company's financial statements in a particular period, it should not, in the aggregate, have a material adverse effect on the Company's financial position. (See Note L of the Notes to the Company's Consolidated Financial Statements on pages 37 and 38 of the Annual Report).

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below for each person who was an executive officer of Cabot at the end of the fiscal year is information as of December 20, 1996, regarding his age, position(s) with Cabot, the periods during which he served as an officer and his business experience during at least the past five years:

NAME	AGE	OFFICES HELD/BUSINESS EXPERIENCE	DATES HELD
Samuel W. Bodman.....	58	Cabot Corporation Chairman of the Board President	October 1988 to present February 1991 to February 1995 January 1987 to October 1988
Kennett F. Burnes.....	53	Chief Executive Officer Cabot Corporation President Executive Vice President Vice President and General Counsel	February 1995 to present October 1988 to February 1995 November 1987 to October 1988
Winfred R. Cates.....	56	Cabot Corporation Senior Vice President Vice President	May 1996 to present May 1990 to May 1996
Kenyon C. Gilson.....	53	Cabot Corporation Chief Financial Officer Executive Vice President Vice President	October 1995 to present March 1996 to present August 1989 to present
Paul J. Gormisky.....	43	Cabot Corporation Controller Vice President Director of Finance, Carbon Black Director of Corporate Planning	April 1995 to present February 1994 to present May 1993 to April 1995 May 1990 to May 1993
Robert Rothberg.....	47	Cabot Corporation Vice President and General Counsel Choate, Hall & Stewart (law firm), Partner	October 1993 to present January 1982 to October 1993

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Cabot's common stock is listed for trading (symbol CBT) on the New York, Boston, and Pacific Stock Exchanges. As of September 30, 1996, there were approximately 2,100 holders of record of Cabot's common stock. The price range in which the stock has traded, as reported on the composite tape, and the quarterly cash dividends for the past two years are shown below, restated to reflect the two-for-one stock split in March 1996.

STOCK PRICE AND DIVIDEND DATA

	DECEMBER	MARCH	JUNE	SEPTEMBER	YEAR
	-----	-----	-----	-----	-----
FISCAL 1996					
Cash dividends per share.....	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.36
Price range of common stock:					
High.....	\$27.00	\$31.38	\$31.38	\$28.75	\$31.38
Low.....	\$23.25	\$26.69	\$24.50	\$22.88	\$22.88
Close.....	\$26.94	\$30.50	\$24.50	\$27.88	\$27.88

	DECEMBER	MARCH	JUNE	SEPTEMBER	YEAR
	-----	-----	-----	-----	-----
FISCAL 1995					
Cash dividends per share.....	\$ 0.07	\$ 0.07	\$ 0.07	\$ 0.09	\$ 0.30
Price range of common stock:					
High.....	\$14.38	\$18.57	\$26.38	\$28.94	\$28.94
Low.....	\$12.82	\$14.06	\$18.44	\$24.07	\$12.82
Close.....	\$14.19	\$18.44	\$26.38	\$26.57	\$26.57

ITEM 6. SELECTED FINANCIAL DATA

Cabot Corporation Selected Financial Data:

	YEARS ENDED SEPTEMBER 30				
	1996	1995	1994	1993	1992
	-----	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
Financial Highlights					
Net sales and other operating revenues.....	\$1,856,269	\$1,830,393	\$1,679,819	\$1,614,315	\$1,556,986
Income before cumulative effect of accounting changes.....	\$ 194,057	\$ 171,932	\$ 78,691	\$ 37,410	\$ 62,223
Long-term debt.....	\$ 321,497	\$ 306,443	\$ 307,828	\$ 459,275	\$ 479,882
Minority interest.....	\$ 27,138	\$ 7,411	\$ --	\$ --	\$ 9,756
Stockholders' equity.....	\$ 744,931	\$ 685,000	\$ 562,489	\$ 442,273	\$ 492,955
Total capitalization.....	\$1,093,566	\$ 998,854	\$ 870,317	\$ 901,548	\$ 982,593
Total assets.....	\$1,857,581	\$1,654,333	\$1,616,756	\$1,489,473	\$1,554,529
Per Share:					
Income before cumulative effect of accounting changes.....	\$ 2.60	\$ 2.17	\$ 0.98	\$ 0.45(a)	\$ 0.79
Net income.....	\$ 2.60	\$ 2.17	\$ 0.98	\$ 0.10(b)	\$ 0.79
Cash dividends.....	\$ 0.36	\$ 0.30	\$ 0.27	\$ 0.26	\$ 0.26
Average shares outstanding -- thousands.....	73,237	77,452	76,498	74,876	73,604

(a) Includes charges of \$0.42 per share for the restructuring of the Company's Specialty Chemicals and Materials businesses and favorable energy accrual adjustment of \$0.12 per share. (see Item 7)

(b) Includes a charge of \$0.35 per share for the cumulative effect of required accounting changes. (see Item 7)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item appears in the Annual Report on pages 17 to 24 and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item appears in the Annual Report on pages 25 through 39 and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information required regarding the executive officers of Cabot is included in Part I in the unnumbered item captioned "Executive Officers of the Registrant." Certain other information required regarding the directors of Cabot is contained in the Registrant's Proxy Statement for the 1997 Annual Meeting of Stockholders ("Proxy Statement") on pages 2 through 5 under the heading "Certain Information Regarding Directors." All of such information is incorporated herein by reference.

The information required regarding the filing of reports by directors, executive officers and 10% stockholders with the Securities and Exchange Commission relating to transactions in Cabot stock is contained in the Proxy Statement on page 16 under the heading "Certain Securities Filings" and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required is contained in the Proxy Statement on pages 9 through 12 under the heading "Executive Compensation." All of such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required is contained in the Proxy Statement on pages 7 and 8 under the heading "Beneficial Stock Ownership of Directors, Executive Officers and Persons Owning More than Five Percent of Common Stock." All of such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is contained in the Proxy Statement on page 15. All of such information is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements. The following are incorporated herein by reference in this Report from the indicated pages of the Company's Annual Report:

DESCRIPTION -----	PAGE -----
(1) Consolidated Statements of Income for each of the three fiscal years in the period ended September 30, 1996.....	25
(2) Consolidated Balance Sheets at September 30, 1996 and 1995.....	26 to 27
(3) Consolidated Statements of Cash Flows for each of the three fiscal years in the period ended September 30, 1996.....	28
(4) Notes to Consolidated Financial Statements.....	29 to 39
(5) Statement of Management Responsibility for Financial Reporting and Report of Independent Accountants relating to the Consolidated Financial Statements listed above.....	40

(b) Reports on Form 8-K. None.

(c) Exhibits. (not included in copies of the Form 10-K sent to stockholders)

The exhibit numbers in the following list correspond to the numbers assigned to such exhibits in the Exhibit Table of Item 601 of Regulation S-K. The Company will furnish to any stockholder, upon written request, any exhibit listed below upon payment by such stockholder to the Company of the Company's reasonable expenses in furnishing such exhibit.

EXHIBIT NUMBER -----	DESCRIPTION -----
3(a) --	Certificate of Incorporation of Cabot Corporation restated effective October 24, 1983, as amended February 14, 1985, December 3, 1986, February 19, 1987, November 18, 1988, November 24, 1995 and March 12, 1996, filed herewith.
3(b) --	The By-laws of Cabot Corporation as of January 11, 1991 (incorporated herein by reference to Exhibit 3(b) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1991, file reference 1-5667, filed with the Commission on December 27, 1991).
4(a) --	Rights Agreement, dated as of November 10, 1995, between Cabot Corporation and The First National Bank of Boston as Rights Agent (incorporated herein by reference to Exhibit 1 of Cabot's Registration Statement on Form 8-A, file reference 1-5667, filed with the Commission on November 13, 1995).
4(b)(i) --	Indenture, dated as of December 1, 1987, between Cabot Corporation and The First National Bank of Boston, Trustee (incorporated herein by reference to Exhibit 4 of Amendment No. 1 to Cabot's Registration Statement on Form S-3, Registration No. 33-18883, filed with the Commission on December 10, 1987).
4(b)(ii) --	First Supplement Indenture dated as of June 17, 1992, to Indenture, dated as of December 1, 1987, between Cabot Corporation and The First National Bank of Boston, Trustee (incorporated by reference to Exhibit 4.3 of Cabot's Registration Statement on Form S-3, Registration Statement No. 33-48686, filed with the Commission on June 18, 1992).
4(c)(i)+ --	Finance Agreement between PT. Cabot Chemical and Overseas Private Investment Corporation dated September 10, 1991.
4(c)(ii)+ --	Facility Agreement and Acknowledgment of Indebtedness (The Hongkong and Shanghai Banking Corporation Limited) dated January 10, 1992.
4(c)(iii)+ --	Project Completion Agreement between Cabot, PT. Cabot Chemical and The Hongkong and Shanghai Banking Corporation Limited dated April 28, 1992.

EXHIBIT NUMBER	DESCRIPTION
10(a)(i)	-- Credit Agreement, dated as of January 13, 1994, among Cabot Corporation and 11 banks and Morgan Guaranty Trust Company of New York, as agent for the banks (incorporated by reference to Exhibit 4 of Cabot's Quarterly Report on Form 10-Q for the quarter ended December 31, 1993, file reference 1-5667, filed with the Commission on February 16, 1993).
10(a)(ii)	-- Amendment No. 1, dated January 13, 1995, to Credit Agreement, dated as of January 13, 1994, among Cabot Corporation and 11 banks and Morgan Guaranty Trust Company of New York, as agent for the banks (incorporated herein by reference to Exhibit 10(b)(ii) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1995, file reference 1-5667, filed with the Commission on December 29, 1995).
10(a)(iii)	-- Amendment No. 2, dated as of May 31, 1996, to Credit Agreement dated as of January 13, 1994, among Cabot Corporation and 11 banks and Morgan Guaranty Trust Company of New York, as agent for the banks, filed herewith.
10(b)(i)*	-- Equity Incentive Plan, as amended (incorporated herein by reference to Exhibit 99 of Cabot's Registration Statement on Form S-8, Registration No. 33-28699, filed with the Commission on May 12, 1989).
10(b)(ii)*	-- 1996 Equity Incentive Plan (incorporated herein by reference to Exhibit 28 of Cabot's Registration Statement on Form S-8, Registration No. 333-03683, filed with the Commission on May 14, 1996).
10(c)	-- Note Purchase Agreement between John Hancock Mutual Life Insurance Company, State Street Bank and Trust Company, as trustee for the Cabot Corporation Employee Stock Ownership Plan, and Cabot Corporation, dated as of November 15, 1988 (incorporated by reference to Exhibit 10(c) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1988, file reference 1-5667, filed with the Commission on December 29, 1988).
10(d)(i)*	-- Supplemental Cash Balance Plan (incorporated herein by reference to Exhibit 10(e)(i) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(d)(ii)*	-- Supplemental Employee Stock Ownership Plan (incorporated herein by reference to Exhibit 10(e)(ii) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(d)(iii)*	-- Supplemental Retirement Incentive Savings Plan (incorporated herein by reference to Exhibit 10(e)(iii) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(d)(iv)*	-- Supplemental Employee Benefit Agreement with John G.L. Cabot (incorporated herein by reference to Exhibit 10(f) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1987, file reference 1-5667, filed with the Commission on December 28, 1987).
10(d)(v)*	-- Cabot Corporation Deferred Compensation Plan dated January 1, 1995 (incorporated herein by reference to Exhibit 10(e)(v) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1995, file reference 1-5667, filed with the Commission on December 29, 1995).
10(e)*	-- Form of severance agreement entered into between Cabot Corporation and various managers (incorporated herein by reference to Exhibit 10(g) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1991, file reference 1-5667, filed with the Commission on December 27, 1991).
10(f)	-- Group Annuity Contract No. GA-6121 between The Prudential Insurance Company of America and State Street Bank and Trust Company, dated June 28, 1991 (incorporated herein by reference to Exhibit 10(h) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1991, file reference 1-5667, filed with the Commission on December 27, 1991).

EXHIBIT NUMBER	DESCRIPTION
10(g)*	-- Non-employee Directors' Stock Compensation Plan (incorporated herein by reference to Exhibit A of Cabot's Proxy Statement for its 1992 Annual Meeting of Stockholders, file reference 1-5667, filed with the Commission on December 27, 1991).
10(h)(i)	-- Amended and Restated Omnibus Acquisition Agreement among American Oil and Gas Corporation, Cabot Corporation and Cabot Transmission Corporation dated as of November 13, 1989 (incorporated herein by reference to Exhibit (2) of Cabot's Current Report on Form 8-K, dated November 16, 1989, file reference 1-5667, filed with the Commission).
10(h)(ii)	-- Amended and Restated Basket Agreement among American Oil and Gas Corporation, American Pipeline Company, Cabot Corporation and Cabot Transmission Corporation, dated as of June 30, 1990 (incorporated herein by reference to Exhibit 10(n) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1990, file reference 1-5667, filed with the Commission on December 24, 1990).
10(h)(iii)	-- First Amendment, dated March 31, 1992, to Amended and Restated Omnibus Acquisition Agreement among American Oil and Gas Corporation, Cabot Corporation and Cabot Transmission Corporation, dated as of November 13, 1989, and to Amended and Restated Basket Agreement among American Oil and Gas Corporation, American Pipeline Company, Cabot Corporation and Cabot Transmission Corporation, dated as of June 30, 1990 (incorporated herein by reference to Exhibit 10(i)(ii) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1992, file reference 1-5667, filed with the Commission on December 24, 1992).
10(i)	-- Agreement for the Sale and Purchase of Liquefied Natural Gas and Transportation Agreement, dated April 13, 1976, between L'Entreprise Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures ("Sonatrach") and Distrigas Corporation, and Amendment No. 3 to said Agreement, dated February 21, 1988 (incorporated herein by reference to Exhibit 10(j) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(j)	-- Agreement for the Sale and Purchase of Liquefied Natural Gas, dated December 11, 1988, between Sonatrading Amsterdam B.V. ("Sonatrading") and Distrigas Corporation and Transportation Agreement, dated December 11, 1988, between Sonatrach and Distrigas Corporation (incorporated herein by reference to Exhibit 10(p) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1989, file reference 1-5667, filed with the Commission on December 28, 1989).
10(k)	-- Mutual Assurances Agreements among Cabot Corporation, Sonatrach, Distrigas Corporation and Sonatrading dated February 21, 1988 and December 11, 1988, respectively (incorporated herein by reference to Exhibit 10.1 of Cabot's Current Report on Form 8-K dated July 17, 1992, file reference 1-5667, filed with the Commission).
10(l)(i)	-- Agreement between K N Energy, Inc. ("KNE"), American Oil and Gas Corporation ("AOG") and Cabot Corporation, dated June 27, 1994 (incorporated herein by reference to Exhibit 1 of Cabot's Schedule 13D relating to KNE, file reference 1-5667, filed with the Commission on July 22, 1994 [the "KNE Schedule 13D"]).
10(l)(ii)	-- Registration Rights Agreement between KNE and Cabot Corporation, dated July 13, 1994 (incorporated herein by reference to Exhibit 2 of the KNE Schedule 13D).
10(l)(iii)	-- Share Transfer and Registration Agreement between KNE and Cabot Corporation, dated July 13, 1994 (incorporated herein by reference to Exhibit 3 of the KNE Schedule 13D).

EXHIBIT NUMBER	DESCRIPTION
10(l)(iv)	-- KNE By-law provision (incorporated herein by reference to Exhibit 10(o)(iv) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(m)(i)	-- Asset Transfer Agreement, dated as of June 13, 1995, among Cabot Safety Corporation, Cabot Canada Ltd., Cabot Safety Limited, Cabot Corporation, Cabot Safety Holdings Corporation and Cabot Safety Acquisition Corporation (incorporated herein by reference to Exhibit 2(a) of Cabot Corporation's Current Report on Form 8-K, dated July 11, 1995, file reference 1-5667, filed with the Commission).
10(m)(ii)	-- Stockholders' Agreement, dated as of July 11, 1995, among Vestar Equity Partners, L.P., Cabot CSC Corporation, Cabot Safety Holdings Corporation, Cabot Corporation and various other parties thereto (incorporated herein by reference to Exhibit 2(b) of Cabot Corporation's Current Report on Form 8-K, dated July 11, 1995, file reference 1-5667, filed with the Commission).
11	-- Statement Re: Computation of Per Share Earnings, filed herewith.
12	-- Statement Re: Computation of Ratios of Earnings to Fixed Charges, filed herewith.
13	-- Pages 17 through 40 of the 1996 Annual Report to Stockholders of Cabot Corporation, a copy of which is furnished for the information of the Securities and Exchange Commission. Portions of the Annual Report not incorporated herein by reference are not deemed "filed" with the Commission.
21	-- List of Significant Subsidiaries, filed herewith.
24	-- Power of attorney dated November 8, 1996 for signing of this Annual Report on Form 10-K, filed herewith.
27	-- Financial Data Schedule, filed herewith.

+ The Registrant agrees to furnish to the Commission upon request a copy of these instruments with respect to long-term debt (not filed as an exhibit), none of which relates to securities exceeding 10% of the total assets of the Registrant and its consolidated subsidiaries.

* Management contract or compensatory plan or arrangement.

(d) Schedules. The Schedules have been omitted for the reason that they are not required or are not applicable or the required information is shown in the financial statements or notes thereto.

For the purposes of complying with the amendments to the rules governing Form S-8 (effective July 13, 1990) under the Securities Act of 1933, the undersigned Registrant undertakes as follows, which undertaking shall be incorporated by reference into Registrant's Registration Statement on Form S-8 No. 33-28699 (filed May 12, 1989), the Registrant's Registration Statement on Form S-8 No. 33-52940 (filed October 5, 1992), the Registrant's Registration Statement on Form S-8 No. 33-53659 (filed May 16, 1994), the Registrant's Registration Statement on Form S-8 No. 333-03683 (filed May 14, 1996) and the Registrant's Registration Statement on Form S-8 No. 333-06629 (filed June 21, 1996).

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of Section 13 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.

CABOT CORPORATION (Registrant)

By /s/ Samuel W. Bodman,

 Samuel W. Bodman,
 Chairman of the Board and
 Chief Executive Officer

Date: December 20, 1996

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURES -----	TITLE -----	DATE ----
/s/ Samuel W. Bodman ----- Samuel W. Bodman	Chairman of the Board and Director (Principal Executive Officer)	December 20, 1996
/s/ Kenyon C. Gilson ----- Kenyon C. Gilson	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	December 20, 1996
/s/ Paul J. Gormisky ----- Paul J. Gormisky	Vice President and Controller (Principal Accounting Officer)	December 20, 1996
* ----- Jane C. Bradley	Director	December 20, 1996
/s/ Kennett F. Burnes ----- Kennett F. Burnes	Director and President	December 20, 1996
* ----- John G.L. Cabot	Director	December 20, 1996
* ----- Arthur L. Goldstein	Director	December 20, 1996
* ----- Robert P. Henderson	Director	December 20, 1996
* ----- Arnold S. Hiatt	Director	December 20, 1996
* ----- John H. McArthur	Director	December 20, 1996

SIGNATURES

TITLE

DATE

* ----- John F. O'Brien	Director	December 20, 1996
* ----- David V. Ragone	Director	December 20, 1996
* ----- Charles P. Siess, Jr.	Director	December 20, 1996
* ----- Morris Tanenbaum	Director	December 20, 1996
* ----- Lydia W. Thomas	Director	December 20, 1996

*By /s/ William F. Robinson, Jr.

William F. Robinson, Jr.
as Attorney-in-Fact

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1996 COMMISSION FILE NUMBER 1-5667

CABOT CORPORATION
(Exact Name of Registrant as Specified in Charter)

EXHIBITS

EXHIBIT INDEX

EXHIBIT
NUMBER

- 3(a) -- Certificate of Incorporation of Cabot Corporation restated effective
October 24, 1983, as amended February 14, 1985, December 3, 1986, February
19, 1987, November 18, 1988, November 24, 1995 and March 12, 1996.
10(a)(iii) -- Amendment No. 2, dated as of May 31, 1996, to Credit Agreement dated as of
January 13, 1994 among Cabot Corporation and 11 banks and Morgan Guaranty
Trust Company of New York, as agent for the banks.
11 -- Statement Re: Computation of Per Share Earnings.
12 -- Statement Re: Computation of Ratios of Earnings to Fixed Charges.
13 -- Pages 17 through 40 of the 1996 Annual Report to Stockholders of Cabot
Corporation.
21 -- List of Significant Subsidiaries.
24 -- Power of attorney for signing of this Annual Report on Form 10-K.

=====

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION

The undersigned officer of CABOT CORPORATION, a corporation organized and existing under the General Corporation Law of the State of Delaware, does hereby certify:

FIRST: That at a meeting of the Board of Directors of CABOT CORPORATION held on November 10, 1995, a vote was duly adopted setting forth a proposed amendment to the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and directing that said amendment be considered at the Annual Meeting of Stockholders. The vote setting forth the proposed amendment is as follows:

"VOTED: That the Board of Directors of Cabot Corporation hereby approves and declares advisable the following amendment of the Certificate of Incorporation of Cabot Corporation, and directs that said amendment be considered at the Annual Meeting of Stockholders of Cabot Corporation to be held on March 7, 1996, or any adjournment or postponement thereof:

Article FOURTH of the Certificate of Incorporation is hereby amended by striking out the first paragraph thereof, which now reads as follows:

'FOURTH: The total number of shares of common stock which this corporation shall have authority to issue is eighty million shares and the par value of each of such shares is one dollar (\$1.00) amounting in the aggregate to eighty million dollars (\$80,000,000).'

and inserting the following in place thereof:

'FOURTH: The total number of shares of common stock which this corporation shall have authority to issue is two hundred million shares and the par value of each of such shares is one dollar (\$1.00) amounting in the aggregate to two hundred million dollars (\$200,000,000).'

SECOND: That thereafter, pursuant to a vote of its Board of Directors, the Annual Meeting of Stockholders of said corporation was duly called and held on March 7, 1996, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute to adopt said amendment was voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, I have executed and subscribed this certificate and do affirm the foregoing as true under penalties of perjury this 12th day of March, 1996.

/s/ Kennett F. Burnes

Kennett F. Burnes
President

Attest:

/s/ Charles D. Gerlinger

Charles D. Gerlinger
Secretary

RESTATED CERTIFICATE OF INCORPORATION

OF

CABOT CORPORATION

(Originally incorporated July 14, 1960)

Pursuant to Section 245, Subchapter VIII, Chapter 1, Title 8

of the

General Corporation Law of Delaware

CABOT CORPORATION, a corporation organized and existing under the General Corporation Law of the State of Delaware, by authority of its Board of Directors set forth in a vote duly adopted on October 14, 1983, restates and integrates its Certificate of Incorporation to read in full as herein set forth:

FIRST: The name of this corporation is

CABOT CORPORATION

SECOND: Its principal office in the State of Delaware is located at No. 100 West Tenth Street, in the City of Wilmington, County of New Castle. The name and address of its resident agent is The Corporation Trust Company, No. 100 West Tenth Street, Wilmington, Delaware 19801.

THIRD: The nature of the business of this corporation and the objects or purposes to be transacted, promoted and carried on by it are as follows:

1. To acquire, by merger, consolidation, or otherwise, the businesses now owned and carried on by the following corporations organized and existing under the Laws of the Commonwealth of Massachusetts:

- (a) Godfrey L. Cabot, Inc.
- (b) Cabot Carbon Company
- (c) Cabot Shops, Inc.
- (d) Cabot Gasoline Corporation

together with all their property, rights, privileges, powers and franchises; and to assume in connection therewith all of the debts, liabilities and duties of the said Massachusetts corporations.

2. To manufacture, produce, compound, refine, buy or otherwise acquire, to sell or otherwise dispose of, and to deal in chemicals of every description, chemical mixtures, medicines, pharmaceutical supplies, chemical and medicinal preparations, drugs (except as forbidden by law), and any other chemical products in the form of raw materials or otherwise, and by-products derived from the manufacture thereof or made therefrom, carbon black, furnace black, dye-stuffs, cements, minerals, superphosphates, soap, fertilizers, paints, varnishes, pigments, polishes, stains, oils, acids, alcohols, coal, coke, coal-tar, coal-tar products and derivatives, peat, peat products, rubber, rubber goods, synthetic rubber, butadiene, and other petrochemicals of every description, and all other products related to any one or more of the foregoing.

3. To prospect, explore, drill for, produce and accumulate oil and gas, liquified petroleum gas and natural gasoline; to buy, lease or otherwise acquire, to sell, lease or otherwise dispose of, and to deal in oil, gas, natural gasoline and any and all materials incidental to or necessary for the production of oil, gas, natural gasoline, and all the by-products thereof, and oil and gas rights, privileges and leases of all kinds and descriptions.

4. To mine, produce, manufacture, refine, handle, buy, or otherwise acquire, and to sell or otherwise dispose of, and to deal in elements, minerals, metals, ores, precious stones and base materials of every nature and products using the same.

5. To buy, sell, manufacture, fabricate, produce and deal in steel, iron, and other metals, metal products, and all other building materials; to construct, maintain, work or operate, plants, mills, furnaces, factories, engines, boilers, machinery and tools; and to carry on the business of mechanical engineers and dealers in machinery and manufacturers of plants, engines and other machinery, tool makers, brass founders, metal workers, boiler makers, mill-wrights, machinists, iron and steel converters, smiths, builders, carpenters, metallurgists, and electrical, civil, mechanical and water supply engineers.

6. To conduct research, scientific or technical investigations and experiments, development work and pilot plant work, and training and educational programs, and to seek for and develop inventions, processes, improvements, new or improved products, and uses for products, new or improved manufacturing and operating techniques and methods, and wider scientific, technical, manufacturing and operating knowledge, and to furnish, to this corporation or to others, consulting, engineering, testing, experimental and other services, all as may relate or be incidental to or be useful or advantageous in or in connection with any business, operation or activity in which this corporation is authorized to engage.

7. To manage and operate, in whole or in part, and to keep the books, accounts and records, in whole or in part, of any other corporation, firm or entity, and to enter into contracts for the performance of such service.

8. To carry on any manufacturing, selling, management, service, research or other business, operation or activity which is lawful to be carried on by a corporation organized under the General Corporation Law of the State of Delaware as amended, whether or not similar or related or incidental to or useful or advantageous in or in connection with the businesses, operations and activities referred to in the foregoing paragraphs.

9. To manufacture, produce, purchase, lease or otherwise acquire, to own, operate, and process, to sell, lease or otherwise dispose of, and to deal in all kinds of machines, machinery, plant equipment, tools, materials, merchandise, fixtures, goods and other property of all kinds useful in or in connection with any business or activity in which this corporation is authorized to engage.

10. To explore, prospect, buy, lease or otherwise acquire, to own, hold and operate, to sell, lease or otherwise dispose of, and to deal in lands, mining claims, water claims, water rights, mineral rights, and any other rights, oil wells, gas wells, oil lands, gas lands and other real property, the rights and interest in and to real property, manufacturing plants, laboratories, pilot plants, oil refineries, gas works and plants, including plants for the production of coke, gasoline, and other by-products, mines, smelters, warehouses, offices and other buildings, structures, building equipment, pipelines, railroads, and real estate improvements, all to the extent permitted by law and as may relate or be incidental to or be useful in or in connection with any business or activity in which this corporation is authorized to engage.

11. To acquire, hold, use, sell, assign, lease, grant licenses under, or otherwise dispose of, letters patent of the United States or any foreign country, patent rights, licenses and privileges, inventions, improvements and processes, copyrights, trademarks and trade names, relating to or useful in connection with any business in which this corporation is authorized to engage.

12. To subscribe for, purchase or otherwise acquire, to hold and own, to sell, assign, transfer or otherwise dispose of, and generally to deal in and with, securities, and while the holder or owner thereof to have and exercise all rights, powers and privileges of ownership, including the right to vote or consent or give proxies or powers of attorney therefor; and to carry on any business, operation or activity through a wholly or partly owned subsidiary.

13. To acquire by purchase, exchange, merger or consolidation or otherwise all or any part of the property and assets, including the business, good will, rights and franchises, of any corporation, association, trust, firm or individual wherever organized, created or located, and in payment or exchange therefor to pay cash, transfer property and issue securities to the transferor or its security holders and to assume or become liable for any liabilities and obligations; and to hold and operate or in any manner to dispose of all or any part of the property and assets so acquired.

14. To dispose by sale, exchange, merger or consolidation or otherwise, of all or any part of the property and assets, including the business, good will, rights and franchises, of this corporation, to any corporation, association, trust, firm or individual wherever organized, created or located, for cash or property, including securities, or the assumption of the liabilities and obligations of this corporation, and if desired, and subject to the rights of creditors and preferred stockholders (if any), to distribute such cash, securities or other property to the security holders of this corporation in exchange for or in partial or complete liquidation or redemption of their securities.

15. To enter into, make and perform contracts of every kind and description with any person, firm, association, corporation, municipality, county, state, body politic or government or colony or dependency thereof.

16. To have one or more offices and to carry on all or any of operations and businesses in any and all parts of the world.

17. To borrow money and obtain credit; for money borrowed or for sale or pledge or in order to pay, evidence or secure any liability or obligation, to execute, issue and deliver and sell, pledge or otherwise dispose of bonds, notes, debentures or other evidences of indebtedness, secured or unsecured; to give security for any such bonds, notes, debentures or other evidences of indebtedness or for any purchase price, guaranty, line of credit, covenant, fidelity or performance bond or any other liability or obligation and any premium interest and other sums due thereon or therewith and any covenants or obligations connected therewith; and for the foregoing purposes to mortgage or pledge or execute an indenture of mortgage or deed of trust upon or create a lien upon or other security title or security interest in all or any part of the property and assets, real and personal, of this corporation, then owned or thereafter acquired.

18. To lend money, credit or security to, and to guarantee or assume any liabilities and obligations of, and to aid in any other manner any corporation, association, trust, firm or individual wherever organized, created or located, any of whose securities are held by this corporation or in whose affairs or prosperity this corporation has a lawful interest, and to do all acts and things designed to protect, improve or enhance the value of such securities or interest.

19. The directors of this corporation are authorized to make charitable contributions as defined in the United States Internal Revenue Code, as from time to time amended, in such amounts as the directors may determine to be reasonable.

20. To do any and all acts and things in this Article Third set forth, to the same extent as an individual might or could do, as principal, factor, consignee, agent, contractor or otherwise, and either alone or in conjunction or jointly with any corporation, association, trust, firm or individual; and, in general, to do any and all acts and things and to engage in any and all businesses whatsoever, necessary, suitable, advantageous or proper for or in connection with or incidental to the exercise, transaction, promotion or carrying on of any of the businesses, powers, purposes or objects in this Article Third set forth; excepting in every case all acts, things and businesses forbidden by law.

21. In this Article Third the word "securities" means, to the extent that the context permits, stocks, shares, bonds, notes, debentures and other evidences of interest in or indebtedness of any corporation, association, trust or firm, and notes and other evidences or indebtedness of any individual, and bonds, notes, debentures and other evidences of indebtedness of any country, state, county, city, town or other governmental body or agency.

22. In this certificate of incorporation, unless it is otherwise expressly provided, the statements of the businesses, objects and purposes of this corporation shall be construed both as objects and powers, the enumeration of specific powers shall not be held to limit or restrict in any manner the exercise by this corporation of the general powers conferred upon corporations by the laws of the State of Delaware, and no statement of any business, object or purpose shall be deemed to limit or be exclusive of any other stated business, object or purpose, but all are separate and cumulative and all may be transacted, promoted and carried on separately or together and at any time and from time to time.

FOURTH: The total number of shares of common stock which this corporation shall have authority to issue is eighty million shares and the par value of each of such shares is one dollar (\$1.00) amounting in the aggregate to Eighty Million Dollars (\$80,000,000).

The total number of shares of preferred stock which this corporation shall have authority to issue is two million shares and the par value of each of such shares is One Dollar (\$1.00) amounting in the aggregate to Two Million Dollars (\$2,000,000). The Board of Directors may provide for the issuance of such preferred stock in one or more series, each series to have such voting powers, full or limited, or no voting powers, such designations, preferences and relative participating, optional or other special rights, and such qualifications, limitations or restrictions thereof, and to be subject to such terms of redemption, if any, as shall be specified by the Board of Directors and stated and expressed in the vote or votes of the Board of Directors providing for the issue of such preferred stock.

The holders of the common stock shall be entitled to one vote for each share of common stock registered in their respective names on the books of this corporation.

The board of directors may from time to time, in connection with any employee stock option or purchase plan, fix limitations and restrictions on the transfer of any or all of the authorized but unissued shares of this corporation made available for such stock option or purchase plan, such restrictions to take effect upon the issue of such shares. No such limitation or restriction shall be valid unless notice thereof is given on the certificate or certificates representing such shares.

No stockholder of this corporation shall by reason of his holding shares of any class have any pre-emptive or preferential purchase or subscribe to any shares of any class of this corporation, now or hereafter to be authorized, or any notes, debentures, bonds, or other securities convertible into or carrying options or warrants to purchase shares of any class, now or hereafter to be authorized, whether or not the issue of any such shares, or such notes, debentures, bonds or other securities would adversely affect the dividend or voting rights of such stockholder, other than such rights, if any, as the board of directors, in its discretion from time to time may grant, and at such price as the board of directors in its discretion may fix; and the board of directors may issue shares of any class of this corporation, or any notes, debentures, bonds, or other securities convertible into or carrying options or warrants to purchase shares of any class, without offering any such shares or securities, either in whole or in part, to the existing stockholders of any class.

FIFTH: The minimum amount of capital with which the corporation will commence business is One Thousand Dollars (\$1,000.00).

The board of directors, without the assent of or other action by the stockholders, may from time to time authorize the issue and sale of shares of stock of this corporation now or hereafter authorized, for such consideration and upon such terms as the board of directors may determine, or the board of directors may authorize such consideration and terms to be fixed in whole or in part by any officer or officers of this corporation.

SIXTH: This corporation is to have perpetual existence.

SEVENTH: The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

EIGHTH: The following provisions are inserted for the regulation and conduct of the affairs of this corporation, and it is expressly provided that they are intended to be in furtherance and not in limitation or exclusion of the powers elsewhere conferred herein or in the by-laws or conferred by law:

(a) Except as may be otherwise expressly required by law or by other provisions of this certificate of incorporation or by the by-laws, the board of directors shall have and may exercise, transact, manage, promote and carry on all of the powers, authorities, businesses, objects and purposes of this corporation.

(b) The directors who are not directors emeritus shall be divided into three classes of approximately equal size. At the annual meeting to be held January 21, 1969, one class shall be elected to a term of three years, another class to a term of two years, and the third class to a term of one year; and at each subsequent annual election the successors to directors whose terms shall expire that year shall each be elected to a term of three years. The directors emeritus, if any, shall be elected or appointed for such terms and shall have such duties not contrary to law as may from time to time be provided for in the by-laws. No director need be a stockholder. The election of directors need not be by ballot unless the by-laws shall so require.

(c) By-laws may be made, altered, amended or repealed by a vote of the stockholders or a vote of the majority of the directors then in office at any annual, regular, or special stockholders or directors meeting, called for that purpose, the notice of which shall specify the subject matter of the proposed new by-law or the alteration, amendment, or repeal of an existing by-law, or the articles to be affected thereby. Any

by-law whether made, altered, amended, or repealed by the stockholders or directors may be repealed, amended, further amended, or reinstated, as the case may be, by either the stockholders or the directors as aforesaid.

(d) The board of directors may at any time set apart out of any of the funds of this corporation available for dividends a reserve or reserves for any proper purpose and may at any time reduce or abolish any such reserve. Any other proper reserves may also be carried.

(e) This corporation may purchase, hold, sell and transfer shares of its own capital stock, but shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of the capital of this corporation, subject always to the right of this corporation to reduce its capital or to redeem any preferred or special shares out of capital as permitted by law. Shares of its own capital stock belonging to this corporation shall not be voted upon directly or indirectly.

(f) The board of directors may from time to time authorize and maintain bonus, profit sharing or other types of incentive or compensation plans or pension or retirement plans for the employees (including officers and directors) of this corporation or of its subsidiaries, affiliates or any other corporation, association, trust or firm wherever organized, created or located in whose affairs or prosperity this corporation has any lawful interest and fix the amount of the profits to be distributed or shared and determine the persons to participate in any such plans and the amounts of their respective participation or benefits.

(g) The board of directors may from time to time determine whether and to what extent and at what times and places and under what conditions and regulations the accounts and books and papers of this corporation, or any of them, shall be open to the inspection of the stockholders, and no stockholder shall have any right to inspect any account, book or document of this corporation, except as and to the extent expressly provided by law with reference to the right of stockholders to examine the original or duplicate stock ledger, or otherwise expressly provided by law, or except as expressly authorized by resolution of the board of directors.

(h) The directors of this corporation are likely to be connected with other corporations, partnerships, associations or firms with which from time to time this corporation may have business dealings. No contract or other transaction between this corporation and any other corporation, partnership, association or firm and no act of this corporation shall be affected by the fact that directors of this corporation are pecuniarily or otherwise interested in, or are directors, members, or officers of such other corporation, partnership, association or firm. Any director individually, or any firm of which such director may be a member, may be a party to or may be pecuniarily or otherwise interested in any contract or transaction of this corporation, provided that the fact that he or such firm is so interested shall be disclosed or shall have been known to the board of directors or a majority thereof. Every contract, act or transaction which at any annual meeting of the stockholders, or at any special meeting of the stockholders called for the purpose, among others, of considering such contract, act or transaction, shall be authorized, approved or ratified by vote of the holders of a majority of the shares of the capital stock of this corporation present in person or represented by proxy at such meeting

(provided that a quorum of stockholders be there present or represented by proxy) shall be as valid and binding upon this corporation and upon all its stockholders as though such a contract, act or transaction had been expressly authorized, approved and ratified by every stockholder of this corporation.

(i) No person shall be liable to this corporation for any loss or damage suffered by it on account of any action taken or omitted to be taken by him in good faith as a director, member of a directors' committee or officer of this corporation, if such person exercised or used the same degree of care and skill as a prudent man would have exercised or used under the circumstances in the conduct of his own affairs. Without limitation of the foregoing, any such person shall be deemed to have exercised or used such degree of care and skill if he took or omitted to take such action in reliance in good faith upon advice of counsel for this corporation, or the books of account or other records of this corporation, or reports or information made or furnished to this corporation by any official, accountant, engineer, agent, or employee of this corporation, or by any independent public accountant or auditor, counsel, engineer, appraiser or other expert retained or employed by this corporation and selected with reasonable care by the board of directors, by any such committee or by any authorized officer of this corporation.

(j) The Company shall indemnify any person who was or is party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (and whether or not by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another company,

partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, to the extent and under the circumstances permitted by the General Corporation Law of The State of Delaware as amended from time to time. Such indemnification (unless ordered by a court) shall be made as authorized in a specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standards of conduct set forth in the General Corporation Law of the State of Delaware. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such quorum is not obtainable, or even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders. The foregoing right of indemnification shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

NINTH: Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this corporation under the provisions of section 291 of Title 8 of the Delaware Code or on the

application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all of the creditors or class of creditors, and/or on all the stockholders or class of stockholders of this corporation, as the case may be, and also on this corporation.

TENTH: This corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

ELEVENTH: The directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving this corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

This Restated Certificate of Incorporation restates and integrates the corporation's Certificate of Incorporation as heretofore amended by Certificates of Amendment as filed with the Secretary of State of the State of Delaware on May 7, 1968, January 21, 1969, March 8, 1971, February 21, 1978 and October 8, 1980, and eliminates certain provisions that under the General Corporation Law of Delaware are no longer required to be included in the Certificate of Incorporation. Except for such provisions so eliminated, this Restated Certificate of Incorporation does not further amend the corporation's Certificate of Incorporation as heretofore amended and no discrepancy exists between those provisions and the provisions of this Restated Certificate of Incorporation.

IN WITNESS WHEREOF, CABOT CORPORATION has caused this Restated Certificate of Incorporation to be duly executed this 14th day of October, 1983 by Robert A. Charpie, its President, and attested by Walter F. Greeley, its Secretary.

CABOT CORPORATION

By: /S/ ROBERT A. CHARPIE

Robert A. Charpie, President

ATTEST:

By /S/ WALTER F. GREELEY

Walter F. Greeley, Secretary

CERTIFICATE OF SECRETARY

The undersigned, Waiter F. Greeley, hereby certifies that he is the duly elected, Qualified and acting Secretary of CABOT CORPORATION, a corporation organized and existing under the laws of the State of Delaware, and that the foregoing 16 numbered pages are a true, correct and complete copy of the Restated Certificate of Incorporation of said Corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and impressed the corporate seal of CABOT CORPORATION on this 14th day of October, 1983.

/S/ WALTER F. GREELEY

Secretary

[Corporate Seal]

CERTIFICATE OF AMENDMENT

OF
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RESTATED CERTIFICATE OF INCORPORATION

CABOT CORPORATION, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of said Corporation, by unanimous written consent and agreement in lieu of a formal meeting, dated as of November 21, 1984, adopted a vote setting forth the proposed amendment to the Restated Certificate of Incorporation of said Corporation, declaring said amendment to be advisable and recommending the adoption of said amendment by vote of the stockholders of the Corporation at its Annual Meeting of Stockholders called for February 8, 1985. The vote setting forth the proposed amendment is as follows:

VOTED: That the Restated Certificate of Incorporation of this Corporation be amended, subject to stockholder approval, as follows:

1. by renumbering the present Articles "TENTH" and "ELEVENTH" as "ELEVENTH" and "TWELFTH".
2. by adding the following language at the end of newly numbered Article ELEVENTH:

"Notwithstanding any provision of law, this restated certificate of incorporation or the by-laws of this corporation (and notwithstanding the fact that a lesser percentage may be specified by law, this restated certificate of incorporation or the by-laws of this corporation), and in addition to any affirmative vote of the holders of any class of preferred stock of this corporation outstanding or any other class of capital stock of this corporation or any series of any of the foregoing then outstanding which is required by law or by or pursuant to this

restated certificate of incorporation, the affirmative vote of the holders of 66-2/3 percent or more of the voting power of the shares of the then outstanding shares of stock of all classes and series of this corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend or repeal paragraph (a), (b) or (c) of Article EIGHTH or Article TENTH of this restated certificate of incorporation or to adopt any provision inconsistent therewith."

3. by adding a new Article TENTH as follows:

"TENTH: 1. Vote Required for Certain Business Combinations.

In addition to any affirmative vote required by law or this restated certificate of incorporation, and except as otherwise expressly provided in section 2 of this Article TENTH:

(a) Any merger or consolidation of this corporation or any subsidiary (as hereinafter defined) with (1) any interested stockholder (as hereinafter defined) or (2) any other corporation or other person (whether or not itself an interested stockholder) which is, or after such merger or consolidation would be, an affiliate (as hereinafter defined) of an interested stockholder; or

(b) Any plan of exchange for all outstanding shares of this corporation or any subsidiary or for any class of shares of either with (1) any interested stockholder or (2) any other corporation or other person (whether or not itself an interested stockholder) which is, or after such plan of exchange would be, an affiliate of an interested stockholder; or

(c) Any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any interested stockholder or any affiliate of any interested stockholder of any assets of this corporation or any subsidiary having an aggregate fair market value (as hereinafter defined) of \$20,000,000 or more; or

(d) The issuance or transfer by this corporation or any subsidiary (in one transaction or a series of transactions) of any securities of this corporation or any subsidiary to any interested stockholder or any affiliate of any interested stockholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate fair market value of \$20,000,000 or more; or

(e) The adoption of any plan or proposal for the liquidation or dissolution of this corporation proposed by or on behalf of an interested stockholder or any affiliate of any interested stockholder; or

(f) Any reclassification of securities (including any reverse stock split), or recapitalization of this corporation, or any merger or consolidation of this corporation with any of its subsidiaries or any other transaction (whether or not with or into or otherwise involving an interested stockholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of stock or securities convertible into stock of this corporation or any subsidiary which is directly or indirectly owned by any interested stockholder or any affiliate of any interested stockholder;

shall require the affirmative vote of the holders of at least 66 2/3 percent of the combined voting power of the then outstanding shares of

stock of all classes and series of this corporation entitled to vote generally in the election of directors (the "voting stock"), in each case voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or by this restated certificate of incorporation or any vote or votes adopted pursuant to Article THIRD of this restated certificate of incorporation or in any agreement with any national securities exchange or otherwise.

2. When Higher Vote is not Required. The provisions of this Article TENTH shall not be applicable to any particular business combination (as hereinafter defined), and such business combination shall require only such affirmative vote as is required by law, any other provision of this restated certificate of incorporation, any preferred stock designation or any agreement with any national securities exchange, if, all of the conditions specified in either of the following paragraphs (a) and (b) are met:

(a) Approval by Continuing Directors. The business combination shall have been approved by a majority of the continuing directors (as hereinafter defined), it being understood that this condition shall not be capable of satisfaction unless there is at least one continuing director; or

(b) Price and Procedure Requirements. All of the following conditions shall have been met:

(1) The aggregate amount of the cash and the fair market value as of the date of the consummation of the business combination of any consideration other than cash to be received per share by holders of common stock (as hereinafter defined) in such business combination shall be at least equal to the highest of the following:

(A) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the interested stockholder for any shares of common stock acquired by it (i) within the two-year period immediately prior to the first public announcement of the proposal of the business combination (the "announcement date") or (ii) in the transaction in which it became an interested stockholder, whichever is higher; or

(B) the fair market value per share of common stock on the announcement date or on the date on which the interested stockholder became an interested stockholder (such latter date is referred to in this Article TENTH as the "determination date"), whichever is higher; or

(C) (if applicable) the price per share equal to the fair market value per share of common stock determined pursuant to paragraph (b)(1)(B) above, multiplied by the ratio of (i) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the interested stockholder for any shares of common stock acquired by it within the two-year period immediately prior to the announcement date to (ii) the fair market value per share of common stock on the first day in such two-year period upon which the interested stockholder acquired any shares of common stock; and

(2) The consideration to be received by holders of a particular class or series of outstanding voting stock (including common stock) shall be in cash or in the same form as the interested stockholder has previously paid for shares of such class. If the interested stockholder has paid for shares of voting stock with varying forms of consideration, the form of

consideration to be received by holders of such class or series of voting stock shall be either cash or the form used to acquire beneficially the largest number of shares of such class or series of voting stock previously acquired by it; and

(3) After such interested stockholder has become an interested stockholder and prior to the consummation of such business combination:

(A) except as approved by a majority of the continuing directors, there shall have been no failure to declare and pay at the regular date therefor any full quarterly dividends (whether or not cumulative) on any outstanding preferred stock;

(B) there shall have been (i) no reduction in the annual rate of dividends paid on the common stock (except as necessary to reflect any subdivision of the common stock), except as approved by a majority of the continuing directors, and (ii) an increase in such annual rate of dividends as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the common stock, unless the failure so to increase such annual rate is approved by a majority of the continuing directors; and

(C) such interested stockholder shall not have become the beneficial owner of any additional shares of voting stock except as part of the transaction in which it became an interested stockholder; and

(4) After such interested stockholder has become an interested stockholder, such interested stockholder shall not have received the benefit, directly or indirectly (except proportionately as a stockholder), of any loans, advances,

guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the corporation, whether in anticipation of or in connection with such business combination or otherwise; and

(5) A proxy or information statement describing the proposed business combination and complying with the requirements of the Securities Exchange Act of 1934 (the "1934 Act") and the rules and regulations thereunder (or any subsequent provisions replacing such 1934 Act, rules or regulations) shall be mailed to public stockholders of the corporation at least 30 days prior to the consummation of such business combination (whether or not such proxy or information statement is required to be mailed pursuant to the 1934 Act or subsequent provisions).

3. Certain Definitions. For the purposes of this Article TENTH:

(a) "affiliate" or "associate" has the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the 1934 Act, as in effect on February 8, 1985.

(b) "board" means the board of directors of this corporation.

(c) A person is a "beneficial owner" of any voting stock:

(1) which such person or any of its affiliates or associates beneficially owns, directly or indirectly; or

(2) which such person or any of its affiliates or associates has (A) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (B) the right to vote or direct the vote pursuant to any agreement, arrangement or understanding; or

(3) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of voting stock.

(d) The term "business combination" means any transaction which is referred to in any one or more of paragraphs (a) through (f) of Section 1.

(e) "common stock" means the common capital stock of this corporation.

(f) "continuing director" means any member of the board who is unaffiliated with and not a nominee of the interested stockholder and was a member of the board prior to the time that the interested stockholder became an interested stockholder, and any successor of a continuing director who is unaffiliated with, and not a nominee of the interested stockholder and who is recommended to succeed a continuing director by a majority of continuing directors then on the board.

(g) "fair market value" means: (1) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the 1934 Act on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing price or bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the

National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the continuing directors in good faith; and (2) in the case of stock that is not traded on any United States registered securities exchange nor in any over-the-counter market or in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the continuing directors in good faith.

(h) "interested stockholder" means any person (other than this corporation or any subsidiary) who or which:

(1) is the beneficial owner, directly or indirectly, of more than 10 percent of the combined voting power of the then outstanding voting stock; or

(2) is an affiliate of the corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 10 percent or more of the voting power of the then outstanding voting stock; or

(3) is an assignee of or has otherwise succeeded to the beneficial ownership of any shares of voting stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by any interested stockholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

For the purpose of determining whether a person is an interested stockholder pursuant to this paragraph (h) of this Section 3, the number of shares of voting stock deemed to be outstanding shall include shares deemed owned through application of paragraph (c) of this section 3 but shall not include any other shares of voting stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(i) A "person" means any individual, firm, corporation, group (as such term is used in Rule 13d of the General Rules and Regulations under the 1934 Act as in effect on February 8, 1985) or other entity.

(j) "subsidiary" means any corporation of which a majority of any class of equity security is owned, directly or indirectly, by this corporation; provided, however, that for the purposes of the definition of interested stockholder set forth in paragraph (h) of this section 3, the term "subsidiary" means only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by this corporation.

4. Powers of the Board. A majority of the continuing directors shall have the power and duty to determine for the purposes of this Article TENTH, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Article TENTH, including without limitation, (a) whether a person is an interested stockholder; (b) the number of shares of voting stock beneficially owned by any person; (c) whether a person is an affiliate or associate of another person; (d) whether the requirements of section 2.(b) of this Article TENTH have been met with respect to any proposed business combination, and (e) whether the assets which are the subject of any business combination have, or the consideration to

be received for the issuance or transfer of securities by this corporation or any subsidiary in any business combination has, an aggregate fair market value of \$20,000,000 or more. Any such determination made in good faith shall be binding and conclusive for all purposes of this Article TENTH.

5. No Effect on Fiduciary Obligations of Interested Stockholders. Nothing contained in this Article TENTH shall be construed to relieve any interested stockholder from any fiduciary obligation imposed by law."

SECOND: That thereafter, pursuant to vote of its Board of Directors, the Annual Meeting of Stockholders of said Corporation was duly called and held, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendments were duly adopted in accordance with the applicable provision of Section 242 of the General Corporation Law of the State of Delaware.

FOURTH: That the capital of said Corporation shall not be reduced under or by reason of said amendment.

IN WITNESS WHEREOF, said CABOT CORPORATION has caused this certificate to be signed by Robert A. Charpie, its President, and attested by Henley R. Webb, its Assistant Secretary this 11th day of February, 1985.

ATTEST:

/s/ Henley R. Webb

Assistant Secretary

CABOT CORPORATION

By /s/ Robert A. Charpie

President

CERTIFICATE OF DESIGNATION, PREFERENCES AND
RIGHTS OF SERIES A JUNIOR PARTICIPATING PREFERRED STOCK

of

CABOT CORPORATION

Pursuant to Section 151 of the General Corporation Law
of the State of Delaware

We, Robert A. Charpie, President, and Walter F. Greeley, Secretary, of Cabot Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware, in accordance with the provisions of Section 103 thereof, DO HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors by the Restated Certificate of Incorporation, as amended, of the said Corporation, the said Board of Directors on November 14, 1986, adopted the following resolution creating a series of 800,000 shares of Preferred Stock designated as Series A Junior Participating Preferred Stock:

VOTED, that pursuant to the authority vested in the Board of Directors of this Corporation in accordance with the provisions of its Restated Certificate of Incorporation, as amended, a series of Preferred Stock of the Corporation be and it hereby is created, and that the designation and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

Section 1. DESIGNATION AND AMOUNT. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" and the number of shares constituting such series shall be 800,000.

Section 2. DIVIDENDS AND DISTRIBUTIONS.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series A Junior Participating Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of

funds legally available for the purpose, quarterly dividends payable in cash on the eleventh day of January, March, June and September in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$25 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared (but not withdrawn) on the common stock, par value \$1.00 per share, of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock. In the event the Corporation shall at any time after November 14, 1986 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$25 per share on the Series A

Junior Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

Section 3. VOTING RIGHTS. The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which

holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, by the Restated Certificate of Incorporation, as amended, or by law, the holders of shares of Series A Junior Participating Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) (i) If at any time dividends on any Series A Junior Participating Preferred Stock shall be in arrears in an amount equal to six (6) quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series A Junior Participating Preferred Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, all holders of Preferred Stock (including holders of the Series A Junior Participating Preferred Stock) with dividends in arrears in an amount equal to six (6) quarterly dividends thereon, voting as a class, irrespective of series, shall have the right to elect two (2) Directors.

(ii) During any default period, such voting right of the holders of Series A Junior Participating Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(C) or at any annual meeting of stockholders, and thereafter at annual meetings of stockholders, provided that neither such voting right nor the right of the holders of any other series of Preferred Stock, if any, to increase, in certain cases, the authorized number of Directors shall be exercised unless the holders of one-third in number of shares of Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Preferred Stock of such voting right. At any meeting at which the holders of

Preferred Stock shall exercise such voting right initially during an existing default period, they shall have the right, voting as a class, to elect Directors to fill such vacancies, if any, in the Board of Directors as may then exist up to two (2) Directors or, if such right is exercised at an annual meeting, to elect two (2) Directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Preferred Stock shall have the right to make such increase in the number of Directors as shall be necessary to permit the election by them of the required number. After the holders of the Preferred Stock shall have exercised their right to elect Directors in any default period and during the continuance of such period, the number of Directors shall not be increased or decreased except by vote of the holders of Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or PARI PASSU with the Series A Junior Participating Preferred Stock.

(iii) Unless the holders of Preferred Stock shall, during an existing default period, have previously exercised their right to elect Directors, the Board of Directors may order, or any stockholder or stockholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preferred Stock outstanding, irrespective of series, may request, the calling of a special meeting of the holders of Preferred Stock, which meeting shall thereupon be called by the President, a Vice-President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Preferred Stock are entitled to vote pursuant to this paragraph (C) (iii) shall be given to each holder of record of Preferred Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any stockholder or stockholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preferred Stock outstanding. Notwithstanding the provisions of this paragraph (C)(iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the stockholders.

(iv) In any default period, the holders of Common Stock, and other classes of stock of the Corporation if applicable, shall continue to be entitled to elect the whole number of Directors until the holders of Preferred Stock shall have exercised their right to elect two (2) Directors voting as a class, after the exercise of which right (x) the Directors so elected by the holders of Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of Directors may (except as provided in paragraph (C)(ii) of this Section 3) be filled by vote of a majority of the remaining Directors theretofore elected by the holders of the class of stock which elected the Director whose office shall have become vacant. References in this paragraph (C) to Directors elected by the holders of a particular class of stock shall include Directors elected by such Directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Preferred Stock as a class to elect Directors shall cease, (y) the term of any Directors elected by the holders of Preferred Stock as a class shall terminate, and (z) the number of Directors shall be such number as may be provided for in the certificate of incorporation or by-laws irrespective of any increase made pursuant to the provisions of paragraph (C)(ii) of this Section 3 (such number being subject, however, to change thereafter in any manner provided by law or in the certificate of incorporation or by-laws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining Directors.

(D) Except as set forth herein, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. CERTAIN RESTRICTIONS.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, except dividends paid ratably on the Series A Junior Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Participating Preferred Stock;

(iv) purchase or otherwise acquire for consideration any shares of Series A Junior Participating Preferred Stock, or any

shares of stock ranking on a parity with the Series A Junior Participating Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. REACQUIRED SHARES. Any shares of Series A Junior Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 6. LIQUIDATION, DISSOLUTION OR WINDING UP. (A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Junior Participating Preferred Stock shall have received \$225 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an

amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) 100 (as appropriately adjusted as set forth in subparagraph C below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii) immediately above being referred to as the "Adjustment Number"). Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Junior Participating Preferred Stock and Common Stock, respectively, holders of Series A Junior Participating Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to one (1) with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of preferred stock, if any, which rank on a parity with the Series A Junior Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. CONSOLIDATION, MERGER, ETC. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Junior Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. REDEMPTION. The outstanding shares of Series A Junior Participating Preferred Stock may be redeemed at the option of the Board of Directors as a whole, but not in part, at any time, or from time to time, at a cash price per share equal to 105 percent of (i) the product of the Adjustment Number times the Average Market Value (as such term is hereinafter defined) of the Common Stock, plus (ii) all dividends which on the redemption date have accrued on the shares to be redeemed and have not been paid, or declared and a sum sufficient for the payment thereof set apart, without interest. The "Average Market Value" is the average of the closing sale prices of the Common Stock during the 30 day period immediately preceding the date before the redemption date on the Composite Tape for New York Stock Exchange Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934, as amended, on which such

stock is listed, or, if such stock is not listed on any such exchange, the average of the closing sale prices with respect to a share of Common Stock during such 30-day period, as quoted on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value of the Common Stock as determined by the Board of Directors in good faith.

Section 9. RANKING. The Series A Junior Participating Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 10. AMENDMENT. The Restated Certificate of Incorporation, as amended, of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series A Junior Participating Preferred Stock, voting separately as a class.

Section 11. FRACTIONAL SHARES. Series A Junior Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holders fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Participating Preferred Stock.

IN WITNESS WHEREOF, we have executed and subscribed this Certificate and do affirm the foregoing as true under the penalties of perjury this 2nd day of December , 1986.

/s/ Robert A. Charpie

President

Attest:

/s/ Walter F. Greeley

Secretary

CERTIFICATE OF AMENDMENT

OF
--

RESTATED CERTIFICATE OF INCORPORATION

CABOT CORPORATION, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of said Corporation, at a meeting duly held on November 14, 1986, adopted votes setting forth proposed amendments to the Restated Certificate of Incorporation of said Corporation, declaring said amendments to be advisable and recommending the adoption of said amendments by vote of the stockholders of the Corporation at its Annual Meeting of Stockholders called for February 13, 1987. The votes setting forth the proposed amendments are as follows:

VOTED: That it is advisable for this Corporation to amend its Restated Certificate of Incorporation by the proposed amendments described below and that this board recommends the adoption of such proposed amendments by vote of the Corporation at its Annual Meeting of Stockholders called for February 13, 1987:

a. To delete paragraph (i) of Article EIGHTH and insert in its place the new paragraph (i) of Article EIGHTH as follows:

(i)(1) No director of this corporation shall be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to this corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, as the same exists or hereafter may be amended, or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is hereafter amended to authorize the further elimination or limitation of this liability of directors, then the liability of a director of the corporation, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended Delaware General Corporation Law. Any repeal or modification of this Article by the stockholders of this corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of this corporation for acts or omissions prior to such repeal or modification.

(2) No officer or employee of this corporation shall be liable to this corporation for any loss or damage suffered by it on account of any action taken or omitted to be taken by him in good faith as an officer or employee of this corporation, if such person exercised or used the same degree of care and skill as a prudent man would have exercised or used under the circumstances in the conduct of his own affairs.

(3) For purposes of determining compliance with this paragraph (i), any director, officer or employee of this corporation shall be deemed to have taken actions or omitted to take actions in good faith if the action taken or omitted to be taken by him or her was taken or omitted in reliance in good faith upon the advice of counsel for this corporation, or the books of account or other records of this corporation, or reports or information made or furnished to this corporation by any official, accountant, engineer, agent, or employee of this corporation, or by any independent public accountant or auditor, counsel, engineer, appraiser, investment banker or other expert retained or employed by this corporation, by the directors, by any committee of the board of directors of this corporation or by any authorized officer of this corporation.

- b. To delete paragraph (j) of Article EIGHTH and insert in its place a new paragraph (j) of Article EIGHTH as follows:

(j) The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (and whether or not by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another company, partnership, joint venture, trust or other enterprise, or is or was serving as a fiduciary of any employee benefit plan, fund or program sponsored by the corporation or such other company, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, to the extent and under the circumstances permitted by the General Corporation Law of The State of Delaware as amended from time to time. Such indemnification (unless ordered by a court) shall be made as authorized in a specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standards of conduct set forth in the General Corporation Law of the State of Delaware. Such determination shall be made (1) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such quorum is not obtainable, or even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders. The foregoing right of indemnification shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

VOTED That it is advisable for this Corporation to amend its Restated Certificate of Incorporation by the proposed amendments described below and that this board recommends the adoption of such proposed amendments by vote of the Corporation at its Annual Meeting of Stockholders called for February 13, 1987:

- a. To delete paragraph (c) of Article EIGHTH and insert in its place the new paragraph (c) of Article EIGHTH as follows:

(c) By-laws may be made, altered, amended or repealed by (i) the affirmative vote of the holders of at least seventy-five percent (75%) of the voting power of the shares of the then outstanding shares of stock of all classes and series of this corporation entitled to vote generally in the election of directors voting together as a single class or (ii) a vote of the majority of the directors then in office at any annual, regular, or special stockholders or directors meeting, called for that purpose, the notice of which shall specify the subject matter of the proposed new by-law or the alteration, amendment, or repeal of an existing by-law, or the articles to be affected thereby. Any by-law whether made, altered, amended, or repealed by the stockholders or directors may be repealed, amended, further amended, or reinstated, as the case may be, by either the stockholders or the directors as aforesaid.

- b. To add a new paragraph (k) to Article EIGHTH of the Restated Certificate of Incorporation as follows:

(k) Any action required or permitted to be taken by the stockholders of the corporation must be taken at a duly called annual or special meeting of the stockholders of the corporation and may not be taken by any consent in writing by such stockholders.

- c. To delete the last paragraph of Article ELEVENTH commencing with the word "Notwithstanding" and insert the following in its place:

Notwithstanding any provision of law, this restated certificate of incorporation or the by-laws of this corporation (and notwithstanding the fact that a lesser percentage may be specified by law, this restated certificate of incorporation or the by-laws of this corporation), and in addition to any affirmative vote of the holders of any class of preferred stock of this corporation outstanding or any other class of capital stock of this corporation or any series of any of the foregoing then outstanding which is required by law or by or pursuant to this restated certificate of incorporation, the affirmative vote of the holders of seventy-five percent (75%) or more of the voting power of the shares of the then outstanding shares of stock of all classes and series of this corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend or repeal paragraph (a), (b), (c) or (k) of Article EIGHTH, Article TENTH or this Article ELEVENTH of this restated certificate of incorporation or to adopt any provision inconsistent therewith.

SECOND: That thereafter, pursuant to vote of its Board of Directors, the Annual Meeting of Stockholders of said Corporation was duly called and held, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, at which meeting the necessary number of shares as required by statute were voted in favor of the amendments.

THIRD: That said amendments were duly adopted in accordance with the applicable provision of Section 242 of the General Corporation Law of the State of Delaware.

FOURTH: That the capital of said Corporation shall not be reduced under or by reason of said amendment.

IN WITNESS WHEREOF, said CABOT CORPORATION has caused this certificate to be signed by Robert A. Charpie, its Chairman, and attested by Charles D. Gerlinger, its Assistant Secretary this 13th day of February, 1987.

ATTEST: CABOT CORPORATION

/s/ Charles D. Gerlinger

Assistant Secretary

By /s/ Robert A. Charpie

Chairman

CERTIFICATE OF DESIGNATIONS

SERIES B ESOP CONVERTIBLE PREFERRED STOCK

of

CABOT CORPORATION

Pursuant to Section 151 of the General
Corporation Law of the State of Delaware

I, Samuel W. Bodman, Chairman of the Board of the Cabot Corporation ("Company"), a corporation organized and existing under the General Corporation Law of the State of Delaware, in accordance with the provisions of Section 151 thereof, DO HEREBY CERTIFY that, pursuant to the authority conferred upon the Board of Directors by the Restated Certificate of Incorporation of the Company, as amended, the Board of Directors authorized the series of Preferred Stock hereinafter provided for and established the voting powers thereof and authorized an Executive Committee of the Board of Directors to adopt, and said Committee has adopted, the following resolution creating a series of 200,000 shares of Preferred Stock, \$1.00 par value, designated as Series B ESOP Convertible Preferred Stock:

VOTED: That, pursuant to the authority vested in the Board of Directors of the Company in accordance with the provisions of its Restated Certificate of Incorporation, as amended, and pursuant to the authority vested in the

Executive Committee by the Board of Directors a series of Preferred Stock of the Company be, and it hereby is, created, and that the designation and amount thereof and the voting powers, preferences and relative, participating, optional or other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof, are as follows:

Section 1. Designation and Amount; Special Purpose

 Restricted Transfer Issue.

(A) The shares of this series of Preferred Stock shall be designated as Series B ESOP Convertible Preferred Stock ("Series B Preferred Stock") and the number of shares constituting such series shall be 200,000.

(B) Shares of Series B Preferred Stock shall be issued only to a trustee or trustees (or to any successor trustee or trustees) acting on behalf of one or more employee stock ownership plans or other employee benefit plans of the Company (the "Trustee"). Certificates representing shares of Series B Preferred Stock shall be legended to reflect any restrictions on transfer imposed on such shares at the time of issuance. Notwithstanding the foregoing provisions of this paragraph (B) of Section 1, shares of Series B Preferred Stock (i) may be converted into shares of Common Stock as provided by Section 5 hereof and the shares of Common Stock issued upon such conversion may be transferred by the holder

thereof as permitted by law and (ii) shall be redeemable by the Company or by the holder upon the terms and conditions provided by Sections 6, 7 and 8 hereof.

Section 2. Dividends and Distributions.

(A) Subject to the provisions for adjustment hereinafter set forth, the holders of shares of Series B Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefor, cash dividends ("Preferred Dividends") in an amount per share equal to \$ 77.50 per share per annum, and no more, payable quarterly, in arrears, one-quarter on the last business day of each calendar quarter (each a "Dividend Payment Date") commencing on December 30, 1988, to holders of record at the start of business on such Dividend Payment Date. Preferred Dividends shall begin to accrue on outstanding shares of Series B Preferred Stock from the date of issuance of such shares of Series B Preferred Stock. Preferred Dividends shall accrue on a daily basis whether or not declared and whether or not the Company shall have earnings or surplus out of which such dividends could be paid at the time, and Preferred Dividends accrued on the shares of Series B Preferred Stock for any period less than a full quarterly period between Dividend Payment Dates shall be computed on the basis of a 360-day year of 30-day months. Accumulated but unpaid Preferred Dividends shall cumulate as

of the Dividend Payment Date on which they first became payable, but no interest shall accrue on accumulated but unpaid Preferred Dividends.

(B) So long as any Series B Preferred Stock shall be outstanding, no dividend shall be declared or paid or set apart for payment on any other series of stock ranking on a parity with the Series B Preferred Stock as to dividends, unless there shall also be or have been declared and paid or set apart for payment on the Series B Preferred Stock like dividends for all dividend payment periods of the Series B Preferred Stock ending on or before the dividend payment date of such parity stock, ratably in proportion to the respective amounts of dividends accumulated and unpaid through such dividend payment period on the Series B Preferred Stock and accumulated and unpaid or payable on such parity stock through the dividend payment period on such parity stock ending on such dividend payment date. In the event that full cumulative dividends on the Series B Preferred Stock have not been declared and paid or set apart for payment when due, the Company shall not declare or pay or set apart for payment any dividends or make any other distributions on, or make any payment on account of the purchase, redemption or other retirement of, any other class of stock or series thereof of the Company ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of

the Company, junior to the Series B Preferred Stock until full cumulative dividends on the Series B Preferred Stock shall have been declared and paid or declared and set aside for payment; PROVIDED, HOWEVER, that the foregoing shall not apply to (i) any dividend payable solely in any shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series B Preferred Stock, (ii) the purchase of shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series B Preferred Stock either (A) pursuant to any employee or director incentive or benefit plan or arrangement (including any employment, severance or consulting agreement) of the Company or any subsidiary of the Company heretofore or hereafter adopted or (B) in exchange solely for shares of any other stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding up of the Company, junior to the Series B Preferred Stock, or (iii) any payment made in respect of the purchase or redemption of the Rights, as defined in paragraph (F) of Section 5 hereof, or any rights similar thereto.

SECTION 3. VOTING RIGHTS. The holders of shares of Series B Preferred Stock shall have the following voting rights:

(A) The holders of Series B Preferred Stock shall be entitled to vote on all matters submitted to a vote of the holders of Common Stock of the Company, voting together with the holders of Common Stock (and holders of any other class or series of stock which may similarly be entitled to vote with the shares of Common Stock) as one class. Each share of the Series B Preferred Stock shall be entitled to the number of votes equal to the number of shares of Common Stock into which such share of Series B Preferred Stock could be converted on the record date for determining the stockholders entitled to vote, rounded down to the nearest vote; it being understood that whenever the "Conversion Price" (as defined in Section 5 hereof) is adjusted as provided in Section 9 hereof, the voting rights of the Series B Preferred Stock shall also be similarly adjusted.

(B) Except as otherwise required by law or set forth herein, holders of Series B Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock and holders of any other class or series of stock which may similarly be entitled to vote with the shares of Common Stock) for the taking of any corporate action. Any increase or decrease in the authorized class of Preferred Stock (but not below the number of shares thereof then outstanding) shall not be deemed to alter or change the

powers, preferences, or special rights of the shares of Series B Preferred Stock so as to affect them adversely within the meaning of the General Corporation Law of the State of Delaware.

Section 4. Liquidation, Dissolution or Winding Up.

(A) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of Series B Preferred Stock shall be entitled to receive out of the assets of the Company which remain after satisfaction in full of all valid claims of creditors of the Company and which are available for payment to stockholders and subject to the rights of the holders of any stock of the Company ranking senior to or on a parity with the Series B Preferred Stock in respect of distributions upon liquidation, dissolution or winding up of the Company, before any amount shall be paid or distributed among the holders of Common Stock or any other shares ranking junior to the Series B Preferred Stock in respect of distributions upon liquidation, dissolution or winding up of the Company, liquidating distributions in the amount of \$1,000 per share, plus an amount equal to all accumulated and unpaid dividends (including dividends declared and set aside) and accrued dividends thereon to the date fixed for distribution, and no more. If upon any liquidation, dissolution or winding up of the Company, the amounts payable with respect to the

Series B Preferred Stock and any other stock ranking as to any such distribution on a parity with the Series B Preferred Stock are not paid in full, the holders of the Series B Preferred Stock and such other stock shall share ratably in any distribution of assets in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount to which they are entitled as provided by the foregoing provisions of this paragraph 4(A), the holders of shares of Series B Preferred Stock shall not be entitled to any further right or claim to any of the remaining assets of the Company.

(B) Neither the merger or consolidation of the Company with or into any other corporation or other entity, nor the merger or consolidation of any other corporation or other entity with or into the Company, nor the sale, transfer or lease of all or any portion of the assets of the Company, shall be deemed to be a liquidation, dissolution or winding up of the Company for purposes of this Section 4, but the holders of Series B Preferred Stock shall nevertheless be entitled in the event of any such merger or consolidation to the rights provided by Section 8 hereof.

(C) Written notice of any voluntary or involuntary liquidation, dissolution or winding up of the Company, stating the payment date or dates when, and the place or places where, the amounts distributable to holders of Series

B Preferred Stock in such circumstances shall be payable, shall be given by first-class mail, postage prepaid, mailed not less than twenty (20) days prior to any payment date stated therein, to the holders of Series B Preferred Stock, at the address shown on the books of the Company or any transfer agent for the Series B Preferred Stock.

Section 5. Conversion into Common Stock.

(A) A holder of shares of Series B Preferred Stock shall be entitled, at any time prior to the close of business on the date fixed for redemption of such shares pursuant to Section 6, 7 or 8 hereof, to cause any or all of such shares to be converted into shares of Common Stock, initially at a conversion rate equal to the ratio of \$1,000 to the amount which initially shall be \$ 45.73 and which shall be adjusted as hereinafter provided (such amount, as so adjusted, is hereinafter sometimes referred to as the "Conversion Price") (that is, a conversion rate initially equivalent to 21.8675 shares of Common Stock for each share of Series B Preferred Stock so converted but that is subject to adjustment as the Conversion Price is adjusted as hereinafter provided).

(B) Any holder of shares of Series B Preferred Stock desiring to convert such shares into shares of Common Stock shall surrender the certificate or certificates representing the shares of Series B Preferred Stock being

converted, duly assigned or endorsed for transfer to the Company (or accompanied by duly executed stock powers relating thereto), at the principal executive office of the Company or the offices of the transfer agent for the Series B Preferred Stock or such office or offices in the continental United States of an agent for conversion as may from time to time be designated by notice to the holders of the Series B Preferred Stock by the Company or the transfer agent for the Series B Preferred Stock, accompanied by written notice of conversion, on any day which is a business day in the city of Boston, Massachusetts. Such notice of conversion shall specify (i) the number of shares of Series B Preferred Stock to be converted and the name or names in which such holder wishes the certificate or certificates for Common Stock to be issued and for any shares of Series B Preferred Stock not to be so converted to be issued (subject to compliance with applicable legal requirements if any of said certificates are to be issued in a name other than the name of the holder), and (ii) the address to which such holder wishes delivery to be made of such new certificates to be issued upon such conversion.

(C) Upon surrender of a certificate representing a share or shares of Series B Preferred Stock for conversion, the Company shall, as promptly as practicable after such surrender, issue and send by hand delivery (with receipt to

be acknowledged) or by first class mail, postage prepaid, to the holder thereof or to such holder's designee, at the address designated by such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled upon conversion. In the event that there shall have been surrendered a certificate or certificates representing shares of Series B Preferred Stock, only part of which are to be converted, the Company shall issue and deliver to such holder or such holder's designee a new certificate or certificates representing the number of shares of Series B Preferred Stock which shall not have been converted.

(D) A conversion of shares of Series B Preferred Stock into shares of Common Stock made at the option of the holder thereof shall be effective as of the close of business on the day on which the Company receives written notice of conversion pursuant to paragraph (B) of this Section 5. On and after the effective day of conversion, the shares of Series B Preferred so converted shall no longer be deemed to be outstanding for any purpose, and the person or persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock, but no allowance or adjustment shall be made in respect of dividends payable to holders of Common Stock of record on any date

prior to such effective date. The Company shall not be obligated to pay any dividends which shall have been declared and shall be payable to holders of shares of Series B Preferred Stock on a Dividend Payment Date if such Dividend Payment Date for such dividend shall be on or subsequent to the effective date of conversion of such shares, unless such declared dividends have been set aside for payment prior to the effective date of conversion of such shares, which dividends shall be paid on the effective date of conversion.

(E) The Company shall not be obligated to deliver to holders of Series B Preferred Stock any fractional shares of Common Stock issuable upon any conversion of such shares of Series B Preferred Stock, but in lieu thereof may make a cash payment in respect thereof in any manner permitted by law. Such cash payment shall be in an amount equal to such fraction multiplied by the Fair Market Value per share of the Common Stock (as defined in Section 9 hereof) at the close of business on the day of conversion.

(F) Prior to the Distribution Date (as defined in Section 3(a) of the Rights Agreement (defined below), if the Company shall issue shares of Common Stock upon conversion of shares of Series B Preferred Stock as contemplated by this Section 5, the Company shall issue together with each such share of Common Stock one right (a "Right", and collectively the "Rights") to purchase Series A Junior Participating Preferred Stock of the Company (or

other securities in lieu thereof) pursuant to the Rights Agreement dated as of November 14, 1986, and amended and restated as of August 12, 1988, between the Company and The First National Bank of Boston, as Rights Agent, as such agreement may from time to time be amended (the "Rights Agreement"), or any rights issued to holders of Common Stock of the Company in addition thereto or in replacement therefor.

(G) The Company shall at all times reserve and keep available out of its authorized and unissued Common Stock, solely for issuance upon the conversion of shares of Series B Preferred Stock as herein provided, free from any preemptive rights, such number of shares of Common Stock as shall from time to time be issuable upon the conversion of all the shares of Series B Preferred Stock then outstanding. Notwithstanding the foregoing, the Company shall be entitled to deliver upon conversion of shares of Series B Preferred Stock, as herein provided, shares of Common Stock reacquired and held in the treasury of the Company (in lieu of the issuance of authorized and unissued shares of Common Stock), so long as any such treasury shares are free and clear of all liens, charges, security interests or encumbrances. The Company shall prepare and shall use its best efforts to obtain and keep in force such governmental or regulatory permits or other authorizations as may be required by law,

and shall comply with all requirements as to registration or qualification of the Common Stock (and all requirements to list the Common Stock which are at the time applicable) as shall from time to time be sufficient to effect the conversion of all shares of Series B Preferred Stock then outstanding and convertible into shares of Common Stock.

Section 6. Redemption At the Option of the Company.

(A) The Series B Preferred Stock shall be redeemable, in whole or in part, at the option of the Company at any time after November 18, 1991, or on or before November 18, 1991 if permitted by paragraph (C) or (D) of this Section 6, at the following redemption prices per share (or, if pursuant to paragraph (C) of this Section 6, at the redemption price set forth therein):

DURING THE TWELVE- MONTH PERIOD BEGINNING NOVEMBER 19 -----	PRICE PER SHARE -----
1988	\$1077.50
1989	\$1069.75
1990	\$1062.00
1991	\$1054.25
1992	\$1046.50
1993	\$1038.75
1994	\$1031.00
1995	\$1023.25
1996	\$1015.50
1997	\$1007.75

and thereafter at \$1,000 per share, plus, in each case, an amount equal to all accumulated and unpaid dividends and accrued dividends thereon to the date fixed for redemption.

Payment of the redemption price shall be made by the Company in cash or shares of Common Stock, or a combination thereof, as permitted by paragraph (E) of this Section 6. From and after the close of business on the date fixed for redemption, dividends on shares of Series B Preferred Stock called for redemption will cease to accrue, such shares will no longer be deemed to be outstanding and all rights in respect of such shares of the Company shall cease, except the right to receive the redemption price, provided that shares of Series B Preferred Stock may be converted pursuant to Section 5 hereof at any time prior to the close of business on the date fixed for redemption of such shares pursuant to Sections 6, 7 or 8 hereof. If less than all of the outstanding shares of Series B Preferred Stock are to be redeemed, the Company shall either redeem a portion of the shares of each holder determined pro rata based on the number of shares held by each holder or shall select the shares to be redeemed by lot or by any other manner deemed equitable, as may be determined by the Board of Directors of the Company.

(B) Unless otherwise required by law, notice of redemption with respect to a redemption under this Section 6 (but not Section 7 or 8) will be sent to the holders of Series B Preferred Stock at the address shown on the books of the Company or any transfer agent for the Series B Preferred Stock by first class mail, postage prepaid, mailed not less than twenty (20) days nor more than sixty (60) days prior to the redemption date.

Each such notice shall state: (i) the redemption date; (ii) the total number of shares of the Series B Preferred Stock to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; (v) that dividends on the shares to be redeemed will cease to accrue on such redemption date; and (vi) the conversion rights of the shares to be redeemed, the period within which conversion rights may be exercised, and the Conversion Price and number of shares of Common Stock issuable upon conversion of a share of Series B Preferred Stock at the time. Upon surrender of the certificates for any shares called for redemption pursuant to the provisions of this Section 6 or the provisions of Sections 7 or 8 hereof, which shares have not previously been converted (properly endorsed or assigned for transfer, if the Board of Directors of the Company shall so require and the notice shall so state), such shares shall be redeemed by the Company at the date fixed for redemption and at the applicable redemption price set forth in this Section 6 or in Sections 7 or 8 hereof.

(C) In the event (i) of a change in the federal tax law of the United States of America which has the effect of precluding the Company from claiming any of the tax deductions

for dividends paid on the Series B Preferred Stock when such dividends are used as provided under Section 404(k)(2) of the Internal Revenue Code of 1986, as amended and in effect on the date shares of Series B Preferred Stock are initially issued, (ii) that shares of Series B Preferred Stock are held by an employee benefit plan intended to qualify as an employee stock ownership plan within the meaning of Section 4975 of the Internal Revenue Code of 1986, as amended, and such plan does not so qualify, or (iii) that the Company, in good faith after consultation with counsel to the Company, determines that the voting provisions contained herein are not in compliance with Rule 19c-4 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, the Company may, in its sole discretion and notwithstanding anything to the contrary in paragraph (A) of this Section 6, elect to redeem such shares at a redemption price equal to the amount payable in respect of the shares upon liquidation of the Company pursuant to Section 4 hereof (including the amount equal to all accumulated and unpaid dividends and accrued dividends thereon to the date fixed for redemption, as provided by Section 4 hereof).

(D) Notwithstanding anything to the contrary in paragraph (A) of this Section 6, the Company may, in its sole discretion, elect to redeem any or all of the shares of

Series B Preferred Stock at any time on or prior to November 18, 1991 on the terms and conditions set forth in paragraphs (A) and (B) of this Section 6, if the last reported sales price, regular way, of a share of Common Stock, as reported on the New York Stock Exchange Composite Tape or, if the Common Stock is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which such stock is listed or admitted to trading or, if the Common Stock is not listed or admitted to trading on any national securities exchange, on the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") or, if the Common Stock is not quoted on such National Market System, the average of the closing bid and asked prices in over-the-counter market as reported by NASDAQ, for at least twenty (20) trading days within a period of thirty (30) consecutive trading days ending within five (5) days of the notice of redemption, equals or exceeds one hundred forty percent (140%) of the Conversion Price (giving effect equitably in making such calculation to any adjustments required by Section 9 hereof).

(E) The Company, at its option, may make payment of the redemption price required upon redemption of shares of Series B Preferred Stock in cash or in shares of Common Stock (or fractional shares thereof), or in a combination of such

shares and cash, any such shares to be valued for such purpose at their Fair Market Value (as defined in paragraph G of Section 9 hereof, provided, however, that in calculating their Fair Market Value the Adjustment Period shall be deemed to be the five (5) consecutive trading days preceding, and including, the date of redemption), except that any payment required to be made under paragraph (C) of Section 8 shall be made in cash.

Section 7. Other Redemption Rights.

(A) Shares of Series B Preferred Stock shall be redeemed by the Company for cash or, if the Company so elects, in shares of Common Stock (or fractional shares thereof), or a combination of such shares and cash, any such shares of Common Stock to be valued for such purpose at their Fair Market Value (as defined in paragraph (G) of Section 9 hereof, provided, however, that in calculating their Fair Market Value the Adjustment Period shall be deemed to be the five (5) consecutive trading days preceding, and including, the date of redemption), at the redemption prices per share set forth in paragraph (B) of this Section 7, at the option of the holder, at any time and from time to time upon notice to the Company given not less than five (5) business days prior to the date fixed by the holder in such notice for such redemption, when and to the extent necessary (i) for such holder to provide for distributions required to be made

under, or to satisfy an investment election provided to participants in accordance with, the Cabot Corporation Employee Stock Ownership Plan and Trust Agreement, dated as of November 16, 1988, as the same may be amended or any successor plan (the "Plan"), or (ii) for such holder to make payment of principal, interest or premium due and payable (whether as scheduled or upon acceleration) (a) on the \$75,000,000 aggregate principal amount of ESOP Notes Due December 31, 2013 of the trust under the Plan (but only if to remedy or prevent a default under such ESOP Notes or related loan documentation, in each case as amended), or (b) on any other indebtedness incurred by the holder for the benefit of the Plan (but only if to remedy or prevent a default thereunder).

(B) For the purposes of clause (i) of paragraph (A) of this Section 7, the redemption price of a share of Series B Preferred Stock shall be an amount equal to the Fair Market Value (as defined in paragraph G of Section 9 hereof) of such share of Series B Preferred Stock. For the purposes of clause (ii) of paragraph (A) of this Section 7, the redemption price of a share of Series B Preferred Stock shall be equal to the amount payable in respect of such share upon liquidation of the Company pursuant to Section 4 hereof (including the amount equal to all accumulated and unpaid dividends and accrued dividends thereon to the date fixed for redemption as provided by Section 4 hereof).

Section 8. Consolidation, Merger, etc.

(A) In the event that the Company shall consummate any consolidation or merger or similar transaction, however named, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged solely for or changed, reclassified or converted solely into stock of any successor or resulting company (including the Company) that constitutes "qualifying employer securities" with respect to a holder of Series B Preferred Stock within the meaning of Section 409(e) of the Internal Revenue Code of 1986, as amended, and Section 407(c)(5) of the Employee Retirement Income Security Act of 1974, as amended, or any successor provisions of law, and, if applicable, for a cash payment in lieu of fractional shares, if any, the shares of Series B Preferred Stock of such holder shall be assumed by and shall become preferred stock of such successor or resulting company, having in respect of such company insofar as possible the same powers, preferences and relative, participating, optional or other special rights (including the redemption rights provided by Sections 6, 7 and 8 hereof), and the qualifications, limitations or restrictions thereon, that the Series B Preferred Stock had immediately prior to such transaction, except that after such transaction each share of the Series B Preferred Stock shall be convertible, otherwise on the terms and conditions provided

by Section 5 hereof, into the qualifying employer securities so receivable by a holder of the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election to receive any kind or amount of stock, securities, cash or other property (other than such qualifying employer securities and a cash payment, if applicable, in lieu of fractional shares) receivable upon such transaction (provided that, if the kind or amount of qualifying employer securities receivable upon such transaction is not the same for each non-electing share, then the kind and amount of qualifying employer securities receivable upon such transaction for each non-electing share shall be the kind and amount so receivable per share by a plurality of the non-electing shares). The rights of the Series B Preferred Stock as preferred stock of such successor or resulting company shall successively be subject to adjustments pursuant to Section 9 hereof after any such transaction as nearly equivalent as practicable to the adjustments provided for by such section prior to such transaction. The Company shall not consummate any such merger, consolidation or similar transaction unless all then outstanding shares of the Series B Preferred Stock shall be

assumed and authorized by the successor or resulting company as aforesaid.

(B) In the event that the Company shall consummate any consolidation or merger or similar transaction, however named, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged for or changed, reclassified or converted into other stock or securities or cash or any other property, or any combination thereof, other than any such consideration which is constituted solely of qualifying employer securities (as referred to in paragraph (A) of this Section 8) and cash payments, if applicable, in lieu of fractional shares, each outstanding share of Series B Preferred Stock shall, without any action on the part of the Company or any holder thereof (but subject to paragraph (C) of this Section 8), be deemed converted by virtue of such merger, consolidation or similar transaction immediately prior to such consummation into the number of shares of Common Stock into which such share of Series B Preferred Stock could have been converted at such time and each share of Series B Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in like kind) receivable by a holder of the number of shares of Common Stock into which such share of Series B

Preferred Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election as to the kind or amount of stock, securities, cash or other property receivable upon such transaction (provided that, if the kind or amount of stock, securities, cash or other property receivable upon such transaction is not the same for each non-electing share, then the kind and amount of stock, securities, cash or other property receivable upon such transaction for each non-electing share shall be the kind and amount so receivable per share by a plurality of the non-electing shares).

(C) In the event the Company shall enter into any agreement providing for any consolidation or merger or similar transaction described in paragraph (B) of this Section 8, then the Company shall as soon as practicable thereafter (and in any event at least ten (10) business days before consummation of such transaction) give notice of such agreement and the material terms thereof to each holder of Series B Preferred Stock and each such holder shall have the right to elect, by written notice to the Company, to receive, upon consummation of such transaction (if and when such transaction is consummated), from the Company or the successor of the Company, in lieu of what would otherwise be the result under paragraph (B) of this Section 8 (and in redemption and retirement of such share of Series B Preferred

Stock, but without any premium), a cash payment equal to the amount payable in respect of such share of Series B Preferred Stock upon liquidation of the Company pursuant to Section 4 hereof, (including an amount equal to all accumulated and unpaid dividends and accrued dividends thereon to the date fixed for redemption as provided by Section 4 hereof). No such notice of redemption shall be effective unless given to the Company prior to the close of business on the fifth business day prior to consummation of such transaction, unless the Company or the successor of the Company shall waive such prior notice, but any notice of redemption so given prior to such time may be withdrawn by notice of withdrawal given to the Company prior to the close of business on the fifth business day prior to consummation of such transaction.

Section 9. Anti-dilution Adjustments.

(A) In the event the Company shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, (i) pay a dividend or make a distribution in respect of the Common Stock, to the extent that such dividend or distribution consists of shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, in each case whether by reclassification of shares, recapitalization of the

Company (excluding a recapitalization effected by a merger or consolidation to which Section 8 hereof applies) or otherwise, the Conversion Price in effect immediately prior to such action shall be adjusted by multiplying such Conversion Price by the fraction the numerator of which is the number of shares of Common Stock outstanding immediately before such event and the denominator of which is the number of shares of Common Stock outstanding immediately after such event. An adjustment made pursuant to this paragraph 9(A) shall be given effect, upon payment of such a dividend or distribution, as of the record date for the determination of shareholders entitled to receive such dividend or distribution (on a retroactive basis) and in the case of a subdivision or combination shall become effective immediately as of the effective date thereof.

(B) In the event that the Company shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, issue to holders of shares of Common Stock as a dividend or distribution, including by way of a reclassification of shares or a recapitalization of the Company, rights or warrants to purchase shares of Common Stock (but not including as such rights or warrants the Rights (as defined in Section 5 hereof) or any securities convertible into or exchangeable for shares of Common Stock) at a purchase price per share less than the Fair Market Value

(as hereinafter defined) of a share of Common Stock on the date of issuance of such rights or warrants, to the extent that such dividend or distribution consists of such rights or warrants, then, subject to the provisions of paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by the fraction the numerator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the number of shares of Common Stock which could be purchased at the Fair Market Value of a share of Common Stock at the time of such issuance for the maximum aggregate consideration payable upon exercise in full of all such rights or warrants and the denominator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the maximum number of shares of Common Stock that could be acquired upon the exercise in full of all such rights and warrants.

(C) In the event the Company shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, make an Extraordinary Distribution (as hereinafter defined) in respect of the Common Stock, whether by dividend, distribution, reclassification of shares or recapitalization of the Company (excluding a recapitalization or reclassification effected by a merger or consolidation to which Section 8 hereof applies)

or effect a Pro Rata Repurchase (as hereinafter defined) of Common Stock where the aggregate amount paid in the Extraordinary Distribution or the aggregate premium paid in the Pro Rata Repurchase over the Fair Market Value of the shares of Common Stock repurchased (as determined on the expiration date (including all extensions thereof) of the applicable tender offer or exchange offer), either alone or when combined with aggregate amounts or premiums paid in respect of any other Extraordinary Distributions or Pro Rata Repurchases effected within the preceding twelve-month period (which other Extraordinary Distributions or Pro Rata Repurchases have not been previously taken into account for the purpose of adjusting the Conversion Price pursuant to this paragraph (C) of Section 9) exceeds twelve and one-half percent (12 - 1/2%) of the aggregate Fair Market Value of all shares of Common Stock outstanding on the record date in respect of such Extraordinary Distribution or on the expiration date (including all extensions thereof) of the applicable tender offer or exchange offer in respect of such Pro Rata Repurchase, as the case may be, the Conversion Price in effect immediately prior to such Extraordinary Distribution or Pro Rata Repurchase shall, subject to paragraphs (E) and (F) of this Section 9, be adjusted by multiplying such Conversion Price by the fraction the numerator of which is (i) the product of (x) the number of

shares of Common Stock outstanding immediately before such Extraordinary Distribution or Pro Rata Repurchase multiplied by (y) the Fair Market Value of a share of Common Stock on the record date with respect to an Extraordinary Distribution, or on the expiration date (including all extensions thereof) of the applicable tender offer or exchange offer with respect to a Pro Rata Repurchase minus (ii) the Fair Market Value of the Extraordinary Distribution or the aggregate purchase price of the Pro Rata Repurchase, as the case may be, and the denominator of which shall be the product of (A) the number of shares of Common Stock outstanding immediately before such Extraordinary Distribution or Pro Rata Repurchase minus, in the case of a Pro Rata Repurchase, the number of shares of Common Stock repurchased by the Company multiplied by (B) the Fair Market Value of a share of Common Stock on the record date with respect to an Extraordinary Distribution or on the expiration date (including all extensions thereof) of the applicable tender offer or exchange offer. The Company shall send each holder of Series B Preferred Stock (i) notice of its intent to make any Extraordinary Distribution and (ii) notice of any offer by the Company to make a Pro Rata Repurchase, in each case at the same time as, or as soon as practicable after, such offer is first communicated (including by announcement of a record date in accordance with the rules of any stock

exchange on which the Common Stock is listed or admitted to trading) to holders of Common Stock. Such notice shall indicate the intended record date and the amount and nature of such Extraordinary Distribution, or the number of shares subject to such offer for a Pro Rata Repurchase and the purchase price payable by the Company pursuant to such offer, as well as the Conversion Price and the number of shares of Common Stock into which a share of Series B Preferred Stock may be converted at such time.

(D) In the event the Company shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, issue, sell or exchange shares of Common Stock (other than pursuant to any employee or director incentive or benefit plan or arrangement, including any employment, severance or consulting agreement, of the Company or any subsidiary of the Company heretofore or hereafter adopted) for a consideration having a Fair Market Value on the date of such issuance, sale or exchange of fifty percent (50%) or less of the Fair Market Value of such shares on the date of such issuance, sale or exchange, then, subject to the provisions of paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by the fraction the numerator of which shall be the sum of (i) the Fair Market Value of all the shares of Common Stock outstanding on the day immediately preceding

such issuance, sale or exchange plus (ii) the Fair Market Value of the consideration received by the Company in respect of such issuance, sale or exchange of shares of Common Stock, and the denominator of which shall be the product of (i) the Fair Market Value of a share of Common Stock on the day immediately preceding such issuance, sale or exchange multiplied by (ii) the sum of the number of shares of Common Stock outstanding on such day plus the number of shares of Common Stock so issued, sold or exchanged by the Company.

(E) Notwithstanding any other provisions of this Section 9, the Company shall not be required to make immediately any adjustment of the Conversion Price unless such adjustment would require an increase or decrease of at least one percent (1%) in the Conversion Price. Any lesser adjustment shall be carried forward and shall be made no later than the earlier of (i) three years after the event which gives rise to such adjustment and (ii) the time of the next subsequent adjustment which, together with any adjustment or adjustments so carried forward, shall amount to an increase or decrease of at least one percent (1%) in the Conversion Price.

(F) If the Company shall make any dividend or distribution on the Common Stock or issue any Common Stock, other capital stock or other security convertible into or exchangeable for capital stock of the Company or any rights

or warrants to purchase or acquire any such security, which transaction does not result in an adjustment to the Conversion Price pursuant to the foregoing provisions of this Section 9, the Board of Directors of the Company may consider, but shall be under no legal obligation to consider, whether such action is of such a nature that an adjustment to the Conversion Price should equitably be made in respect of such transaction. If in such case the Board of Directors of the Company determines that an adjustment to the Conversion Price should be made, an adjustment shall be made effective as of such date, as determined by the Board of Directors of the Company. The determination of the Board of Directors of the Company as to whether an adjustment to the Conversion Price should be made pursuant to the foregoing provisions of this paragraph 9(F), and, if so, as to what adjustment should be made and when, shall be final and binding on the Company and all stockholders of the Company. Without limiting the foregoing, the Company shall be entitled to make such additional adjustments in the Conversion Price, in addition to those required by the foregoing provisions of this Section 9, as shall be necessary in order that any dividend or distribution in shares of capital stock of the Company, subdivision, reclassification or combination of shares of stock of the Company or any recapitalization of the Company

or other event shall not be taxable to holders of the Common Stock.

(G) For purposes of this Resolution, the following definitions shall apply:

"Extraordinary Distribution" shall mean any dividend or other distribution (i) of cash, including for this purpose regular quarterly cash dividends declared and paid by the Company, and (ii) of any shares of capital stock of the Company (other than shares of Common Stock referred to in clause (i) of paragraph (A) of this Section 9), other securities of the Company (other than rights or warrants of the type referred to in paragraph (B) of this Section 9), evidence of indebtedness of the Company or any other person or any other property (including shares of any subsidiary of the Company), or any combination thereof, each as valued at Fair Market Value.

"Fair Market Value" shall mean (a) as to cash, the amount of cash, and (b) as to shares of Common Stock or any other class of capital stock or securities of the Company or any other issuer which are publicly traded, the average of the Current Market Prices (as hereinafter defined) of such shares or securities for each day of the Adjustment Period (as hereinafter defined). "Current Market Price" of publicly traded shares of Common Stock or any other class of capital stock or other security of the Company or any other issuer for a day shall mean the last reported sales price, regular way,

or, in case no sale takes place on such day, the average of the reported closing bid and asked prices, regular way, in either case as reported on the New York Stock Exchange Composite Tape or, if such security is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which such security is listed or admitted to trading, or if not listed or admitted to trading on any national securities exchange, on the NASDAQ National Market System or, if such security is not quoted on such National Market System, the average of the closing bid and asked prices on such day in the over-the-counter market as reported by NASDAQ or, if bid and asked prices for such security on such day shall not have been reported through NASDAQ, the average of the bid and asked prices for such day as furnished by any New York Stock Exchange member firm regularly making a market in such security selected for such purpose by the Board of Directors of the Company or a committee thereof on each trading day during the Adjustment Period. "Adjustment Period" shall mean the period of five (5) consecutive trading days, selected by the Board of Directors of the Company or a committee thereof, during the 20 trading days preceding, and including, the date as of which the Fair Market Value of a security is to be determined. The "Fair Market Value" of any security which is not publicly traded or of any other property shall mean the

fair value thereof as determined by an independent investment banking or appraisal firm experienced in the valuation of such securities or property selected in good faith by the Board of Directors of the Company or a committee thereof, or, if no such investment banking or appraisal firm is in the good faith judgment of the Board of Directors or such committee available to make such determination, as determined in good faith by the Board of Directors of the Company or such committee.

"Pro Rata Repurchase" shall mean any purchase of shares of Common Stock by the Company or any subsidiary thereof, whether for cash, shares of capital stock of the Company, other securities of the Company, evidences of indebtedness of the Company or any other person or any other property (including shares of a subsidiary of the Company), or any combination thereof, pursuant to any tender offer or exchange offer subject to Section 13(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision of law.

(H) Whenever an adjustment to the Conversion Price and the related voting rights of the Series B Preferred Stock is required pursuant to this Resolution, the Company shall forthwith place on file with the transfer agent for the Common Stock and the Series B Preferred Stock if there be one, and with the Secretary of the Company, a statement

signed by two officers of the Company stating the adjusted Conversion Price determined as provided herein and the resulting conversion ratio, and the voting rights (as appropriately adjusted), of the Series B Preferred Stock. Such statement shall set forth in reasonable detail such facts as shall be necessary to show the reason and the manner of computing such adjustment, including any determination of Fair Market Value involved in such computation. Promptly after each adjustment to the Conversion Price and the related voting rights of the Series B Preferred Stock, the Company shall mail a notice thereof and of the then prevailing conversion ratio to each holder of shares of Series B Preferred Stock.

Section 10. Ranking; Retirement of Shares.

(A) The Series B Preferred Stock shall rank senior to the Series A Junior Participating Preferred Stock and the Common Stock as to the payment of dividends and the distribution of assets on liquidation, dissolution and winding-up of the Company, and, unless otherwise provided in the Restated Certificate of Incorporation of the Company, as amended, or a Certificate of Designations relating to a subsequent series of Preferred Stock, \$1.00 par value, of the Company, the Series B Preferred Stock shall rank junior to all other series of the Company's Preferred Stock, \$1.00 par

value, as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding-up.

(B) Any shares of Series B Preferred Stock acquired by the Company by reason of the conversion or redemption of such shares as provided by this Resolution, or otherwise so acquired, shall be retired as shares of Series B Preferred Stock and restored to the status of authorized but unissued shares of Preferred Stock, \$1.00 par value, of the Company, undesignated as to series, and may thereafter be reissued as part of a new series of such Preferred Stock as permitted by law.

Section 11. Miscellaneous.

(A) All notices referred to herein shall be in writing, and all notices hereunder shall be deemed to have been given upon the earlier of receipt thereof or three (3) business days after the mailing thereof if sent by registered mail (unless first-class mail shall be specifically permitted for such notice under the terms of this Resolution) with postage prepaid, addressed: (i) if to the Company, to its office at 950 Winter Street, Waltham, Massachusetts 02254 or to the transfer agent for the Series B Preferred Stock, or other agent of the Company designated as permitted by this Resolution, or (ii) if to any holder of the Series B Preferred Stock or Common Stock, as the case may be, to such holder at the address of such holder as listed in the stock

record books of the Company (which may include the records of any transfer agent for the Series B Preferred Stock or Common Stock, as the case may be) or (iii) to such other address as the Company or any such holder, as the case may be, shall have designated by notice similarly given.

(B) The term "Common Stock" as used in this Resolution means the Company's Common Stock of \$1.00 par value, as the same exists at the date of filing of a Certificate of Designations relating to Series B Preferred Stock or any other class of stock resulting from successive changes or reclassifications of such Common Stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that, at any time as a result of an adjustment made pursuant to Section 9 of this Resolution, the holder of any share of Series B Preferred Stock upon thereafter surrendering such shares for conversion shall become entitled to receive any shares or other securities of the Company other than shares of Common Stock, the Conversion Price in respect of such other shares or securities so receivable upon conversion of shares of Series B Preferred Stock shall thereafter be adjusted, and shall be subject to further adjustment from time to time, in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in Section 9 hereof, and the provisions of Sections

1 through 8 and 10 and 11 of this Resolution with respect to the Common Stock shall apply on like or similar terms to any such other shares or securities.

(C) The Company shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Series B Preferred Stock or shares of Common Stock or other securities issued on account of Series B Preferred Stock pursuant hereto or certificates representing such shares or securities. The Company shall not, however, be required to pay any such tax which may be payable in respect of any transfer involved in the issuance or delivery of shares of Series B Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Series B Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any person with respect to any such shares or securities other than a payment to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the person otherwise entitled to such issuance, delivery or payment has paid to the Company the amount of any such tax or has established, to the satisfaction of the Company, that such tax has been paid or is not payable.

(D) In the event that a holder of shares of Series B Preferred Stock shall not by written notice designate the name in which shares of Common Stock to be issued upon conversion of such shares should be registered or to whom payment upon redemption of shares of Series B Preferred Stock should be made or the address to which the certificate or certificates representing such shares, or such payment, should be sent, the Company shall be entitled to register such shares, and make such payment, in the name of the holder of such Series B Preferred Stock as shown on the records of the Company and to send the certificate or certificates representing such shares, or such payment, to the address of such holder shown on the records of the Company.

(E) Unless otherwise provided in the Restated Certificate of Incorporation, as amended, of the Company, all payments in the form of dividends, distributions on voluntary or involuntary dissolution, liquidation or winding-up or otherwise made upon the shares of Series B Preferred Stock and any other stock ranking on a parity with the Series B Preferred Stock with respect to such dividends or distributions shall be made pro rata, so that amounts paid per share on the Series B Preferred Stock and such other stock shall in all cases bear to each other the same ratio that the required dividends, distributions or payments, as the case may be, then payable per share on the shares of the

Series B Preferred Stock and such other stock bear to each other.

(F) The Company may appoint, and from time to time discharge and change, a transfer agent for the Series B Preferred Stock. Upon any such appointment or discharge of a transfer agent, the Company shall send notice thereof by first-class mail, postage prepaid, to each holder of record of Series B Preferred Stock.

IN WITNESS WHEREOF, I have executed and subscribed this Certificate of Designations and do affirm the foregoing as true under the penalties of perjury this 17th day of November, 1988.

/s/ Samuel W. Bodman

Samuel W. Bodman
Chairman of the Board

ATTEST:

/s/ Charles Gerlinger

Charles Gerlinger
Secretary

AMENDED CERTIFICATE OF DESIGNATION, PREFERENCES AND
RIGHTS OF SERIES A JUNIOR PARTICIPATING
PREFERRED STOCK OF CABOT CORPORATION

(Pursuant to Section 151
of the General Corporation Law of the State of Delaware)

We, Kennett F. Burnes, President, and Charles D. Gerlinger, Secretary of Cabot Corporation (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware, in accordance with the provisions of Section 103 thereof, DO HEREBY CERTIFY as follows:

That pursuant to the authority conferred upon the Board of Directors by the Certificate of Incorporation of the said Corporation, said Board of Directors on November 10, 1995, voted to create a series of 1,000,000 shares of Preferred Stock designated as Series A Junior Participating Preferred Stock:

VOTED, that pursuant to the authority granted to and vested in the Board of Directors of this Corporation in accordance with the provisions of the Corporation's Certificate of Incorporation and Section 151(g) of the General Corporation Law of the State of Delaware, the Board of Directors hereby approves and adopts an amendment to the Certificate of Designation, Preferences and Rights of the Series A Junior Participating Preferred Stock of Cabot Corporation, which Certificate is hereby amended in its entirety, and hereby states the designation and number of shares, and fixes the relative rights, preferences and limitations thereof (in addition to the provisions set forth in the Corporation's Certificate of Incorporation which are applicable to the Preferred Stock of all classes and series) as follows:

Section 1. Designation and Amount. There shall be a series of Preferred Stock, par value \$1.00 per share, of the Corporation which shall be designated as "Series A Junior Participating Preferred Stock," par value \$1.00 per share, and the number of shares constituting such series shall be 1,000,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Junior Participating Preferred Stock to a number less than that of the shares then outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

Section 2. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the Series A Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series A

Junior Participating Preferred Stock in preference to the holders of shares of Common Stock, par value \$1.00 per share (the "Common Stock"), of the Corporation and any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the last day of each fiscal quarter of the Corporation in each year or such other dates as the Board of Directors of the Corporation shall approve (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$18.00 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock. In the event the Corporation shall at any time after November 24, 1995 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide (by a stock split or otherwise) the outstanding Common Stock, or (iii) combine (by a reverse stock split or otherwise) the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in paragraph (A) above at the time it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$18.00 per share on the Series A Junior Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) So long as any shares of the Series A Junior Participating Preferred Stock are outstanding, no dividends or other distributions shall be declared, paid or distributed, or set aside for payment or distribution, on the Common Stock unless, in each

case, the dividend required by this Section 2 to be declared on the Series A Junior Participating Preferred Stock shall have been declared.

(D) The holders of the shares of the Series A Junior Participating Preferred Stock shall not be entitled to receive any dividends or other distributions except as provided herein.

(E) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 60 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide (by a stock split or otherwise) the outstanding Common Stock, or (iii) combine (by a reverse stock split or otherwise) the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by law, the holders of shares of Series A Junior Participating Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) (i) If at any time dividends on any Series A Junior Participating Preferred Stock shall be in arrears in an amount equal to at least six (6) full quarterly dividends (whether or not declared and whether or not consecutive) thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series A Junior Participating Preferred Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, all holders of Preferred Stock (including holders of the Series A Junior Participating Preferred Stock) with dividends in arrears in an amount equal to at least six (6) full quarterly dividends (whether or not declared and whether or not consecutive) thereon, voting as a class, irrespective of series, shall have the right to elect two (2) Directors.

(ii) During any default period, such voting right of the holders of Series A Junior Participating Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(C) or at any annual meeting of stockholders, and thereafter at annual meetings of stockholders, provided that neither such voting right nor the right of the holders of any other series of Preferred Stock, if any, to increase, in certain cases, the authorized number of Directors shall be exercised unless the holders of one-third (1/3) in number of shares of Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Preferred Stock of such voting right. At any meeting at which the holders of Preferred Stock shall exercise such voting right initially during an existing default period, they shall have the right, voting as a class, to elect Directors to fill such vacancies, if any, in the Board of Directors as may then exist up to two (2) Directors or, if such right is exercised at an annual meeting, to elect two (2) Directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Preferred Stock shall have the right to make such increase in the number of Directors as shall be necessary to permit the election by them of the required number. After the holders of the Preferred Stock shall have exercised their right to elect Directors in any default period and during the continuance of such period, the number of directors shall not be increased or decreased except by vote of the holders of Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or pari passu with the Series A Junior Participating Preferred Stock.

(iii) Unless the holders of Preferred Stock shall, during an existing default period, have previously exercised their right to elect Directors, the Board of Directors may order, or any stockholder or stockholders owning in the aggregate not less than ten percent (10%) of the total number of Preferred Stock outstanding, irrespective of series, may request, the calling of a special meeting of the holders of Preferred Stock, which meeting shall thereupon be called by the Chairman of the Board or the President of the Corporation. Notice of such meeting and of any annual meeting at which holders of Preferred Stock are entitled to vote pursuant to this paragraph (C)(iii) shall be given to each holder of record of Preferred Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 10 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any stockholder or stockholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preferred Stock outstanding. Notwithstanding the provisions of this paragraph (C)(iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the stockholders.

(iv) In any default period, the holders of Common Stock, and other classes of stock of the Corporation if applicable, shall continue to be entitled to elect the whole number of Directors until the holders of Preferred Stock shall have exercised their right to elect two (2) Directors voting as a class, after the exercise of which right (x) the Directors so elected by the holders of Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of Directors may (except as provided in paragraph (C)(ii) of this Section 3) be filled by a vote of a majority of the remaining Directors theretofore elected by the holders of the class of stock which elected the Director whose office shall become vacant. References in this paragraph (C) to Directors elected by the holders of a particular class of stock shall include Directors elected by such Directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Preferred Stock as a class to elect Directors shall cease, (y) the term of any Directors elected by the holders of Preferred Stock as a class shall terminate, and (z) the number of Directors shall be such number as may be provided for in the Certificate of Incorporation or By-laws irrespective of any increase made pursuant to the provisions of paragraph (C)(ii) of this Section 3 (such number being subject, however, to change thereafter in any manner provided by law or in the Certificate of Incorporation or By-laws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining Directors.

(D) Except as set forth herein, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) Declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

(ii) Declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock except dividends paid ratably on the Series A Junior Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) Redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Participating Preferred Stock; or

(iv) Purchase or otherwise acquire for consideration any shares of Series A Junior Participating Preferred Stock or any shares of stock ranking on a parity with the Series A Junior Participating Junior Preferred Stock except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series A Junior Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 6. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Junior Participating Preferred Stock shall have received per share, the amount of \$18.00, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) 100 (as appropriately adjusted as set forth in paragraph (C) below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Junior Participating Preferred Stock and Common Stock, respectively, holders of Series A Junior Participating Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(B) In the event there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of Preferred Stock, if any, which rank on a parity with the Series A Junior Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences.

In the event there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. If the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such event the shares of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to the Adjustment Number times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged.

Section 8. No Redemption. The shares of Series A Junior Participating Preferred Stock shall not be redeemable.

Section 9. Ranking. The Series A Junior Participating Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 10. Fractional Shares. Series A Junior Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Participating Preferred Stock.

Section 11. Amendment. The Certificate of Incorporation of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders

of a majority or more of the outstanding shares of Series A Junior Participating Preferred Stock, voting separately as a class.

Section 12. Effective Date. This Amended Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of Cabot Corporation shall be effective at 5:00 P.M., Eastern Standard Time, on November 24, 1995.

IN WITNESS WHEREOF, I have executed and subscribed this Certificate and do affirm the foregoing as true under penalties of perjury this 10th day of November, 1995.

By:/s/ Kennett F. Burnes

Kennett F. Burnes
President

Attest:

/s/ Charles D. Gerlinger

Charles D. Gerlinger
Secretary

AMENDMENT NO. 2 TO CREDIT AGREEMENT

AMENDMENT dated as of May 31, 1996 among CABOT CORPORATION (the "Borrower"), the BANKS listed on the signature pages hereof (the "Banks") and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent (the "Agent").

W I T N E S S E T H :

WHEREAS, the parties hereto have heretofore entered into a Credit Agreement dated as of January 13, 1994 (the "Agreement"); and

WHEREAS, the parties hereto desire to amend the Agreement to modify the covenant relating to Investments and to exclude, subject to the terms set forth below, certain stock repurchases from the calculation of, and otherwise modify the covenant relating to, Consolidated Tangible Net Worth.

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. Definitions; References. Unless otherwise specifically defined herein, each term used herein which is defined in the Agreement shall have the meaning assigned to such term in the Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Agreement shall from and after the date hereof refer to the Agreement as amended hereby.

SECTION 2. Amendment of Section 1.01 of the Agreement. (a) Section 1.01 of the Agreement is amended by inserting, in its appropriate alphabetical position, the following definition:

"Long-Term Incentive Plans" means the Borrower's Equity Incentive Plan and the 1996 Equity Incentive Plan.

(b) Section 1.01 of the Agreement is further amended by restating the definition of "Profit Sharing Plan" in its entirety to read

"Profit Sharing Plan" means the Cabot Retirement Incentive Savings Plan.

SECTION 3. Amendment of Section 5.08 of the Agreement. (a) Section 5.08 of the Agreement is amended by (i) deleting the figure "\$375,931,811" at the beginning of clause (i) of the section and replacing it with "\$500,000,000" and (ii) deleting the text "September 30, 1993" immediately before the word "plus" at the end of clause (ii) of the section and replacing it with the text "March 31, 1996".

(b) Section 5.08 of the Agreement is further amended by adding immediately following the period of the last sentence of that section:

For purposes of this provision, the effects of the following will be disregarded in calculating Consolidated Tangible Net Worth:

(a) the dollar amount paid for the stock of the Borrower repurchased after March 31, 1996 from the Borrower's employees, to the extent such repurchased stock exceeds the dollar amount received for stock issued to the Borrower's employees ("net stock repurchases"), in a maximum aggregate amount of \$50,000,000, in connection with the Borrower's Long-Term Incentive Plan, provided that no more than \$10,000,000 of net stock repurchases shall be disregarded in any fiscal year of the Company; and

(b) repurchases of the stock of the Borrower made with the proceeds of the disposition or monetization of the stock of KN Energy, Inc., in a maximum aggregate amount of \$75,000,000, to the extent proceeds of such disposition exceed any increase in Consolidated Tangible Net Worth as a result of such disposition or monetization.

SECTION 4. Amendment of Section 5.10 of the Agreement. Section 5.10(a) of the Agreement is restated in its entirety to read as follows:

(a) Investments in Subsidiaries and Equity Affiliates (including investments in entities which, as a result of such Investment, become Subsidiaries or Equity Affiliates) and Investments in KN Energy, Inc. and Aearo Corporation or any successor to either of such entities, provided that the Borrower and its Consolidated Subsidiaries may continue to hold Investments in any entity which was, or is the successor (by merger, acquisition or otherwise) to a Subsidiary or Equity Affiliate whether or not such entity remains a Subsidiary or Equity Affiliate and may take and hold Investments in any affiliate of such a successor received in connection with any such merger, acquisition or similar transaction.

SECTION 5. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 6. Counterparts; Effectiveness. This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Amendment shall become effective as of the date hereof when the Agent shall have received duly executed counterparts hereof signed by the Borrower and the Required Banks (or, in the case of any party as to which an executed counterpart shall not have been received, the Agent shall have received telegraphic, telex or other written confirmation from such party of execution of a counterpart hereof by such party).

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

CABOT CORPORATION

By /s/ Margaret J. Hanratty

Title: Vice President and
Treasurer

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

By /s/ Deborah Brodheim

Title: Vice President

THE FIRST NATIONAL BANK
OF BOSTON

By /s/ Harvey H. Thayer, Jr.

Title: Director

CITIBANK, N.A.

By /s/ Gian Paolo Potsios

Title: Vice President

CREDIT LYONNAIS NEW YORK BRANCH

By /s/ Jacques-Yves Mulliez

Title: Senior Vice President

CREDIT LYONNAIS
CAYMAN ISLAND BRANCH

By /s/ Jacques-Yves Mulliez

Title: Senior Vice President

ABN AMRO BANK N.V., BOSTON
BRANCH

By: ABN AMRO NORTH AMERICAN,
INC., As Agent

By /s/ Charles J. Wahle

Title: Assistant Vice
President

By /s/ Carol A. Levine

Title: Senior Vice President
and Managing Director
THE CHASE MANHATTAN BANK, N.A.

By /s/ Scott S. Ward

Title: Vice President
MIDLAND BANK PLC NEW YORK BRANCH

By /s/ Mark J. Rakov

Title: Authorized Signatory
THE INDUSTRIAL BANK OF JAPAN
TRUST COMPANY

By /s/ Robert W. Ramage, Jr.

Title: Senior Vice President
BROWN BROTHERS HARRIMAN & CO.

By /s/ William J. Whelan, Jr.

Title: Senior Manager
MORGAN GUARANTY TRUST COMPANY
OF NEW YORK, as Agent

By /s/ Deborah A. Brodheim

Title: Vice President
60 Wall Street
New York, New York 10260
Attention: Deborah Brodheim
Telex number:
Telecopy number: 212/648-5018

CABOT CORPORATION

Earnings per Common Share for the Year Ended September 30, 1996

Statement Re: Computation of Per Share Earnings
(In thousands, except per share amounts)

	Primary (a) -----	Fully Diluted (a) -----
Shares of common stock outstanding at October 1, 1995, less treasury stock	74,764	74,764
Plus net weighted shares of treasury stock purchased	(2,744)	(2,744)
Plus common stock equivalents:		
Effect of convertible preferred stock conversion	-	6,087
Effect of equity incentive awards	1,217	1,238
	-----	-----
Weighted average shares outstanding	73,237 =====	79,345 =====
Income applicable to common shares	\$190,756	\$190,756
Dividends on preferred stock	-	3,301
Preferred stock conversion compensation shortfall	-	(2,061)
	-----	-----
Income applicable to common shares	\$190,756 =====	\$191,996 =====
Earnings per common share	\$ 2.60 =====	\$ 2.42 =====

(a) All common stock and equivalents reflect, as of the beginning of the fiscal year, the two-for-one stock split authorized on November 10, 1995 by the Board of Directors contingent upon shareholder approval of an amendment to the Company's Certificate of Incorporation. This amendment was approved on March 7, 1996.

CABOT CORPORATION AND CONSOLIDATED SUBSIDIARIES

Statement Re: Computation of Ratios of Earnings to Fixed Charges
(Dollar amounts in thousands)

	Years ended September 30				
	1996	1995	1994	1993	1992
	----	----	----	----	----
Earnings:					
Income before taxes	\$279,834	\$256,029	\$118,325	\$ 67,900	\$116,599
Distributed income of affiliated companies	11,173	11,699	5,638	5,988	5,766
Add fixed charges:					
Interest on indebtedness	41,718	35,639	41,668	44,043	41,714
Portion of rents representative of the interest factor	4,837	5,515	5,879	4,838	4,933
	-----	-----	-----	-----	-----
Income as adjusted	\$337,562	\$308,882	\$171,510	\$122,769	\$169,012
Fixed charges:					
Interest on indebtedness	\$ 41,718	\$ 35,639	\$ 41,668	\$ 44,043	\$ 41,714
Capitalized interest	-	-	-	3,963	-
Portion of rents representative of the interest factor	4,837	5,515	5,879	4,838	4,933
	-----	-----	-----	-----	-----
Total fixed charges	\$ 46,555	\$ 41,154	\$ 47,547	\$ 48,881	\$ 50,610
Ratio of earnings to fixed charges	7.25	7.51	3.61	2.51	3.34
	=====	=====	=====	=====	=====

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

In 1996, Cabot achieved strong operating results, though operating profit fell marginally short of 1995 operating profit. Cabot reported net income of \$194.1 million (\$2.42 per fully diluted common share) for 1996, compared to \$171.9 million (\$2.02 per fully diluted common share) for 1995. Net income for both years included several special items. Net income in 1996 included gains on the sale of the Company's TUCO subsidiary and a portion of the Company's investment in K N Energy, Inc.; two nonrecurring gains in the Company's LNG business; and the recognition of tax credits related to prior years. Net income in 1995 included a gain from the ownership restructuring of the Company's Cabot Safety Corporation subsidiary and a charge for remediation of environmental sites related to divested businesses. Excluding these special items from both years, fully diluted earnings per share were \$1.78 and \$1.94 for 1996 and 1995, respectively.

Increased spending on research and development and marketing costs associated with new product and new business initiatives primarily accounted for the year-to-year earnings decrease. The Company's strategy for long-term earnings growth involves the development of new, differentiated products and entirely new businesses. During 1996, the Company spent significantly greater amounts in pursuit of several new product and new business initiatives than it had spent in 1995. Most notably, the Company incurred expenses of \$12.6 million in connection with the construction of a semi-works plant in Malaysia to develop a new proprietary dispersion technology for the Carbon Black Division's tire business.

The following analysis of operating results and financial condition should be read in conjunction with the Company's Consolidated Financial Statements and accompanying Notes.

RESULTS OF OPERATIONS

REVENUES

Net sales and other operating revenues increased 1% in 1996 over 1995, compared with a gain of 9% in 1995 over 1994. In the Specialty Chemicals and Materials Group, the absence in 1996 of Cabot Safety Corporation revenues due to a 1995 ownership restructuring of that subsidiary, and 2% lower volumes during the year, were partially offset by higher pricing and the effect of consolidating the operating results of two carbon black businesses located in the Czech Republic and India, previously accounted for as affiliates. Energy Group sales increased in 1996 by \$79.4 million due to better pricing and higher liquefied natural gas (LNG) volumes.

The 9% increase in the Company's net sales and other operating revenues in 1995 versus 1994 came from the Specialty Chemicals and Materials Group. That Group's sales benefited from strong global economies and strength in the automotive and tire markets. The most significant improvement over 1994 occurred in Europe. The chemical business as a whole experienced improved volumes and pricing from 1994 levels. In the Energy Group, the Company's LNG business experienced sales declines as a result of a low level of supplies of LNG due to the refurbishment of the liquefaction facilities of the Company's Algerian supplier.

REVENUES

[CHART: SPECIALTY CHEMICALS & MATERIALS VS. ENERGY (\$ millions)]

	92	93	94	95	96
Specialty Chemicals & Materials	\$1,181	\$1,192	\$1,241	\$1,488	\$1,434
Energy	\$ 376	\$ 423	\$ 439	\$ 343	\$ 422
	\$1,500				
	\$1,000				
	\$500				
	92	93	94	95	96

Gross margins as a percentage of net sales were 29% in 1996, compared with 31% in 1995, and 27% in 1994. More than half of the decrease in the gross margin percentage was caused by the effect of higher LNG sales during 1996. The Company's LNG gross margins are substantially lower than its specialty chemicals margins. Also, the absence of Cabot Safety Corporation's operating results during 1996 contributed to the decrease in the gross margin percentage from 1995 to 1996. Cabot Safety Corporation's gross margin was 44% of net sales in 1995. Cabot Plastics experienced lower gross margins during 1996 due to both lower year-to-year prices and higher raw material costs. Gross margins of the carbon black and tantalum operations were roughly flat with 1995. The Company's fumed silica business experienced an increase in gross margin during 1996, primarily due to higher sales of differentiated products compared to 1995. The increase in gross margin as a percentage of net sales in 1995 from 1994 was partly a result of higher capacity utilization and better pricing in many of the Company's

specialty chemicals and materials businesses, partially offset by higher raw material costs.

Selling, research, technical and administrative expenses decreased 3%, or \$7.4 million, in 1996. Excluding Cabot Safety Corporation from the 1995 figures, 1996 selling, research, technical and administrative spending represented a 16%, or \$39.3 million, increase from 1995. The

increase was largely due to the Company's continued focus on developing new products. As part of its long-term strategy for earnings growth, the Company has invested an increasing amount of its resources over the past few years in research and marketing for the development of high value, differentiated new products and whole new businesses. During 1996, the Company continued to see evidence that several new product and new business initiatives will develop over the next several years into commercial enterprises which, as a group, should contribute significantly to the Company's earnings over time* (see page 24). Also, 1996 operating results included the selling, research, technical and administrative expenses of Cabot's Czech and Indian carbon black affiliates, which were consolidated at the beginning of the fiscal year.

Selling, research, technical and administrative expenses increased 9%, or \$23.1 million, in 1995 from 1994 levels. This increase also was a result of long-term strategic investments dedicated to developing new, higher value products and processes for the Company's customers.

OPERATING PROFIT

Operating profit was \$283.5 million in 1996, \$299.5 million in 1995, and \$184.3 million in 1994. Operating margins as a percentage of sales were 15% in 1996, 16% in 1995, and 11% in 1994.

Although operating profit decreased \$16.0 million in 1996 from the 1995 amount, Cabot Safety Corporation had contributed \$16.7 million to operating profit in 1995. Excluding Cabot Safety from the 1995 results, operating profit was flat in 1996. The effects of higher specialty chemical selling prices and consolidating the Czech and Indian carbon black businesses during 1996 were offset by increased spending on development activities as discussed previously, higher raw material costs, and slightly lower volumes. In the Energy Group, operating profit increased \$10.3 million as a result of two special items totalling \$5.8 million, higher prices and greater LNG volumes.

OPERATING MARGINS

[CHART: SPECIALTY CHEMICALS AND MATERIALS]

	92	93*	94	95	96
Operating Margins	13.1%	8.5%	13.4%	19.3%	18.2%
	-----	-----	-----	-----	-----
	-----	-----	-----	-----	-----
20%					
	-----	-----	-----	-----	-----
15%					
	-----	-----	-----	-----	-----
10%					
	-----	-----	-----	-----	-----
	92	93	94	95	96

* Includes \$47.4 million restructuring charge.

Operating profit increased 63% in 1995 over 1994 as a result of significant improvement in the Specialty Chemicals and Materials Group, slightly dampened by declines in the Energy Group. The most significant increases in operating profit were seen in the Company's European specialty chemicals businesses, as the full effect of economic recovery in that region was realized. In addition, better pricing conditions, improved product mix and higher capacity utilization significantly improved margins in all specialty chemicals businesses. In the Energy Group, operating profits declined primarily due to reduced supplies of LNG in the Company's LNG business.

Included in 1994 operating profit was a \$4.0 million reversal of the 1993 Specialty Chemicals and Materials Group restructuring charge based on lower actual costs incurred during the closing of a carbon black plant in Europe. Also during 1994, a \$6.2 million charge was taken to write off the Company's investment in its Japanese carbon black affiliate as a result of significant ongoing losses that were expected to continue.

OTHER EXPENSES

Interest expense was \$41.7 million, \$35.6 million and \$41.7 million for 1996, 1995 and 1994, respectively. The 1996 increase was due to higher short-term debt resulting from the Company's stock repurchase program, increased capital spending and the consolidation of the Company's Czech and Indian carbon black businesses. The decrease in 1995 was primarily due to lower average total debt and the results of refinancing fixed-rate, high-coupon debt, with short-term floating-rate debt at lower interest rates during the year.

Unallocated corporate expenses were \$29.2 million in 1996 as compared with \$27.7 million in 1995 and \$23.4 million in 1994. The 1996 increase was largely due to lower interest and dividend income in 1996 versus 1995. The 1995 increase resulted from higher incentive compensation and environmental expenses partially offset by higher interest and dividend income.

"Adjustments of reserves related to divested businesses" includes charges related to environmental matters of \$12.5 million in 1995 and \$11.0 million in 1994. These adjustments were based on the Company's estimates of additional costs likely to be incurred at various environmental sites. In 1994, the Company also reversed \$10.2 million of energy reserves based on the settlement of a significant claim during the year.

PROVISION FOR INCOME TAXES

The effective tax rate on income from operations was 35% in 1996, 39% in 1995, and 38% in 1994. The decrease in 1996 reflects research and experimentation tax credits relating to prior years which the Company now expects to recover. The effective tax rate would have been 37% without the impact of those credits. The tax rate increase in 1995 was the result of a one-time taxable gain from the ownership restructuring of Cabot Safety Corporation. A more detailed analysis of income taxes is presented in Note K to the Consolidated Financial Statements.

SELECTED FINANCIAL DATA BY INDUSTRY SEGMENT

Dollars in millions	Years ended September 30				
	1996	1995	1994	1993	1992
NET SALES AND OTHER OPERATING REVENUES					
Specialty Chemicals and Materials	\$1,434.3	\$1,487.8	\$1,241.1	\$1,191.8	\$1,181.0
Energy	422.0	342.6	438.7	422.5	376.0
Net sales and other operating revenues ...	\$1,856.3	\$1,830.4	\$1,679.8	\$1,614.3	\$1,557.0
OPERATING PROFIT					
Specialty Chemicals and Materials(a)	\$ 260.5	\$ 286.8	\$ 165.9	\$ 101.7	\$ 155.0
Energy	23.0	12.7	18.4	16.7	18.2
Total operating profit	283.5	299.5	184.3	118.4	173.2
Interest Expense	41.7	35.6	41.7	44.0	41.7
Unallocated corporate expenses, net(b)	29.2	27.7	23.4	20.7	14.9
Gain on sales of businesses	(38.9)	(32.6)	--	--	--
Gain on sale of equity securities	(28.3)	--	--	--	--
Adjustment of reserves related to divested businesses	--	12.5	0.8	(14.2)	--
Income from continuing operations before income taxes	\$ 279.8	\$ 256.3	\$ 118.4	\$ 67.9	\$ 116.6
DEPRECIATION AND AMORTIZATION					
Specialty Chemicals and Materials	\$ 93.8	\$ 91.2	\$ 83.3	\$ 81.5	\$ 80.5
Energy	2.9	2.8	2.8	2.8	2.7
General corporate	0.3	0.2	0.2	0.2	0.9
Total	\$ 97.0	\$ 94.2	\$ 86.3	\$ 84.5	\$ 84.1
FIXED ASSET ADDITIONS					
Specialty Chemicals and Materials	\$ 207.7	\$ 130.4	\$ 70.7	\$ 63.9	\$ 76.5
Energy	0.5	0.8	2.9	0.7	1.3
General corporate	0.9	--	--	0.4	0.3
Total	\$ 209.1	\$ 131.2	\$ 73.6	\$ 65.0	\$ 78.1
IDENTIFIABLE ASSETS					
Specialty Chemicals and Materials	\$1,427.7	\$1,167.9	\$1,172.2	\$1,117.4	\$1,191.2
Energy	79.7	133.8	127.4	116.1	132.6
General corporate(c)	270.8	253.7	231.0	89.3	79.9
Equity in affiliates -- Specialty Chemicals and Materials	79.4	98.9	86.2	103.1	91.0
Equity in affiliates -- Energy	--	--	--	63.6	59.8
Total	\$1,857.6	\$1,654.3	\$1,616.8	\$1,489.5	\$1,554.5

(a) Includes a \$47.4 restructuring charge in 1993.

(b) Unallocated corporate expenses, net, include corporate management costs reduced by investment income.

(c) General corporate assets include cash, temporary cash investments, investments other than equity basis, income taxes receivable, deferred taxes and headquarters' assets.

NET INCOME

Reported income in 1996 was \$194.1 million (\$2.42 per fully diluted common share) compared with \$171.9 million (\$2.02 per fully diluted common share) in 1995, and \$78.7 million (\$0.92 per fully diluted common share) in 1994. For 1996, net income included several special items. These items were the previously mentioned \$5.3 million (\$0.06 per fully diluted common share) research and experimentation tax credits, a \$28.3 million (\$0.22 per fully diluted common share) gain from the sale of 1.85 million shares of the Company's investment in K N Energy, Inc., a \$38.9 million (\$0.31 per fully diluted common share) gain from the sale of the Company's coal handling and distribution business, TUCO INC., and one time adjustments totaling \$5.8 million (\$0.05 per fully diluted common share) in the LNG business. Net income in 1995 included a gain of \$32.6 million (\$0.17 per fully diluted common share) associated with the ownership restructuring of Cabot Safety Corporation, and a \$12.5 million (\$0.09 per fully diluted common share) expense due to the additional adjustment in environmental reserves. Income in 1994 included a \$10.2 million (\$0.07 per fully diluted common share) gain due to the reversal of energy reserves and an \$11.0 million (\$0.08 per fully diluted common share) expense due to an increase in environmental reserves. Without these adjustments, net income would have been \$142.9 million (\$1.78 per fully diluted common share) in 1996, \$165.3 million (\$1.94 per fully diluted common share) in 1995, and \$79.2 million (\$0.93 per fully diluted common share) in 1994.

SPECIALTY CHEMICALS AND MATERIALS GROUP

The Specialty Chemicals and Materials Group includes the Company's global specialty chemicals operations. These operations manufacture carbon black, a very fine black powder used as a reinforcing agent in tires and most industrial rubber products, and also widely used as an agent in many specialty applications such as inks, plastics, cables and coatings; fumed silica, a specialty chemical used as a thickening, dispersing and reinforcing agent in hundreds of products, such as silicone rubber and polyester resins; thermoplastic concentrates and specialty compounds; tantalum capacitor materials, and other metals and alloys for the semiconductor, aerospace, defense and medical markets; polishing slurries used in chemical mechanical planarization of integrated circuit devices; and colorants for the ink jet printing industry. In July 1995, the Company restructured the ownership of its safety business into a new corporation owned by the Company, Vestar Equity Partners and Cabot Safety management.

[CHART: SPECIALTY CHEMICALS AND MATERIALS REVENUES]

BY GEOGRAPHIC REGION (percent)

1995

- -- Pacific Asia	19%
- -- North America	36%
- -- Europe	37%
- -- South America	8%

1996

- -- Pacific Asia	21%
- -- North America	33%
- -- Europe	38%
- -- South America	8%

Revenues include 100% of equity affiliate sales. Region reflects sales destination point.

[CHART: CARBON BLACK SALES VOLUMES]

BY GEOGRAPHIC REGION (percent)

1995

- -- Pacific Asia	21%
- -- North America	34%
- -- Europe	32%
- -- South America	13%

1996

- -- Pacific Asia	22%
- -- North America	35%
- -- Europe	31%
- -- South America	12%

Revenues include 100% of equity affiliate volumes. Region reflects sales destination point.

Excluding Cabot Safety Corporation's sales from the 1995 results to form a

comparative basis, 1996 sales for the Specialty Chemicals and Materials Group were up 7% from the 1995 level. Sales growth in the carbon black, microelectronics materials, fumed silica and performance materials businesses was partially offset by a decline in the sales of the plastics business. Improved pricing and the effects of consolidating the operating results of the Czech and Indian carbon black businesses were partially offset by 2% lower overall volumes. Sales for the Specialty Chemicals and Materials Group were up 20% in 1995 from the 1994 level. All businesses reported double-digit revenue growth in 1995 versus 1994. Each of the four geographic regions had increased sales; most significant was a 41% increase in European revenues. Sales growth for the Group was driven by an overall 10% increase in volumes, most of which occurred during the first half of the year, and much improved pricing in many businesses.

For several years, the Company has been striving to develop and commercialize new high-value, differentiated products in its specialty chemicals businesses. The Company defines a five-year new product as a product which was first sold in commercial quantities within the last five years. Five-year new products accounted for approximately 8% of specialty chemical revenues in 1996, compared with 6% in 1995, and 5% in 1994. The Company continues to vigorously pursue a number of new product and new business opportunities.

In 1996, 67% of Specialty Chemicals and Materials sales made by the Company and its affiliates were to customers outside North America, compared with 64% in 1995, and 61% in 1994.

Operating profit for the Specialty Chemicals and Materials Group was \$260.5 million in 1996, \$286.8 million in 1995, and \$165.9 million in 1994. Lower operating profit in 1996 was due to increased spending for research and development and marketing costs related to new product, new business and market development initiatives, the absence of Cabot Safety Corporation earnings during 1996 and lower volumes, partially offset by the effect of higher year-to-year prices. In 1995, stronger pricing, volume growth, higher capacity utilization and an improved product mix all contributed to the substantial gross margin improvement. During 1995 the Company also received a significant benefit from favorable currency translations, especially versus European currencies, due to the relative weakness of the dollar.

Financial results from affiliates are reported in the income statement as "Equity in net income of affiliated companies." Equity in net income of affiliates was \$18.5 million in 1996, and was \$16.7 million and \$5.3 million in 1995 and 1994, respectively. The operating results of the Company's affiliates in the Czech Republic and India were consolidated at the beginning of 1996, and therefore were excluded from equity in net income of affiliated companies in 1996. Excluding the results of the Czech and Indian operations from the 1995 equity in net income of affiliates amount, the 1996 equity in net income of affiliates increased by approximately \$6.0 million from the prior year. Improved earnings in the Company's Mexican carbon black joint venture and the Japanese tantalum joint venture accounted for most of this increase. The significant improvement in 1995 from the 1994 level was due to contributions from the carbon black business in the Czech Republic that began operation in late 1994, improved earnings in the Company's Mexican carbon black affiliate, and the absence of losses from the Company's Japanese carbon black affiliate, which was written off in the third quarter of 1994.

The Company is the world's only global manufacturer of carbon black. In 1996, 65% of carbon black volumes sold by the Company and its affiliates was sold to customers outside North America, compared with 66% in 1995 and 65% in 1994. Cabot manufactures carbon black on five continents in 26 plants in 19 countries. Many carbon black facilities are wholly owned by the Company, while others are affiliates managed by the Company or with local partners. The carbon black business serves three main market sectors, and each is affected in varying degrees by fluctuating economic conditions. Sales to tire manufacturers represent the largest percentage of carbon black volumes. This sector is dependent on both the replacement tire market and, to a lesser extent, new automobile tire sales. The makers of industrial rubber products, such as hoses and gaskets, represent a second market for carbon black. The third market is made up of manufacturers of inks, plastics and other specialty applications that use very high grade carbon blacks.

The carbon black business's operating profit increased by 4% in 1996 from 1995. The operating profit increase came from the consolidation of the operating results of the Czech and Indian carbon black businesses during 1996. The positive earnings effect of higher prices was essentially offset by increased spending on research and development and marketing costs related to new product, new business and market development initiatives, the effect of 1% lower overall volumes, and higher feedstock costs.

Generally, year-to-year price improvements were greater early in 1996 because price increases had gone into effect at different times during 1995. As 1996 progressed, and the anniversary dates of the 1995 price increases occurred, the year-to-year pricing comparisons became neutral. Pricing pressures occurred during 1996 in some carbon black markets, most notably in Europe. In the fourth quarter of 1996, the European carbon black business had an unfavorable price comparison to the 1995 fourth quarter. Feed stock costs increased during the latter part of 1996. The Company was not able to pass all of the feedstock cost increases on to its customers during the fourth quarter. The increased spending during 1996 in pursuit of new product, new business and market development initiatives was expected, and progress was made across the various initiatives in developing the new technologies and markets. A similar level of spending is anticipated to occur in 1997 on those initiatives and other new ones* (see page 24). These new product and new business initiatives are integral to the Company's long-term earnings growth strategy. Although the Company is very encouraged by the progress made during 1996 on those initiatives as a group, they are not expected to contribute significantly to the Company's 1997 revenues.

The carbon black business's total sales for 1995 increased significantly compared to 1994. Each of the four geographic regions had revenue increases of more than 15%. The increase resulted from strength in the North American and South American tire and automotive industries, a full year's effect of economic recovery in Europe, and growing economies in the Pacific region. During most of 1995, worldwide carbon black manufacturing capacity was extremely tight. Prices, most notably in North America, and gross margins increased during the year. Operating profit reflected the improved prices that more than offset higher raw material costs.

During 1995, the Company entered into long-term carbon black supply agreements of more than six years with several of its tire customers in North America. The contracts were designed to share the Company's investment risks of capacity expansion with customers, which, in turn, will allow Cabot to provide a secure carbon black supply to its contract customers, and reduce the volatility of the Company's carbon black gross margins and earnings. These contracts, coupled with the Company's long-term strategy of product differentiation, are aimed at building a less cyclical carbon black business and reducing the Company's susceptibility

to economic cycles. As a result of these contracts, the Company has proceeded with its plans to add manufacturing capacity to its North American tire black business in order to meet the increasing supply obligations reflected by the contracts.

The Cab-O-Sil fumed silica business reported a 3% revenue increase in 1996 compared with 1995, and a 19% revenue gain in 1995 compared with 1994. The 1996 revenue increase was primarily due to higher treated grade volumes. Operating profit increased 9% in 1996 compared with 1995 due to higher gross margins, partially offset by increased spending supporting a new market segmentation strategy. Operating profit increased in 1995, reflecting modest volume growth, improved product mix and favorable gross margins from better pricing and higher capacity utilization.

During 1995, the Company purchased certain assets of the Rippey Corporation related to the sale and distribution of high-purity polishing compounds in an effort to further expand the rapidly developing semiconductor segment of the fumed silica business. During 1996, the semiconductor segment was organized as a separate business unit. It is now known as the Microelectronics Materials Division (MMD). During 1996, this business reported revenues in excess of \$20 million. Gross margin derived from MMD's revenues was more than offset by its spending on research and development and market development initiatives. The Company expects continued significant revenue growth in this business during 1997* (see page 24).

In the plastics business, revenues and operating profit in 1996 were down from 1995 by 10% and 42%, respectively. Market demand softness resulted in lower volumes and caused severe pricing pressure during 1996. Also, raw material prices were higher in 1996 than in 1995. The lower volumes, lower prices and higher raw material costs caused the decrease in operating profit in 1996 compared with 1995. The plastics business's revenues and operating profit increased significantly in 1995 compared to 1994. Market conditions that began to improve in late 1994 continued improving into 1995, enabling the business to improve gross margins through higher pricing and an improved product mix. Overall volumes for the business were down slightly year-over-year, reflecting some softening in Europe late in 1995.

Revenues of the Cabot Performance Materials (CPM) business in 1996 increased 6% from the prior year, and operating profit decreased 19% from 1995. Over the first half of 1996, volumes and prices were significantly higher than in the first six months of 1995. By mid-1996, it became apparent that the U.S. electronics market's growth rate had slowed. CPM's customers at that time had excessive inventory levels for the lower market growth rate. During the second half of the year, CPM's sales volumes decreased very significantly as its customers worked their inventory levels down. During the fourth quarter, CPM began taking steps to reduce its cost structure and refocus the business. The Company expects the business's operating results for the first two quarters of 1997 to compare unfavorably to the very strong first two quarters of 1996* (see page 24). The Division's 1997 operating results will be driven in large part by the timing of Cabot's customers working through their inventory surplus and the timing and extent of an electronics industry recovery as a whole. CPM reported a 15% increase in revenues and an even greater increase in profits in 1995 versus 1994. The improved results reflected strong performance of the tantalum capacitor business, partially offset by plant operating problems, primarily yield and throughput issues.

During 1996, the Company launched a new business unit, Cabot Specialty Fluids (CSF), to develop and market cesium brines to the oil well drilling and services industry. Construction of a cesium processing plant at a mine owned by a Cabot subsidiary in Manitoba, Canada, was commenced during the year.

In 1995, the Company restructured the ownership of its safety and specialty composite materials business into a new corporation owned by the Company, Vestar Equity Partners and the management of the newly formed Cabot Safety Corporation. The transaction yielded approximately \$128 million in after-tax proceeds to the Company. Cabot has a 42.5% ownership position in the new corporation. During 1996, Cabot Safety Corporation's name was changed to Aearo Corporation. The performance of the business prior to the sale of the majority interest was included as part of the Specialty Chemicals and Materials Group. The Company now accounts for this affiliate using the equity method. Aearo had no effect on Cabot's 1996 earnings. During the first three quarters of fiscal 1995, Cabot Safety Corporation reported a 26% increase in operating profit over the first three quarters of 1994, due primarily to higher volumes. The Company's safety business recorded approximately \$155 million of sales and \$17 million of operating profit in fiscal 1995 prior to the transaction.

THE ENERGY GROUP

The Energy Group included two operating businesses during 1996: Cabot LNG Corporation and its affiliates, a liquefied natural gas importing, storing, transporting and marketing operation; and TUCO INC., a coal fuel services business.

Effective September 30, 1996, the Company sold TUCO for \$77 million (\$27 million in cash plus the repayment of \$50 million of TUCO debt by the buyer), plus \$8 million of working capital adjustments. During 1996, TUCO earned \$13.8 million of operating profit, compared with \$10.5 million in 1995.

Until July 1994, the Company owned a 34.4% interest in American Oil and Gas Corporation (AOG), which was reflected in "equity in net income of affiliated companies." At that time, AOG was merged into a subsidiary of K N Energy, Inc. (KNE), and Cabot became a 17% beneficial owner, including warrants, of KNE. The Company's investment in KNE is accounted for on a cost basis. In July 1996, the Company sold 1.85 million shares of its investment in KNE, and received cash proceeds of \$57.6 million. The Company currently holds a 9.7% ownership interest

in KNE.

The LNG business reported revenues of \$143.8 million in 1996, compared with \$91.4 million in 1995. The revenue increase was due to significantly greater volumes and higher gas prices compared with 1995. The business received nine LNG cargoes from its Algerian supplier in

[BAR CHART: SOURCES AND USES OF CASH]

Fiscal years 1995, 1996 (\$ millions)

SOURCES OF CASH	95	96
- -- Operations	\$182	\$162
- -- Borrowings, net	--	\$138
- -- Sales of Assets	\$170	\$ 60
- -- Other	--	\$ 11

USES OF CASH	95	96
- -- Capital Expenditures and Investments	\$145	\$269
- -- Share Repurchase, net	\$ 57	\$ 95
- -- Debt Repayments, net	\$114	--
- -- Dividends	\$ 26	\$ 30

\$450		

\$300		

\$150		

	95	96

1996, and one cargo from a United Arab Emirates source. The business received three cargoes during 1995. Operating profit increased to \$9.1 million during 1996, from \$2.1 million during 1995. The 1996 operating profit increase included \$5.8 million of special items. The positive earnings effect of higher volumes and prices was about offset by higher gas costs. In 1995, the LNG business's revenue and profit were negatively affected by reduced supplies of LNG caused by the refurbishment of the liquefaction facilities of the Company's Algerian supplier. The negative effect of the supply curtailments was reduced by the purchase of available domestic gas supplies at competitive prices and the effect of an unseasonably warm winter in the northeastern United States during 1995.

FINANCIAL CONDITION

CASH FLOW AND LIQUIDITY

Cash generated in 1996 from the Company's operating activities decreased 16.5% to \$151.9 million from \$182.0 million in 1995. The decrease primarily resulted from the timing of tax payments, partially offset by less of an increase in working capital in 1996 compared with 1995.

Capital spending on property, plant and equipment was \$209 million in 1996, \$131 million in 1995, and \$74 million in 1994. The increased spending in 1996 included costs associated with capacity expansions at the Company's Indonesian carbon black businesses, capacity expansions and environmental compliance in the Company's North American carbon black operations and capital expenditures associated with the performance materials business and the newly formed microelectronics materials and specialty fluids businesses.

The Company expects the elevated rate of capital spending to continue through 1997 as it continues to invest in new business opportunities. These expenditures include portions of the projects mentioned previously, the Company's share of the Trinidad LNG project, completion of a cesium processing plant, additional environmental compliance costs in North America and amounts to further develop the special blacks business. Over the next several years, as the remediation of various environmental sites continues, the Company also expects to spend a significant portion of its \$44.5 million reserve for costs associated with such remediation. These sites are primarily associated with divested businesses.

The Company acquired an 80% ownership interest in P.T. Continental Carbon Indonesia, an Indonesian carbon black plant, for approximately \$50 million plus the assumption of \$9 million of debt during 1996.

[CHART: TOTAL DEBT TO CAPITAL]

(percent)

	92	93	94	95	96
Total Debt to Capital	51.5%	50.4%	42.1%	29.1%	39.9%

60%					

40%					

92 93 94 95 96

Research and technical service spending was \$79.6 million, \$59.2 million, and \$48.7 million in 1996, 1995 and 1994, respectively. Spending as a percentage of Specialty Chemicals and Materials sales exceeded 5% in 1996 and was 4% in each of the two previous years. The Company has been increasing the amount of spending to develop new, differentiated products for its specialty chemicals businesses. The Company anticipates research and development spending to remain near \$80 million in 1997 for these and other initiatives.

Cabot sold 1.85 million shares of K N Energy, Inc. during 1996, and received cash proceeds of \$57.6 million.

Cabot increased its borrowings by \$138.2 million and decreased cash by \$32.6 million in 1996.

During 1996, \$123.5 million of common stock was purchased and is held as treasury stock. The Company's common stock repurchase activity is described below under "Common Stock," and is expected to continue in 1997.

Primarily due to the increased capital spending, share repurchase and higher spending on research and development and marketing costs for new product, new business and market development initiatives during 1996, the ratio of total debt (including short-term debt net of cash) to capital increased to 40% at the end of 1996 from 29% at the end of 1995. The Company does not anticipate a substantial increase in the ratio of total debt to capital in 1997.

Management expects cash from operations, proceeds from the TUCO sale, and present financing arrangements, including the Company's unused line of credit of \$250 million, to be sufficient to meet the Company's cash requirements for the foreseeable future.

COMMON STOCK

In September 1995, the Company announced that it had begun a new share repurchase program for up to 3 million of its common shares in order to reduce the total number of shares outstanding. During the first two quarters of 1996, the Company repurchased approximately 1,870,000 shares in open market transactions. The Company effected a two-for-one stock split in the form of a stock dividend during March 1996. During the third quarter, the Company's Board of Directors revoked the repurchase authorization with respect to shares not already repurchased under the September 1995 share repurchase authorization, and approved a share repurchase authorization for up to 4 million shares of the Company's common stock. During the remainder of 1996, the Company repurchased approximately 736,000 shares in open market transactions.

During 1996, the Company paid cash dividends of \$0.54 per share reflecting a quarterly dividend of \$0.18 per share for the first two quarters of the year, and \$0.09 per share for each of the two quarters following the two-for-one stock split. The book value per share of Cabot stock increased 14% to \$10.41 at September 30, 1996. In November 1996, the Board of Directors approved a \$0.10 per share dividend for the first quarter of fiscal year 1997.

NEW ACCOUNTING STANDARDS

At September 30, 1994, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Upon adoption, the Company recorded an unrealized gain on marketable securities available for sale of \$46.4 million. The gain was recorded as a separate component of stockholders' equity, net of a deferred tax liability of \$17.6 million.

The Company considers the impairment of long-lived assets, in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets", based on the assets' ability to contribute to the Company's profitability. No earnings charges have resulted from the Company's adoption of SFAS No. 121.

The Company has not adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which is required to be adopted by fiscal 1997. The Company intends to continue to record compensation based on the provisions of Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" as allowed by SFAS No. 123. Although the Company has not determined the ultimate impact of adopting SFAS No. 123, it does not believe, based on the number of stock options previously granted, that the adoption will have a material effect on the Company's current financial position or results of operations.

* FORWARD LOOKING INFORMATION

 Cabot Corporation believes that its shareholders benefit from the views of the Company's management about the future of the Company's business. Included herein are statements relating to management's projections of future profits, the Company's financial goals, and management's expectations for the Company's product development program. Actual results may differ materially from the results anticipated in the statements included herein due to a variety of factors including market supply and demand conditions, cost of raw materials, demand for our customers' products and our competitors' reactions to market conditions. 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. The Company's process improvement program may not achieve its intended results in the time frame anticipated in its projections due to technological difficulties, disruption of operating efficiency and the stress production demands place on implementing the process improvement program.

CABOT CORPORATION CONSOLIDATED STATEMENTS OF INCOME

Dollars in thousands, except per share amounts	Years ended September 30		
	1996	1995	1994
Revenues:			
Net sales and other operating revenues	\$1,856,269	\$1,830,393	\$1,679,819
Interest and dividend income	8,933	10,492	6,742
Total revenues	<u>1,865,202</u>	<u>1,840,885</u>	<u>1,686,561</u>
Costs and expenses:			
Cost of sales	1,309,992	1,258,964	1,234,272
Selling and administrative expenses	206,861	234,693	222,069
Research and technical service	79,640	59,184	48,701
Interest expense (Note G)	41,718	35,639	41,668
Gain on resolution of matters from divested energy businesses (Note B) ...	--	--	(10,210)
Gain on sale of equity securities (Note D)	(28,323)	--	--
Gain on sales of businesses (Note B)	(38,941)	(32,625)	--
Other charges, net	14,421	29,001	31,736
Total costs and expenses	<u>1,585,368</u>	<u>1,584,856</u>	<u>1,568,236</u>
Income before income taxes	279,834	256,029	118,325
Provision for income taxes (Note K)	(98,216)	(101,080)	(44,963)
Equity in net income of affiliated companies (Note D)	18,519	16,670	5,329
Minority interest	(6,080)	313	--
Net income	<u>194,057</u>	<u>171,932</u>	<u>78,691</u>
Dividends on preferred stock, net of tax benefit of \$2,111, \$1,911 and \$1,929	(3,301)	(3,551)	(3,583)
Income applicable to common shares	<u>\$ 190,756</u>	<u>\$ 168,381</u>	<u>\$ 75,108</u>
Weighted average common shares outstanding, in thousands (Notes A and I):			
Primary	73,237	77,452	76,498
Fully diluted	79,345	83,880	82,724
Income per common share (Notes A and I):			
Primary	<u>\$ 2.60</u>	<u>\$ 2.17</u>	<u>\$ 0.98</u>
Fully diluted	<u>\$ 2.42</u>	<u>\$ 2.02</u>	<u>\$ 0.92</u>

The accompanying notes are an integral part of these financial statements.

CABOT CORPORATION CONSOLIDATED BALANCE SHEETS

Dollars in thousands	September 30	
	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 58,148	\$ 90,792
Accounts and notes receivable (net of reserve for doubtful accounts of \$5,267 and \$5,207)	363,763	292,777
Inventories (Note C)	260,430	253,110
Prepaid expenses	17,408	13,499
Deferred income taxes (Note K)	10,034	27,681
Total current assets	709,783	677,859
Investments:		
Equity (Notes B and D)	79,372	98,866
Other (Notes D and L)	95,680	119,866
Total investments	175,052	218,732
Property, plant and equipment (Note E)	1,712,045	1,447,653
Accumulated depreciation and amortization	(809,053)	(741,132)
Net property, plant and equipment	902,992	706,521
Other assets:		
Intangible assets (net of accumulated amortization of \$6,157 and \$3,396) (Note B)	42,735	13,922
Deferred income taxes (Note K)	2,402	6,949
Other assets	24,617	30,350
Total other assets	69,754	51,221
Total assets	\$1,857,581	\$1,654,333

The accompanying notes are an integral part of these financial statements.

CABOT CORPORATION CONSOLIDATED BALANCE SHEETS

	September 30	
Dollars in thousands	1996	1995
<hr/>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	\$ 233,779	\$ 52,437
Current portion of long-term debt (Note G)	16,175	15,709
Accounts payable and accrued liabilities (Note F)	250,749	260,879
U.S. and foreign income taxes	26,083	69,286
Deferred income taxes (Note K)	918	4,068
	<hr/>	<hr/>
Total current liabilities	527,704	402,379
	<hr/>	<hr/>
Long-term debt (Note G)	321,497	306,443
Deferred income taxes (Note K)	88,320	100,353
Other liabilities (Notes J and L)	147,991	152,747
Commitments and contingencies (Note L)		
Minority interest	27,138	7,411
Stockholders' equity (Notes D, G, I and J):		
Preferred stock:		
Authorized: 2,000,000 shares of \$1 par value		
Series A Junior Participating Preferred Stock		
Issued and outstanding: none		
Series B ESOP Convertible Preferred Stock 7.75% Cumulative		
Issued: 75,336 shares (aggregate redemption value of \$71,193 and \$72,479) ...	75,336	75,336
Less cost of shares of preferred treasury stock	(6,565)	(4,836)
Common stock:		
Authorized: 200,000,000 and 80,000,000 shares of \$1 par value		
Issued: 135,549,936 and 67,774,968 shares	135,550	67,775
Additional paid-in capital	23,618	17,799
Retained earnings	1,176,708	1,062,482
Less cost of common treasury stock		
(including unearned compensation amounts of \$16,611 and \$10,834)	(650,981)	(539,585)
Deferred employee benefits	(64,283)	(65,907)
Unrealized gain on marketable securities	29,874	32,023
Foreign currency translation adjustments	25,674	39,913
	<hr/>	<hr/>
Total stockholders' equity	744,931	685,000
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$1,857,581	\$1,654,333
	=====	=====

The accompanying notes are an integral part of these financial statements.

CABOT CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands	Years ended September 30		
	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 194,057	\$ 171,932	\$ 78,691
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	97,044	94,184	87,357
Deferred tax expense (benefit)	3,785	(24,163)	27,084
Gain on sales of equity securities	(28,323)	--	--
Gain on sales of businesses	(38,941)	(32,625)	--
Equity in income of affiliated companies, net of dividends received	(5,619)	(6,292)	309
Other, net	8,950	6,694	5,750
Changes in assets and liabilities, excluding assets and liabilities of businesses sold:			
Decrease (increase) in accounts receivable	88	(37,354)	(3,042)
Increase in inventories	(38,995)	(57,987)	(13,688)
Decrease in accounts payable and accruals	(3,415)	(6,905)	(27,862)
Other, net	(36,693)	74,477	(10,832)
Cash provided by operating activities	151,938	181,961	143,767
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	(209,061)	(131,214)	(73,555)
Proceeds on sales of businesses	--	169,178	--
Sales of property, plant and equipment, and investments	60,449	373	545
Investments and acquisitions, excluding cash acquired	(59,542)	(13,874)	(371)
Cash from consolidation of equity affiliates and other	11,229	--	--
Cash provided (used) by investing activities	(196,925)	24,463	(73,381)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	9,786	17,385	1,189
Repayments of long-term debt	(40,153)	(157,609)	(41,584)
Net increase in short-term debt	168,587	25,980	24,979
Purchases of treasury stock	(123,544)	(76,251)	(1,000)
Sales and issuances of treasury stock	28,580	19,658	8,703
Cash dividends paid to stockholders	(30,478)	(26,392)	(23,552)
Cash provided (used) by financing activities	12,778	(197,229)	(31,265)
Effect of exchange rate changes on cash	(435)	680	1,529
(Decrease) increase in cash and cash equivalents	(32,644)	9,875	40,650
Cash and cash equivalents at beginning of year	90,792	80,917	40,267
Cash and cash equivalents at end of year	\$ 58,148	\$ 90,792	\$ 80,917

The accompanying notes are an integral part of these financial statements.

CABOT CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. The significant accounting policies of the Company are described below.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Cabot Corporation and majority-owned and controlled domestic and foreign subsidiaries. Investments in majority-owned affiliates where control does not exist and investments in 20 percent to 50 percent-owned affiliates are accounted for on the equity method. Intercompany transactions have been eliminated.

CASH EQUIVALENTS

For purposes of the statements of cash flows, the Company considers all time deposits and short-term investments with a maturity of three months or less at time of purchase to be cash equivalents.

FOREIGN CURRENCY TRANSLATION

Substantially all assets and liabilities of the Company's foreign operations are translated at year-end exchange rates. Revenues and expenses are translated at the weighted average rates during the year. Foreign currency gains and losses arising from transactions are reflected in net income. Balance sheet translation gains and losses are reflected as a separate component of stockholders' equity.

INVENTORIES

Inventories are stated at the lower of cost or market. The cost of most domestic inventories is determined using the last-in, first-out (LIFO) method. The cost of other domestic and all foreign inventories is determined using the average cost method or the first-in, first-out (FIFO) method.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. For financial reporting purposes, depreciation of property, plant and equipment is calculated using primarily the straight-line method based on estimated economic lives of 3 to 25 years.

EARNINGS PER SHARE

Earnings per share is computed on the basis of weighted average shares outstanding during each year. Fully diluted earnings per share considers conversion of the Company's Series B ESOP Convertible Preferred Stock held by the Company's Employee Stock Ownership Plan (Note H) and shares issuable under the Company's incentive compensation plans (Note J).

INCOME TAXES

Deferred income taxes are provided based on the estimated future tax effects of differences between financial statement carrying amounts and the tax bases of existing assets and liabilities. Provisions are made for the U.S. income tax liability and additional foreign taxes on the undistributed earnings of foreign subsidiaries, except for amounts the Company has designated to be permanently reinvested (Note K).

INTANGIBLE ASSETS

Intangible assets are comprised of the cost of business acquisitions in excess of the fair value assigned to the net tangible assets acquired and the costs of technology, licenses and patents purchased in business acquisitions. The excess of cost over the fair value of net assets acquired is amortized on the straight-line basis over either 40 years or an estimated useful life, whichever is shorter. Other intangibles are amortized over their estimated useful lives. The Company considers the impairment of long-lived assets, in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-lived Assets," based on an assessment of the asset's ability to contribute to the profitability of the Company. Included in other charges is amortization expense of \$4,765,000, \$6,638,000 and \$7,661,000, in 1996, 1995 and 1994, respectively.

FINANCIAL INSTRUMENTS

Forward foreign currency exchange contracts and currency options are used to manage foreign currency exposures. Realized and unrealized gains and losses on these contracts are recorded in net income currently, with the exception of gains or losses on contracts designated to hedge a net investment, which are recorded as translation adjustments, and currency options, which are designated to hedge future cash flows. Included in other charges are foreign exchange gains (losses) of \$(2,578,000), \$1,354,000 and \$(1,713,000) in 1996, 1995 and 1994, respectively.

Financial instruments, primarily interest rate swaps, are used to manage interest rate risks. The interest differentials from these swaps are recorded as interest expense.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

RECLASSIFICATION

Certain amounts in 1995 and 1994 have been reclassified to conform to the 1996 presentation.

B. ACQUISITIONS, DIVESTITURES & RESTRUCTURING

SPECIALTY CHEMICALS AND MATERIALS

On February 16, 1996, the Company acquired an 80% controlling interest in an Indonesian carbon black company which is accounted for as a purchase. The acquisition cost was approximately \$50 million plus the assumption of \$9 million of debt and is subject to final adjustments. Although the purchase accounting for this acquisition is not final, assets and liabilities have been recorded at estimated fair values. The excess of the purchase price over the estimated fair values is being amortized over 30 years. Results of operations, subsequent to the acquisition date, have been included in the Consolidated Statement of Income as of September 30, 1996.

During 1996, 1995 and 1994, the Company paid \$4,270,000, \$6,079,000 and \$17,890,000, respectively, of costs accrued for in 1993 for employee separation and a facility closing. During 1994, the Company revised its restructuring reserve based on the actual costs incurred during the closing of a carbon black plant in Europe. A \$4,000,000 benefit from the revision of the reserve was recorded in other charges in 1994. The Company will continue to evaluate its remaining reserve of \$9,125,000 as new data become available, primarily relating to the final disposition of the closed plant's assets and environmental cleanup costs.

On July 11, 1995, the Company sold substantially all of the assets of its safety products and specialty composites business to Cabot Safety Holdings Corporation (now known as Aearo Corporation) and its subsidiaries. The transaction was accounted for as a sale, with an aggregate selling price consisting of \$169,178,000 in cash, 42,500 common shares of Aearo Corporation, representing 42.5% of Aearo's outstanding common stock, and \$22,500,000 of Aearo's non-voting 12.5% preferred stock. In addition, Aearo Corporation and its subsidiaries assumed approximately \$22,176,000 of the third party current liabilities relating to the safety business and approximately \$4,822,000 in debt. The Company recorded an after-tax gain on the sale of approximately \$14,500,000. The Company's book value in Aearo's common and preferred stock after the transaction was zero dollars. The Company accounts for its investment in Aearo using the equity method.

During 1994, the Company recorded a \$6,150,000 charge to write off its investment in its Japanese carbon black equity affiliate due to significant ongoing losses which were expected to continue.

ENERGY

Effective September 30, 1996, the Company sold its TUCO subsidiary for \$77,000,000 (\$27,000,000 in cash plus the repayment of \$50,000,000 of TUCO debt by the buyer), plus working capital adjustments of \$8,000,000. The Company recorded a gain related to the sale of \$38,941,000. The cash receipt and debt repayment occurred on October 4, 1996.

During 1994, the Company recognized gains of \$10,210,000, respectively, on the favorable resolution of certain matters related to divested energy businesses, which included settlement of the Company's last significant take-or-pay case in 1994.

C. INVENTORIES

Inventories were as follows:

Dollars in thousands	September 30	
	1996	1995
Raw materials	\$ 71,061	\$ 64,830
Work in process	72,914	47,058
Finished goods	72,163	97,597
Other	44,292	43,625
Total	\$260,430	\$253,110
	=====	=====

Inventories valued under the LIFO method comprised approximately 33 percent and 37 percent of 1996 and 1995 total inventory, respectively. The estimated current cost of these inventories exceeded their stated valuation determined on the LIFO basis by \$29,754,000 and \$27,393,000 at September 30, 1996 and 1995, respectively.

D. INVESTMENTS

Investments in net assets of affiliated companies accounted for under the equity method amounted to \$79,372,000 and \$98,866,000 at September 30, 1996 and 1995, respectively.

The combined results of operations and financial position of the Company's equity-basis affiliates are summarized below:

Years ended September 30

Dollars in thousands	1996	1995
CONDENSED INCOME STATEMENT INFORMATION		
Net sales	\$586,951	\$435,806
Gross margin	221,060	120,130
Net income	39,685	32,462
CONDENSED BALANCE SHEET INFORMATION		
Current assets	\$282,945	\$257,941
Non-current assets	432,738	454,877
Current liabilities	255,344	269,852
Non-current liabilities	315,564	247,150
Net worth	144,775	195,816

On July 31, 1996, the Company sold 1.85 million shares of its investment in K N Energy, Inc. The Company received cash proceeds of \$57,646,000 and recorded a gain of \$28,323,000 related to the sale.

On October 1, 1995, the Company changed the method of accounting for its Czech and Indian carbon black affiliates from the equity method to the consolidated method upon achieving effective control.

After July 11, 1995, the condensed income statement and balance sheet information of Aearo Corporation (Note B) are included in the amounts above.

In accordance with SFAS No. 115, equity securities with readily determinable fair values have been reflected on the balance sheet at their fair values. Unrealized gains of \$29,874,000 and \$32,023,000, which are net of deferred tax liabilities of \$19,100,000 and \$18,807,000, have been reflected as a separate component of stockholders' equity (Note I) at September 30, 1996 and 1995, respectively.

E. PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment is summarized as follows:

Dollars in thousands	September 30	
	1996	1995
Land and improvements	\$ 52,442	\$ 49,435
Buildings	267,579	242,374
Machinery and equipment	1,105,326	990,521
Other	47,089	70,019
Construction in progress	239,609	95,304
Total property, plant and equipment	\$1,712,045	\$1,447,653
Less: accumulated depreciation	809,053	741,132
Net property, plant and equipment	\$ 902,992	\$ 706,521

F. ACCOUNTS PAYABLE & ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

Dollars in thousands	September 30	
	1996	1995
Accounts payable	\$121,274	\$107,003
Accrued employee compensation	23,263	25,984
Other accrued liabilities	106,212	127,892
Total	\$250,749	\$260,879

G. DEBT

Long-term debt consisted of the following:

Dollars in thousands	September 30	
	1996	1995
Notes due December 1997, 10.25%	\$100,000	\$100,000
Notes due 2002-2022, 8.07%	105,000	105,000
Guarantee of ESOP notes due 2013, 8.29%	64,283	65,907
Term loan due 2000, 8.7%	13,127	16,385
Term loan due 2001, 8.4%	12,540	--
Foreign term loan, due 2001, 5.4%	15,768	--
Overseas Private Investment Corporation term loan due 2002, floating rate, 8.0% and 6.5% at September 30, 1996 and 1995, respectively	16,182	13,100

Industrial Revenue Bonds due		
1997-2014, 9.35%-14.00%	4,000	4,000
Other, including foreign term loans	6,772	17,760
	-----	-----
	\$337,672	\$322,152
Less: current portion of		
long-term debt	(16,175)	(15,709)
	-----	-----
Total	\$321,497	306,443
	=====	=====

In June 1992, the Company filed a \$300,000,000 debt shelf registration statement with the Securities and Exchange Commission. Subsequently, \$105,000,000 of notes payable were refinanced with notes of a weighted average maturity of 19 years and a weighted average interest rate of 8.07%. The notes were issued at par and provide for principal to be repaid at maturity.

During fiscal 1989, the Company's Employee Stock Ownership Plan (ESOP) borrowed \$75,000,000 from an institutional lender in order to finance its purchase of 75,000 shares of the Company's Series B ESOP Convertible Preferred Stock. This debt bears interest at 8.29% per annum, and is to be repaid in equal quarterly installments through December 31, 2013. The Company, as guarantor, has reflected the outstanding balance of \$64,283,000 as a liability on the Company's consolidated balance sheet at September 30, 1996. An equal amount, representing deferred employee benefits, has been recorded as a reduction of stockholders' equity (Note I).

The Company may borrow up to \$250,000,000 at floating rates under the terms of a revolving credit and term loan facility. The agreement contains provisions regarding minimum net worth requirements and certain indebtedness limitations which would limit the amount available for future borrowings. Commitment fees are paid based on the used and unused portions of the facility. The facility is available through January 13, 2000. No amounts were outstanding under this credit agreement at September 30, 1996 or 1995.

The aggregate principal amounts of long-term debt due in each of the five fiscal years 1997 through 2001 are \$16,175,000, \$112,338,000, \$12,727,000, \$10,704,000 and \$7,119,000, respectively.

Based primarily on dealer quotes, the fair value of long-term borrowings was approximately \$355,000,000 and \$353,000,000 at September 30, 1996 and 1995, respectively.

The weighted average interest rate on short-term borrowing was approximately 8% and 7% as of September 30, 1996 and 1995, respectively.

Cash paid for interest during 1996, 1995 and 1994 totalled \$39,103,000, \$37,912,000 and \$41,663,000, respectively.

H. PENSION PLANS & POSTRETIREMENT BENEFITS

PENSION PLANS

Net periodic pension cost was comprised of the following elements:

Dollars in thousands	Years ended September 30		
	1996	1995	1994
Current year service cost	\$ 7,841	\$ 7,629	\$ 8,090
Interest accrued on pension obligations	13,431	12,493	11,675
Actual return on plan assets	(18,821)	(25,320)	(11,431)
Net amortization	2,903	10,606	(2,062)
Net periodic pension cost	\$ 5,354	\$ 5,408	\$ 6,272

The following table sets forth the funded status of pension plans:

Dollars in thousands	September 30	
	1996	1995
Actuarial present value of projected benefit obligations	\$188,092	\$182,771
Plan assets at fair value (primarily fixed-income and equity securities)	202,526	187,339
Excess of plan assets over projected benefit obligations	14,434	4,568
Unrecognized net gain	(33,207)	(19,012)
Unrecognized prior service cost	7,656	3,512
Unrecognized net asset being amortized over 16 years	(5,612)	(6,013)
Net deferred pension credit (included in other liabilities)	\$(16,729)	\$(16,945)

The Company has trustee, non-contributory pension plans covering most employees in the United States and certain foreign subsidiaries. Benefits provided under the Company's defined benefit pension plans are primarily based on years of service and the employee's compensation. The Company's funding policy is to contribute annually amounts based upon actuarial and economic assumptions designed to achieve adequate funding of projected benefit obligations.

Pension benefits accrue under several benefit plans, including the following two plans: the Cash Balance Plan (CBP), a defined benefit pension plan, and the Employee Stock Ownership Plan (ESOP). In November 1988, the ESOP was funded with the Company's newly issued Series B ESOP Convertible Preferred Stock, which was acquired with \$75,000,000 borrowed by the ESOP (Notes G and I).

At September 30, 1996 and 1995, the projected benefit obligations included accumulated benefit obligations of \$164,067,000 and \$152,422,000, respectively, of which \$154,553,000 and \$142,296,000 were vested in 1996 and 1995, respectively.

Effective June 30, 1996, the Company changed its measurement date from September 30 to June 30. The cumulative impact of this change was determined to be immaterial. Therefore, no cumulative adjustment has been made as of September 30, 1996.

The following weighted average rates were used in the calculations:

Years ended September 30

	1996	1995
Discount rate	7.4%	7.3%
Expected rate of return on plan assets	8.9%	8.9%
Assumed rate of increase in compensation	5.0%	5.1%

POSTRETIREMENT BENEFITS

The Company has defined benefit postretirement plans that provide certain health care and life insurance benefits for retired employees. Substantially all U.S. employees become eligible for these benefits if they have met certain age and service requirements at retirement. The Company funds the plans as claims or insurance premiums are incurred.

Net periodic postretirement benefit cost was comprised of the following elements:

Dollars in thousands	Years ended September 30		
	1996	1995	1994
Current year service cost	\$ 848	\$ 672	\$ 709
Interest accrued on postretirement benefit obligations	5,261	5,301	4,776
Net amortization	185	--	221
Net periodic post-retirement benefit cost	\$6,294	\$5,973	\$5,706

The following table sets forth the funded status of the postretirement benefit plans:

Dollars in thousands	September 30	
	1996	1995
Accumulated postretirement benefit obligations:		
Retirees	\$ 58,303	\$ 58,526
Fully eligible active plan participants	6,660	6,262
Other active plan participants	14,302	13,221
	79,265	78,009
Plan assets at fair value	--	--
Excess of accumulated postretirement benefit obligations over plan assets	(79,265)	(78,009)
Unrecognized net loss	10,875	10,749
Unrecognized prior service cost	82	95
Accrued postretirement benefit cost (included in other liabilities)	\$(68,308)	\$(67,165)

Health care cost trend rate assumptions have a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of September 30, 1996 and 1995 by approximately \$6,900,000 and \$6,700,000, respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years then ended by approximately \$700,000 and \$600,000, respectively.

The following rates were used in the calculations:

	Years ended September 30	
	1996	1995
Discount rate	7.3%	7.0%
Assumed rate of increase in compensation	5.3%	5.3%
Assumed annual rate of increase in health care benefits	9.5%	10.5%
Annual decrease in assumed rate of increase in health care benefits	1.0%	1.0%
Assumed ultimate trend rate	5.3%	5.0%
Assumed ultimate trend rate to be reached in year	2001	2003

I. STOCKHOLDERS' EQUITY

The following table summarizes the changes in stockholders' equity for each of the three years in the period ended September 30, 1996:

Dollars in thousands	Years ended September 30		
	1996	1995	1994
PREFERRED STOCK			
Beginning of year.....	\$ 75,336	\$ 75,336	\$ 75,336
End of year.....	\$ 75,336	\$ 75,336	\$ 75,336
PREFERRED TREASURY STOCK			
Beginning of year.....	\$ (4,836)	\$ (4,003)	\$ (3,003)
Purchase of treasury stock.....	(1,729)	(833)	(1,000)
End of year.....	\$ (6,565)	\$ (4,836)	\$ (4,003)
COMMON STOCK			
Beginning of year.....	\$ 67,775	\$ 67,775	\$ 33,887
Two-for-one stock split.....	67,775	--	33,888
End of year.....	\$ 135,550	\$ 67,775	\$ 67,775
ADDITIONAL PAID-IN CAPITAL			
Beginning of year.....	\$ 17,799	\$ 3,783	\$ 33,621
Sale of treasury stock to the Company's savings plans.....	2,456	3,576	633
Issuance of treasury stock under employee compensation plans, including tax benefits of \$9,416 in 1996.....	21,795	10,440	3,417
Two-for-one stock split.....	(18,432)	--	(33,888)
End of year.....	\$ 23,618	\$ 17,799	\$ 3,783
RETAINED EARNINGS			
Beginning of year.....	\$1,062,482	\$ 916,942	\$ 861,803
Net income.....	194,057	171,932	78,691
Common dividends paid (\$0.36, \$0.30, \$0.27 per share), net of tax benefit \$549 in 1996.....	(25,347)	(22,841)	(19,969)
Preferred dividends paid to ESOP, net of tax benefit.....	(3,301)	(3,551)	(3,583)
Redemption of preferred stock purchase rights.....	(1,840)	--	--
Two-for-one stock split.....	(49,343)	--	--
End of year.....	\$1,176,708	\$1,062,482	\$ 916,942
COMMON TREASURY STOCK			
Beginning of year.....	\$ (528,751)	\$ (467,171)	\$ (475,863)
Purchase of treasury stock.....	(121,815)	(75,418)	--
Sale of treasury stock to the Company's savings plans.....	1,372	4,348	625
Issuance of treasury stock under employee compensation plans.....	14,824	9,490	8,067
End of year.....	\$ (634,370)	\$ (528,751)	\$ (467,171)
UNEARNED COMPENSATION			
Beginning of year.....	\$ (10,834)	\$ (7,884)	\$ (7,321)
Issuance of treasury stock under employee compensation plans.....	(11,857)	(8,196)	(4,039)
Amortization.....	6,080	5,246	3,476
End of year.....	\$ (16,611)	\$ (10,834)	\$ (7,884)
DEFERRED EMPLOYEE BENEFITS			
Beginning of year.....	\$ (65,907)	\$ (67,403)	\$ (68,781)
Principal payment by ESOP under guaranteed loan.....	1,624	1,496	1,378
End of year.....	\$ (64,283)	\$ (65,907)	\$ (67,403)
UNREALIZED GAIN ON MARKETABLE SECURITIES (NOTE D)			
Beginning of year.....	\$ 32,023	\$ 28,787	\$ --
Net change in unrealized gain.....	(2,149)	3,236	28,787
End of year.....	\$ 29,874	\$ 32,023	\$ 28,787
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS			
Beginning of year.....	\$ 39,913	\$ 16,327	\$ (7,406)
Foreign currency translation adjustments, including tax benefits of \$4,325 in 1996.....	(14,239)	23,586	23,733
End of year.....	\$ 25,674	\$ 39,913	\$ 16,327
TOTAL STOCKHOLDERS' EQUITY, END OF YEAR.....	\$ 744,931	\$ 685,000	\$ 562,489

SHARES OF STOCK	Years ended September 30		
	1996	1995	1994
PREFERRED STOCK			
Beginning of year	75,336	75,336	75,336
End of year	75,336	75,336	75,336
PREFERRED TREASURY STOCK			
Beginning of year	5,036	4,504	3,686
Purchased	708	532	818
End of year	5,744	5,036	4,504
COMMON STOCK			
Beginning of year	67,774,968	67,774,968	33,887,484
Two-for-one stock split	67,774,968	--	33,887,484
End of year	135,549,936	67,774,968	67,774,968
COMMON TREASURY STOCK			
Beginning of year	30,392,967	29,783,722	15,161,103
Purchased	2,949,140	1,525,036	
Issued	(1,440,458)	(915,791)	(278,550)
Two-for-one stock split	32,059,076	--	14,901,169
End of year	63,960,725	30,392,967	29,783,722

In November 1995, the Company declared a dividend of one Preferred Stock Purchase Right (Right) for each outstanding share of Cabot common stock. The Rights are not presently exercisable. Each Right entitles the holder, upon the occurrence of certain specified events, to purchase from Cabot one one-hundredth of a share of Series A Junior Participating Preferred Stock at a purchase price of \$200 per share. The Rights further provide that each Right will entitle the holder, upon the occurrence of certain other specified events, to purchase from Cabot, common stock having a value of twice the exercise price of the Right and, upon the occurrence of certain other specified events, to purchase from another person into which Cabot was merged or which acquired 50% or more of Cabot's assets or earnings power, common stock of such other person having a value of twice the exercise price of the Right. The Rights may be generally redeemed by Cabot at a price of \$0.01 per Right. The Rights expire on November 10, 2005.

The Company redeemed the rights issued under the 1986 shareholder rights plan for a redemption payment equal to \$.05 per share, to shareholders of record on November 24, 1995.

During fiscal 1989, the Company placed 75,336 shares of its Series B ESOP Convertible Preferred Stock with the Company's Employee Stock Ownership Plan (ESOP) for cash at a price of \$1,000 per share. Each share of the Series B ESOP Convertible Preferred Stock is convertible into 87.47 shares of the Company's common stock subject to certain events and anti-dilution adjustment provisions, and carries voting rights on an "as converted" basis. The trustee for the ESOP has the right to cause the Company to redeem shares sufficient to provide for periodic distributions to plan participants. Such shares shall be redeemed at their fair market value, and may be redeemed by the Company for cash, shares of the Company's common stock, or a combination thereof at the Company's option. Each share is redeemable at the option of the Company at a price of \$1,023. The redemption price declines annually until it becomes \$1,000 on and after November 19, 1998, plus accrued but unpaid dividends to the redemption date.

The issued shares of Series B ESOP Convertible Preferred Stock are entitled to receive preferential and cumulative quarterly dividends, and rank as to dividends and liquidation prior to the Company's Series A Junior Participating Preferred Stock and common stock. At September 30, 1996, 6,087,000 shares of the Company's common stock were reserved for conversion of the Series B ESOP Convertible Preferred Stock.

In April 1996, the Board of Directors authorized the Company to purchase up to 4,000,000 shares of the Company's common stock, superseding the previous authorization issued in September 1995. As of September 30, 1996, the Company had purchased 736,000 shares under the new authorization.

On November 10, 1995, a two-for-one stock split in the form of a stock dividend was authorized, payable to stockholders of record on March 15, 1996. A total of 67,774,968 shares were issued in connection with the split. Also, \$18,432,000 was reclassified from additional paid-in-capital and \$49,343,000 from retained earnings to common stock.

On July 27, 1994, a two-for-one stock split in the form of a stock dividend was authorized, payable to stockholders of record on August 9, 1994. A total of 33,887,484 shares were issued in connection with the split. Also, \$33,887,484 was reclassified from additional paid-in-capital to common stock.

All common share and per share amounts in these financial statements have been restated to reflect the split where appropriate.

J. SAVINGS PLAN & INCENTIVE COMPENSATION PLANS

During 1994, the Company amended its Profit Sharing and Savings Plan (PSSP) effective October 1, 1994. Under the amended plan, now called the Cabot Retirement Incentive Savings Plan (CRISP), the Company will make matching contributions of at least 75% of a participant's contribution of up to 7.5% of the participant's eligible compensation, subject to limitations required by governmental laws or regulations. Company contributions to the CRISP were \$3,505,000 in 1996 and \$3,886,000 in 1995.

The accrued contribution of the Company under the PSSP, based upon an annual return on stockholders' equity, was \$5,707,000 in 1994.

The Company has an Equity Incentive Plan for key employees. Under the plan adopted in 1988, participants may be granted various types of stock and stock-based awards. During 1988 through 1991, the awards granted consisted of stock options, performance appreciation rights (PARs) and tandem units which may be exercised as stock options or PARs. These awards were granted at fair market value of Cabot's stock at date of grant, and vested ratably on each of the next four anniversaries of the award. In 1992 through 1995, awards consisted of common stock of the Company which employees could elect to receive in the form of restricted stock purchased at a price equal to 50% of the fair market

value on the date of the award, nonqualified stock options at fair market value of Cabot's stock on the date of the award, or a combination of one-half of each. In December 1995, the Board of Directors adopted the 1996 Equity Incentive Plan. The 1996 Plan was approved by the stockholders of the Company in March 1996. No new awards will be made under the plan adopted in 1988. Awards under the 1996 Plan could be purchased at a price equal to 40% of the fair market value on the date of the award. Variations on these awards were made to international employees in order to try to provide results comparable to U.S. employees. The awards generally vest on the third anniversary date of the award for employees then employed by the Company or a subsidiary. The Company had reserved 2,800,000 shares of common stock for issuance under the 1996 Plan at September 30, 1996. There were 1,993,360 shares available for future grants at September 30, 1996.

The following table summarizes the plans' activity from September 30, 1993 through September 30, 1996:

	Stock Options and Restricted Stock	PARs	Price Range
September 30, 1993	4,456,556	8,308	\$ 6.31 to \$11.69
Granted	968,180	--	\$12.28 to \$13.97
Exercised	(220,404)	(1,500)	\$ 6.31 to \$10.47
Cancelled	(278,840)	--	\$ 7.59 to \$12.28
September 30, 1994	4,925,492	6,808	\$ 6.31 to \$13.97
Granted	944,400	--	\$20.00
Exercised	(355,148)	--	\$ 6.31 to \$11.69
Vested	(623,212)	--	\$ 7.00 to \$12.28
Cancelled	(463,976)	--	\$ 7.59 to \$11.69
September 30, 1995	4,427,556	6,808	\$ 7.16 to \$20.00
Granted	889,150	--	\$10.68 to \$26.70
Exercised	(680,462)	(636)	\$ 7.16 to \$12.28
Vested	(571,204)	--	\$10.00 to \$12.28
Cancelled	(77,929)	(136)	\$ 7.59 to \$20.00
September 30, 1996	3,987,111	6,036	\$ 7.59 to \$26.70

The stock options in the table above expire at various dates through September 2002. At September 30, 1996, the total outstanding awards of 3,987,111 consisted of 1,700,094 of stock options and 2,287,017 of unvested restricted shares. Of the stock options outstanding 1,511,694 were exercisable at prices ranging from \$7.59 to \$11.69.

The Company has not adopted SFAS No. 123, "Accounting for Stock-based Compensation," which is required to be adopted by fiscal 1997. The Company intends to continue to record compensation based on the provisions of Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees," as allowed by SFAS No. 123. Although the Company has not determined the ultimate impact of adopting SFAS No. 123, it does not believe, based on the number of stock options previously granted, that the adoption will have a material effect on the Company's current financial position or results of operations.

K. INCOME TAXES

Income before income taxes was as follows:

Dollars in thousands	Years ended September 30		
	1996	1995	1994
Domestic	\$134,289	\$102,980	\$ 30,388
Foreign	145,545	153,049	87,937
Total	\$279,834	\$256,029	\$118,325

A summary of taxes on income is as follows:

Dollars in thousands	Years ended September 30		
	1996	1995	1994
U.S. federal and state:			
Current	\$33,247	\$ 64,204	\$(3,131)
Deferred	1,031	(25,794)	15,644
Total	\$34,278	\$ 38,410	\$12,513
Foreign:			
Current	\$61,184	\$ 61,039	\$21,010
Deferred	2,754	1,631	11,440

Total	\$63,938	\$ 62,670	\$32,450
	-----	-----	-----
Total U.S. and Foreign	\$98,216	\$101,080	\$44,963
	=====	=====	=====

The provision for income taxes at the Company's effective tax rate differed from the provision for income taxes at the statutory rate as follows:

Dollars in thousands	Years ended September 30		
	1996	1995	1994
-----	-----	-----	-----
Computed tax expense at the expected statutory rate	\$97,942	\$ 89,720	\$41,414
Foreign income:			
Impact of taxation at different rates, repatri- ation and other	5,817	5,407	(257)
Impact of foreign losses for which a current tax benefit is not available	2,432	529	701
State taxes, net of federal effect	2,718	5,560	2,655
Foreign sales corporation	(2,968)	(1,500)	(1,158)
U.S. and State benefits from research and exper- imentation activities	(5,981)	--	--
Other, net	(1,744)	1,364	1,608
	-----	-----	-----
Provision for income taxes	\$98,216	\$101,080	\$44,963
	=====	=====	=====

Significant components of deferred income taxes were as follows:

Dollars in thousands	September 30	
	1996	1995
Deferred tax assets:		
Depreciation and amortization	\$ 24,929	\$ 28,467
Pension and other benefits	48,945	44,640
Environmental matters	14,928	18,008
Restructuring charges	4,396	5,633
Investments	10,850	10,850
State and local taxes	5,620	5,449
Net operating loss and other tax carryforwards	13,512	12,132
Other	26,573	33,373
Subtotal	149,753	158,552
Valuation allowances	(15,724)	(9,318)
Total deferred tax assets	\$134,029	\$149,234
Deferred tax liabilities:		
Depreciation and amortization	\$ 64,272	\$ 71,629
Pension and other benefits	10,888	10,235
Investments	28,208	36,629
Other	107,463	100,532
Total deferred tax liabilities	\$210,831	\$219,025

The Company increased the valuation allowance in 1996 by \$6,405,000 with respect to certain foreign future tax benefits and net operating losses reflected as deferred tax assets due to the uncertainty of their ultimate realization.

Approximately \$47,059,000 of net operating losses and other tax carryforwards remain at September 30, 1996, \$33,012,000 of which expire in the years 1997 through 2003, and \$14,047,000 of which can be carried forward indefinitely. The benefits of these carryforwards are dependent on taxable income during the carryforward period in those foreign jurisdictions wherein they arose, and accordingly, a valuation allowance has been provided where management has determined that it is more likely than not that the carryforwards will not be utilized.

United States income tax returns for fiscal years 1992 and 1993 are currently under examination by the Internal Revenue Service. Assessments, if any, are not expected to have a material adverse effect on the financial statements.

Provision has not been made for U.S. income taxes or foreign withholding taxes on approximately \$130,000,000 of undistributed earnings of foreign subsidiaries as these earnings are considered indefinitely reinvested. These earnings could become subject to U.S. income taxes and foreign withholding taxes (subject to a reduction for foreign tax credits) if they were remitted as dividends, if foreign earnings were loaned to the Company or a U.S. subsidiary, or if the Company should sell its stock in the subsidiaries. However, the Company believes that U.S. foreign tax credits would largely eliminate any U.S. income tax and offset any foreign withholding tax that might otherwise be due.

Cash paid for income taxes during 1996, 1995 and 1994 totalled \$109,072,000, \$60,340,000 and \$23,855,000, respectively.

L. COMMITMENTS & CONTINGENCIES

LEASE COMMITMENTS

The Company leases certain transportation vehicles, warehouse facilities, office space, machinery and equipment under cancelable and non-cancelable leases, most of which expire within 10 years and may be renewed by the Company. Rent expense under such arrangements totalled \$14,511,000, \$16,545,000 and \$17,638,000 in 1996, 1995 and 1994, respectively. Future minimum rental commitments under non-cancelable leases are as follows:

Dollars in thousands	
1997	\$12,380
1998	10,557
1999	9,585
2000	8,890
2001	8,617
2002 and thereafter	15,720

	\$65,749
	=====

OTHER LONG-TERM COMMITMENTS

During 1995, the Company entered into long-term supply agreements of more than six years with certain North American tire customers. The contracts are designed to provide such customers with agreed-upon amounts of carbon black at prices based on an agreed-upon formula.

Also during 1995, the Company agreed to participate as a 10% owner in a proposed liquefied natural gas plant in Trinidad, and to purchase approximately

60 percent of the gas produced by the plant. Once the plant is operational, it is estimated that it will produce 3.3 trillion cubic feet of gas over a period of 20 years. Gas from the project is not expected to be available until fiscal year 1999.

CONTINGENCIES

The Company is a defendant or potentially responsible party in various lawsuits and environmental proceedings wherein substantial amounts are claimed or at issue.

As of September 30, 1996, approximately \$44,500,000, was accrued for environmental matters, primarily related to divested businesses. The amount represents the Company's current best estimate of its share of costs likely to be incurred based on its analysis of the extent of cleanup required, alternative cleanup methods available, abilities of other responsible parties to contribute and its interpretation of applicable laws and regulations at each site. The Company reviews the adequacy of this reserve as circumstances change at individual sites. Included in other charges are environmental expenses of \$3,000,000, \$17,000,000 and \$15,000,000 in 1996, 1995 and 1994, respectively.

In the opinion of the Company, although final settlement of these suits and claims may impact the Company's financial statements in a particular period, they will not, in the aggregate, have a material adverse effect on the Company's financial position.

M. FINANCIAL INSTRUMENTS & CONCENTRATIONS OF CREDIT RISK

FINANCIAL INSTRUMENTS

The Company uses financial instruments, primarily forward contracts, options and swaps in its management of foreign currency and interest rate exposures. These financial instruments hedge transactions and balances consistent with the Company's currency and interest rate exposures. The Company does not purchase or issue financial instruments for trading purposes.

FOREIGN EXCHANGE

The Company's foreign exchange forward contracts and options do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the assets, liabilities, transactions and cash flows being hedged. The Company had \$26,907,000 of foreign exchange forward contracts outstanding at September 30, 1996. The fair value of such contracts, which was the replacement value, represented a net unrealized gain of approximately \$2,538,000 as of September 30, 1996. In September 1996, the Company both purchased and sold foreign exchange options to reduce the impact of changes in foreign exchange rates on the Company's European cash flow. The cost of these options purchased was approximately \$750,000 and the premium on the options sold was approximately \$450,000. The U.S. dollar equivalent of the notional amounts under option contracts are \$100,000,000 for put options purchased and \$65,000,000 for call options sold. The contracts expire in equal quarterly installments during fiscal 1997. The net cost of these options will be recognized as cost of sales, along with any gains or losses, over the option period. The fair value of these option contracts was \$474,000 at September 30, 1996. Forward exchange and option contracts generally have maturities which do not exceed twelve months. See Note A for information on the Company's policy on forward exchange contracts and currency option gains and losses.

INTEREST RATE

During 1995, the Company entered into an interest rate swap agreement to fix the interest rate on certain borrowings expected to be refinanced in 1997. Pursuant to the agreement, beginning on June 17, 1997, the Company will pay a fixed rate of 7.375% on a notional \$100,000,000 and receive a floating rate based on London Interbank Offered Rates ("LIBOR") as determined at six month intervals through December 17, 2007.

CONCENTRATIONS OF CREDIT RISK

Financial instruments which subject the Company to concentrations of credit risk consist principally of trade receivables. International tire manufacturers comprise a significant portion of the Company's carbon black customer base. The Company had trade receivables of approximately \$66,213,000 and \$68,105,000 from international tire manufacturers at September 30, 1996 and 1995, respectively. Although the Company's exposure to credit risk associated with nonpayment by tire manufacturers is affected by conditions or occurrences within the tire industry, trade receivables from the international tire manufacturers were current at September 30, 1996, and no manufacturer exceeded 5% of the Company's receivables at that date.

N. FINANCIAL INFORMATION BY INDUSTRY SEGMENT & GEOGRAPHIC AREA

Financial information by industry segment for 1992 through 1996, as set forth on page 19, is an integral part of these financial statements. Energy segment sales include sales to a major customer in the amount of \$277,679,000, \$250,439,000 and \$272,245,000 in 1996, 1995 and 1994, respectively. Transfers between geographic areas are recorded at cost plus mark-up or at market.

Financial information by geographic area is as follows:

Dollars in millions	Years ended September 30		
	1996	1995	1994
SALES			
United States:			
Sales, excluding export sales			
Specialty Chemicals and			
Materials	\$ 526.6	\$ 605.7	\$ 563.2
Energy	422.0	342.6	438.7
Export sales	109.7	93.7	85.0
Total	1,058.3	1,042.0	1,086.9
Europe	638.6	642.9	503.8
Other areas	281.5	249.5	177.1
Total	1,978.4	1,934.4	1,767.8
Less: Eliminations	122.1	104.0	88.0
Net sales	<u>\$1,856.3</u>	<u>\$1,830.4</u>	<u>\$1,679.8</u>
OPERATING PROFIT			
United States:			
Specialty Chemicals and			
Materials	\$ 142.3	\$ 155.9	\$ 108.5
Energy	23.0	12.7	18.4
Europe	99.2	103.0	49.0
Other areas	19.0	27.9	8.4
Total operating profit	283.5	299.5	184.3
Interest expense	41.7	35.6	41.7
Unallocated corporate			
expenses, net(a)	29.2	28.0	23.4
Gain on sale of businesses	(38.9)	(32.6)	--
Gain on sale of equity			
securities	(28.3)	--	--
Adjustment of reserves related			
to divested businesses	--	12.5	0.8
Income before			
income taxes	<u>\$ 279.8</u>	<u>\$ 256.0</u>	<u>\$ 118.4</u>
IDENTIFIABLE ASSETS			
United States:			
Specialty Chemicals and			
Materials	\$ 529.2	\$ 426.9	\$ 482.7
Energy	79.7	133.8	127.4
Europe	494.8	465.3	444.3
Other areas	403.7	275.7	245.2
General corporate(b)	270.8	253.7	231.0
Equity in affiliates -			
Europe	9.3	26.9	22.3
Equity in affiliates -			
Other areas	70.1	72.0	63.9
Total	<u>\$1,857.6</u>	<u>\$1,654.3</u>	<u>\$1,616.8</u>

(a) Unallocated corporate expenses, net, include corporate management costs reduced by investment income.

(b) General corporate assets include cash, temporary cash investments, investments other than equity basis, income taxes receivable, deferred taxes and headquarters' assets.

0. UNAUDITED QUARTERLY FINANCIAL INFORMATION

Unaudited financial results by quarter for the fiscal years ended September 30, 1996 and 1995 are summarized below and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations.

Dollars in millions, except per share amounts	Dec	March	June	Sept	Year
FISCAL 1996					
Net sales	\$443.0	\$491.3	\$457.3	\$464.6	\$1,856.3
Cost of sales	\$305.1	\$345.3	\$318.5	\$341.0	\$1,310.0
Net income	\$ 43.4	\$ 42.9	\$ 35.7	\$ 72.0(a)	\$ 194.1
Income applicable to					
common shares	\$ 42.5	\$ 42.0	\$ 35.0	\$ 71.2	\$ 190.8
Income per common					
share (primary)(c) .	<u>\$ 0.57</u>	<u>\$ 0.58</u>	<u>\$ 0.48</u>	<u>\$ 0.98</u>	<u>\$ 2.60</u>
FISCAL 1995					
Net sales	\$428.0	\$481.3	\$494.8	\$426.3	\$1,830.4
Cost of sales	\$296.8	\$329.4	\$336.1	\$296.7	\$1,259.0
Net income	\$ 33.9	\$ 46.4	\$ 47.0	\$ 44.6(b)	\$ 171.9

Income applicable to common shares	\$ 33.0	\$ 45.5	\$ 46.1	\$ 43.7	\$ 168.4
	-----				-----
Income per common share (primary)(c) .	\$ 0.43	\$ 0.59	\$ 0.59	\$ 0.57	\$ 2.17
	=====				=====

- (a) Includes a \$38.9 gain on the sale of coal transportation business, TUCO and a \$28.3 gain on the sale of equity securities of K N Energy, Inc.
- (b) Includes \$32.6 gain on sale of safety business and \$12.5 charge for environmental reserves.
- (c) The Company declared a two-for-one stock split during the year. As a result, share and per share amounts have been restated.

The accompanying financial statements were prepared by Cabot Corporation in conformity with generally accepted accounting principles. The Company's management is responsible for the integrity of these statements and of the data, estimates and judgments that underlie them.

Cabot Corporation maintains a system of internal accounting controls designed to provide reasonable assurance that the Company's assets are safeguarded from loss or unauthorized use, that transactions are properly authorized and recorded, and that financial records are reliable and adequate for public reporting. The standard of reasonable assurance is based on management's judgment that the cost of such controls should not exceed their associated benefits. The system is monitored and evaluated on an ongoing basis by management in conjunction with the Company's internal audit staff, independent accountants, and the Audit Committee of the Board of Directors.

Coopers & Lybrand L.L.P., independent accountants, were engaged by the Company to audit these financial statements. Their audit was conducted in accordance with generally accepted auditing standards and included a study and evaluation of the Company's system of internal accounting controls, selected tests of that system, and related audit procedures as they consider necessary to render their opinion.

The Audit Committee of the Board of Directors provides general oversight responsibility for the financial statements. Composed entirely of Directors who are not employees of the Company, the Committee meets periodically with Company management, internal auditors and the independent accountants to review the quality of the financial reporting and internal controls as well as the results of the auditing efforts. The internal auditors and independent accountants have full and direct access to the Audit Committee, with and without management present.

/s/ Samuel W. Bodman

Samuel W. Bodman
Chief Executive Officer

/s/ Kenyon C. Gilson

Kenyon C. Gilson
Chief Financial Officer

/s/ Paul J. Gormisky

Paul J. Gormisky
Chief Accounting Officer

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE DIRECTORS AND STOCKHOLDERS OF CABOT CORPORATION

We have audited the accompanying consolidated balance sheets of Cabot Corporation as of September 30, 1996 and 1995 and the related consolidated statements of income and cash flows for each of the three fiscal years in the period ended September 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cabot Corporation as of September 30, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended September 30, 1996, in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Boston, Massachusetts
October 25, 1996

CABOT CORPORATION
Significant Subsidiaries
As of September 30, 1996

Name	Jurisdiction of Incorporation
-----	-----
Cabot Carbon Limited	England
Cabot G.B. Limited	England
Cabot B.V.	Netherlands
Cabot International Capital Corporation	Delaware

POWER OF ATTORNEY

We the undersigned directors and officers of Cabot Corporation, hereby severally constitute and appoint Robert Rothberg, Charles D. Gerlinger and William F. Robinson, Jr., and each of them, our true and lawful attorneys with full power to (i) sign for us and in our names in the capacities indicated below Annual Reports on Form 10-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 of Cabot Corporation for the fiscal year ended September 30, 1996, and subsequent years, and any and all amendments thereto, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or either of them, to said Reports and to any and all amendments to said Reports; and (ii) to file such Reports and amendments with the Securities and Exchange Commission on behalf of Cabot Corporation.

WITNESS our hands and common seal on the date set forth below.

SIGNATURE - - - - -	TITLE - - - - -	DATE - - - - -
/s/ Samuel W. Bodman - - - - - Samuel W. Bodman	Director and Chairman (Chief Executive Officer)	November 8, 1996
/s/ Kennett F. Burnes - - - - - Kennett F. Burnes	Director and President	November 8, 1996
/s/ Kenyon C. Gilson - - - - - Kenyon C. Gilson	Executive Vice President and Chief Financial Officer	November 8, 1996
/s/ Paul J. Gormisky - - - - - Paul J. Gormisky	Vice President and Controller (Principal Accounting Officer)	November 8, 1996
/s/ Jane C. Bradley - - - - - Jane C. Bradley	Director	November 8, 1996
/s/ John G.L. Cabot - - - - - John G.L. Cabot	Director	November 8, 1996
/s/ Arthur L. Goldstein - - - - - Arthur L. Goldstein	Director	November 8, 1996
/s/ Robert P. Henderson - - - - - Robert P. Henderson	Director	November 8, 1996

SIGNATURE -----	TITLE -----	DATE -----
/s/ Arnold S. Hiatt ----- Arnold S. Hiatt	Director	November 8, 1996
/s/ John H. McArthur ----- John H. McArthur	Director	November 8, 1996
/s/ John F. O'Brien ----- John F. O'Brien	Director	November 8, 1996
/s/ David V. Ragone ----- David V. Ragone	Director	November 8, 1996
/s/ Charles P. Siess, Jr. ----- Charles P. Siess, Jr.	Director	November 8, 1996
/s/ Morris Tanenbaum ----- Morris Tanenbaum	Director	November 8, 1996
/s/ Lydia W. Thomas ----- Lydia W. Thomas	Director	November 8, 1996

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS (UNAUDITED) OF CABOT CORPORATION FOR THE YEAR ENDED SEPTEMBER 30, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000
US DOLLARS

YEAR		
	SEP-30-1996	
	OCT-01-1995	
	SEP-30-1996	
	1	58,148
	0	
	369,030	
	5,267	
	260,430	
	709,783	
	1,712,045	
	809,053	
	1,857,581	
527,704		321,497
0		
	75,336	
	135,550	
1,857,581		1,200,326
	1,856,269	
1,865,202		1,309,992
	1,309,992	
	87,981	
	0	
	41,718	
	279,834	
	98,216	
194,057		
	0	
	0	
	0	
	194,057	
	2.60	
	2.42	