UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1999

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)	04-2271897 (IRS Employer Identification No.)
75 STATE STREET BOSTON, MASSACHUSETTS (Address of Principal Executive Offices)	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:

67,144,305 SHARES OUTSTANDING AT NOVEMBER 30, 1999	BOSTON STOCK EXCHANGE NEW YORK STOCK EXCHANGE PACIFIC 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 [X] 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 30, 1999, was approximately $1,149,428,400.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Stockholders for fiscal year 1999 are incorporated by reference in Parts II and IV, and portions of the Registrant's definitive Proxy Statement for its 2000 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 chemicals, performance materials, specialty fluids, microelectronics materials, and liquefied natural gas. The Company and its affiliates have manufacturing facilities in the United States and more than 20 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, 1999, unless otherwise noted. Information regarding the Company's revenues and profits by business segment and geographic area appears on pages 21 through 24 and in Note Q of the Notes to the Company's Consolidated Financial Statements on pages 49 through 51 of the Company's Annual Report to Stockholders for the fiscal year ended September 30, 1999 ("Annual Report"), which are incorporated herein by reference.

During the fiscal year ended September 30, 1999, Cabot repurchased approximately 2 million shares of its common stock, $1.00 par value per share (the "Common Stock"), for the purpose of reducing the total number of shares outstanding as well as offsetting shares issued under the Company's employee incentive compensation programs.

Additional information regarding significant events affecting the Company during its fiscal year ended September 30, 1999, appears in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 21 through 29 of the Annual Report.

CHEMICALS GROUP

CARBON BLACK

The Company manufactures and sells carbon black, which consists of fine particles. The Company's carbon black products are grouped generally into three categories: tire blacks, industrial product blacks and special blacks. Tire blacks are used as reinforcing agents in tires, and are marketed to tire companies for use in tires both for commercial and passenger vehicles. Industrial product blacks are used as reinforcing agents in industrial products such as extruded profiles, hoses and molded goods. Industrial product blacks are marketed to the automotive, construction and rubber manufacturing industries, among others. Special blacks, which are non-rubber grades of carbon black, are used to provide pigmentation, conductivity and ultraviolet protection, among other things, 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, with an estimated one-quarter of the worldwide production capacity and market share of carbon black. The Company competes in the manufacture of carbon black primarily with two companies having an international presence and with at least 20 other companies in various regional markets in which it operates (see "General," below).

Carbon black plants owned by Cabot or a subsidiary are located in Argentina, Australia, Brazil, Canada, China, 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 and Venezuela. Headquarters for the Company's carbon black business are located in Billerica, Massachusetts, with regional headquarters in Atlanta, Georgia (North America), Sao Paulo, Brazil (South America), Suresnes, France (Europe), and Kuala Lumpur, Malaysia (Pacific Asia). Some of the plants listed above are built on leased land (see "Properties," below). Because of economic conditions in Asia, production at the Company's Merak facility, one of the two it owns in Indonesia, is currently halted. See Note B of the Notes to the Company's Consolidated Financial Statements on pages 38 and 39 of the Annual Report.

The principal raw materials used in the manufacture of carbon black are carbon black oils, a portion of the residual oil pool which is 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 Company's carbon black business. Raw material costs are influenced by the cost and availability of oil worldwide and the availability of various types of carbon black oils. During the second half of fiscal year 1999, the price of raw materials for the carbon black business increased significantly.

Sales are generally made by employees of the Company or its affiliates in the countries where carbon black plants are located. Export sales are generally made through distributors or sales representatives in conjunction with Company employees. In fiscal year 1999, the Company's plastics business took over the marketing of carbon black to the plastics industry. Sales are made under various trademarks owned by Cabot. (See "General," below.)

The Company's carbon black business continues to pursue a dual strategy of cost improvement and new product development. Management continues to support carbon black new product development initiatives that have significant customer involvement or sponsorship. The Company's management continues to believe that if the Company can achieve a combination of effective cost and capacity management and commercialization of new product initiatives, the Company's carbon black business should have earnings growth opportunities over the next several years.

FUMED SILICA

The Company manufactures and sells fumed silica and dispersions thereof under various trademarks. Fumed silica is an ultra-fine, high-purity particle used as a reinforcing, thickening, thixotropic, suspending or anti-caking agent in a wide variety of products produced for the automotive, construction and consumer products industries, including adhesives, sealants, cosmetics, inks, silicone rubber, coatings and pharmaceuticals. The headquarters for the Company's fumed silica business are located in Naperville, Illinois. This business has two North American fumed silica manufacturing plants, which are located in Tuscola, Illinois and Midland, Michigan. The Midland plant was completed in September 1999 and began operations in November 1999. The Company is in the process of qualifying all grades of fumed silica for production at the Midland plant. The Company leases a manufacturing plant in Wales and owns a manufacturing plant in Germany; prior to October 1997, the plant in Germany was owned by a joint venture in which the Company held a 50% interest. In addition, a joint venture owned 50% by the Company and 50% by an Indian entity owns a plant in India, which began operations in the spring of 1998. 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 Company has long-term procurement contracts or arrangements in place for the purchase of feedstock for this business, which it believes will enable it to meet its raw material requirements for the foreseeable future. In addition, the Company buys some materials in the spot market in order to help ensure flexibility and minimize costs. Sales of fumed silica products are made by Company employees and through distributors and sales representatives. There are four principal producers of fumed silica in the world (see "General," below). The Company believes it is the leading producer and seller of this chemical in the United States and second worldwide.

PLASTICS

During fiscal year 1999, the Company combined its existing plastics business, which consisted of concentrates and compounds, with a portion of the special blacks category of the Company's carbon black business. The Company's plastics segment now markets carbon black, and produces and markets black and white thermoplastic concentrates and specialty compounds, to the plastics industry. Major applications for the materials produced and sold by the Company's plastics business include pipe and tubing, packaging and agricultural film, automotive components, cable sheathing and special packaging for use in the electronics industry. Customers use the carbon black marketed by the plastics business to provide color, UV protection, electrical conductivity and opacity in plastics. Sales are made under various Cabot trademarks, each of which is either registered or pending in one or more countries (see "General" below). Sales are made by Company employees and through sales representatives and distributors primarily in Europe (concentrates, compounds and carbon black), North America (carbon black) and Asia (concentrates, compounds and carbon black). The thermoplastic concentrates and compounds sold are produced in Company facilities in Europe and Hong Kong. The carbon black sold is produced in Company facilities in Europe, North America and Asia. The plastics business is headquartered in Leuven, Belgium. In Europe, the Company is one of the five leading producers of thermoplastic concentrates. Other than carbon black feedstock, the primary raw materials used in this business are titanium dioxide, thermoplastic resins and mineral fillers. The price of thermoplastic resins has increased rapidly during the second half of fiscal 1999. Such price fluctuations are not unusual in the plastics industry, but the temporary effect has been to cause customers to increase their inventories and, hence, to increase the sales volumes for this business. The Company expects that as the price of thermoplastic resins levels off, the level of orders will decrease. Raw materials are, in general, readily available.

INKJET COLORANTS

Inkjet colorants are pigment-based black colorants, which are designed to replace traditional pigment dispersions and dyes used in inkjet printing applications. Products produced by the Company's inkjet colorants business, formed in 1996, target various printing markets, including home and office printers, wide format printers, and commercial and industrial printing applications. The Company's colorants have become integral components in several inkjet printing systems introduced to the market during fiscal year 1999. Sales are made by Company employees and through distributors and sales representatives. The headquarters of the Company's inkjet colorants business are located in Billerica, Massachusetts. Raw materials for the inkjet colorants business include carbon black, as well as other products, some of which are custom manufactured, from various sources. The Company does not anticipate any difficulties in obtaining those raw materials which are custom manufactured for its inkjet business, and believes that all other raw materials for this business are in adequate supply.

PERFORMANCE MATERIALS

The Company produces tantalum, niobium (columbium) and their alloys for the electronic materials and refractory metals industries, and cesium, germanium, rubidium and tellurium for a wide variety of industries including the fiber optics and specialty chemicals industries. Tantalum, which accounts for the majority of this business' sales, 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 produced by the Company is also used in ballistic munitions by the defense industry. The headquarters and principal manufacturing facility for this business are in Boyertown, Pennsylvania. An affiliate of the Company has a manufacturing plant in Japan. 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 and Thailand. Raw materials are currently in adequate supply. The Company is presently seeking new sources of tantalum supply, or an expansion of current sources, to support future demand. Sales in the United States are made by Company employees, with export sales to Europe handled by Company employees, independent European sales representatives and 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, with an emerging competitor in China. The Company believes that it, together with its Japanese affiliate, is the leading producer of electronic grade tantalum powder products, with competitors having greater production in some other product lines (see "General," below).

SPECIALTY FLUIDS

The Company's specialty fluids business produces and markets cesium formate as a drilling and completion fluid for use in high pressure and high temperature oil and gas well operations. Cesium formate is a solids-free high-density fluid that has a low viscosity, permitting it to flow readily in oil and gas wells. The

Company expects the fluid to be especially beneficial to operators of wells where the oil or gas is difficult to reach. Based on current information, the fluid is resistant to high temperatures, does not damage producing reservoirs and is readily biodegradable. The Company has been shipping the fluid to Aberdeen, Scotland for application in its target market, the North Sea. Commercial testing of the Company's cesium formate in this region during the fourth quarter of fiscal year 1999 yielded positive results. The Company expects those initial test results to boost industry confidence in the fluid, leading to additional applications. The specialty fluids business has its headquarters in The Woodlands, Texas, and has a mine and a cesium formate manufacturing facility in Manitoba, Canada. The Company built a large inventory of cesium formate in preparation for initial testing and, as a result, has temporarily halted production at its manufacturing facility as it waits for testing to be completed and commercial rentals/leases to begin. The Company expects to make cesium formate sales through existing oil field service companies, with periodic direct sales to oil and gas operating entities. Customers will either rent or purchase cesium formate from the Company. Those who rent cesium formate will be required to purchase any of the product that is not returned to the Company after the job is completed. The principal raw material used in this business is pollucite ore, which the Company obtains from its mine. The Company has an adequate supply of this cesium-rich ore, with approximately 80% of the world's known cesium reserves. Because each job for which cesium formate is used requires a large volume of the product, the specialty fluids business must carry a large inventory. Based on its current information, the Company expects to reclaim between 60% and 90% of the cesium formate used in each job, which will be returned to inventory for use in additional well operations. The Company's specialty fluids business also markets tantalum and spodumene to the electronics and pyroceramics industries. Sales of those products are made either by Company employees or its agent.

MICROELECTRONICS MATERIALS

The Company manufactures and sells high-purity polishing compounds, made from fine metal oxide particles and a variety of chemistries. The polishing materials are used in the manufacture of multi-layer integrated circuit chips and other electronic devices by the semiconductor industry. These products are sold under various Cabot trademarks (see "General", below). Sales of polishing compounds are made by Company employees and through distributors and sales representatives. Raw materials, a significant portion of which are manufactured by the Company's fumed silica business, are readily available. The Company has a dispersion manufacturing facility and laboratory in Aurora, Illinois, and a dispersion manufacturing facility in Barry, Wales. A third dispersion manufacturing facility in Geino, Japan began production in April 1999, with sales commencing in May 1999. In addition, the Company has dispersions mixed for it by a contract manufacturer in Hammond, Indiana. The headquarters and technology center for the Company's microelectronics materials business are located in Aurora, Illinois. The Aurora, Illinois facilities provide quality control management, operations management, marketing support and customer sales and service for the Company's microelectronics materials business. Cabot plans an initial public offering of approximately 15% of its microelectronics materials business, which it expects will occur in the first half of calendar year 2000. The Company anticipates that the offering will be followed by a distribution of its remaining shares of this business to the Cabot shareholders.

LIQUEFIED NATURAL GAS

The Company, through its wholly owned subsidiary, Cabot LNG Corporation, purchases liquefied natural gas ("LNG") from foreign suppliers, and stores and resells it in both vapor and liquid form in the northeast United States through a terminal facility in Everett, Massachusetts. The headquarters for this business are located in Boston, Massachusetts.

The Company's LNG supplies currently come primarily from two suppliers. Sonatrading, an affiliate of Sonatrach, the Algerian national oil and gas company, supplies LNG and Sonatrach provides the associated marine transportation, both under long-term contracts. Cabot and Sonatrach have each agreed to assure performance of the obligations of their respective affiliates under these agreements. The Company also purchases LNG from Atlantic LNG Company of Trinidad and Tobago ("Atlantic LNG"), described below, under a long-term supply contract. The Company received its first delivery of LNG from Atlantic LNG aboard its LNG tanker the Matthew in May 1999. During the past two years, the Company also purchased LNG from the North West Shelf project in Australia, Sonatrach and Enagas under short-term arrangements.

The Company markets LNG to local gas distribution companies, natural gas marketers and electric generators. These markets are characterized by substantial price competition and numerous competitors, including natural gas suppliers and suppliers of alternative fuels. Prices are stronger in the winter months because of heating demands in New England.

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. are shareholders of Atlantic LNG, a corporation formed to construct, own and operate a new LNG liquefaction plant in the Republic of Trinidad and Tobago. Cabot Trinidad owns 10% of Atlantic LNG. The plant is designed to export 385 million cubic feet of natural gas per day in the form of LNG. Cabot LNG Corporation and Enagas, S.A., the largest importer and wholesaler of natural gas in Spain, have entered into 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. Shipments of LNG from the Trinidad facility began in April 1999 and the liquefaction plant was declared commercial in August 1999.

In June 1997, Atlantic LNG concluded a $600 million limited recourse financing with a consortium of international banks to provide funds for the construction of the new liquefaction plant, for which the Company, as well as the other Atlantic LNG shareholders or their respective affiliates, have issued limited completion guarantees. Those guarantees will expire when Atlantic LNG completes the funding of a debt reserve account. Atlantic LNG expects that funding to occur near the end of the first quarter or the beginning of the second quarter of fiscal year 2000. Atlantic LNG shareholders are presently evaluating an expansion of the facility.

The Company completed the refurbishment of its LNG tanker, the Matthew, and brought it into service in January 1999. The Company uses the Matthew to transport LNG supplies from the Trinidad facility. The Company has also expanded its terminal in Everett to vaporize an additional 150 million cubic feet of natural gas per day, an approximate 50% increase in capacity. That expansion was completed in November 1998.

GENERAL

The Company owns and is a licensee of various patents, which expire at various times, covering many of its products, as well as processes and product uses. Although the products made and sold under these patents and licenses are important to the Company, the loss of any particular patent or license would not materially affect the Company's business, taken as a whole. The Company sells its products under a variety of trademarks, the loss of any one of which would not materially affect the Company's business, taken as a whole.

With the exception of the Company's LNG business, described above, the Company's businesses are generally not seasonal in nature, although they experience some decline in sales in the fourth fiscal quarter due to European summer plant shutdowns. The Company believes that as of September 30, 1999, approximately $98 million of backlog orders for its businesses were firm, compared to firm backlog orders as of September 30, 1998, of approximately $88 million. All of the 1999 backlog orders are expected to be filled during fiscal year 2000.

Many of the Company's chemicals and materials are used in products 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. Those 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.

Five major tire and rubber customers, one fumed silica customer, two capacitor materials customers and one microelectronics customer represent a material portion of the total net sales and operating revenues of the Company's businesses; the loss of one or more of these customers might materially adversely affect the Company's businesses taken as a whole.

Competition in the Company's businesses, other than its LNG business, is based on price, service, quality, product performance and technical innovation. Competition in the LNG business is based primarily on price and, to a lesser degree, service. Competitive conditions also necessitate carrying an inventory of raw materials and finished goods in order to meet customers' needs for prompt delivery of products. Competition in quality, service, product performance and technical innovation is particularly significant for the fumed silica, industrial products, special blacks, inkjet colorants, microelectronics materials and tantalum businesses. The Company's competitors, other than in the LNG business and the carbon black business, vary by product group. Both the natural gas and the electric businesses in the northeast United States are in the process of being deregulated and restructured, thereby making them subject to greater competition. This restructuring is causing significant changes in the Company's LNG customer base, including a shift in the responsibility for gas supplies from the local gas distribution companies to natural gas marketers. To date, those changes have not had any appreciable effect on the Company's LNG business.

OTHER

The Company owns approximately 41.4% of the common stock of 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.

OTHER INFORMATION

EMPLOYEES

As of September 30, 1999, the Company had approximately 4,450 employees. Approximately 450 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 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 32 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.

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 "Legal Proceedings," below). During the next several years, as remediation of various environmental sites is carried out, the Company expects to spend a significant portion of its $39 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.

In 1996, 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 responses to the inhalation of carbon black. The Company has communicated this change in IARC's 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.

In October 1999, the California Office of Environmental Health Hazard Assessment ("OEHHA") published a Notice of Intent to add "carbon black (airborne particles of respirable size)" to its list of chemicals known to the State to cause cancer, promulgated pursuant to the California Safe Drinking Water and Toxic Enforcement Act, commonly referred to as Proposition 65. OEHHA stated it was taking this action in light of IARC's 1996 reclassification of carbon black. Proposition 65 requires businesses to give warnings to individuals before they knowingly or intentionally expose them to chemicals subject to its requirements, and it prohibits businesses from knowingly discharging or releasing the chemicals into water or onto land where they could contaminate drinking water. The Company is working with the International Carbon Black Association and various customers and carbon black user groups to respond to the decision by OEHHA to add carbon black to the list of chemicals subject to Proposition 65.

*FORWARD LOOKING INFORMATION

Included herein are statements relating to management's projections of future profits, the possible achievement of the Company's financial goals and objectives, 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, fluctuations in currency exchange rates, cost of raw materials, patent rights of others, Year 2000 disruptions, demand for the Company's customers' products and competitors' reactions to market conditions. Timely commercialization of products under development by the Company may be disrupted or delayed by technical difficulties, market acceptance or competitors' new products, as well as difficulties in moving from the experimental stage to the production stage. Actual results in the future may differ materially from these projected results due to actual developments in the global financial markets. The methods used by the Company to assess and mitigate risks should not be considered projections of future events or losses.

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

Segment financial data are set forth on pages 21 through 24, and in the portion of Note Q of the Notes to the Company's Consolidated Financial Statements that appears on pages 49 and 50, of the Annual Report, and both 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 Company's segments, other than the Company's LNG segment, 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 the portion of Note Q of the Notes to the Company's Consolidated Financial Statements appearing on page 51 of the Annual Report 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 21 through 29 of the Annual Report, both 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 use of foreign currency financial instruments to reduce the risk associated with changes in the value of certain foreign currencies compared to the U.S. dollar. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Risk Management" and Note P of the Notes to the Company's Consolidated Financial Statements, on pages 25 and 26, and 48 and 49, respectively, of the Annual Report.)

ITEM 2. PROPERTIES

The Company owns, leases and operates office, production, storage, distribution, 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; (ii) its research and development facilities in Illinois, Massachusetts and Pennsylvania; (iii) the administrative offices and manufacturing plants of its fumed silica and microelectronics materials businesses in Illinois, and its performance materials business in Pennsylvania; and (iv) its LNG terminal and storage facility in Massachusetts.

The Company's principal foreign owned facilities are held through subsidiaries and consist primarily of manufacturing facilities, together with administrative facilities and research and development facilities. The largest of such facilities are located in Australia, China, the Czech Republic, England, France, India, Indonesia and Italy, and are used by the Company's carbon black business. Portions of the owned facilities in the Czech Republic, France, Japan and Spain, and all of the owned facilities in China, Hong Kong, India, Indonesia and the Netherlands are located on leased land.

The principal facilities leased by subsidiaries in locations outside the United States are: (i) administrative offices and manufacturing facilities of the fumed silica and microelectronics materials businesses in Wales; (ii) administrative offices, research and development facilities, and warehouses of the carbon black operations in France, Malaysia and England; and (iii) administrative offices and manufacturing facilities of the specialty fluids business in Canada. In addition, the Company holds mining rights in Canada.

The principal facilities leased by the Company in the United States are: (i) its corporate headquarters in Massachusetts; (ii) the administrative offices and manufacturing facilities of its microelectronics materials business in Illinois; and (iii) the headquarters of its North American carbon black business in Georgia. The Company expects to move its corporate headquarters to a new location within the same city in September 2000. That new space will also be leased.

The Company's administrative offices are generally suitable and adequate for their intended purposes. Existing manufacturing facilities of the Company are sufficient to meet the Company's anticipated requirements for the foreseeable future.

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, 1999, unless otherwise specified.

Environmental Proceedings

In November 1997, Cabot was sued in the District Court of Potter County, Texas by K N Energy, Inc. ("KNE") and various related entities for environmental remediation costs at approximately 45 gas plants and compressor stations located in New Mexico, Oklahoma and Texas. Cabot sold its subsidiaries that owned those properties in two separate transactions in 1989, and, in doing so, undertook certain contractual obligations with respect to environmental conditions at the properties. KNE alleges to be the assignee of those contract rights and, pursuant thereto, has attempted to require Cabot to pay for costs KNE has incurred and will incur in the future to remediate environmental contamination alleged to be on those properties. In July 1998, an arbitration panel ordered Cabot to pay $3.38 million for past response costs incurred by KNE as well as an unspecified amount for prejudgment interest and arbitration costs. KNE contends that the interest on the past cost award and costs of arbitration amount to approximately $729,000. Cabot has disputed the interest and a portion of the cost figures, but has paid KNE the amount awarded for past response costs and the portion of the arbitration costs not in dispute. The panel also ordered Cabot to pay up to 80% of future groundwater remediation costs at six of the sites as such costs are incurred by KNE. Finally, the panel ordered KNE to ensure that future remedial actions are cost-effective and based on health risks, with a preference for natural attenuation of contamination. Cabot has appealed the panel's award of future costs. Future remediation costs are estimated to be in a range from less than $2 million to up to $5 million. Cabot and KNE continue to explore settlement of this matter.

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. Cabot also paid the United States Environmental Protection Agency ("EPA") $416,000 for costs incurred by EPA at the site. The site included a parcel of land on which Cabot previously owned and operated a pine tar distillation plant. Cabot has completed the implementation of a soil and groundwater remedy at the site in accordance with applicable requirements and is currently operating and maintaining the groundwater collection system at the site and monitoring site conditions. It is uncertain whether Cabot may be required to perform additional investigations or remedial work in the future at this site.

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 PRPs contributed funds for a remedial investigation and feasibility study which was conducted by a consultant to NJDEP. In January 1996, ten companies, including Cabot, entered into an Administrative Consent Order with NJDEP which required them to perform an additional study of the site and to handle minor remedial work. Most of the work required by the 1996 order is complete, and the companies have submitted the results of their soils investigation to NJDEP. NJDEP has not determined what, if anything, will be required to address site soils. In 1997, the companies entered into an Administrative Consent Order with NJDEP whereby they agreed to contribute funds toward the cost of an interim groundwater remedy involving the collection of contaminated groundwater at the site and its conveyance to a local sewer authority over a two year period pending a final decision concerning long-term groundwater cleanup. The companies are currently collecting data and evaluating whether a remedy of natural attenuation for groundwater contamination associated with the site may be acceptable. Until additional studies are complete, it is not possible to identify what remediation, if any, will be required at the site. Cabot, along with certain other PRPs ("Plaintiff PRPs") filed litigation against the current owner of the property (Spiral Metal), the United States of America, and several other parties in U. S. District Court for the District of New Jersey in January 1999. The purpose of the litigation is to obtain deed restrictions on the property (allowing for non-residential clean-up standards to be applied) from the current owner and to obtain monetary contributions from the United States and the other parties which would be applied to future response costs at the site. The Plaintiff PRPs have commenced settlement discussions with the defendants and the litigation has essentially been stayed for a designated period to focus the parties' resources on the settlement discussions. Union Carbide Corp. and Oakite Products, two PRPs, filed separate related actions, which include contribution claims against the Plaintiff PRPs. The court has consolidated the three actions, all of which are subject to the stay on litigation activity pending settlement discussions.

In 1986, Cabot sold a manufacturing facility in Reading, Pennsylvania to NGK Metals, Inc. ("NGK"). In doing so, Cabot agreed to share with NGK the costs of certain environmental remediation of the Reading plant site. After the sale, EPA issued an order to NGK requiring it to address soil and groundwater contamination at the site. In 1996 and 1997, NGK's contractor completed the soil remediation component of the work. In August 1997, after completion of the soil cleanup project, the contractor notified NGK that it had incurred substantial additional costs over the base contract for the work and that NGK was responsible for these extra costs. NGK, with support from Cabot, disputed this claim, and in 1998, the contractor brought suit against Cabot, NGK and their oversight consultant seeking to recover its cost overruns from the project. Cabot and NGK resolved the dispute with the contractor in late 1999 by agreeing to pay the contractor a portion of the extra costs. During the soil cleanup project, an area of additional contamination was discovered by NGK's consultants. The groundwater remediation component of the work is currently being designed.

Cabot is one of approximately 25 parties identified by EPA as PRPs under the Superfund law with respect to the cleanup of Fields Brook (the "Brook"), a tributary of the Ashtabula River in northeast Ohio.

From 1963 to 1972, Cabot owned two manufacturing facilities located beside the Brook. Pursuant to an EPA administrative order, 13 companies, including Cabot, are performing the design and other preliminary work relating to remediation of sediment in the Brook and soil in the floodplain and wetlands areas adjacent to the Brook. In 1997, EPA and the companies reached agreement on the remedy for these areas; EPA made certain changes to that remedy in response to its finding low levels of previously undetected radioactive material in the Brook. In addition, EPA's cost recovery claims through the end of 1989 have been settled, and the companies have negotiated consent decrees with EPA, the State of Ohio and the Natural Resource Trustees that settle the governments' claims for past costs and natural resource damages and obligates the companies to implement the agreed remedy. Those consent decrees were entered by the United States District Court for the Northern District of Ohio on July 7, 1999. Cabot's share of the settlement amount is approximately $585,000; Cabot's estimated share of future remediation costs is approximately $5.6 million. 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.

During the summer of 1998, Cabot joined a group of companies in forming the Ashtabula River Cooperative Group ("ARCG") which collectively agreed on an allocation for funding private party shares of a public/private partnership established to conduct dredging and remediation of the Ashtabula River (the "River") in Ashtabula, Ohio. The Ashtabula River Partnership ("ARP") was formed to address contaminants in the River through a quicker and less expensive approach than traditionally available under the formal Superfund process. The ARP also expects to employ substantial public funds from both the federal and state governments for the project. In September 1999, the ARP issued a Comprehensive Management Plan ("CMP") proposing a "deep dredging" program for addressing contaminated River sediment. The CMP estimates the deep dredging project would cost approximately $42 million, although the ARCG's experts believe the costs are likely to be significantly higher. Under the statutory formula available for funding this project, approximately 68% of its cost is to be borne by the federal government, leaving 32% of the cost for non-federal participants. The State of Ohio has pledged a contribution of $7 million to the project. The ARCG expects to be asked to bear a substantial percentage of the remaining costs. The ARCG and its consultants are working with the ARP to refine the project in an effort to reduce project costs and uncertainties.

In 1994, Detrex Chemical Industries, Inc. filed third-party complaints against eight companies, including Cabot, in connection with material allegedly sent to the Koski/Reserve Environmental Services ("RES") landfill in Ashtabula, Ohio. Cabot and other third-party defendants filed complaints against five additional companies that sent waste to the site. In May 1998, Cabot and certain other defendants agreed to settle their liability for this matter by agreeing to fund and conduct a portion of the remedy at the landfill site and to loan RES $1.2 million to fund cleanup activities of RES on other portions of the site. Cabot is one of five of the settling defendants that agreed to conduct the work; the others made one-time cash payments to resolve their liabilities at the site. Cabot anticipates that the cost of the settlement to Cabot, including the loan to RES, is approximately $600,000.

Cabot is the holder of a Nuclear Regulatory Commission ("NRC") license for certain slag waste material deposited on industrial property on Tulpehocken Street in Reading, Pennsylvania in the late 1960s by a predecessor of Cabot that had leased a portion of the site to process tin slags. The slag material contains low levels of uranium and thorium, thus subjecting it to NRC jurisdiction. A consultant for Cabot has prepared a site decommissioning plan for the slag material which concludes that the levels of radioactivity in the slag are low enough that the material can be safely left in place and still meet NRC requirements for license termination without restrictions. Cabot's decommissioning plan proposing this in-place remedy was filed with the NRC in late August 1998. The current owner of the Tulpehocken Street site, the City of Reading and the Reading Redevelopment Authority have filed requests for a hearing with the NRC concerning Cabot's decommissioning plan, alleging various deficiencies with the plan. Cabot has discussed its decommissioning plan with these parties and continues to explore settlement discussions with them concerning their claims. The NRC has asked Cabot for additional information concerning its plan, and Cabot is in the process of obtaining the information the NRC has requested.

In July 1991, EPA instituted litigation against a number of parties, not including Cabot, seeking to recover its costs incurred in connection with an investigation of the Berks Associates Superfund Site in

Douglassville, Pennsylvania. Cabot was joined in this litigation as a third-party defendant. The litigation has been stayed pending settlement negotiations. In April 1996, EPA proposed that ten companies, including Cabot, undertake the remaining remediation required at the site and indicated it would be willing to reconsider, to some extent, the remediation technology to be used. After further study, the EPA agreed that the alternative remedy is feasible. The companies' consultant estimates the cost to implement the alternative remedy at the site is approximately $13 million to $18 million. EPA is in the process of negotiating a Consent Decree with the companies, including Cabot, concerning implementation of the alternative remedy. EPA also has claimed approximately $16 million in past costs at the site, and the companies are also negotiating this claim with EPA.

In 1994, five plaintiffs filed suit in the U.S. District Court for the Eastern District of Pennsylvania against 24 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 the former Cabot beryllium alloy plant located in Reading, Pennsylvania sent waste to the Berks Landfill. The plaintiffs claim to have incurred approximately $3 million on investigations and interim remedial measures at the site. In 1997, EPA issued a Record of Decision ("ROD") for the site. The ROD selected as a remedy the repair and maintenance of an existing cap at the landfill, the operation and maintenance of a leachate management system, long-term monitoring of groundwater and implementation of deed restrictions at the site. EPA estimated the 30-year present net worth of these measures at approximately $6 million. In 1998, EPA issued Unilateral Administrative Orders ("UAOs") to a number of the companies requiring them to implement the ROD. Cabot did not receive a UAO. In September 1999, EPA wrote Cabot and a number of other companies informing them that it was considering offering them a de minimis settlement for their liability at the site. The letter indicated Cabot's share of this settlement would be $187,500. EPA subsequently withdrew this offer. Cabot is in negotiations with the plaintiffs concerning a possible settlement of their claims related to the site. If a settlement with the plaintiffs can be agreed to, Cabot anticipates that it would include an indemnity against any claims by EPA for costs related to the site.

In 1994, 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 Chemical Site"). The order required the respondents to design and implement several remedial measures at the Revere Chemical Site. Cabot responded to EPA's order by indicating that it should not have been named as a respondent and by raising several objections to the order. Certain other recipients of the order proceeded to conduct the work required by EPA, and Cabot understands that work has been mostly completed. Cabot has been informed by the parties performing the work that the total cost of remediation activities at the site is estimated to be approximately $12 million, not including certain unreimbursed costs claimed by EPA. Cabot has initiated communications with the parties that conducted the work in order to explore whether settlement of Cabot's potential liability at the site may be feasible. Those discussions are on-going. In August 1999, Cabot received a letter from the U.S. Department of Justice ("DOJ"), which stated that EPA had asked the DOJ to bring an enforcement action against Cabot for its failure to comply with the EPA order. Cabot has entered into settlement discussions with the DOJ and EPA in an attempt to resolve that dispute.

In July 1998, EPA informed Cabot that it will be undertaking corrective action under the Resource Conservation and Recovery Act at Cabot's facility in Boyertown, Pennsylvania. The Army Corps of Engineers performed a site visit in September 1998 to initiate this action. It is unclear at this time what corrective action, if any, will be required at the site and what costs Cabot may incur as a result. Cabot is aware that EPA is investigating certain areas surrounding the Boyertown facility with a view to determining what conditions exist in those areas and whether those conditions are related to Cabot's Boyertown facility. EPA's investigation was prompted by media reports of complaints by area farmers of health impacts and damage to livestock and crops. As of November 24, 1999, EPA had neither taken any formal action nor alleged that Cabot has any responsibility for conditions in the area. In addition, the Pennsylvania Department of Environmental Protection has requested that Cabot conduct additional groundwater investigations at the Boyertown facility to supplement studies conducted in the early 1990s. In November 1999, Cabot received a letter from an attorney representing certain farmers in the area threatening litigation concerning environmental contamination alleged to be caused by the Boyertown plant.

In October 1998, the Direction Regionale de L'Industrie, de la Recherche et de L'Environment ("DRIRE") and the Prefecture de la Seine-Maratime (the "Prefecture") notified United Chemical France S.A. ("UCF"), a French subsidiary of Cabot, that DRIRE planned to seek an order (the "Proposed Order") from the Prefecture requiring UCF to undertake an initial investigation of a waste dump allegedly operated by UCF from the mid-1960s to the early 1980s in the Town of Notre Dame de Gravenchon. The Prefecture issued a draft order to UCF dated November 19, 1998, requiring an investigation of the former waste dump. UCF responded to the draft order by submitting formal comments, noting that it is not the proper party to address conditions at the dump as it is currently being used by the Town of Notre Dame de Gravenchon for waste disposal. In early 1999, UCF voluntarily provided the DRIRE with information concerning UCF's use of the landfill. UCF has had no further communications with the DRIRE since that date. When Cabot purchased UCF in 1985, the seller indemnified Cabot for matters relating to events occurring prior to the sale, including environmental matters. Cabot has notified the seller that Cabot believes that the indemnification would cover costs related to the Proposed Order.

In January 1999, DRIRE notified Cabot France S.A., a French subsidiary of Cabot, that the DRIRE was investigating groundwater pollution in the Montee des Pins area where Cabot France S.A.'s carbon black plant in Berre l'Etang, France is located. The DRIRE convened meetings of various industries in the area and asked them to work together on a study of groundwater conditions in the area. Ten companies, including Cabot France S.A., are working together to fund and undertake the initial study requested by the DRIRE. Cabot estimates that its share of this initial study will cost less than $10,000. It is not possible at this point to predict whether groundwater remediation will be required, how much it will cost or what Cabot France S.A.'s share of such groundwater remediation will be.

Cabot, along with a number of other companies, is a PRP under the Superfund law with respect to the King of Prussia Technical Corp. site in Winslow Township, New Jersey. Work on site remediation was completed several years ago except for ongoing operation and maintenance of groundwater treatment facilities. Cabot and four other companies involved have agreed on the portions of the costs to be borne by each company. In a December 22, 1998 letter to Cabot and the other four companies, EPA demanded approximately $4.1 million in past costs at the site. Cabot expects that this dispute will be resolved through settlement negotiations between the group of companies and EPA for significantly less than the $4.1 million demand. The prior agreement among Cabot and the four other companies fixes each party's respective share of any costs to be paid to EPA.

On June 5, 1999, there was a break in the pipeline used to transport carbon black feedstock from a nearby port to a Ravenna, Italy carbon black facility owned by Cabot Italiana S.p.A., a wholly-owned subsidiary of Cabot. The break was in a portion of the pipeline adjacent to a neighboring facility. As a result, a substantial amount of carbon black feedstock was released at the neighboring facility. An investigation of the facts to determine responsibilities is ongoing, but preliminary information from the investigation indicates the pipeline was damaged from drilling activity conducted by a third party. In the interim, emergency remediation efforts were undertaken by the Company following the spill. Claims have been asserted against the Company by the owner of the facility where the spill occurred and by the owners of a sewer system into which some of the oil flowed. In addition, the Company has asserted a claim against the third parties that the Company believes damaged the pipeline and, thus, caused the spill. The municipal environmental authorities have issued an order to the Company and the parties believed to have damaged the pipeline ordering them to undertake further activities to address conditions caused by the spill. The Company and the other parties have challenged issuance of the order, and the matter is being heard by the administrative courts in Italy. The parties believed to have damaged the pipeline have to date refused to accept responsibility for the spill. The Company has notified its insurers and they are involved in the matter. At this point, the Company does not know the likely course that legal proceedings will take, and does not have an estimate of the costs, if any, that the Company will ultimately bear.

The Louisiana Department of Environmental Quality ("LADEQ") notified Cabot in a January 5, 1995 letter of its potential liability with respect to the Great National Oil/Ida Gas site in Ida, Louisiana (the "Ida Site") and requested information regarding Cabot's activities related to the Ida Site or involvement with the Hartsell Oil Company of Rodessa, Louisiana. Cabot responded on February 15, 1995 by indicating that during the 1982 to 1984 time period, Cabot's Arcadia, Louisiana facility sold used oil to Hartsell for reprocessing. Cabot's Arcadia facility was sold to Haynes International, Inc. ("Haynes") in December 1986. Cabot believes that it is entitled to indemnity from Haynes pursuant to the acquisition agreement by which Haynes acquired the facility. Haynes has denied Cabot's request for indemnification but also requested additional information concerning this claim. In 1997, Cabot and eight other parties received a demand letter from LADEQ for oversight costs incurred in connection with the site from July 1989 to December 1996. Cabot paid its pro-rata share of those costs in April 1997, which payment was an immaterial amount. Cabot has received no further written communications concerning the Ida Site.

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

As of September 30, 1999, approximately $39 million was reserved for environmental matters by the Company. This 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.

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, they should not, in the aggregate, have a material adverse effect on the Company's financial position. (See Note O of the Notes to the Company's Consolidated Financial Statements on pages 47 and 48 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 1999 fiscal year, is information, as of November 30, 1999, regarding his or her age, position(s) with Cabot, the periods during which he or she served as an officer and his or her business experience during at least the past five years:

NAME	AGE	OFFICES HELD/BUSINESS EXPERIENCE	DATES HELD
William T. Anderson...	44	Cabot Corporation	
		Controller	September 1997 to present
		Acting Corporate Controller and Assistant Controller	February 1997 to September 1997
		Assistant Controller	July 1995 to February 1997
		Private Eyes Sunglass Corporation	
		Chief Operating Officer	1991 to 1995
		Chief Financial Officer	1990 to 1991
Samuel W. Bodman......	61	Cabot Corporation	
		Chairman of the Board	October 1988 to present
		President	February 1991 to February 1995 January 1987 to October 1988
		Chief Executive Officer	February 1988 to present

NAME	AGE	OFFICES HELD/BUSINESS EXPERIENCE	DATES HELD
Kennett F. Burnes.....	56	Cabot Corporation	
		President	February 1995 to present
		Chief Operating Officer	March 1996 to present
		Executive Vice President	October 1988 to February 1995
Robert L. Culver......	51	Cabot Corporation	
		Executive Vice President and Chief Financial Officer	April 1997 to present
		Northeastern University	
		Senior Vice President and Treasurer	October 1990 to April 1997
Catharine M. de Lacy................	41	Cabot Corporation	
		Vice President	April 1998 to present
		Allied Signal, Inc.	
		Vice President, Health, Safety, Environment and Remediation	April 1995 to April 1998
		Occidental Petroleum Corporation	
		Vice President, Health, Safety, Environment and Risk Management	April 1993 to April 1995
William P. Noglows....	41	Cabot Corporation	
		Executive Vice President	March 1998 to present
		Vice President	February 1994 to March 1998
		Director of Global Manufacturing	November 1997 to present
		General Manager, Cab-O-Sil Division	November 1992 to November 1997
Robert Rothberg.......	50	Cabot Corporation	
		Vice President and General Counsel	October 1993 to present
Roland R. Silverio....	52	Cabot Corporation	
		Vice President	May 1998 to present
		Director of Human Resources/ Organizational Effectiveness	May 1998 to present
		Director of Organizational Development	January 1998 to May 1998 October 1992 to October 1995
		Manager of Training and Development	July 1990 to October 1992
		The Franklin Group	
		Managing Partner	October 1995 to January 1998
Donald R. Young.......	42	Cabot Corporation	
		Executive Vice President	March 1998 to present
		Vice President	September 1993 to March 1998
		General Manager, Carbon Black	October 1996 to present
		Director of Carbon Black Marketing and General Manager of Global Tire Sector	January 1996 to October 1996
		General Manager, Pacific Asia Carbon Black	August 1993 to December 1995
		Director of Cogeneration Projects, Carbon Black	September 1992 to August 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, 1999, there were approximately 1,900 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.

STOCK PRICE AND DIVIDEND DATA

	DECEMBER	MARCH	JUNE	SEPTEMBER	YEAR
FISCAL 1999					
Cash dividends per share	$ 0.11	$ 0.11	$ 0.11	$ 0.11	$ 0.44
Price range of common stock:					
High	$31.69	$29.81	$28.50	$25.44	$31.69
Low	$22.63	$19.75	$21.31	$21.63	$19.75
Close	$27.94	$21.25	$24.19	$23.75	$23.75

	DECEMBER	MARCH	JUNE	SEPTEMBER	YEAR
FISCAL 1998					
Cash dividends per share	$ 0.10	$ 0.10	$ 0.11	$ 0.11	$ 0.42
Price range of common stock:					
High	$28.19	$39.94	$38.81	$33.38	$39.94
Low	$23.63	$25.25	$31.06	$21.75	$21.75
Close	$27.63	$36.88	$32.31	$24.94	$24.94

ITEM 6. SELECTED FINANCIAL DATA

Cabot Corporation Selected Financial Data:

	YEARS ENDED SEPTEMBER 30				
	1999	1998	1997	1996	1995
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)				
Financial Highlights					
Net sales and other operating revenues........	$1,695	$1,644	$1,625	$1,856	$1,830
Income before cumulative effect of accounting changes.......................	$ 97	$ 122	$ 93	$ 194	$ 172
Long-term debt..............................	$ 419	$ 316	$ 286	$ 322	$ 306
Minority interest...........................	32	25	23	27	8
Stockholders' equity........................	706	706	728	745	685
Total capitalization................	$1,157	$1,047	$1,037	$1,094	$ 999
Total assets........................	$1,842	$1,805	$1,826	$1,857	$1,654
Income per common share:					
Basic.......................................	$ 1.47	$ 1.80	$ 1.33	$ 2.74	$ 2.29
Diluted.....................................	$ 1.31	$ 1.61	$ 1.19	$ 2.42	$ 2.03
Cash dividends (declared and paid)..........	$ 0.44	$ 0.42	$ 0.40	$ 0.36	$ 0.30
Weighted average common shares outstanding in millions....................................	73	75	77	79	84

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

The information required appears in the Annual Report on pages 21 through 29 and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required appears in the Annual Report on pages 25 and 26 and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required appears in the Annual Report on pages 30 through 53 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 information required regarding the directors of Cabot is contained in the Registrant's Proxy Statement for the 2000 Annual Meeting of Stockholders ("Proxy Statement") under the heading "Certain Information Regarding Directors." Certain information required regarding the failure of any person subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), to timely file reports required by Section 16(a) of the Exchange Act is contained in the Proxy Statement under the heading "Compliance with Section 16(a) of the Exchange Act." All of such information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required is contained in the Proxy Statement 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 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 is contained in the Proxy Statement under the heading "Certain Relationships and Related Transactions." 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 Balance Sheets at September 30, 1999 and 1998	30-31
(2) Consolidated Statements of Income for each of the three fiscal years in the period ended September 30, 1999	32
(3) Consolidated Statements of Cash Flows for each of the three fiscal years in the period ended September 30, 1999	33
(4) Consolidated Statements of Changes in Stockholders' Equity	34-35
(5) Notes to Consolidated Financial Statements	36-51
(6) Statement of Management Responsibility and Report of Independent Accountants relating to the Consolidated Financial Statements listed above	52

(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 (incorporated herein by reference to Exhibit 3(a) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1996, file reference 1-5667, filed with the Commission on December 24, 1996).
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 Supplemental 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).

EXHIBIT NUMBER	DESCRIPTION
4(b)(iii)	-- Second Supplemental Indenture, dated as of January 31, 1997, between Cabot Corporation and State Street Bank and Trust Company, Trustee (incorporated herein by reference to Exhibit 4 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 1996, file reference 1-5667, filed with the Commission on February 14, 1997).
4(b)(iv)	-- Third Supplemental Indenture, dated as of November 20, 1998, between Cabot Corporation and State Street Bank and Trust Company, Trustee (incorporated herein by reference to Exhibit 4.1 of Cabot's Current Report on Form 8-K, dated November 20, 1998, file reference 1-5667, filed with the Commission on November 20, 1998).
10(a)	-- Credit Agreement, dated as of January 3, 1997, among Cabot Corporation, the banks listed therein and Morgan Guaranty Trust Company of New York, as Agent (incorporated herein by reference to Exhibit 10 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, file reference 1-5667, filed with the Commission on May 14, 1997).
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(b)(iii)*	-- 1999 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999, file reference 1-5667, filed with the Commission on May 17, 1999).
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).
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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(d)(vi)*	-- Amendment 1997-I to Cabot Corporation Deferred Compensation Plan dated June 30, 1997 (incorporated herein by reference to Exhibit 10(d)(vi) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1997, file reference 1-5667, filed with the Commission on December 24, 1997).

EXHIBIT NUMBER	DESCRIPTION
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10(f)*	-- 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(g)	-- 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(h)	-- 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(i)	-- 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 July 17, 1992).
10(j)(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 July 26, 1995).
10(j)(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 July 26, 1995).
10(k)*	-- Cabot Corporation Senior Management Severance Protection Plan, effective January 9, 1998 (incorporated herein by reference to exhibit 10(a) of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 1997, file reference 1-5667, filed with the Commission February 17, 1998).
10(l)*	-- Cabot Corporation Key Employee Severance Protection Plan, effective January 9, 1998 (incorporated herein by reference to exhibit 10(b) of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 1997, file reference 1-5667, filed with the Commission February 17, 1998).
10(m)*	-- Cabot Corporation Short-Term Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.2 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999, file reference 1-5667, filed with the Commission on May 17, 1999).
12	-- Statement Re: Computation of Ratios of Earnings to Fixed Charges, filed herewith.
13	-- Pages 21 through 53 of the 1999 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.

EXHIBIT NUMBER	DESCRIPTION
21	-- List of Significant Subsidiaries, filed herewith.
23	-- Consent of PricewaterhouseCoopers LLP, filed herewith.
24	-- Power of attorney for signing of this Annual Report on Form 10-K, filed herewith.
27.1	-- Financial Data Schedule for fiscal year ended September 30, 1999, filed herewith.
27.2	-- Restated Financial Data Schedule for fiscal year ended September 30, 1998, filed herewith.
27.3	-- Restated Financial Data Schedule for fiscal year ended September 30, 1997, filed herewith.

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* 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.

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 29, 1999

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	Director, Chairman of the Board and Chief Executive Officer (principal executive officer)	December 29, 1999
* KENNETT F. BURNES	Director and President	December 29, 1999
/s/ ROBERT L. CULVER ROBERT L. CULVER	Executive Vice President and Chief Financial Officer (principal financial officer)	December 29, 1999
/s/ WILLIAM T. ANDERSON WILLIAM T. ANDERSON	Controller (principal accounting officer)	December 29, 1999
* JANE C. BRADLEY	Director	December 29, 1999
* JOHN G.L. CABOT	Director	December 29, 1999
* JOHN S. CLARKESON	Director	December 29, 1999
* ARTHUR L. GOLDSTEIN	Director	December 29, 1999
* ROBERT P. HENDERSON	Director	December 29, 1999
* ARNOLD S. HIATT	Director	December 29, 1999

SIGNATURES	TITLE	DATE
* GAUTAM S. KAJI	Director	December 29, 1999
* RODERICK C.G. MACLEOD	Director	December 29, 1999
* JOHN H. MCARTHUR	Director	December 29, 1999
* JOHN F. O'BRIEN	Director	December 29, 1999
* DAVID V. RAGONE	Director	December 29, 1999
* CHARLES P. SIESS, JR.	Director	December 29, 1999
* LYDIA W. THOMAS	Director	December 29, 1999
* MARK S. WRIGHTON	Director	December 29, 1999

*By: /s/ SARAH W.S. KISH

SARAH W.S. KISH
AS ATTORNEY-IN-FACT

EXHIBIT INDEX

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 (incorporated herein by reference to Exhibit 3(a) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1996, file reference 1-5667, filed with the Commission on December 24, 1996).
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 Supplemental 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(b)(iii)	-- Second Supplemental Indenture, dated as of January 31, 1997, between Cabot Corporation and State Street Bank and Trust Company, Trustee (incorporated herein by reference to Exhibit 4 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 1996, file reference 1-5667, filed with the Commission on February 14, 1997).
4(b)(iv)	-- Third Supplemental Indenture, dated as of November 20, 1998, between Cabot Corporation and State Street Bank and Trust Company, Trustee (incorporated herein by reference to Exhibit 4.1 of Cabot's Current Report on Form 8-K, dated November 20, 1998, file reference 1-5667, filed with the Commission on November 20, 1998).
10(a)	-- Credit Agreement, dated as of January 3, 1997, among Cabot Corporation, the banks listed therein and Morgan Guaranty Trust Company of New York, as Agent (incorporated herein by reference to Exhibit 10 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, file reference 1-5667, filed with the Commission on May 14, 1997).
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(b)(iii)*	-- 1999 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999, file reference 1-5667, filed with the Commission on May 17, 1999).

EXHIBIT NUMBER	DESCRIPTION
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).
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EXHIBIT 12

CABOT CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT REGARDING COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Amounts in millions, except ratios)

	Years ended September 30				
	1999	1998	1997	1996	1995
Earnings:					
Pre-tax income from continuing operations	$135.7	$168.0	$117.0	$279.8	$256.0
Distributed income of affiliated companies	19.9	7.5	10.4	11.2	11.7
Add fixed charges:					
Interest on indebtedness	45.8	42.0	43.2	41.7	35.6
Portion of rents representative of the interest factor	4.8	5.1	4.9	4.8	5.5
Income as adjusted	$206.2	$222.6	$175.5	$337.5	$308.8
Fixed charges:					
Interest on indebtedness	$ 45.8	$ 42.0	$ 43.2	$ 41.7	$ 35.6
Capitalized interest	--	--	--	--	--
Portion of rents representative of the interest factor	4.8	5.1	4.9	4.8	5.5
Total fixed charges	$ 50.6	$ 47.1	$ 48.1	$ 46.5	$ 41.1
Ratio of earnings to fixed charges	4.1	4.7	3.6	7.3	7.5

EXHIBIT 13

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

Cabot Corporation is organized into five reportable segments: Chemicals Group, Performance Materials ("CPM"), Specialty Fluids ("CSF"), Microelectronics Materials ("MMD"), and Liquefied Natural Gas ("LNG"). The Chemicals Group is comprised of the carbon black, fumed silica, plastics, and inkjet colorants businesses.

The following discussion of results includes segment sales and operating profit before taxes ("PBT"). Segment PBT is a measure used by Cabot's chief operating decision-makers to measure the Company's consolidated operating results and assess segment performance. (Refer to Note Q of the consolidated financial statements for a definition of PBT and additional segment information.)

Cabot's calculation of segment PBT may not be consistent with the calculation of PBT of other public companies and segment PBT should not be viewed by investors as an alternative to Generally Accepted Accounting Principles ("GAAP") measures of income.

The following analysis of financial condition and operating results should be read in conjunction with Cabot's consolidated financial statements and accompanying notes. Unless a calendar year is specified, all references in this discussion to years are to Cabot's fiscal years ended September 30.

OVERVIEW

Cabot reported earnings per share of $1.31 versus $1.61 in 1998. The earnings shortfall is largely the result of reduced margins in Cabot's carbon black business, lower LNG profits, and $26 million of charges related to cost reduction initiatives. Carbon black accounts for more than 50% of Cabot's total PBT. Profitability in the carbon black business was negatively affected by lower selling prices that more than offset the benefit of lower feedstock costs. In LNG, lower natural gas selling prices more than offset volume improvements. CPM, MMD, and Inkjet Colorants all reported improvements in financial performance in 1999.

In July 1999, Cabot announced several initiatives focused on improving shareholder value. These included cost reduction initiatives across its businesses aimed at reducing annual costs by $30 million to $35 million, plans for an initial public offering of approximately 15% of MMD, and management's intention to review the ownership structures of LNG and CPM. Currently, Cabot expects the MMD initial public offering to occur in the second calendar quarter of 2000. Management continues to examine various alternatives to optimize the performance and value in its liquefied natural gas and performance materials businesses.

Cabot continues to pursue its strategy of managing costs, and developing new products and businesses based on its core competencies. Cabot is also committed to achieving productivity improvements and further refining its business portfolio in order to achieve its objectives of increasing earnings and stock price performance.

RESULTS OF OPERATIONS

Cabot's sales for 1999, 1998 and 1997 were $1,695 million, $1,644 million and $1,625 million, respectively. Higher volumes increased sales 9% in 1999, while lower selling prices decreased sales by 4%. Negative currency exchange effects also reduced revenue by 2%. Sales increased $19 million in 1998 due to increased volumes and greater firm sales commitments in LNG, which more than offset the effects of lower carbon black selling prices and negative currency effects.

Cabot has been developing and commercializing new high-value, differentiated products. Five-year new products (defined as products first sold in commercial quantities within the last five years) accounted for approximately 13% of revenues, excluding LNG, in 1999.

CHEMICALS GROUP: CARBON BLACK, FUMED SILICA, PLASTICS, INKJET COLORANTS

DOLLARS IN MILLIONS	SEGMENT SALES	SEGMENT PBT
1999	$1,204	$ 188
1998	1,279	221
1997	1,326	209

Sales for the Chemicals Group were $1,204 million in 1999, compared with $1,279 million in 1998 and $1,326 million in 1997. Lower volumes reduced sales by 1% in 1999. Lower selling prices also reduced sales for the year by 3%, reflecting a competitive pricing environment in several of Cabot's chemical businesses. Finally, the negative effects of a stronger U.S. dollar reduced sales by 2%. PBT decreased 15% to $188 million in 1999 from $221 million in 1998. Lower volumes and selling prices more than offset the benefit of lower average raw material costs. In 1998, sales fell 4% and PBT improved 6%. Chemicals Group volume gains partially offset the effects of lower year-to-year carbon black selling prices and a stronger U.S. dollar. Increased profitability in the fumed silica and plastics businesses improved segment results in 1998.

Carbon black sales were down 6% from last year. Carbon black volumes were flat and prices were down 6% year-over-year. Carbon black selling prices decreased due to both dramatic oil price declines during the first half of the year and a generally weak pricing environment in certain markets. Oil price declines did, however, improve the total cost of acquiring feedstock materials in 1999. Feedstock costs were reduced by 11% compared with 1998. Lower feedstock costs were more than offset by reduced selling prices, causing a 9% reduction in PBT in 1999.

Fumed silica sales and PBT were relatively flat compared with the prior year. Volumes were down 2% caused in part by softened demand in the silicone rubber market. Selling prices increased 2%, driven by higher sales of treated products and increased sales of new products.

Plastics sales declined 6%. Volumes were relatively flat and prices decreased 6%. Pricing in the plastics industry has come under pressure in recent years with the addition of industry capacity. Lower carbon black feedstock costs also put downward pressure on prices. PBT declined 9% for the year, as the effects of lower raw material costs could not offset a reduction in prices and increases in conversion costs.

Inkjet colorants contributed an incremental $6 million to PBT in the form of reduced losses. Cabot colorants were included in a third inkjet printer platform and a fourth is expected in the second quarter of 2000.

Sales by segment 1999	in percent
Chemicals Group	67
Liquefied Natural Gas	15
Performance Materials	11
Microelectronics Materials	6
Specialty Fluids	1

OUTLOOK FOR 2000

The Chemicals Group expects volume growth in all businesses and price pressure is expected to moderate in certain markets, however, the overall business environment will likely remain very competitive in 2000. Recent cost initiatives are aimed primarily at improving profitability in Cabot's Chemicals Group businesses.

The carbon black business expects modest volume growth and continued pressure on prices. Feedstock costs have increased substantially from mid-1999 lows, which has caused additional margin squeeze. Recent market conditions, including the consolidation in the tire and auto industries, underscore the need for continuing cost reduction efforts. Reduced conversion costs and operating expenses will help offset margin squeeze in 2000.

Sales volume for fumed silica is expected to grow as a result of the continued strength of the automotive industry, construction growth and sales of new products. To meet overall increasing global demand, Cabot completed a fumed silica plant in Midland, Michigan. The plant began production in November 1999 and has an annual capacity of 16 million pounds.

Plastics volumes have recently rebounded due to a combination of increasing polymer prices and new business growth. Variable margins, however, have suffered due to the inability to fully recover recent carbon black feedstock and polymer price increases. Selling price increases, which have been put in effect in the first quarter of 2000, and ongoing cost reductions, should contribute to an improvement in operating results next year.

Inkjet colorants should contribute modestly to earnings in 2000.

PERFORMANCE MATERIALS(1)

DOLLARS IN MILLIONS	SEGMENT SALES	SEGMENT PBT
1999	$187	$34
1998	175	25
1997	153	16

(1) Financial information includes distributor sales and equity in net income of joint ventures.

Performance Materials sales were $187 million in 1999, compared with $175 million in 1998 and $153 million in 1997. Volumes increased 4% in 1999 due to increased demand for tantalum capacitors by wireless communication companies, coupled with a resurgence of the personal computer market. Volumes also increased due to higher sales of Cabot's intermediate products. Improved prices increased revenue by 3%. Improvements in volumes, prices, conversion, and operating expenses offset increases in tantalum ore costs, resulting in a 36% improvement in profitability. In 1998, improved financial performance was largely the result of improved volumes, offset by increased new product development spending.

OUTLOOK FOR 2000

The strength in the electronics industry is expected to contribute to improved tantalum powder volumes in 2000. Higher capacitance powders produced by this segment are currently sold out and on allocations with customers. Increases in average selling prices are also anticipated due to a richer product mix. However, lower contractual volumes for CPM's intermediate products are expected to negatively impact financial results in 2000.

SPECIALTY FLUIDS

DOLLARS IN MILLIONS	SEGMENT SALES	SEGMENT PBT
1999	$ 12	$(3)
1998	13	(2)
1997	11	(4)

Specialty Fluids sales in 1999 were $12 million, versus $13 million in 1998 and $11 million in 1997. Although this business is primarily focused on commercializing cesium formate oilfield fluids, sales to date have been generated primarily from the production and sales of spodumene and tantalum. Customer trials of cesium formate drilling and completion fluids by the oil and gas industry were inhibited in 1999 by an oil industry downturn. During 1999, Cabot temporarily suspended production at the cesium formate plant due to an inventory overload of cesium formate. Management expects production will resume as cesium formate gains market acceptance.

Sales by geographic region 1999	in percent
North America........................	51
Europe...............................	35
South America........................	10
Asia Pacific.........................	4

OUTLOOK FOR 2000

CSF continues to aggressively market cesium formate drilling fluids. Success in this segment will be driven by market acceptance from the oil and gas drilling sectors, which are gradually recovering from the industry downturn and are expected to continue to recover over the next 12 months. Cesium formate was used successfully in three North Sea completion operations. Each completion operation was performed for a different major oil company. As fiscal 2000 progresses, CSF expects to demonstrate that cesium brine fluids can provide value in a wider variety of applications in the oil drilling business.

MICROELECTRONICS MATERIALS

DOLLARS IN MILLIONS	SEGMENT SALES	SEGMENT PBT
1999	$ 96	$ 22
1998	57	9
1997	34	1

Microelectronics Materials sales were $96 million in 1999, compared with $57 million in 1998 and $34 million in 1997. The segment experienced strong volume gains of 53% and average price increases of 14%. The substantial volumes growth in 1999 resulted from the introduction of new products and strength in MMD's existing product portfolio. Increased adoption of chemical mechanical planarization in the semiconductor industry has driven the growth of this business over the last three years. MMD completed a new facility in Geino, Japan, during the year to provide additional capacity to keep pace with growing demand. In 1998, volumes grew 61%.

PBT increased to $22 million in 1999, primarily due to improved volumes and increased adoption of higher value new products, offset somewhat by increased selling, technical, and administrative expenses. PBT was $9 million in 1998, up from $1 million in 1997 due to increased volumes and improved plant utilization, offset somewhat by higher spending on research and development and market development initiatives.

OUTLOOK FOR 2000

MMD's performance is expected to improve in 2000, with higher average prices and volume growth anticipated from new product sales. In 1999, MMD introduced its new LUSTRATM polishing slurry for the rigid disk market and EPICTM polishing pads. Sales of rigid disk slurries have been better than anticipated and are expected to contribute significantly to MMD's financial performance in 2000. Significant investment spending will continue, including plans to expand North American manufacturing and to purchase land in Korea for a new facility.

LIQUEFIED NATURAL GAS

	SEGMENT SALES	SEGMENT PBT

DOLLARS IN MILLIONS

1999	$ 265	$ 7
1998	211	15
1997	200	7

Sales for LNG were $265 million in 1999, compared with $211 million in 1998 and $200 million in 1997. LNG volumes increased 46% in 1999. Commencement of LNG shipments from Trinidad, which began during the third quarter, allowed Cabot to increase volumes in 1999. LNG supplied the New England gas market with 88 million British Thermal Units ("BTU"s) in 1999 versus 60 million BTUs in 1998. However, lower natural gas selling prices caused by warmer than normal weather reduced revenues for the year by 20%.

PBT was $7 million in 1999 versus $15 million in 1998. Lower natural gas selling prices offset the earnings effect of improved volumes and gas costs. The increase in earnings in 1998 was primarily due to a more ample and assured supply of LNG than in previous years, which enabled management to contract firm sales commitments for a greater amount of LNG during the winter season.

OUTLOOK FOR 2000

Improved performance in LNG is expected in 2000 due to availability of natural gas from Trinidad and higher gas selling prices. Cabot has sold forward a significant portion of its expected cargoes in 2000 and, therefore, anticipates that LNG will generate about $20 million in PBT.

COMPANY SUMMARY

INCOME BEFORE INCOME TAXES, INCOME TAXES, AND EQUITY IN NET INCOME OF AFFILIATED COMPANIES

Income before income taxes was $136 million in 1999, down 19% from $168 million in 1998 and up 16% from $117 million in 1997. Earnings for 1999 were significantly reduced by several charges related to capacity utilization and cost reduction initiatives. The cost reduction initiatives included $16 million for severance and termination benefits for approximately 265 employees, of which $7 million was paid in 1999, and a charge of $10 million for the retirement of certain long-lived plant assets, primarily at the Australian carbon black facility and European plastics masterbatch operations. Cabot expects the initiatives to be substantially completed by the end of fiscal year 2000.

OPERATING EXPENSES*

DOLLARS IN MILLIONS

1997	1998	1999
284	296	281

* Includes research and technical, and selling and administrative expenses.

Gross margin decreased $30 million versus 1998, as significant declines in carbon black and LNG selling prices offset lower carbon black feedstock costs and volume improvements. In 1998 gross margin increased $39 million primarily due to improved volumes, higher LNG selling prices and lower carbon black feedstock costs, which offset the effects of lower year-over-year carbon black selling prices and unfavorable currency exchange rates.

Operating expenses include research and technical service, and selling and administrative expenses. Research and technical service spending was $73 million for 1999, down 9% from $80 million in 1998. The decrease reflected reduced spending in the carbon black and CPM businesses, which was somewhat offset by increased spending in MMD and fumed silica new product development programs. Cabot is committed to the development of new differentiated products for its businesses. Cabot anticipates research and technical service spending to remain near $65 million in 2000 for these and other initiatives. Selling and administrative expenses were $208 million in 1999 versus $216 million in 1998. The decrease in 1999 reflects cost improvement efforts across Cabot's businesses.

Interest expense was $46 million in 1999 compared with $42 million in 1998 and $43 million in 1997.

Other charges, net, decreased from $15 million in 1998 to $7 million in 1999. The decrease was primarily due to nonrecurring costs related to a divested business in 1998 and a reduction in foreign currency exchange losses. Results in 1998 included the effects of a significant devaluation of the Indonesian rupiah.

Cabot's overall effective income tax rate was 36% in 1999, 1998 and 1997. The underlying factors affecting Cabot's overall effective tax rates are summarized in Note M of the consolidated financial statements.

Cabot's share of the earnings of investments in equity affiliates was $13 million in 1999 compared with $17 million in 1998 and $20 million in 1997.

NET INCOME

Net income in 1999 was $97 million ($1.31 per diluted common share) compared to $122 million ($1.61 per diluted common share) in 1998 and $93 million ($1.19 per diluted common share) in 1997.

The following table summarizes the impact of special items on diluted earnings per common share:

	1999	1998	1997
SPECIAL ITEMS			
Sale of K N Energy, Inc. stock	$ 0.09	$ 0.77	--
Carbon black asset impairment	--	(0.51)	--
Tantalum ore recovery charge	--	(0.21)	--
Cost reduction initiatives/programs	(0.23)	--	$(0.15)
Earnings per common share - diluted	$(0.14)	$ 0.05	$(0.15)

Excluding special items, net income would have been $107 million in 1999, $118 million in 1998 and $104 million in 1997. For a more detailed discussion of special items, refer to Note B of the consolidated financial statements.

RISK MANAGEMENT

Cabot's objective in managing its exposure to interest rate changes, foreign currency rate changes, and commodity price changes is to limit the impact of the changes on earnings. To achieve its objectives, Cabot identifies these risks and manages them through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Chemicals Group enters into contracts with customers and suppliers that are designed to limit the risk of certain foreign currency rate and commodity price changes. Cabot enters into certain contracts in the carbon black business in which the price of the product is adjusted based on certain price movements in feedstock. LNG enters into certain supply contracts where the purchase price of LNG is adjusted based on the final selling price. Certain contracts in Cabot's foreign subsidiaries are denominated in U.S. dollars or a currency other than the functional currency of the subsidiary. Additionally, Cabot attempts to limit its net monetary exposure in currencies of hyper-inflationary countries, primarily in South America.

Cabot determines its worldwide exposures to interest rate changes, foreign currency rate changes, and commodity price changes and reduces the impact of rate and price changes through the use of derivative financial instruments. These financial instruments are designated as hedges of underlying exposures associated with specific assets, liabilities, or firm commitments or anticipated transactions and are monitored to determine if they remain effective hedges. Market risk exposure to other financial instruments is not material to earnings, cash flow, or fair values.

Cabot manages market risks pursuant to policies aimed at protecting Cabot against risks and prohibiting speculation on market movements. Actions taken by Cabot's businesses to provide such protection are reviewed and approved by Cabot's Risk Management Committee, which is charged with enforcing Cabot's risk management policy.

Interest Rates

Cabot's objective in managing its exposure to interest rate changes is to reduce the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, Cabot uses interest rate swaps to hedge and/or lower financing costs and to adjust fixed and variable rate debt positions. Cabot maintains a percentage of fixed and variable rate debt within defined parameters.

Foreign Currency

Cabot's international operations are subject to certain opportunities and risks, including currency fluctuations and government actions. Operations in each country are closely monitored so Cabot can respond to changing economic and political environments and to fluctuations in foreign currencies. Accordingly, Cabot utilizes foreign currency option contracts and forward contracts to hedge its exposure of firm commitments or anticipated transactions, and receivables and payables primarily denominated in currencies other than the functional currencies. Cabot also monitors its foreign exchange exposures to ensure the overall effectiveness of its foreign currency hedge positions. Cabot has foreign currency instruments primarily denominated in the EURO, Japanese yen, British pound sterling, Swedish krona, Canadian dollar, and Australian dollar.

Commodities

Cabot is exposed to commodity price fluctuations that can affect its sales revenues and supply costs. From time to time, Cabot enters into commodity futures contracts, commodity price swaps, and/or option contracts to hedge a portion of firmly committed and anticipated transactions against such natural gas price fluctuations. Cabot monitors its exposure to ensure overall effectiveness of its hedge positions.

Value-At-Risk

Cabot utilizes a Value-at-Risk ("VAR") model to determine the maximum potential loss in the fair value of its interest rate, foreign exchange, and commodity sensitive derivative financial instruments within a 95% confidence interval. (See Note P of the consolidated financial statements for risk management.) Cabot's computation was based on the interrelationships between movements in interest rates, foreign currencies, and commodities. These interrelationships were determined by observing historical interest rate, foreign currency, and commodity market changes over corresponding periods. The assets and liabilities, firm commitments and anticipated transactions, which are hedged by derivative financial instruments, were excluded from the model. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. There are various modeling techniques that can be used in the

VAR computation. Cabot's computations are based on the Monte Carlo simulation. The VAR model is a risk analysis tool and does not purport to represent actual gains or losses in fair value that will be incurred by Cabot. The VAR model estimated a maximum loss in market value of $20 million from October 1, 1999, through September 30, 2000, for derivative instruments held as of September 30, 1999.

At no time during the year did actual changes in market value exceed the VAR amounts during the reporting period.

In 1998, Cabot was unable to aggregate its derivative financial instruments for the VAR model. Cabot's VAR models estimated a maximum loss in market value for each type of derivative instrument held as of September 30, 1998. The results of the VAR models were as follows:

	MAXIMUM LOSS	PERIOD
Foreign currency	$ 0.4 million	two weeks
Interest rate	$12.0 million	six months
Commodity	$ 1.0 million	one month

Management does not foresee or expect any significant changes in the management of hedging instruments relating to interest rate, foreign currency, or commodity exposures or in the strategies it employs to manage such exposures in the near future.

Since Cabot utilizes interest rate, foreign currency, and commodity sensitive derivative instruments for hedging, a loss in fair value for those instruments is generally offset by increases in the value of the underlying transaction.

EURO CONVERSION

On January 1, 1999, certain members of the European Union established fixed conversion rates between their existing currencies and the EURO. The transition period is anticipated to extend between January 1, 1999, and July 1, 2002. Cabot has assessed the impact of the conversion on information technology systems, currency exchange rate risk, derivatives and other financial instruments, continuity of material contracts, as well as income tax and accounting issues. Cabot does not expect the conversion during the transition period to have a material impact on Cabot's consolidated financial statements.

CASH FLOW AND LIQUIDITY

Cash generated in 1999 from operating activities was $208 million, compared with $237 million in 1998 and $144 million in 1997 (see the consolidated statements of cash flows). The change in 1999 is primarily due to an increase in working capital. The change in working capital was primarily due to the consolidation of the company's Shanghai carbon black joint venture and increased business activity at Cabot LNG in the fourth quarter this year compared with the fourth quarter last year.

Capital spending on property, plant and equipment, and investments and acquisitions for 1999, 1998 and 1997 was $172 million, $247 million and $181 million, respectively. The major components of the 1999 and 1998 capital program included new business expansion and normal plant operating capital projects, Cabot's equity share of a natural gas liquefaction project in Trinidad, refurbishment of Cabot's LNG tanker, and capacity expansion in Cabot's fumed silica and MMD businesses.

Capital expenditures for 2000 are expected to approximate $150 million and include projects for maintenance and replacement, and MMD plant expansion. Although Cabot expects to continue to invest in new business opportunities, this represents a decrease in the rate of capital spending from 1999.

During the next several years, Cabot also expects to spend a significant portion of its $39 million environmental reserve in connection with remediation at various environmental sites. These sites are primarily associated with divested businesses.

Capital expenditures 1999	in percent
process improvement..................	35
maintenance improvement..............	25
new business expansion...............	20
compliance...........................	10
infrastructure.......................	10

In 1999, Cabot sold 1 million shares of K N Energy, Inc. ("KNE") and recognized a $10 million gain from the sale of those equity securities. In 1998, Cabot sold 2 million shares of KNE and recognized a $90 million gain from the sale of those equity securities.

Cash used in 1999 in financing activities was $69 million, compared with $131 million in 1998 and $15 million in 1997.

On September 11, 1998, Cabot's Board of Directors authorized the repurchase of 4 million shares of Cabot's common stock. As of September 30, 1999, approximately 2 million shares remained available for purchase under the Board authorization.

During 1999, Cabot repurchased 1.6 million shares of its common stock for $39 million. During 1998, 3.8 million shares were repurchased for $101 million. During 1997, 3.5 million shares were repurchased for $85 million. Cabot has predominately used the proceeds of asset sales to finance share repurchases over the last three years.

On June 30, 1999, Cabot purchased from a financial institution, loans to Cabot employees totaling $18 million in connection with the purchase of restricted shares of Cabot Corporation common stock, awarded under the Company's 1996 Equity Incentive Plan.

During 1999, Cabot paid cash dividends of $0.44 per share. In November 1999, the Board of Directors approved an $0.11 per share dividend payable in the first calendar quarter of 2000.

Cabot's ratio of total debt (including short-term debt, net of cash) to capital increased from 43% at September 30, 1998, to 44% at September 30, 1999.

On September 29, 1998, Cabot filed a shelf registration statement with the Securities and Exchange Commission ("SEC") for up to $500 million of debt securities that may be issued from time to time. The SEC declared the registration statement effective on October 13, 1998.

In December 1998, Cabot issued $100 million of medium-term notes. As of September 30, 1999, the notes mature as follows: $40 million in one year, $30 million in six years, and $30 million in 19 years. The notes have a weighted-average interest rate of 6.6%. Proceeds from the issuance were used to reduce short-term debt.

Cabot maintains a credit agreement under which it may borrow up to $300 million at floating rates. The facility is available through January 3, 2002. Cabot had no borrowings outstanding under this agreement at September 30, 1999. Management expects cash from operations and present financing arrangements, including Cabot's unused line of credit and shelf registration, to be sufficient to meet cash requirements for the foreseeable future.

SOURCES AND USES OF CASH

IN MILLIONS OF DOLLARS

	SOURCES OF CASH		USES OF CASH	
	1998	1999	1998	1999
Other	6	8		
Sales of assets	136	21		
Borrowings	116	103		
Operations	237	208		
Other				18
Share repurchases, net			81	35
Dividends			32	32
Debt repayment			134	88
Capital expenditures and investments			247	172

YEAR 2000 READINESS DISCLOSURE

Cabot's Year 2000 plan has three key areas of focus and is overseen by the Executive Steering Committee. Cabot's Program Management Office was established to coordinate Year 2000 efforts with regional teams in Asia Pacific, Europe, North America, and South America. These teams have been in place and working for more than a year. Cabot's Year 2000 efforts have progressed on schedule.

The first key area of focus was Cabot's core business systems software, PC hardware and desktop software, and manufacturing plant devices and software. Cabot's plan with respect to this area includes the inventory of all core business systems software, PC hardware and desktop software, and plant devices and software that have clocking devices or computer codes that will be impacted by the change of date to Year 2000; assessment for priority as to mission critical systems; upgrading or replacing such hardware and software as required; testing and placing into an operational state; and developing contingency plans. The current status and plans for each component of this area are as follows:

Core Business Systems: This component includes all software and hardware systems that record relevant data for business operations and summarize revenue, cost, cash flows, capital, and other information. Cabot completed the inventory, assessment, remediation, and testing of core business systems, with two exceptions as detailed below.

Global business systems renewal projects have been completed. These projects included the rollout of AspenTech's manufacturing production support systems, the migration of Cabot's Asia Pacific and European facilities to the JDEdwards and Marcam suites of business software, and the upgrade to PeopleSoft Human Resources globally. A small amount of data conversion and acceptance testing will be completed in December 1999 for laboratory information management systems in Asia Pacific and South America, and for a shop floor bar coding system in one North American facility.

PC Hardware and Desktop Software: Cabot has completed the inventory, assessment, remediation and testing phases for its PC hardware, including replacement or repair of desktop hardware and mission critical software.

Manufacturing Plant Devices and Software: Cabot completed the inventory and assessments of plant embedded devices and software during the second quarter of 1999. Replacement or repair of plant devices and software, and final testing in all manufacturing facilities was substantially completed by September 30, 1999.

Contingency plans for this key area have been developed and will be reviewed and revised up through the change to the millennium.

The second key area of focus was Cabot's supply chain. This included identifying key suppliers whose supply disruption could have an adverse impact on Cabot's ability to produce and ship product; working with these suppliers to decrease the chances supply will be disrupted; identifying alternative sources or contingency plans as needed; and attempting to obtain writ-

ten assurances that purchased products and services are Year 2000 ready. Even in cases where Cabot has received assurances that delays or disruptions will not be encountered by third parties, Cabot is not in a position to determine with certainty whether the assurances will prove accurate, given the uncertainties associated with the Year 2000 issue. The current status and plans for this area are as follows:

Key suppliers were identified. Letters and questionnaires were sent to those suppliers and a review of their responses was completed in the third quarter of 1999. Contingency plans for this key area have been developed.

The final key area of focus was internal and external communications, and included ongoing status reporting to management, coordinated responses to external customer requests for information on Cabot's Year 2000 status, and timely delivery of information on Year 2000 to Cabot employees worldwide. The current status and plans for this area are as follows:

An internal status reporting mechanism is in place. Coordinated responses are being delivered to key customers. An employee awareness program has continued throughout 1999.

Overall, Cabot met its established Year 2000 program goals:

- To complete activities related to mission critical core business systems, PC hardware, and desktop software by June 30, 1999.

- To substantially complete activities related to manufacturing embedded devices, manufacturing control systems, and supplier readiness by September 30, 1999, and

- To substantially complete contingency plans by September 30, 1999.

During the final three months of 1999, Cabot focused on Year 2000 by refining contingency plans as needed; reviewing and amending Year 2000 documentation as needed; and performing ongoing reviews of supplier readiness.

The cost of implementing system and program changes necessary to address Year 2000 issues did not have a material effect on Cabot's results of operations or financial condition. Cabot has identified Year 2000 expenses as costs incurred specifically to modify hardware or software to be Year 2000 compliant where such modifications do not add other functionality. The vast majority of Cabot's projects over the last year were considered to be part of Cabot's ongoing global business systems renewal initiatives. Cabot recognizes that a benefit of these initiatives was Year 2000 compliance. However, these initiatives were not undertaken primarily for Year 2000 compliance and, therefore, were not treated as Year 2000 costs. The Year 2000 compliance effort was supported by a reallocation of existing information technology and human resources. Cabot does not specifically track all costs associated with employees working on Year 2000 projects. Cabot budgeted and spent approximately $2 million during 1999 on direct Year 2000 remediation efforts, in addition to the global business system renewal efforts. There can be no assurance that there will not be increased costs associated with the implementation of such changes.

The above plans and status represent Cabot's expectations based on current Year 2000 plans and work progress, however, there is no assurance that such expectations will be realized. While Cabot believes that prudent steps have been taken to assure that there is an effective program, Cabot cannot guarantee that the plans and funds expended will correct all Year 2000 errors or that the information systems will not generate Year 2000 errors when operating with third party computer systems or data.

Cabot cannot reliably predict the source, nature, or extent of any Year 2000 disruptions that may be experienced in the U.S. or other countries where it operates and, therefore, cannot predict reliably the effect any such disruptions may have on Cabot, its operations or financial condition. Cabot does not know what is the most likely "worse case scenario" as a result of Year 2000 disruptions, but believes that the effects on Cabot are not substantially different from those facing industry generally. Cabot believes that the most likely causes of disruption are one or more of the following: disruptions in the banking system, disruptions in the supply of electricity to Cabot's plants that could delay production of Cabot's products, and disruptions in transportation services that could delay shipments from Cabot's suppliers or to Cabot's customers. In addition, Cabot does not know whether any of its customers will experience Year 2000 disruptions, either directly or as a result of disruptions in their customers' or other suppliers' businesses or in the economy generally, but any such disruptions might reduce demand for Cabot's products and adversely affect Cabot. Cabot believes that if none of the third parties with which it deals, directly or indirectly, experience disruptions or delays related to the Year 2000 problem, it will be able to continue to operate with little or no disruption or delay.

NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). Among other provisions, it requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains and losses resulting from changes in the fair values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Cabot is currently evaluating the effect of implementing SFAS No. 133.

In March 1998, the Accounting Standards Executive Committee ("AcSEC") issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), which is effective for fiscal years beginning after December 15, 1998. This standard requires capitalization of certain internal-use computer software costs. Cabot engages in ongoing update, enhancement, and replacement of its computer systems. Currently, Cabot capitalizes significant external costs associated with services and software incurred in connection with these activities. To date, internal resources associated with these activities have not been significant, therefore, adoption of this standard on October 1, 1999, is not expected to have a material impact on Cabot's consolidated financial statements.

In April 1998, AcSEC issued Statement of Position 98-5, "Accounting for the Costs of Start-Up Activities" ("SOP 98-5"), which is effective for fiscal years beginning after December 15, 1998. SOP 98-5 provides guidance on the financial reporting of start-up costs and organization costs, requiring those costs to be expensed as incurred. Adoption of this standard on October 1, 1999, is not expected to have a material impact on Cabot's consolidated financial statements.

FORWARD-LOOKING INFORMATION

Included herein are statements relating to management's projections of future profits, the possible achievement of Cabot's financial goals and objectives, management's expectations for Cabot's product development program, Year 2000 risks, and the impact of the EURO conversion. 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, fluctuations in currency exchange rates, cost of raw materials, patent rights of others, Year 2000 disruptions, demand for Cabot's customers' products, and competitors' reactions to market conditions. Timely commercialization of products under development by Cabot 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 risk management discussion and the estimated amounts generated from the analyses are forward-looking statements of market risk, assuming certain adverse market conditions occur. Actual results in the future may differ materially from these projected results due to actual developments in the global financial markets. The methods used by Cabot to assess and mitigate risks should not be considered projections of future events or losses.

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30	1999	1998
DOLLARS IN MILLIONS		
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35	$ 40
Accounts and notes receivable, net of reserve for doubtful accounts of $5 and $5	321	284
Inventories (Note C)	259	251
Prepaid expenses and other current assets	27	26
Deferred income taxes (Note M)	17	18
Total current assets	659	619
Investments:		
Equity (Notes B and D)	72	91
Other (Notes D and N)	47	72
Total investments	119	163
Property, plant and equipment (Note E)	2,039	1,914
Accumulated depreciation and amortization	(1,015)	(936)
Net property, plant and equipment	1,024	978
Other assets:		
Intangible assets, net of accumulated amortization of $16 and $11 (Note B)	20	24
Deferred income taxes (Note M)	6	4
Other assets	14	17
Total other assets	40	45
Total assets	$ 1,842	$ 1,805

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

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30	1999	1998
DOLLARS IN MILLIONS		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	$ 186	$ 253
Current portion of long-term debt (Note G)	11	11
Accounts payable and accrued liabilities (Notes F and H)	252	269
Deferred income taxes (Note M)	1	3
Total current liabilities	450	536
Long-term debt (Note G)	419	316
Deferred income taxes (Note M)	68	82
Other liabilities (Notes H, J, and O)	167	140
Commitments and contingencies (Note O)		
Minority interest	32	25
Stockholders' equity (Notes D, G, J, and K):		
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 $65 and $67)	75	75
Less cost of shares of preferred treasury stock	(17)	(14)
Common stock:		
Authorized: 200,000,000 shares of $1 par value		
Issued and outstanding: 67,123,892 and 67,241,624 shares	67	67
Additional paid-in capital	5	5
Retained earnings	734	672
Unearned compensation	(30)	(26)
Deferred employee benefits	(59)	(60)
Notes receivable for restricted stock	(25)	--
Accumulated other comprehensive loss	(44)	(13)
Total stockholders' equity	706	706
Total liabilities and stockholders' equity	$ 1,842	$ 1,805

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

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED SEPTEMBER 30	1999	1998	1997
DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS			
Revenues:			
Net sales and other operating revenues	$ 1,695	$ 1,644	$ 1,625
Interest and dividend income (Notes D and P)	4	5	7
Total revenues	1,699	1,649	1,632
Costs and expenses:			
Cost of sales	1,213	1,133	1,155
Selling and administrative expenses	208	216	204
Research and technical service	73	80	80
Interest expense (Notes G and P)	46	42	43
Special items (Note B)	26	85	18
Gain on sale of equity securities (Note D)	(10)	(90)	--
Other charges, net	7	15	15
Total costs and expenses	1,563	1,481	1,515
Income before income taxes	136	168	117
Provision for income taxes (Note M)	(49)	(60)	(42)
Equity in net income of affiliated companies (Note D)	13	17	20
Minority interest in net income	(3)	(3)	(2)
Net Income	97	122	93
Dividends on preferred stock, net of tax benefit of $2, $2, and $2	(3)	(4)	(3)
Income applicable to common shares	$ 94	$ 118	$ 90
Weighted-average common shares outstanding, in millions (Notes K and L):			
Basic	64	66	68
Diluted	73	75	77
Income per common share (Note L):			
Basic	$ 1.47	$ 1.80	$ 1.33
Diluted	$ 1.31	$ 1.61	$ 1.19

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30	1999	1998	1997
DOLLARS IN MILLIONS			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 97	$ 122	$ 93
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	125	115	110
Deferred tax expense (benefit)	(3)	12	(13)
Equity in net income of affiliated companies, net of dividends received	6	(10)	(9)
Special items	19	60	18
Gain on sale of equity securities	(10)	(90)	--
Other, net	15	12	8
Changes in assets and liabilities, net of the effect of the consolidation of equity affiliates:			
Decrease (increase) in accounts and notes receivable	(38)	8	(29)
Decrease (increase) in inventories	(7)	(3)	3
Increase (decrease) in accounts payable and accrued liabilities	(2)	31	(23)
Decrease in income taxes payable	(14)	(2)	(24)
Increase (decrease) in other liabilities	29	(8)	(1)
Other, net	(9)	(10)	11
Cash provided by operating activities	208	237	144
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	(166)	(188)	(163)
Proceeds from sales of property, plant and equipment	1	6	1
Purchases of equity securities	--	(20)	(11)
Proceeds from sales of equity securities	20	130	--
Investments and acquisitions, excluding cash acquired	(6)	(39)	(7)
Proceeds from sale of business	--	--	35
Cash from consolidation of equity affiliates and other	8	2	--
Cash used in investing activities	(143)	(109)	(145)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	103	63	90
Repayments of long-term debt	(11)	(134)	(21)
Increase (decrease) in short-term debt, net	(77)	53	17
Purchases of preferred and common stock	(46)	(106)	(87)
Sales and issuances of preferred and common stock	11	25	18
Cash dividends paid to stockholders	(32)	(32)	(32)
Purchase of notes receivable for restricted stock, net of repayments received	(17)	--	--
Cash used in financing activities	(69)	(131)	(15)
Effect of exchange rate changes on cash	(1)	4	(3)
Increase (decrease) in cash and cash equivalents	(5)	1	(19)
Cash and cash equivalents at beginning of year	40	39	58
Cash and cash equivalents at end of year	$ 35	$ 40	$ 39

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED SEPTEMBER 30	PREFERRED STOCK, NET OF TREASURY STOCK	COMMON STOCK	COMMON TREASURY STOCK
DOLLARS IN MILLIONS			
1997			
Balance at October 1, 1996	$ 67	$136	$(634)
Net income			
Foreign currency translation adjustments			
Change in unrealized gain on available-for-sale securities			
Total comprehensive income			
Common dividends paid			
Issuance of stock under employee compensation plans, net of tax benefit of $4			12
Issuance of common stock to CRISP			2
Purchase and retirement of common stock			(85)
Purchase of treasury stock-preferred	(2)		
Preferred dividends paid to Employee Stock Ownership Plan, net of tax			
Principal payment by Employee Stock Ownership Plan under guaranteed loan			
Amortization of unearned compensation			
Balance at September 30, 1997	$ 65	$136	$(705)
1998			
Net income			
Foreign currency translation adjustments			
Change in unrealized gain on available-for-sale securities			
Total comprehensive income			
Common dividends paid			
Issuance of stock under employee compensation plans, net of tax benefit of $5			16
Issuance of common stock to CRISP			2
Purchase and retirement of common stock		(69)	687
Purchase of treasury stock-preferred	(4)		
Preferred dividends paid to Employee Stock Ownership Plan, net of tax			
Principal payment by Employee Stock Ownership Plan under guaranteed loan			
Amortization of unearned compensation			
Balance at September 30, 1998	$ 61	$ 67	$ --
1999			
Net income			
Foreign currency translation adjustments			
Change in unrealized gain on available-for-sale securities			
Total comprehensive income			
Common dividends paid			
Issuance of stock under employee compensation plans, net of tax benefit of $5		2	
Issuance of common stock to CRISP			
Purchase and retirement of common stock		(2)	
Purchase of treasury stock-preferred	(3)		
Preferred dividends paid to Employee Stock Ownership Plan, net of tax			
Principal payment by Employee Stock Ownership Plan under guaranteed loan			
Amortization of unearned compensation			
Notes receivable for restricted stock, net			
Balance at September 30, 1999	$ 58	$ 67	$ --

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

	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	UNEARNED COMPENSATION	DEFERRED EMPLOYEE BENEFITS	NOTES RECEIVABLE FOR RESTRICTED STOCK	TOTAL STOCKHOLDERS' EQUITY	TOTAL COMPREHENSIVE INCOME
	$ 24	$1,177	$ 56	$ (17)	$ (64)	$ --	$ 745	
		93						$ 93
			(45)					(45)
			24					24
								$ 72
		(28)						
	13			(11)				
	2							
		(4)						
					2			
				10				
	$ 39	$1,238	$ 35	$ (18)	$ (62)	$ --	$ 728	
		122						$ 122
			(11)					(11)
			(37)					(37)
								$ 74
		(29)						
	27			(18)				
	3							
	(64)	(656)						
		(3)						
					2			
				10				
	$ 5	$ 672	$(13)	$ (26)	$ (60)	$ --	$ 706	
		97						$ 97
			(17)					(17)
			(14)					(14)
								$ 66
		(29)						
	34			(16)				
	5							
	(39)	(3)						
		(3)						
					1			
				12				
						(25)		
	$ 5	$ 734	$ (44)	$ (30)	$ (59)	$ (25)	$ 706	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. The significant accounting policies of Cabot Corporation ("Cabot") are described below.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Cabot and majority-owned and controlled U.S. and non-U.S. subsidiaries. Investments in majority-owned affiliates where control does not exist and investments in 20% to 50% owned affiliates are accounted for using the equity method. Intercompany transactions have been eliminated.

CASH EQUIVALENTS

Cash equivalents include all highly liquid investments with a maturity of three months or less at date of acquisition.

INVENTORIES

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

INVESTMENTS

Investments include investments in equity affiliates, investments in equity securities, and investments accounted for under the cost method. Investments in equity securities are classified as available-for-sale and are recorded at their fair market values. Accordingly, any unrealized holding gains or losses, net of taxes, are excluded from income and recognized as a separate component of other comprehensive income within stockholders' equity. The fair value of equity securities is determined based on market prices at the balance sheet dates. The cost of equity securities sold is determined by the specific identification method. (Notes D and K)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Depreciation of property, plant and equipment is generally calculated on the straight-line method for financial reporting purposes. The depreciable lives for buildings, machinery and equipment, and other fixed assets are 20 to 25 years, 10 to 20 years, and 3 to 20 years, respectively. The cost and accumulated depreciation for property, plant and equipment sold, retired, or otherwise disposed of are relieved from the accounts, and resulting gains or losses are reflected in income. (Note E)

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 during the shorter of the estimated useful life or 40 years. Other intangibles are amortized over their estimated useful lives. Included in other charges is amortization expense of $5 million for 1999, 1998 and 1997. (Note B)

IMPAIRMENT OF LONG-LIVED ASSETS

Cabot reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Each impairment test is based on comparison of undiscounted cash flows to the recorded value of the asset. If an impairment is indicated, the asset is written down to its fair value. (Note B)

FOREIGN CURRENCY TRANSLATION

Substantially all assets and liabilities of foreign operations are translated into U.S. dollars at exchange rates in effect at the balance sheet dates. Unrealized currency translation adjustments are accumulated as a separate component of other comprehensive income and stockholders' equity. Income and expense items are translated at average exchange rates during the year. Foreign currency gains and losses arising from transactions are reflected in net income. Included in other charges for 1999, 1998 and 1997, are foreign exchange losses of $1 million, $7 million and $6 million, respectively. The financial statements of foreign operations that operate in hyper-inflationary economies are translated at either current or historical exchange rates, as appropriate. These currency adjustments are included in net income. (Note K)

FINANCIAL INSTRUMENTS

Derivative financial instruments are used by Cabot to manage its interest rates, foreign currency exposures, and commodity prices. Interest rate swaps are employed to achieve Cabot's interest rate objectives. The interest differential to be paid or received under the related interest rate swap agreements is recognized over the life of the related debt and is included in interest income or expense. Realized gains and losses on foreign currency instruments, that are effective as hedges of investments in foreign operations, are recognized in income as the instruments mature. Realized and unrealized gains and losses on forward currency contracts, which are not hedges of committed transactions of assets and liabilities, are recognized in income in other charges, net. Realized gains and losses on foreign currency instruments, which are hedges of committed transactions, are recognized at the time the underlying transaction is completed. Commodity futures, forward contracts, price swaps, and option contracts are used by Cabot on occasion to hedge the procurement of raw materials, primarily liquefied natural gas, and to hedge the purchase and sale of feedstock. Realized gains and losses on commodity futures, forwards, swaps, and options contracts on qualifying hedges are included as a component of raw materials or sales revenue, as appropriate, and are recognized when the related materials are purchased or sold. (Note P)

REVENUE RECOGNITION

Revenues are recognized when finished products are shipped to unaffiliated customers or services have been rendered, with an appropriate provision for uncollectible accounts.

INCOME TAXES

Deferred income taxes are determined 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 non-U.S. taxes on the undistributed earnings of non-U.S. subsidiaries, except for amounts Cabot has designated to be indefinitely reinvested. (Note M)

EQUITY INCENTIVE PLANS

In accordance with the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), Cabot has elected to account for stock-based compensation plans consistent with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and related interpretations in accounting. Cabot discloses the summary of pro forma effects to reported net income and earnings per share for 1999, 1998 and 1997, as if Cabot had elected to recognize compensation cost based on the fair value of the options granted at grant date, as prescribed by SFAS No. 123. (Note J)

Under Cabot's Equity Incentive Plans, common stock may be granted at a discount to certain key employees. Generally, restricted stock awards cannot be sold or otherwise encumbered during the three years following the grant. Upon issuance of stock under the plan, unearned compensation equivalent to the difference between the market value on the date of the grant and the discounted price is charged to a separate component of stockholders' equity and subsequently amortized over the vesting period.

YEAR 2000 COSTS

Costs of modifying hardware and software for Year 2000 compliance are expensed as they are incurred.

COMPREHENSIVE INCOME

As of October 1, 1998, Cabot adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). The adoption of this Statement had no impact on net income or stockholders' equity. SFAS No. 130 establishes new rules for the reporting and display of comprehensive income and its components. Accumulated Other Comprehensive Income (Loss), which is disclosed in the stockholders' equity section of the consolidated balance sheet, includes unrealized gains or losses on available-for-sale securities, translation adjustments on investments in foreign subsidiaries, and translation adjustments on foreign securities. Prior to the adoption of SFAS No. 130, Cabot reported such unrealized gains or losses and translation adjustments separately in the stockholders' equity section of the consolidated balance sheet. Amounts in the prior year financial statements have been reclassified to conform to SFAS No. 130. (Note K)

PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Effective September 30, 1999, Cabot adopted Statement of Financial Accounting Standards No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits" ("SFAS No. 132"). The provisions of SFAS No. 132 revise employers' disclosures regarding pension and other postretirement benefit plans, but do not change the measurement or recognition of such plans. (Note H)

FINANCIAL INFORMATION BY SEGMENT

Beginning with this annual report, Cabot adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The new framework for segment reporting is intended to give analysts and other financial statement users a view of Cabot "through the eyes of management." It designates Cabot's internal management reporting structure as the basis for determining Cabot's reportable segments, as well as the basis for determining the information to be disclosed for those segments. SFAS No. 131 also requires certain disclosures about products and services, geographic areas, and major customers. The adoption of SFAS No. 131 did not affect results of operations or financial position, but did affect the disclosure of segment information. (Note Q)

ENVIRONMENTAL CLEANUP MATTERS

Cabot expenses environmental costs related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible. Cabot determines its liability on a site-by-site basis and records a liability at the time when it is probable and can be reasonably estimated. Cabot's estimated liability is reduced to reflect the anticipated participation of other potentially responsible parties in those instances where it is probable that such parties are legally responsible and financially capable of paying their respective shares of the relevant costs. The estimated liability of Cabot is not discounted or reduced for possible recoveries from insurance carriers. (Note O)

USE OF ESTIMATES

The preparation of consolidated 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 the disclosure of contingent assets and liabilities, at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts in 1998 and 1997 have been reclassified to conform to the 1999 presentation. Additionally, global focus in manufacturing, primarily in the chemicals businesses, resulted in reclassifications related to revenues, cost of sales, selling and administrative expenses, and research and technical service to achieve consistent definitions for cost classifications across all businesses and regions. The reclassifications resulted in the following adjustments in the statements of income:

YEARS ENDED SEPTEMBER 30	1999	1998	1997
DOLLARS IN MILLIONS			
Decrease in revenue	$ 5	$ 4	$ 5
Increase in cost of sales	13	12	11
Decrease in selling and administrative expense	17	14	13
Decrease in research and technical service	1	2	3

NOTE B SPECIAL ITEMS AND BUSINESS DEVELOPMENTS

During 1999, Cabot began implementation of initiatives to reduce costs and improve operating efficiencies. In connection with these efforts, Cabot recorded a $26 million charge for capacity utilization and cost reduction initiatives. These initiatives included $16 million for severance and termination benefits for approximately 265 employees, of which $7 million was paid out in 1999, and a charge of $10 million for the retirement of certain long-lived plant assets, primarily at the Australian carbon black facility and European plastics masterbatch operations. These expenses are included as special items in the consolidated statements of income. Cabot expects these initiatives to be substantially completed by the end of fiscal year 2000.

On November 14, 1995, Cabot modified its joint venture agreement for its carbon black venture in Shanghai, China. This amendment provided for the expansion of the facility and the increase of Cabot's ownership interest to 70%, to take effect as the expansion was funded. On October 1, 1998, Cabot's ownership in the venture increased to 70% and accordingly, is now accounted for on a consolidated basis.

During 1996, Cabot acquired an 80% ownership interest in P.T. Continental Carbon Indonesia ("PTCCI"), an Indonesian carbon black plant located in Merak, Indonesia. During 1998, the financial and economic circumstances in Indonesia resulted in a significant decline in demand for carbon black in the region. As a result, management halted production at this plant. In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets" ("SFAS No. 121"), Cabot recognized in the third quarter of 1998, an impairment loss of $60 million for the difference between the carrying value of PTCCI's long-lived assets of $77 million and the estimated fair value. The charge related to the Chemicals Group consisted of $34 million for property, plant and equipment and other assets and $26 million for goodwill and other intangible assets. Cabot will continue to maintain the facility and assess the demand for carbon black in the region as a basis for future decisions to restart production.

During 1997, Cabot entered into an agreement to process tantalum ore residues accumulated from Cabot's past production of tantalum. Cabot expected the process to produce economic recoveries of tantalum and capitalized prepaid expenses of approximately $25 million associated with the agreement. However, the tantalum recovery rate was substantially lower than expected. Therefore, in the third quarter of 1998, management discontinued the project, resulting in a charge of $25 million related to operations of the Performance Materials segment.

On December 18, 1997, Cabot signed an agreement, effective October 1, 1997, to acquire the remaining 50% interest in its fumed silica joint venture in Rheinfelden, Germany, for approximately $20 million. The acquisition was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the net assets acquired based on their estimated fair values. The excess of purchase price over fair value of net assets acquired, approximately $11 million, was recorded as goodwill and is being amortized over 15 years.

During 1997, earnings were reduced by the recognition of special charges totaling $18 million comprised of asset impairments of $10 million and employee severance costs of $8 million related to the Chemicals Group and Performance Materials segments.

NOTE C INVENTORIES

Inventories, net of reserves, were as follows:

SEPTEMBER 30	1999	1998
DOLLARS IN MILLIONS		
Raw materials	$72	$ 68
Work in process	55	63
Finished goods	91	76
Other	41	44
Total	$259	$251

Inventories valued under the LIFO method comprised approximately 27% and 32% of 1999 and 1998 total inventory, respectively. At September 30, 1999 and 1998, the estimated current cost of these inventories exceeded their stated valuation determined on the LIFO basis by approximately $45 million and $32 million, respectively.

NOTE D INVESTMENTS

At September 30, 1999 and 1998, investments in common stock accounted for using the equity method amounted to $72 million and $91 million, respectively. Dividends received from equity affiliates were $19 million in 1999, $7 million in 1998, and $11 million in 1997.

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

SEPTEMBER 30	1999	1998
DOLLARS IN MILLIONS		
CONDENSED INCOME STATEMENT INFORMATION:		
Net sales	$622	$618
Gross profit	228	238
Net income	39	26
CONDENSED BALANCE SHEET INFORMATION:		
Current assets	$274	$281
Non-current assets	396	419
Current liabilities	247	222
Non-current liabilities	280	307
Net assets	143	171

Other investments include available-for-sale equity securities. The cost and fair value of available-for-sale equity securities are summarized as follows:

SEPTEMBER 30	1999	1998
DOLLARS IN MILLIONS		
Cost	$ 20	$ 31
Cumulative unrealized holding gains	5	26
Foreign currency translation adjustment on foreign denominated securities	(1)	(3)
Fair value	$ 24	$ 54

Unrealized holding gains were credited to accumulated other comprehensive income in stockholders' equity net of deferred taxes of $2 million and $9 million at September 30, 1999 and 1998, respectively. Foreign currency translation adjustments on foreign securities are included in accumulated other comprehensive income within stockholders' equity as part of foreign currency translation adjustments. Gains related to sales of available-for-sale equity securities were $10 million and $90 million in 1999 and 1998, respectively. Sales of available-for-sale equity securities were not significant for the year ended September 30, 1997.

NOTE E PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment is summarized as follows:

SEPTEMBER 30	1999	1998
DOLLARS IN MILLIONS		
Land and improvements	$ 74	$ 74
Buildings	297	291
Machinery and equipment	1,394	1,277
Other	80	74
Construction in progress	194	198
Total property, plant and equipment	2,039	1,914
Less: accumulated depreciation	1,015	936
Net property, plant and equipment	$1,024	$ 978

Depreciation expense was $120 million, $110 million and $105 million for the years ended September 30, 1999, 1998 and 1997, respectively.

NOTE F ACCOUNTS PAYABLE & ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

SEPTEMBER 30	1999	1998
DOLLARS IN MILLIONS		
Accounts payable	$157	$148
Accrued employee compensation	28	22
Other accrued liabilities	67	99
Total	$252	$269

NOTE G DEBT

Unsecured long-term debt consisted of the following:

SEPTEMBER 30	1999	1998
DOLLARS IN MILLIONS		
FIXED RATE NOTES (STATED RATE):		
Notes due 2002-2022, 8.1%	$ 105	$ 105
Notes due 2004-2011, 7.1%	90	90
Note due 2027, 7.3%	25	25
Note due 2027, put option 2004, 6.6%	25	25
Notes due 2000-2018, 6.6%	100	--
Guarantee of ESOP notes, due 2013, 8.3%	59	60
Notes due 1999-2002, 6.0%	6	--
Notes due 1999-2002, 7.2%	5	--
Foreign term loan, due 2000, 8.7%	2	7
Other, due beginning in 2000 with various rates from 3.0% to 18.5%	8	7
VARIABLE RATE NOTE (END OF YEAR RATE):		
Foreign term loan, due 2001, floating rate 4.7%	5	8
	430	327
Less: current portion of long-term debt	(11)	(11)
Total	$ 419	$ 316

In June 1992, Cabot filed a registration statement on Form S-3 with the Securities and Exchange Commission covering $300 million of debt securities. In 1992, $105 million of medium-term notes were issued to refinance $105 million of notes payable. The medium-term notes have a weighted-average maturity of 19 years and a weighted-average interest rate of 8.1%.

In February 1997, Cabot issued $90 million of medium-term notes. The notes have a weighted-average maturity of 11 years and a weighted-average interest rate of 7.1%.

In October 1997, Cabot issued a total of $50 million in medium-term notes. These notes included a $25 million note, with an interest rate of 7.3% due in 2027, and a $25 million note, with an interest rate of 6.6% due in 2027, with a put option in 2004.

In September 1998, Cabot filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission covering $500 million of debt securities. This registration includes the remaining $55 million not then issued under the 1992 registration.

In December 1998, Cabot issued $100 million in medium-term notes. The notes have a weighted-average maturity of 6 years and a weighted-average interest rate of 6.6%.

In November 1988, Cabot's Employee Stock Ownership Plan ("ESOP") borrowed $75 million from an institutional lender in order to finance its purchase of 75,000 shares of Cabot's Series B ESOP Convertible Preferred Stock. This debt bears interest at 8.3% per annum, and is to be repaid in equal quarterly installments through December 31, 2013. Cabot, as guarantor, has reflected the outstanding balance of $59 million and $60 million as a liability in the consolidated balance sheet at September 30, 1999 and 1998, respectively. An equal amount, representing deferred employee benefits, has been recorded as a reduction to stockholders' equity.

Cabot may borrow up to $300 million at floating rates under the terms of a revolving credit and term loan facility. The agreement contains specific covenants, including certain maximum indebtedness limitations and minimum cash flow requirements, that 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 3, 2002. No amounts were outstanding under this credit agreement at September 30, 1999 or 1998.

The aggregate principal amounts of long-term debt due in each of the five fiscal years 2000 through 2004 and thereafter are $11 million, $50 million, $30 million, $5 million, $40 million and $294 million, respectively.

At September 30, 1999 and 1998, the fair market value of long-term borrowings was approximately $417 million and $334 million, respectively.

The weighted-average interest rate on short-term borrowing was approximately 6.0% as of September 30, 1999 and 1998.

NOTE H EMPLOYEE BENEFIT PLANS

The following provides a reconciliation of benefit obligations, plan assets, the funded status, and weighted-average assumptions of the defined benefit pension and postretirement benefit plans:

	PENSION BENEFITS		POSTRETIREMENT BENEFITS	
SEPTEMBER 30	1999	1998	1999	1998
DOLLARS IN MILLIONS				
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation at beginning of year	$220	$193	$90	$80
Service cost	7	8	1	1
Interest cost	13	11	6	6
Plan participants' contribution	1	1	--	--
Amendments	--	13	--	(1)
Foreign currency exchange rate changes	(3)	2	--	--
Gain (loss) from changes in actuarial assumptions	(1)	8	(1)	10
Special termination benefit	1	--	--	--
Benefits paid	(17)	(16)	(6)	(6)
Benefit obligation at end of year	$221	$220	$90	$90
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at beginning of year	$238	$222	$--	$--
Actual return on plan assets	40	24	--	--
Employer contribution	5	5	6	6
Plan participants' contribution	1	1	--	--
Foreign currency exchange rate changes	(4)	2	--	--
Benefits paid	(17)	(16)	(6)	(6)
Fair value of plan assets at end of year	$263	$238	$--	$--
Funded status	$42	$18	$(90)	$(90)
Unrecognized transition amount	--	(3)	--	--
Unrecognized prior service cost	(3)	1	(3)	(1)
Unrecognized net (gain) loss	(51)	(34)	17	20
Recognized liability	$(12)	$(18)	$(76)	$(71)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS CONSIST OF:				
Prepaid benefit cost	$15	$11	$--	$--
Other liabilities	(27)	(29)	(76)	(71)
Net amount recognized	$(12)	$(18)	$(76)	$(71)
WEIGHTED-AVERAGE RATES:				
Discount rate	6.2%	6.3%	7.0%	6.3%
Expected rate of return on plan assets	8.1%	8.1%	N/A	N/A
Assumed rate of increase in compensation	4.3%	4.6%	N/A	N/A
Assumed annual rate of increase in health care benefits	N/A	N/A	6.3%	5.5%

Net periodic defined benefit pension and other postretirement benefit costs include the following components:

	PENSION BENEFITS			POSTRETIREMENT BENEFITS		
YEARS ENDED SEPTEMBER 30	1999	1998	1997	1999	1998	1997
DOLLARS IN MILLIONS						
Service cost	$7	$8	$8	$1	$1	$1
Interest cost	13	11	14	6	6	6
Expected return on plan assets	(16)	(16)	(17)	--	--	--
Amortization of transition asset	(1)	(1)	1	--	--	--
Amortization of prior service cost	--	--	(1)	--	--	--
Recognized losses (gains)	1	2	(1)	1	--	--
Net periodic benefit cost	$4	$4	$4	$8	$7	$7

Cabot provides both defined benefit and defined contribution plans for its employees. Defined benefit pension plans include, but are not limited to, the Cabot Cash Balance Plan ("CBP") and several foreign pension plans. Defined contribution plans include the Cabot Retirement Incentive Savings Plan ("CRISP"), Cabot Employee Savings Plan ("CESP"), and the Cabot Employee Stock Ownership Plan ("ESOP").

Cabot also has postretirement benefit 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. Cabot funds the plans as claims or insurance premiums come due.

DEFINED BENEFIT PENSION PLANS

The worldwide defined benefit pension plan assets are comprised principally of investments in equity securities and government bonds. Prior service costs are amortized over the remaining 4 to 15 years, while the net transition assets are amortized over 1 to 4 years.

The benefit obligation for certain foreign defined benefit pension plans with benefit obligations in excess of plan assets were $23 million and $32 million, as of September 30, 1999 and 1998, respectively. The fair value of plan assets for the aforementioned plans were $16 million and $23 million, as of September 30, 1999 and 1998, respectively.

Measurement of defined benefit pension expense is based on assumptions used to value the defined benefit pension liability at the beginning of the year.

DEFINED CONTRIBUTION PLANS

The total contribution recognized as an expense for the CRISP was $5 million in 1999 and $4 million for both 1998 and 1997. Information regarding the ESOP can be found in Note I.

POSTRETIREMENT BENEFIT PLANS

Postretirement benefit plans include health care and life insurance plans. Measurement of postretirement benefit expense is based on assumptions used to value the postretirement liability at the beginning of the year. Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A 1-percentage-point change in the 1999 assumed health care cost trend rate would have the following effects:

	1-PERCENTAGE-POINT	
SEPTEMBER 30	INCREASE	DECREASE
DOLLARS IN MILLIONS		
Effect on total of service and interest cost components	$1	$(1)
Effect on postretirement benefit obligation	$8	$(8)

NOTE I EMPLOYEE STOCK OWNERSHIP PLAN

PLAN DESCRIPTION

In September 1988, Cabot established an Employee Stock Ownership Plan ("ESOP"), a defined contribution plan, as an integral part of the retirement program that was designed for participants to share in the growth of Cabot. All employees of Cabot and its participating subsidiaries, except those individuals subject to collective bargaining agreements and employed by the Performance Materials segment, are eligible to participate beginning on the later of the first day of employment or the date the employee is included in an employee group that participates in the plan.

In November 1988, Cabot placed 75,336 shares of its Series B ESOP Convertible Preferred Stock in the ESOP for cash at a price of $1,000 per share. Each share of the Series B ESOP Convertible Preferred Stock is convertible into 87.5 shares of Cabot'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 Cabot to redeem shares sufficient to provide for periodic distributions to plan participants. Cabot has the option to redeem the shares for $1,000 per share, convert the shares to common stock, or a combination thereof.

The issued shares of Series B ESOP Convertible Preferred Stock receive preferential and cumulative quarterly dividends, and are ranked as to dividends and liquidation prior to Cabot's Series A Junior Participating Preferred Stock and common stock. At September 30, 1999, 6 million shares of Cabot's common stock were reserved for conversion of the Series B ESOP Convertible Preferred Stock.

CONTRIBUTIONS

On the last business day of each calendar quarter, 750 shares of the Series B preferred stock are released and allocated to participants' accounts. The allocation to each participant is based on the value of Cabot's preferred stock, the number of shares allocated as dividends, and the total eligible compensation. Effective January 1, 1997, the participant's respective contribution allocation cannot fall below 4% of the participant's eligible compensation. If the amount of the participant allocation were to fall below 4%, Cabot would make an additional contribution to bring the total value to 4% for the participant. Additionally, allocations in excess of 8% are used first to fund the CRISP employer match and any surplus would then be allocated to ESOP participants. The allocation is made to the account of each participant who is employed on that date, or has retired, died, or become totally and permanently disabled during the quarter. Cabot recognized expenses related to the ESOP of $2 million in 1999 and $1 million in both 1998 and 1997.

NOTE J EQUITY INCENTIVE PLANS

Cabot has an Equity Incentive Plan for key employees. Under the plan adopted in 1988, Cabot was able to grant participants various types of stock and stock-based awards. During the period from 1988 through 1991, the awards granted consisted of stock options, performance appreciation rights ("PARs"), and tandem units that may be exercised as stock options or PARs. These awards were granted at the fair market value of Cabot's common stock at date of grant, vested ratably on each of the next four anniversaries of the award, and generally expire ten years from the date of grant. From 1992 through 1995, awards consisted of Cabot common stock, 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 common stock on the date of the award, or a combination of one-half of each. Effective in March 1996, no new awards were permitted under this plan.

In December 1995, the Board of Directors adopted, and in March 1996, Cabot stockholders approved, the 1996 Equity Incentive Plan. Under this plan, Cabot can make various types of stock and stock-based awards, the terms of which are determined by Cabot's compensation committee. Awards under the 1996 plan have been made primarily as part of Cabot's Long-Term Incentive Program. These awards consist of restricted stock, which could be purchased at a price equal to 40% of the fair market value on the date of the award, or nonqualified stock options exercisable at the fair market value of Cabot's common stock on the date of the award. Variations of the restricted stock 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 of the grant for participants then employed by Cabot, and the options generally expire five years from the date of grant. In November 1998, the Board of Directors adopted, and in March 1999, Cabot stockholders approved, the 1999 Equity Incentive Plan. This plan is similar to the 1996 Equity Incentive Plan with the exception of the discount price, which was established at a price equal to 30% of the fair market value on the date of the award.

Cabot had 6 million shares of common stock reserved for issuance under the 1996 and 1999 plans. There were approximately 3 million shares available for future grants at September 30, 1999, under both plans. Compensation expense recognized during 1999, 1998, and 1997 for restricted stock grants was $12 million, $10 million and $10 million, respectively.

RESTRICTED STOCK

The following table summarizes the plans' restricted stock activity for the last three fiscal years:

	RESTRICTED STOCK	WEIGHTED-AVERAGE PURCHASE PRICE
SHARES IN THOUSANDS		
Outstanding at September 30, 1996	2,287	$10.93
Granted	865	14.33
Vested	(696)	10.84
Canceled	(203)	10.57
Outstanding at September 30, 1997	2,253	11.87
Granted	1,026	21.47
Vested	(670)	10.15
Canceled	(108)	11.96
Outstanding at September 30, 1998	2,501	16.27
Granted	1,034	9.19
Vested	(733)	11.48
Canceled	(135)	9.60
Outstanding at September 30, 1999	2,667	$11.08

STOCK-BASED COMPENSATION

The following table summarizes the plans' stock option activity from September 30, 1996 through September 30, 1999:

	STOCK OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
OPTIONS IN THOUSANDS		
Outstanding at September 30, 1996	1,700	$ 9.77
Granted	91	23.88
Exercised	(300)	8.99

Canceled	(34)	15.79
Outstanding at September 30, 1997	1,457	10.67
Granted	281	35.31
Exercised	(393)	9.21
Canceled	(23)	18.98
Outstanding at September 30, 1998	1,322	16.26
Granted	582	27.00
Exercised	(209)	9.73
Canceled	(50)	27.96
Outstanding at September 30, 1999	1,645	$20.53

Options outstanding at September 30, 1999, were as follows:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
		WEIGHTED-AVERAGE			
RANGE OF EXERCISE PRICE	THOUSANDS OF OPTIONS OUTSTANDING	EXERCISE PRICE	REMAINING CONTRACTUAL LIFE YEARS	THOUSANDS OF OPTIONS EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$7.59 - 8.50	634	$ 7.79	1.65	634	$ 7.79
20.00 - 26.70	180	23.20	1.88	98	22.64
27.00 - 35.31	831	29.67	4.68	--	--
Total options	1,645			732	

The estimated weighted-average fair value of the options granted during fiscal 1999, 1998 and 1997 were $8.24, $11.00 and $6.37, respectively, on the date of grant using the Black-

Scholes option-pricing model and the following weighted-average assumptions:

YEARS ENDED SEPTEMBER 30	1999	1998	1997
Expected stock price volatility	35%	34%	26%
Risk free interest rate	5.4%	5.6%	6.5%
Expected life of options	4 YEARS	4 years	4 years
Expected annual dividends	$ 0.44	$ 0.42	$ 0.40

Had the fair value based method been adopted, Cabot's pro forma net income and pro forma net income per common share for fiscal 1999, 1998 and 1997 would have been as follows:

YEARS ENDED SEPTEMBER 30	1999	1998	1997
Net income - pro forma (in millions)	$ 96	$ 121	$ 93
Net income per common share - pro forma:			
Basic	$ 1.45	$ 1.80	$ 1.32
Diluted	$ 1.29	$ 1.60	$ 1.18

The effects of applying the fair value based method in this pro forma disclosure are not indicative of future amounts. The fair value based method does not apply to awards prior to 1995 and additional awards in future years are anticipated.

NOTE K STOCKHOLDERS' EQUITY

The following table summarizes Cabot's stock activity:

YEARS ENDED SEPTEMBER 30	1999	1998	1997
PREFERRED SHARES IN THOUSANDS, COMMON SHARES IN MILLIONS			
PREFERRED STOCK			
Beginning of year	75	75	75
End of year	75	75	75
PREFERRED TREASURY STOCK			
Beginning of year	9	7	6
Purchased preferred treasury stock	1	2	1
End of year	10	9	7
COMMON STOCK			
Beginning of year	67	136	136
Issued common stock	2	--	--
Purchased and retired common stock	(2)	--	--
Retirement of treasury stock	--	(69)	--
End of year	67	67	136
COMMON TREASURY STOCK			
Beginning of year	--	67	65
Purchased	--	4	3
Issued	--	(2)	(1)
Retirement of treasury stock	--	(69)	--
End of year	--	--	67

In May 1999, Cabot adopted a stock purchase assistance plan whereby Cabot may extend credit to purchase restricted shares of Cabot Corporation common stock awarded under Cabot's 1999 Equity Incentive Plan to those participants in Cabot's 1999 Long-Term Incentive Program. The notes bear interest at 6% per annum on a principal amount of up to 30% of the aggregate fair market value of such purchased stock on the day of grant. Interest is payable quarterly and principal is due on various dates through May 2002. On

June 30, 1999, Cabot purchased, from a financial institution, loans to Cabot employees totaling $18 million. These loans were made to help finance the purchase of restricted shares of Cabot Corporation common stock under Cabot's Long-Term Incentive Program. As of September 30, 1999, the notes outstanding totaled approximately $25 million and are included as a separate component of stockholders' equity.

In September 1998, the Board of Directors authorized Cabot to purchase up to 4 million shares of Cabot's common stock, superseding the previous authorization issued in May 1997. As of September 30, 1999, Cabot had purchased approximately 2 million shares under the new authorization.

On September 11, 1998, the Board of Directors adopted a resolution to retire and restore to the status of authorized, but unissued, both the entire balance of shares of common stock classified as common treasury stock and all subsequent acquisitions/purchases effective September 30, 1998. For the year ended September 30, 1998, a total of 69 million shares of Cabot's common stock had been retired.

In November 1995, Cabot declared a dividend of one Preferred Stock Purchase Right ("Right") for each outstanding share of Cabot's common stock. 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 Right further provides that each Right will entitle the holder, upon the occurrence of certain other specified events, to purchase from Cabot its 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 Right may generally be redeemed by Cabot at a price of $0.01 per Right. The Rights are not presently exercisable and will expire on November 10, 2005.

COMPREHENSIVE INCOME

The pretax, tax, and after-tax effects of the components of other comprehensive income are shown below:

YEARS ENDED SEPTEMBER 30 DOLLARS IN MILLIONS	PRETAX	TAX	AFTER-TAX
1997			
Foreign currency translation adjustments	$(45)	$--	$(45)
Unrealized holding gain arising during period on marketable equity securities	38	(14)	24
Other comprehensive income (loss)	$ (7)	$(14)	$(21)
1998			
Foreign currency translation adjustments	$(11)	$--	$(11)
UNREALIZED GAIN ON MARKETABLE EQUITY SECURITIES:			
Unrealized holding gain arising during period	28	(14)	14
Less: reclassification adjustment for gain realized in net income	(90)	39	(51)
Change in unrealized gain	(62)	25	(37)
Other comprehensive income (loss)	$(73)	$ 25	$(48)
1999			
Foreign currency translation adjustments	$(17)	$--	$(17)
UNREALIZED GAIN ON MARKETABLE EQUITY SECURITIES:			
Unrealized holding loss arising during period	(10)	3	(7)
Less: reclassification adjustment for gain realized in net income	(11)	4	(7)
Change in unrealized gain	(21)	7	(14)
Other comprehensive income (loss)	$(38)	$ 7	$(31)

The balance of related after-tax components comprising accumulated other comprehensive income (loss) are summarized below:

YEARS ENDED SEPTEMBER 30 DOLLARS IN MILLIONS	1999	1998	1997
Foreign currency translation adjustment	$(47)	$(30)	$(19)
Unrealized gain on marketable equity securities	3	17	54
Accumulated other comprehensive income (loss)	$(44)	$(13)	$ 35

NOTE L EARNINGS PER SHARE

Basic and diluted earnings per share ("EPS") were calculated as follows:

YEARS ENDED SEPTEMBER 30 DOLLARS IN MILLIONS (EXCEPT PER SHARE AMOUNTS)	1999	1998	1997
BASIC EPS:			
Income available to common shares (numerator)	$ 94	$ 118	$ 90
Weighted-average common shares outstanding	67	68	70
Less: contingently issuable shares	(3)	(2)	(2)
Adjusted weighted-average shares (denominator)	64	66	68
Basic EPS	$1.47	$1.80	$1.33
DILUTED EPS:			

Income available to common shares	$ 94	$ 118	$ 90
Dividends on preferred stock	3	4	3
Less: income impact of assumed conversion of preferred stock	(2)	(2)	(2)
Income available to common shares plus assumed conversions (numerator)	$ 95	$ 120	$ 91
Weighted-average common shares outstanding	67	68	70
Effect of dilutive securities:			
Stock-based compensation(a)	6	7	7
Adjusted weighted-average shares (denominator)	73	75	77
Diluted EPS	$1.31	$1.61	$1.19

(a) Options to purchase 1 million shares of common stock with a weighted-average exercise price of $29.54 were outstanding at September 30, 1999, but were not included in the computation of diluted EPS, because the options' exercise price was greater than the average market price of the common shares.

NOTE M INCOME TAXES

Income before income taxes was as follows:

YEARS ENDED SEPTEMBER 30	1999	1998	1997
DOLLARS IN MILLIONS			
Domestic	$ 40	$ 46	$ 30
Foreign	96	122	87
Total	$136	$168	$117

Taxes on income consisted of the following:

YEARS ENDED SEPTEMBER 30	1999	1998	1997
DOLLARS IN MILLIONS			
U.S. FEDERAL AND STATE:			
Current	$ 12	$ (1)	$ 8
Deferred	(2)	6	(9)
Total	$ 10	$ 5	$ (1)
FOREIGN:			
Current	$ 40	$ 50	$ 47
Deferred	(1)	5	(4)
Total	$ 39	$ 55	$ 43
Total U.S. and foreign	$ 49	$ 60	$ 42

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

YEARS ENDED SEPTEMBER 30	1999	1998	1997
DOLLARS IN MILLIONS			
Computed tax expense at the federal statutory rate	$ 47	$ 59	$ 41
FOREIGN INCOME:			
Impact of taxation at different rates, repatriation and other	3	3	1
Impact of foreign losses for which a current tax benefit is not available	4	4	4
State taxes, net of federal effect	1	1	1
Foreign sales corporation	(2)	(2)	(1)
U.S. and state benefits from research and experimentation activities	(3)	(4)	(1)
Other, net	(1)	(1)	(3)
Provision for income taxes	$ 49	$ 60	$ 42

Significant components of deferred income taxes were as follows:

SEPTEMBER 30	1999	1998
DOLLARS IN MILLIONS		
DEFERRED TAX ASSETS:		
Depreciation and amortization	$ 41	$ 30
Pension and other benefits	60	57
Environmental matters	14	13
Special charges	12	5
Investments	11	11
State and local taxes	4	4
Net operating loss and other tax carryforwards	16	12
Other	29	32
Subtotal	187	164
Valuation allowances	(18)	(11)
Total deferred tax assets	$ 169	$ 153
DEFERRED TAX LIABILITIES:		
Depreciation and amortization	$ 83	$ 79
Pension and other benefits	14	14
Special charges	4	--
Investments	2	11
Other	112	112
Total deferred tax liabilities	$ 215	$ 216

The valuation allowance at September 30, 1999 and 1998 represents management's best estimate of the ultimate realization of the net deferred tax amounts. The deferred tax valuation allowance increased in 1999 by $7 million due to the uncertainty of the ultimate realization of certain future foreign tax benefits and net operating losses reflected as deferred tax assets.

Approximately $53 million of net operating losses and other tax carryforwards remain at September 30, 1999. Of this amount, $36 million will expire in the years 2000 through 2006; $17 million can be carried forward indefinitely. The benefits of these carryforwards are dependent upon taxable income during the carryforward period in those foreign jurisdictions where they arose. 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.

Other accrued liabilities include a U.S. and foreign income tax benefit of $15 million for 1999, and a U.S. and foreign income tax liability of $1 million for 1998.

U.S. income tax returns for fiscal years 1994, 1995 and 1996 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.

Provisions have not been made for U.S. income taxes or foreign withholding taxes on approximately $130 million 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, were loaned to Cabot or a U.S. subsidiary, or if Cabot should sell its stock in the subsidiaries. However, Cabot 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.

NOTE N SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest and taxes were as follows:

YEARS ENDED SEPTEMBER 30	1999	1998	1997
DOLLARS IN MILLIONS			
Income taxes paid	$ 59	$ 41	$ 66
Interest paid	$ 36	$ 40	$ 39

During 1999, Cabot made a charitable contribution of equity securities worth $1 million and issued restricted stock for notes receivable of $8 million.

NOTE O COMMITMENTS & CONTINGENCIES

LEASE COMMITMENTS

Cabot leases certain transportation vehicles, warehouse facilities, office space, machinery, and equipment under operating cancelable and non-cancelable leases, most of which expire within ten years and may be renewed by Cabot. Rent expense under such arrangements for 1999, 1998 and 1997, totaled $14 million, $15 million and $15 million, respectively. Future minimum rental commitments under non-cancelable leases are as follows:

DOLLARS IN MILLIONS	
2000	$ 12
2001	16
2002	12
2003	12
2004	12
2005 and thereafter	76
Total future minimum rental commitments	$ 140

OTHER LONG-TERM COMMITMENTS

Cabot has entered into long-term purchase agreements for various key raw materials. The purchase commitments covered by these agreements aggregate approximately $114 million for the periods 2000 to 2003.

Cabot has also entered into a purchase agreement for liquefied natural gas ("LNG") that expires in 2003. The purchase commitments covered by this agreement have a firm take provision of nine LNG cargoes per winter season at current prices subject to the supplier's shipping capacity. Cabot has entered into a second long-term agreement with a liquefaction plant in Trinidad to purchase LNG whereby the purchase commitments have a firm take provision of up to approximately 30 LNG cargoes per year at current prices expiring in 2019.

During 1995, Cabot entered into an agreement to participate as a 10% owner in a liquefaction plant in Trinidad, and to purchase approximately 60% of the natural gas produced by the plant. At September 30, 1999, Cabot's investment in this project was approximately $21 million and is included in other investments. Deliveries of liquefied natural gas from Trinidad commenced in the third quarter of 1999.

Also during 1995, Cabot 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.

CONTINGENCIES

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

During 1998, a charge to environmental expenses was made for costs incurred for remediation of environmental issues related to a business divested in 1989. As of September 30, 1999, Cabot has approximately $39 million reserved for environmental matters primarily related to divested businesses. The amount represents Cabot's current best estimate of its share of costs likely to be incurred at those sites where costs are reasonably estimable 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 applicable to each site. Cabot reviews the adequacy of this reserve as circumstances change at individual sites. Cabot is unable to reasonably estimate the amount of possible loss in excess of the accrued amount. Operating results included charges for environmental expense of $4 million for both 1999 and 1998. There were no charges for 1997.

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

Cabot is contingently liable under a limited guarantee of its proportionate share for the project financing of the liquefaction plant in Trinidad. The plant began commercial production in August 1999, however, Cabot's guarantee will not expire until the plant's debt reserve fund reaches a predetermined level and the plant meets production quotas for 90 consecutive days. The plant is expected to meet both of these requirements no later than the first calendar quarter of 2000. At September 30, 1999, approximately $570 million was outstanding under the joint venture's debt agreement. Cabot's 10% share amounted to $57 million.

NOTE P RISK MANAGEMENT

Cabot Corporation is a global company divided into five reportable segments. The Chemicals Group, Performance Materials, Specialty Fluids and Microelectronics Materials segments manufacture, market, and distribute commodity and specialty chemicals and materials. These products span several markets including automotive, electronics, transportation, aerospace, defense, pharmaceuticals, silicone rubber, packaging, agriculture, construction, inkjet printing, and oil and gas drilling services. In addition, Cabot's Liquefied Natural Gas segment operates a liquefied natural gas importing, storing, and distribution business serving markets that include gas and electric utilities, natural gas marketers, and independent power producers. In total, Cabot and its affiliates operate 45 plants in over 20 countries.

MARKET RISK

Cabot uses derivative financial instruments primarily to reduce exposure to fluctuations in interest rates, foreign exchange rates, commodity prices, and other market risks. When entered into, these financial instruments are designated as hedges of underlying exposures associated with specific assets, liabilities, firm commitments or anticipated transactions, and are monitored to determine if they remain effective hedges. The notional amounts of derivatives do not represent actual amounts exchanged by the parties and thus, are not a measure of the exposure of Cabot through its use of derivatives. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, exchange rates, commodity prices, or other financial indices.

Counter-parties to the derivative agreements expose Cabot to credit loss in the event of nonperformance. However, Cabot has established counter-party credit guidelines and only enters into transactions with financial institutions of investment grade or better. Cabot considers the risk of counter-party default to be minimal.

Because of the correlation between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the instruments are generally offset by changes in the value of the underlying exposures.

INTEREST RATE

Cabot maintains a percentage of fixed and variable rate debt within defined parameters. Cabot uses interest rate swaps to hedge its exposure on fixed and variable rate debt positions. Variable rates are predominantly linked to the London Interbank Offered Rate ("LIBOR"), as determined at either three or six month intervals. The fixed interest rate provided by the swap on variable rate debt is 7.4%.

During the second quarter of 1999, Cabot settled its LIBOR basket swap. The loss associated with the settlement was not material. At September 30, 1999 and 1998, the notional principal amounts of the interest rate swap agreements were $100 million, expiring in 2007, and $150 million, expiring in 2004 and 2007. The notional amount is the amount used for the calculation of interest payments that are exchanged over the life of the swap transaction and equal to the amount of principal exchanged at maturity. For 1999, 1998 and 1997, the gains or losses in interest income or expense associated with these agreements were immaterial. The fair value of the swaps was $(4) million and $(18) million as of September 30, 1999 and 1998, respectively.

FOREIGN CURRENCY

Cabot's international operations are subject to certain opportunities and risks, including currency fluctuations and government actions. Cabot closely monitors its operations in each country so it can respond to changing economic and political environments and to fluctuations in foreign currencies. Accordingly, Cabot utilizes foreign currency option contracts and forward contracts to hedge its exposure on firm commitments and anticipated transactions, primarily for receivables and payables denominated in currencies other than the entities' functional currencies. Cabot also monitors its foreign exchange exposures to ensure the overall effectiveness of its foreign currency hedge positions. Foreign currency instruments generally have maturities that do not exceed twelve months.

Cabot has foreign currency instruments primarily denominated in the EURO, Japanese yen, British pound sterling, Swedish krona, Canadian dollar, and Australian dollar. At September 30, 1999 and 1998, Cabot had $95 million and $72 million in foreign currency instruments outstanding, respectively. For 1999, 1998 and 1997, the net realized gains or (losses) associated with these types of instruments were $(3) million, $2 million and $5 million, respectively. The net unrealized loss as of September 30, 1999, and net unrealized gain as of September 30, 1998, based on the fair market value of the instruments, were not material to each respective period.

COMMODITIES

Cabot is exposed to commodity price fluctuations that can affect its sales revenues and supply costs. Cabot, from time to time, enters into commodity futures contracts, commodity price swaps, and/or option contracts to hedge a portion of firmly committed and anticipated transactions against natural gas price fluctuations. Cabot monitors its exposure to ensure overall effectiveness of its hedge positions.

At September 30, 1998, the notional principal amounts of futures contracts were $6 million, maturing through February 1999. These contracts were executed on September 30, 1998, therefore, no gain or loss, realized or unrealized, was recorded in 1998. In 1999, Cabot realized gains associated with these futures of $2 million. During 1999, Cabot entered into option contracts that also expired during the year. Cabot realized losses associated with these options of $2 million.

At September 30, 1999, the notional principal amounts for commodity futures contracts, commodity price swaps, and option contracts were $115 million, maturing through August 2000. No material realized gain or loss was recognized in 1999.

CONCENTRATION OF CREDIT

Financial instruments that subject Cabot to concentrations of credit risk consist principally of trade receivables. Tire manufacturers comprise a significant portion of Cabot's trade receivable balance. At September 30, 1999 and 1998, Cabot had trade receivables of approximately $55 million and $54 million, respectively, from tire manufacturers. Although Cabot's exposure to credit risk associated with nonpayment by tire manufacturers is affected by conditions or occurrences within the tire industry, the majority of trade receivables from the tire manufacturers were current at September 30, 1999, and no such manufacturer exceeded 5% of Cabot's receivables at that date.

NOTE Q FINANCIAL INFORMATION BY SEGMENT & GEOGRAPHIC AREA

SEGMENT INFORMATION

During 1999, Cabot reorganized into 19 market-focused strategic business units ("SBUs"), each having responsibility for individual global marketing strategies, day-to-day business operations, and new product development. Under SFAS No. 131, these SBUs aggregate into five reportable segments: Chemicals Group (which includes carbon black, fumed silica, plastics, and inkjet colorants), Performance Materials, Specialty Fluids, Microelectronics Materials, and Liquefied Natural Gas. Cabot was organized into SBUs to better direct its technical strengths and focus on key markets. Cabot's business segment reporting under SFAS No. 131 is consistent with the changes in its financial reporting structure incorporated in Cabot's management reporting during 1999. Segment information for 1998 and 1997 has been restated to conform to the current presentation. A description of Cabot's five business segments and their products, services, and markets served is shown on page 20.

The accounting policies of the segments are the same as those described in the summary of "Significant Accounting Policies." Exceptions are noted as follows and are incorporated in the following tables. Revenues from external customers for certain operating segments within the Chemicals Group include 100% of equity affiliate sales. Transfers of ore to Performance Materials from Specialty Fluids are generally valued at market-based prices, and revenues generated by these transfers are shown as segment revenues from external customers. Cabot evaluates the performance of its segments and allocates resources based on segment profit or loss before tax ("PBT"), including equity in net income of affiliated companies, but excluding special items (Note B), gains on the sale of equity securities, and foreign currency transaction gains and losses. Corporate costs, costs related to divested businesses, and interest expense are not allocated to operating segments. Cash, short-term investments, investments other than equity basis, income taxes receivable, deferred taxes, and headquarters' assets are included in Unallocated and Other. Expenditures for additions to long-lived assets include total equity and other investments (including available-for-sale securities), property, plant and equipment, and intangible assets.

Financial information by segment was as follows:

YEARS ENDED SEPTEMBER 30	CHEMICALS GROUP	PERFORMANCE MATERIALS	SPECIALTY FLUIDS	MICRO-ELECTRONICS MATERIALS	LIQUEFIED NATURAL GAS	SEGMENT TOTAL	UNALLOCATED AND OTHER(1)
DOLLARS IN MILLIONS							
1999							
Revenues from external customers(2)	$1,204	$187	$ 12	$96	$265	$1,764	$ (69)
Depreciation and amortization	104	8	4	3	4	123	2
Equity in net income of affiliated companies	8	5	--	--	--	13	--
Profit (loss) before taxes(3)	188	34	(3)	22	7	248	(112)
Assets(4)	1,244	205	50	70	167	1,736	106
Investment in equity-basis affiliates	52	20	--	--	--	72	--
Total expenditures for additions to long-lived assets(5)	$ 114	$ 9	$ 3	$17	$ 22	$ 165	$ 7
1998							
Revenues from external customers(2)	$1,279	$175	$ 13	$57	$211	$1,735	$ (91)
Depreciation and amortization	100	7	3	2	2	114	1
Equity in net income of affiliated companies	12	5	--	--	--	17	--
Profit (loss) before taxes(3)	221	25	(2)	9	15	268	(100)
Assets(4)	1,242	207	39	45	139	1,672	133
Investment in equity-basis affiliates	75	15	--	--	1	91	--
Total expenditures for additions to long-lived assets(5)	$ 156	$ 11	$ 4	$ 9	$ 44	$ 224	$ 23
1997							
Revenues from external customers(2)	$1,326	$153	$ 11	$34	$200	$1,724	$ (99)
Depreciation and amortization	97	6	2	2	2	109	1
Equity in net income of affiliated companies	18	2	--	--	--	20	--
Profit (loss) before taxes(3)	209	16	(4)	1	7	229	(112)
Assets(4)	1,252	202	31	31	96	1,612	214
Investment in equity-basis affiliates	71	15	--	--	--	86	--
Total expenditures for additions to long-lived assets(5)	$ 133	$ 13	$ 14	$ 2	$ 7	169	$ 12

YEARS ENDED SEPTEMBER 30	CONSOLIDATED TOTAL
DOLLARS IN MILLIONS	
1999	
Revenues from external customers(2)	$1,695
Depreciation and amortization	125
Equity in net income of affiliated companies	13
Profit (loss) before taxes(3)	136
Assets(4)	1,842
Investment in equity-basis affiliates	72
Total expenditures for additions to long-lived assets(5)	$ 172
1998	
Revenues from external customers(2)	$1,644
Depreciation and amortization	115
Equity in net income of affiliated companies	17
Profit (loss) before taxes(3)	168
Assets(4)	1,805
Investment in equity-basis affiliates	91
Total expenditures for additions to long-lived assets(5)	$ 247
1997	
Revenues from external customers(2)	$1,625
Depreciation and amortization	110
Equity in net income of affiliated companies	20
Profit (loss) before taxes(3)	117
Assets(4)	1,826
Investment in equity-basis affiliates	86
Total expenditures for additions to long-lived assets(5)	$ 181

(1) Unallocated and Other includes certain corporate items and eliminations that are not allocated to the operating segments.

(2) Revenues from external customers for certain operating segments within Chemicals Group include 100% of equity affiliate sales. Specialty Fluids sales include transfers of ore to Performance Materials at market-based prices. Unallocated and Other reflects an adjustment for these equity affiliate sales and interoperating segment revenues and includes royalties paid by equity affiliates:

YEARS ENDED SEPTEMBER 30	1999	1998	1997

Equity affiliate sales	$ (69)	$ (92)	$ (103)
Royalties paid by equity affiliates	7	8	10
Interoperating segment revenues	(7)	(7)	(6)
Total	$ (69)	$ (91)	$ (99)

(3) Profit or loss before taxes for Unallocated and Other includes:

YEARS ENDED SEPTEMBER 30	1999	1998	1997
Interest expense	$ (46)	$ (42)	$ (43)
Gain on sale of equity securities	10	90	--
Corporate governance costs/other expenses, net(a)	(32)	(31)	(27)
Costs related to divested businesses	--	(5)	--
Corporate expenses incurred on behalf of the segments	(4)	(7)	(2)
Equity in net income of affiliated companies	(13)	(17)	(20)
Foreign currency transaction gains (losses)(b)	(1)	(3)	(2)
Special charges (Note B)	(26)	(85)	(18)
Total	$(112)	$(100)	$(112)

(a) Corporate governance costs/other expenses, net, includes corporate headquarters costs reduced by investment income.

(b) Net of other hedging activity.

(4) Unallocated and Other assets include cash, short-term investments, investments other than equity basis, income taxes receivable, deferred taxes, and headquarters' assets.

(5) Expenditures for additions to long-lived assets include total equity and other investments (including available-for-sale securities), property, plant and equipment, and intangible assets.

GEOGRAPHIC AREA INFORMATION

Sales are attributed to the United States and to all foreign countries based on customer location (region of sale) and not on the geographic location from which goods were shipped (region of manufacture). Revenues from external customers attributable to an individual country, other than the United States, were not material for disclosure. The only other country, besides the United States, with material long-lived assets was Indonesia, with approximately 4%, 5% and 11% of Cabot's total in 1999, 1998 and 1997, respectively. No customer represents 10% or more of Cabot's revenues.

Revenues from external customers and long-lived asset information by geographic area are summarized as follows:

YEARS ENDED SEPTEMBER 30	UNITED STATES	ALL FOREIGN COUNTRIES	CONSOLIDATED TOTAL
DOLLARS IN MILLIONS			
1999			
Revenues from external customers	$ 883	$812	$ 1,695
Long-lived assets(1)	525	638	1,163
1998			
Revenues from external customers	$ 787	$857	$ 1,644
Long-lived assets(1)	515	650	1,165
1997			
Revenues from external customers	$ 727	$898	$ 1,625
Long-lived assets(1)	568	626	1,194

(1) Long-lived assets include total equity and other investments, (including available-for-sale securities), net property, plant and equipment, and net intangible assets.

NOTE R UNAUDITED QUARTERLY FINANCIAL INFORMATION

Unaudited financial results, by quarter for the fiscal years ended September 30, 1999 and 1998, are summarized below and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations. Certain 1999 and 1998 items have been reclassified to reflect global changes in Cabot's organization during the year.

	DECEMBER	MARCH	JUNE	SEPTEMBER	YEAR
DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS					
FISCAL 1999					
Net sales	$408	$435	$422	$430	$1,695
Cost of sales	277	308	298	330	1,213
Net income	32	33(a)	22(b)	10(c)	97
Income applicable to common shares	$ 31	$ 32	$ 22	$ 9	$ 94
Income per common share (diluted)	$0.43	$0.45	$0.30	$0.13	$ 1.31
FISCAL 1998					
Net sales	$434	$456	$376	$378	$1,644
Cost of sales	306	315	250	262	1,133
Net income	32	38	33(d)	19	122
Income applicable to common shares	$ 31	$ 37	$ 32	$ 18	$ 118
Income per common share (diluted)	$0.41	$0.50	$0.44	$0.26	$ 1.61

(a) Includes a $5 million pretax gain from the sale of K N Energy, Inc. common stock.

(b) Includes a $16 million pretax charge for cost reduction initiatives. Also includes a $5 million pretax gain from the sale of K N Energy, Inc. common stock.

(c) Includes a $10 million pretax charge for cost reduction initiatives.

(d) Includes a $60 million pretax asset impairment charge related to an Indonesian carbon black facility and a $25 million pretax charge related to a tantalum ore recovery project. Also includes a $90 million pretax gain from the sale of K N Energy, Inc. common stock.

MANAGEMENT RESPONSIBILITY

The accompanying financial statements were prepared by Cabot Corporation in conformity with generally accepted accounting principles. Cabot'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 its 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 its internal audit staff, independent accountants, and the Audit Committee of the Board of Directors.

PricewaterhouseCoopers LLP, independent accountants, were engaged by Cabot to audit these financial statements. Their audit was conducted in accordance with generally accepted auditing standards and included a study and evaluation of Cabot'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 Cabot, the Committee meets periodically with Cabot 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/ Robert L. Culver

Robert L. Culver
Chief Financial Officer

/s/ William T. Anderson

William T. Anderson
Chief Accounting Officer

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE DIRECTORS AND STOCKHOLDERS OF CABOT CORPORATION

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and cash flows present fairly, in all material respects, the financial position of Cabot Corporation and its subsidiaries at September 30, 1999, and 1998, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1999, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

October 25, 1999

SELECTED FINANCIAL DATA-FIVE YEAR SUMMARY

YEARS ENDED SEPTEMBER 30	1999	1998	1997	1996	1995
DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND OTHER DATA					
CONSOLIDATED INCOME					
Revenues:					
Net sales and other operating revenues	$ 1,695	$ 1,644	$ 1,625	$ 1,856	$ 1,830
Interest and dividend income	4	5	7	9	11
Total revenues	1,699	1,649	1,632	1,865	1,841
Costs and expenses:					
Cost of sales	1,213	1,133	1,155	1,310	1,259
Selling and administrative expenses	208	216	204	207	235
Research and technical service	73	80	80	79	59
Interest expense	46	42	43	42	36
Special items	26	85	18	--	--
Gain on sale of assets	(10)	(90)	--	(67)	(33)
Other charges, net	7	15	15	14	29
Total costs and expenses	1,563	1,481	1,515	1,585	1,585
Income before income taxes	136	168	117	280	256
Provision for income taxes	(49)	(60)	(42)	(98)	(101)
Equity in net income of affiliated companies	13	17	20	18	17
Minority interest in net income	(3)	(3)	(2)	(6)	--
Net income	$ 97	$ 122	$ 93	$ 194	$ 172
COMMON SHARE DATA					
Net income	$ 1.31	$ 1.61	$ 1.19	$ 2.42	$ 2.03
Dividends	0.44	0.42	0.40	0.36	0.30
Stock prices - High	31.69	39.94	29.38	31.38	28.94
Low	19.75	21.75	21.50	22.88	12.82
Close	23.75	24.94	26.94	27.88	26.57
Average shares outstanding - millions	73	75	77	79	84
Shares outstanding at year-end - millions	67	67	69	72	75
CONSOLIDATED FINANCIAL POSITION					
Total current assets	$ 659	$ 619	$ 613	$ 710	$ 678
Net property, plant and equipment	1,024	978	922	903	707
Other assets	159	208	291	244	269
Total assets	$ 1,842	$ 1,805	$ 1,826	$ 1,857	$ 1,654
Total current liabilities	$ 450	$ 536	$ 543	$ 528	$ 403
Long-term debt	419	316	286	322	306
Other long-term liabilities	267	247	269	262	260
Stockholders' equity	706	706	728	745	685
Total liabilities and stockholders' equity	$ 1,842	$ 1,805	$ 1,826	$ 1,857	$ 1,654
Working capital	$ 209	$ 83	$ 70	$ 182	$ 275
SELECTED FINANCIAL RATIOS					
Income as a percentage of sales	6%	7%	6%	11%	9%
Return on average stockholders' equity	13%	16%	12%	28%	26%
Net debt to capitalization ratio	44%	43%	43%	40%	29%

EXHIBIT 21

CABOT CORPORATION

Significant Subsidiaries

As of September 30, 1999

NAME	JURISDICTION
Cabot Carbon Limited	England
Cabot G.B. Limited	England
Cabot B.V.	The Netherlands
Cabot International Capital Corporation	Delaware

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-64787) and on Forms S-8 (Nos. 033-28699, 033-52940, 033-53659, 333-03683, 333-06629,333-19103, 333-19099, and 333-82353) of Cabot Corporation of our report dated October 25, 1999 relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Boston, Massachusetts
December 28, 1999

EXHIBIT 24

POWER OF ATTORNEY

We, the undersigned directors and officers of Cabot Corporation, hereby severally constitute and appoint Robert Rothberg and Sarah W.S. Kish, 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, 1999, and any and all amendments thereto, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any 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 and with applicable stock exchanges on behalf of Cabot Corporation.

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

SIGNATURE	TITLE	DATE
/s/ Kennett F. Burnes - ---------------------------- Kennett F. Burnes	Director and President	November 12, 1999
/s/ Jane C. Bradley - ---------------------------- Jane C. Bradley	Director	November 12, 1999
/s/ John G.L. Cabot - ---------------------------- John G.L. Cabot	Director	November 12, 1999
/s/ John S. Clarkeson - ---------------------------- John S. Clarkeson	Director	November 12, 1999
/s/ Arthur L. Goldstein - ---------------------------- Arthur L. Goldstein	Director	November 12, 1999
/s/ Robert P. Henderson - ---------------------------- Robert P. Henderson	Director	November 12, 1999
/s/ Arnold S. Hiatt - ---------------------------- Arnold S. Hiatt	Director	November 12, 1999
/s/ Gautam S. Kaji - ---------------------------- Gautam S. Kaji	Director	November 12, 1999

SIGNATURE	TITLE	DATE
/s/ Roderick C.G. MacLeod - ---------------------------- Roderick C.G. MacLeod	Director	November 12, 1999
/s/ John H. McArthur - ---------------------------- John H. McArthur	Director	November 12, 1999
/s/ John F. O'Brien - ---------------------------- John F. O'Brien	Director	November 12, 1999
/s/ David V. Ragone - ---------------------------- David V. Ragone	Director	November 12, 1999
/s/ Charles P. Siess, Jr. - ---------------------------- Charles P. Siess, Jr.	Director	November 12, 1999
/s/ Lydia W. Thomas - ---------------------------- Lydia W. Thomas	Director	November 12, 1999
/s/ Mark S. Wrighton - ---------------------------- Mark S. Wrighton	Director	November 12, 1999

YEAR
SEP-30-1999
OCT-01-1998
SEP-30-1999
35
0
326
5
259
659
2,039
1,015
1,842
450
419
0
58
67
581
1,842
1,695
1,699
1,213
1,213
96
0
46
136
49
97
0
0
0
97
1.47
1.31

YEAR
SEP-30-1998
OCT-01-1997
SEP-30-1998
40
0
289
5
251
619
1,914
936
1,805
536
316
0
61
67
578
1,805
1,644
1,649
1,133
1,133
90
0
42
168
60
122
0
0
0
122
1.80
1.61

YEAR
SEP-30-1997
OCT-01-1996
SEP-30-1997
39
0
295
6
247
613
1,760
838
1,826
543
286
0
66
136
526
1,826
1,625
1,632
1,155
1,155
113
0
43
117
42
93
0
0
0
93
1.33
1.19