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, 1998

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:

67,215,250 SHARES OUTSTANDING AT NOVEMBER 30, 1998	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, 1998, was approximately $1,821,968,766.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Stockholders for fiscal year 1998 are incorporated by reference in Parts II and IV, and portions of the Registrant's definitive Proxy Statement for its 1999 Annual Meeting of Stockholders are incorporated by reference in Part III.

PART I

ITEM 1. BUSINESS

GENERAL

Cabot's business was founded in 1882 and incorporated in the State of Delaware in 1960. The Company has businesses in specialty chemicals and materials and in energy. The Company and its affiliates have manufacturing facilities in the United States and 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, 1998, unless otherwise noted. Information regarding the Company's revenues and operating profits by business segment and geographic area appears on pages 21 and 46 through 47 of the Company's Annual Report to Stockholders for the fiscal year ended September 30, 1998 ("Annual Report") which are incorporated herein by reference.

During the fiscal year ended September 30, 1998, the Company repurchased approximately 3.8 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 in its fiscal year ended September 30, 1998, appears in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 21 through 29 of the Annual Report.

SPECIALTY CHEMICALS AND MATERIALS

CARBON BLACK

The Company manufactures and sells carbon black, a fine powder. The Company's carbon black business includes tire blacks, industrial products (previously referred to as industrial rubber blacks) and special blacks. Carbon black is used as a reinforcing agent in tires and in industrial products such as extruded profiles, hoses and molded goods. Non-rubber grades of carbon black, known as special blacks, are used to provide pigmentation, conductivity and ultraviolet protection and for other purposes in many specialty applications such as inks, plastics, cables and coatings. The Company believes that it is the leading manufacturer of carbon black in the world, 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 with three 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 the Company 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). The recent economic crisis in Asia resulted in the Company's halting production at its Merak facility, one of the two it owns in Indonesia. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Special Items," on pages 22 through 23 of the Annual Report.)

The principal raw materials used in the manufacture of carbon black are carbon black oils derived from petroleum refining operations and from the distillation of coal tars and the production of ethylene throughout the world. The availability of raw materials has not been and is not expected to be a significant factor for the

business. Raw material costs are influenced by the cost and availability of oil worldwide and the availability of various types of carbon black oils.

Sales are generally made by 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. Sales are made under various trademarks owned by Cabot, including Cabot(R), Black Pearls(R), Elftex(R), Mogul(R), Monarch(R), Regal(R), Spheron(TM), Sterling(R) and Vulcan(R). (See "General," below.)

The Company's carbon black business continues to pursue a dual strategy of cost improvement and new product development. The Company is currently reconfiguring its manufacturing management organization to help speed the implementation of best manufacturing practices. Additionally, the Company has several ongoing carbon black new product initiatives. Over the past twelve months, management has more narrowly focused the carbon black new product development projects to include only projects that have significant customer involvement or sponsorship. Generally, the carbon black new products targeting the tire market have taken longer to commercialize than management anticipated. For example, during 1998, the anticipated commercialization timetable for the elastomer composites initiative was extended when initial tire road tests proved inconclusive on certain performance characteristics of the elastomer composites product. The Company believes it has identified the reasons why the product did not exhibit the anticipated performance characteristics and is making those process changes it believes are necessary to produce a product with the desired attributes. Once those process changes are made, additional road tests will be performed to further examine the product's performance and commercial viability. The Company's management continues to believe that the combination of effective cost and capacity management and the commercialization of new product initiatives will provide earnings growth opportunities for the carbon black business over the next several years.*

FUMED SILICA

The Company manufactures and sells fumed silica and dispersions thereof under various trademarks including Cabot(R), Cab-O-Sil(R) and Cab-O-Sperse(R). Fumed silica is an ultra-fine, high-purity silica produced by a flame process for use as a reinforcing, thickening, thixotropic, suspending or anti-caking agent in a wide variety of products for the automotive industry, construction industry and consumer products industries, including adhesives, cosmetics, inks, silicone rubber, coatings and pharmaceuticals. The headquarters for the Company's fumed silica business are located in Naperville, Illinois and its North American fumed silica manufacturing plant is located in Tuscola, Illinois. 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. The Company began construction in the summer of 1997 of a second fumed silica plant in the United States, to be located in Midland, Michigan. 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 in place for its plants in Germany and Wales, which it believes will enable it to meet its raw material requirements for those plants. The Company does not anticipate difficulty in obtaining raw materials for its Tuscola, Illinois plant in the foreseeable future. Sales of fumed silica products are made by Company employees and through distributors and sales representatives. There are five principal producers of fumed silica in the world. (See "General," below.) The Company believes it is the leading producer and seller of this chemical in the United States and second worldwide.

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 including Cab-O-Sperse(R) and Semi-Sperse(R). 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. Construction of a third dispersion manufacturing facility in Geino, Japan was recently completed and is expected to begin production in January of 1999, with sales anticipated in April of 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 facility provides quality control management, operations management, marketing support and customer sales and service for the Company's microelectronics materials business.

PLASTICS

The Company produces black and white thermoplastic concentrates and specialty compounds for sale to plastic resin producers and the plastics processing industry. Sales are made under various Cabot trademarks including Cabelec, Plasadd, Plasblak, Plastech, Plaswite and Rainbow, each of which is either registered or pending in one or more countries. Major applications for these materials include pipe and tubing, packaging and agricultural film, automotive components, cable sheathing and special packaging for use in the electronics industry. Sales are made by Company employees and through sales representatives and distributors primarily in Europe and Asia. This business has manufacturing facilities in Belgium (two plants), England, Hong Kong and Italy, and its headquarters are located in Leuven, Belgium. In Europe, the Company is one of the three leading producers of thermoplastic concentrates. The main raw materials used in this business are carbon black, titanium dioxide, thermoplastic resins and mineral fillers. Raw materials are, in general, readily available.

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 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.)

INKJET COLORANTS

The Company's inkjet colorants business, which was formed in 1996, manufactures black colorant products for use in inkjet printing applications. The Company's pigment-based black colorants are designed to replace traditional pigment dispersions and dyes. These colorants deliver enhanced color, stability, durability, ink formulation flexibility and high print quality. These new products will target various printing markets, including home and office printers, wideformat printers, and commercial and industrial printing applications. The headquarters of this business are located in Billerica, Massachusetts. Raw materials for this 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 that are custom

manufactured for its inkjet business, and believes that all other raw materials for this business are in adequate supply. Management believes that the Company's colorants will become integral components of certain inkjet printing systems to be introduced to the market within the next twelve to eighteen months.*

SPECIALTY FLUIDS

The Company's specialty fluids business is developing cesium brine to be marketed as a drilling and completion fluid for use in high temperature and high pressure drilling of oil and gas wells. Cesium brine has a high density but, because it has no solid additives, it has a low viscosity permitting it to flow readily. The fluid is resistant to high temperatures and yet it is biodegradable. The Company has been shipping the fluid to Aberdeen, Scotland in anticipation of commercial testing of this product in the North Sea. Such testing is expected to begin in the first half of fiscal year 1999. If such tests yield positive results, the Company expects market acceptance such that the business will become profitable in 1999.* The specialty fluids business has its headquarters in The Woodlands, Texas and a cesium brine manufacturing facility near its mine in Manitoba, Canada. The principal raw material used in this business is pollucite ore, which the Company obtains from that mine. The Company has an adequate cesium supply. Because each job for which a customer will rent/lease the cesium brine 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 brine used in each job, which will be returned to inventory.

GENERAL

The Company owns and is a licensee of various patents, which expire at various times, covering many products, processes and product uses of the Company's specialty chemicals and materials businesses. 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 specialty chemicals and materials businesses, taken as a whole. The Company sells its specialty chemicals and materials products under a variety of trademarks, the loss of any one of which would not materially affect the Company's specialty chemicals and materials businesses, taken as a whole.

Many of the Company's specialty chemicals and materials 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, 1998, approximately $108.6 million of backlog orders for its specialty chemicals and materials businesses were firm, compared to firm backlog orders as of September 30, 1997, of approximately $105.6 million. All of the 1998 backlog orders are expected to be filled during fiscal year 1999.

Many of the Company's specialty 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.

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

Competition in the specialty chemicals and materials businesses is based on price, service, quality, product performance and technical innovation. 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 in the specialty chemicals and materials businesses, other than the carbon black business, vary by product group.

ENERGY

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.

LNG SUPPLIES

The Company's LNG supplies currently come primarily from Sonatrading, an affiliate of Sonatrach, the Algerian national oil and gas company, under a long-term and a medium-term supply contract. Cabot and Sonatrach have each agreed to assure performance of the obligations of their respective affiliates under these agreements. The Company is not able to predict, at this time, what, if any, impact the political instability in Algeria may have on the future supply of LNG from Sonatrading, but, to date, the Company has experienced no direct adverse effect. In the short-term, the loss of supply from the Algerian supplier could have a material adverse effect on the Company's energy business until the Trinidad LNG project, described below, commences commercial operations.

During the past two years, the Company also purchased LNG from ADGAS, an LNG exporter in the United Arab Emirates, and from the North West Shelf project in Australia. Beginning in the second half of fiscal 1999, the Company expects to purchase substantial quantities of LNG from the Trinidad LNG project, described below.

THE TRINIDAD LNG PROJECT

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 Company of Trinidad and Tobago ("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. The plant is currently under construction and is expected to be completed and deliveries of LNG to commence in fiscal year 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. The plant construction is proceeding on schedule and on budget and the Atlantic LNG shareholders are presently evaluating an expansion of the facility.

OTHER EXPANSION ACTIVITIES

The Company expects to complete the refurbishment of its LNG tanker, now renamed the Matthew, and to bring it into service in early fiscal 1999. The Company expects to use the Matthew to transport LNG supplies from the Trinidad LNG project. The Company is also expanding 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 is presently under way and is scheduled to be completed in the first quarter of fiscal 1999.

MARKETS

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. Sales are stronger in the winter months because of heating demands in New England.

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 may cause 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.

OTHER

As of September 30, 1998, the Company owned approximately 650,000 shares of common stock, $5.00 par value per share (approximately 1.4% of the then outstanding shares), of K N Energy, Inc. ("KNE"). The Company has reflected its investment in the common stock of KNE at its fair market value on September 30, 1998.

As of September 30, 1998, the Company owned 7.5 million shares of common stock, AUD 0.25 par value per share (approximately 6.7% of the then outstanding shares), of Sons of Gwalia Ltd. ("Gwalia"). The Company has reflected its investment in the common stock of Gwalia at its fair market value on September 30, 1998.

The Company has maintained an approximate 41.4% ownership interest in Aearo Corporation (formerly Cabot Safety Holdings Corporation) after the restructuring of the Company's safety products and specialty composites business in July 1995. The Company has two representatives serving on the Board of Directors of Aearo Corporation and its principal subsidiaries ("Aearo"). Aearo manufactures and sells personal safety products, as well as energy absorbing, vibration damping and impact absorbing products for industrial noise control and environmental enhancement.

OTHER INFORMATION

EMPLOYEES

As of September 30, 1998, the Company had approximately 4,800 employees. Approximately 560 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 $35.6 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.

*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, management's expectations for the Company'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 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. 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 the Company to assess and mitigate risks should not be considered projections of future events or losses.

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

Industry segment financial data are set forth in tables on pages 21 and 46 through 47 of the Annual Report and are incorporated herein by reference. A significant portion of the Company's revenues and operating profits is derived from overseas operations. The profitability of the specialty chemicals and materials businesses is affected by fluctuations in the value of the U.S. dollar relative to foreign currencies. The Company's overseas operations do not currently include any energy-related businesses. (See Note P of the Notes to Consolidated Financial Statements for further information relating to sales and profits by geographic area and "Management's Discussion and Analysis of Financial Condition and Results of Operations," appearing on pages 46 through 47 and pages 21 through 29, respectively, in the Annual Report and incorporated herein by reference.) Currency fluctuations and nationalization and expropriation of assets are risks inherent in international operations. In addition, the recent economic crisis in Asia has reduced volumes and profits of the Company's carbon black and plastics businesses in that region. The Company has taken steps it deems prudent in its international operations to diversify and otherwise to protect against these risks, including the purchase of forward foreign currency contracts and options 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 O of the Notes to the Consolidated Financial Statements on pages 25 through 26 and 45 through 46, respectively, of the Annual Report.)

ITEM 2. PROPERTIES

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

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

The principal facilities owned by the Company in the United States are: (i) the administrative offices and manufacturing plants of its carbon black operations in Louisiana, Massachusetts, Texas and West Virginia (comprising approximately 9,342,000 square feet); (ii) its research and development facilities in Illinois, Massachusetts and Pennsylvania and its applications development facility in Georgia (collectively comprising approximately 112,800 square feet); (iii) administrative offices and manufacturing plants of its fumed silica and microelectronics materials businesses in Illinois and its performance materials business in Pennsylvania (comprising approximately 601,300 square feet); and (iv) its LNG terminalling and storage facility in Massachusetts (comprising approximately 37,700 square feet).

The Company's principal foreign owned facilities are held through subsidiaries and together they comprise approximately 7,230,500 square feet of manufacturing facilities, 39,400 square feet of research and development facilities, and 923,000 square feet of administrative offices. 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 the Company in the United States are its corporate headquarters in Boston, Massachusetts, and its carbon black administrative offices in Georgia (collectively comprising approximately 107,600 square feet). The principal facilities leased by subsidiaries in locations outside the United States are administrative offices and manufacturing facilities of the fumed silica and microelectronics materials businesses in Wales, administrative offices and research and development facilities of the carbon black operations in France and Malaysia, and administrative offices and manufacturing facilities of the specialty fluids business in Canada (collectively comprising approximately 305,925 square feet). In addition, the Company holds mining rights in Canada.

The Company's administrative offices are generally suitable and adequate for their intended purposes. Existing manufacturing facilities of the Company are not sufficient to meet the Company's anticipated requirements for the future and are being supplemented by additional production facilities in several locations inside and outside the United States. The Company is currently constructing a new plant to produce fumed silica in Midland, Michigan, and is undertaking projects to expand carbon black production capacity in China, India and The Netherlands.

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, 1998, 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 $8 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. Recent monitoring of the groundwater collection system revealed slightly elevated levels of certain contaminants. Cabot has until June 30, 1999 to continue to monitor the levels of these contaminants while the local sewer authority seeks revisions to its discharge standards that would permit the discharge of the contaminants at these slightly higher levels. If those revisions are not made, Cabot will evaluate whether further activities will be necessary to address this condition. In November 1998, Cabot completed a search which identified the location of three historic water wells on the property. Oil was discovered in one well and has been removed. Groundwater samples from the wells have not identified the presence of significant levels of contamination, although Cabot's environmental consultant for this site is evaluating the results to determine whether any further investigation is warranted. Until this evaluation is completed, it is unknown whether any further action will be necessary. Cabot plans to decommission the wells it located during this search in accordance with applicable requirements.

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, but the investigation results indicate that no remediation of site soils is necessary to eliminate exposure risks. The companies also plan to excavate certain areas of an adjacent site where NJDEP believes additional material may be buried. In 1997, the companies entered into an Administrative Consent Order with NJDEP whereby they agreed to contribute costs to 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. Cabot contributed approximately $107,000 to the cost of this effort. During the two year period, the companies are 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, what the total cost of the remediation will be, or what Cabot's portion of any such costs will be. Finally, in 1997, Cabot joined with the other parties at the site in settling claims by CPS Chemical Company, an adjacent property owner, alleging that contaminated groundwater from the site contaminated its property.

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. 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, and the companies' consultants began preparing detailed design documents necessary to implement this remedy. Subsequent to these events, investigations have detected low levels of previously undetected radioactive material in sediment in the Brook, and EPA conducted further investigations of that issue. EPA's investigation confirmed the presence of this contamination, and EPA has informed the companies involved in the site that the presence of this radioactive material will require changes to the remedy EPA previously approved for the site. It is unclear at this time what those changes will be and what the cost impact of any changes might be. Remedial activities are likely to be delayed as a result of the recent findings, and are unlikely to occur prior to 2000. EPA's cost recovery claims through the end of 1989 have been settled, and the companies have negotiated a consent decree with EPA and the Natural Resource Trustees that settles the government's claims for past costs and natural resource damages and obligates the companies to implement the agreed remedy. This consent decree has not been finalized pending resolution of the issues concerning the newly-discovered radioactive material. Cabot's share of the settlement amount is approximately $585,000; Cabot's estimated share of future remediation costs based on the original remedy is approximately $5.5 million. It is not clear how the additional radioactive material will affect these figures. 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.

In 1997, Cabot and the other parties responding to EPA requirements at the Brook reached a conditional agreement to contribute funds to the Ashtabula River Partnership to assist the Partnership in its efforts to dredge and remediate sediments in the Ashtabula River downstream from the Brook. If the Partnership is successful, this work will be conducted outside the traditional federal Superfund law process through a public-private consortium that will involve substantial public sources of funding for the work. If such sources, along with additional private funds, become available, it is expected to be less expensive and easier to complete the project than it would to address the issues involving the Ashtabula River pursuant to the traditional Superfund law process.

In 1994, Detrex Chemical Industries, Inc. filed third-party complaints against eight companies, including Cabot, in connection with material allegedly sent to the Koski/RES landfill in Ashtabula, Ohio. Cabot and other third-party defendants filed complaints against five additional companies that sent waste to the site. 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.

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. An administrative consent order to conduct a Focused Feasibility Study ("FFS") of the practicability of the alternative remedy (materials stabilization and containment in lieu of incineration) was entered into by the companies and EPA in September 1997. Cabot contributed $26,000 to the cost of this study. The FFS was completed and submitted to EPA in 1998. The FFS concludes that the alternative remedy is feasible, and the companies' consultant estimates the cost to implement the alternative remedy at the site is approximately $13 to $18 million. EPA is in the process of negotiating a Consent Decree with the companies concerning implementation of the alternative remedy. EPA also has indicated that it has incurred $23 million in past costs at the site. A consultant hired by the companies has estimated that Cabot's volumetric share of waste shipped to the site is much less than 1% of the total volume of waste shipped to the site. As such, while Cabot is unsure of what its total cost will be to settle EPA's claims and fund remediation at the site, it anticipates that such cost should be a small fraction of the total costs incurred by the defendants at the site.

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 a beryllium alloy plant formerly owned by Cabot and 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 estimates the 30-year present net worth of these measures at approximately $6 million. In September 1997, EPA issued special notice letters to Cabot and approximately 30 other parties requesting them to enter into negotiations to implement the ROD. When those negotiations failed, EPA issued Unilateral Administrative Orders ("UAO") to a number of the companies requiring them to implement the ROD. Cabot did not receive the UAO, and it has been informed by EPA that it has been included in a group of companies EPA believes will be eligible for a de minimis settlement for this site. EPA has not yet offered this group of companies the de minimis settlement, but the companies expect to receive one in 1999. It is not possible at this time to determine the amount Cabot will be required to contribute to settle EPA's and the plaintiffs' costs at 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 partially 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 $12.2 million, not including approximately $600,000 in past EPA enforcement costs. Cabot has initiated communication with the parties that conducted the work in order to explore whether settlement of Cabot's liability for the costs incurred by the parties and by EPA at the site may be feasible. Those discussions are continuing, and it is not possible to estimate Cabot's share of those costs at this time.

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.

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. A final order has not been issued as of December 14, 1998. 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.

Cabot, along with a number of other companies, was 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 December 1998, EPA advised one of the companies that EPA intends to assert a claim in January 1999 for past oversight costs of approximately $4.1 million. As of December 14, 1998, Cabot had not received any formal notification of this claim from EPA.

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

As of September 30, 1998, approximately $35.6 million was accrued for environmental matters by the Company. The amount represents the Company's current best estimate of costs likely to be incurred based on its analysis of the extent of cleanup required, alternative cleanup methods available, abilities of other responsible parties to contribute and its interpretation of laws and regulations applicable to each site.

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 those 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 N of the Notes to the Company's Consolidated Financial Statements on pages 44 through 45 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 1998 fiscal year, is information, as of November 30, 1998, 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.........	43	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............	60	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
Kennett F. Burnes...........	55	Cabot Corporation	
		President	February 1995 to present
		Chief Operating Officer	March 1996 to present
		Executive Vice President	October 1988 to February 1995
Winfred R. Cates............	58	Cabot Corporation	
		Senior Vice President	May 1996 to December 31, 1998
		Vice President	May 1990 to May 1996
Robert L. Culver............	50	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........	40	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..........	40	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.............	49	Cabot Corporation	
		Vice President and General Counsel	October 1993 to present

NAME	AGE	OFFICES HELD/BUSINESS EXPERIENCE	DATES HELD
Roland R. Silverio..........	51	Cabot Corporation	
		Vice President	May 1998 to present
		Director of Organizational Development	January 1998 to present
			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.............	41	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, 1998, there were approximately 2,055 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 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

	DECEMBER	MARCH	JUNE	SEPTEMBER	YEAR
FISCAL 1997					
Cash dividends per share...................	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.40
Price range of common stock:					
High....................................	$29.38	$25.38	$28.56	$29.25	$29.38
Low.....................................	$23.00	$22.63	$21.50	$25.75	$21.50
Close...................................	$25.13	$24.00	$28.38	$26.94	$26.94

ITEM 6. SELECTED FINANCIAL DATA

Cabot Corporation Selected Financial Data:

	YEARS ENDED SEPTEMBER 30				
	1998	1997	1996	1995	1994
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)				
Financial Highlights					
Net sales and other operating revenues	$1,648	$1,630	$1,856	$1,830	$1,680
Income before cumulative effect of accounting changes	$ 122	$ 93	$ 194	$ 172	$ 79
Long-term debt	$ 316	$ 286	$ 322	$ 306	$ 308
Minority interest	25	23	27	8	--
Stockholders' equity	706	728	745	685	563
Total capitalization	$1,047	$1,037	$1,094	$ 999	$ 871
Total assets	$1,805	$1,826	$1,857	$1,654	$1,617
Income per common share:					
Basic	$ 1.80	$ 1.33	$ 2.74	$ 2.29	$ 1.03
Diluted	$ 1.61	$ 1.19	$ 2.42	$ 2.03	$ 0.92
Cash dividends (declared and paid)	$ 0.42	$ 0.40	$ 0.36	$ 0.30	$ 0.27
Weighted average common shares outstanding in millions (diluted)	74.6	76.7	79.3	83.6	82.7

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 through 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 48 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 1999 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, Nominees, 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 Statements of Income for each of the three fiscal years in the period ended September 30, 1998....	32
(2)	Consolidated Balance Sheets at September 30, 1998 and 1997..	30-31
(3)	Consolidated Statements of Cash Flows for each of the three fiscal years in the period ended September 30, 1998..	33
(4)	Notes to Consolidated Financial Statements............	34-47
(5)	Statement of Management Responsibility for Financial Reporting and Report of Independent Accountants relating to the Consolidated Financial Statements listed above..	48

(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).
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).

EXHIBIT NUMBER		DESCRIPTION
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(c)	--	Note Purchase Agreement between John Hancock Mutual Life Insurance Company, State Street Bank and Trust Company, as trustee for the Cabot Corporation Employee Stock Ownership Plan, and Cabot Corporation, dated as of November 15, 1988 (incorporated by reference to Exhibit 10(c) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1988, file reference 1-5667, filed with the Commission on December 29, 1988).
10(d)(i)*	--	Supplemental Cash Balance Plan (incorporated herein by reference to Exhibit 10(e)(i) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(d)(ii)*	--	Supplemental Employee Stock Ownership Plan (incorporated herein by reference to Exhibit 10(e)(ii) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(d)(iii)*	--	Supplemental Retirement Incentive Savings Plan (incorporated herein by reference to Exhibit 10(e)(iii) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(d)(iv)*	--	Supplemental Employee Benefit Agreement with John G.L. Cabot (incorporated herein by reference to Exhibit 10(f) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1987, file reference 1-5667, filed with the Commission on December 28, 1987).
10(d)(v)*	--	Cabot Corporation Deferred Compensation Plan dated January 1, 1995 (incorporated herein by reference to Exhibit 10(e)(v) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1995, file reference 1-5667, filed with the Commission on December 29, 1995).
10(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).
10(e)*	--	Form of severance agreement entered into between Cabot Corporation and various managers (incorporated herein by reference to Exhibit 10(g) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1991, file reference 1-5667, filed with the Commission on December 27, 1991).

EXHIBIT NUMBER		DESCRIPTION
10(f)	--	Group Annuity Contract No. GA-6121 between The Prudential Insurance Company of America and State Street Bank and Trust Company, dated June 28, 1991 (incorporated herein by reference to Exhibit 10(h) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1991, file reference 1-5667, filed with the Commission on December 27, 1991).
10(g)*	--	Non-employee Directors' Stock Compensation Plan (incorporated herein by reference to Exhibit A of Cabot's Proxy Statement for its 1992 Annual Meeting of Stockholders, file reference 1-5667, filed with the Commission on December 27, 1991).
10(h)	--	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(i)	--	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(j)	--	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(k)(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(k)(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(l)	--	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(m)	--	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(n)*	--	Cabot Corporation Short-Term Incentive Compensation Plan, effective November 12, 1998 (subject to approval at the 1999 Annual Meeting of Shareholders of Cabot Corporation, to be held March 11, 1999), filed herewith.
12	--	Statement Re: Computation of Ratios of Earnings to Fixed Charges, filed herewith.
13	--	Pages 21 through 48 of the 1998 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(a)	--	Financial Data Schedule for the fiscal year ended September 30, 1998, filed herewith.
27(b)	--	Restated Financial Data Schedule for the fiscal year ended September 30, 1997, filed herewith.
27(c)	--	Restated Financial Data Schedule for the fiscal year ended September 30, 1996, 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 22, 1998

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 Office (principal executive officer)	December 22, 1998
* Kennett F. Burnes	Director and President	December 22, 1998
/s/ Robert L. Culver Robert L. Culver	Executive Vice President and Chief Financial Officer (principal financial officer)	December 22, 1998
/s/ William T. Anderson William T. Anderson	Controller (principal accounting officer)	December 22, 1998
* Jane C. Bradley	Director	December 22, 1998
* John G.L. Cabot	Director	December 22, 1998
* John S. Clarkeson	Director	December 22, 1998
* Arthur L. Goldstein	Director	December 22, 1998
* Robert P. Henderson	Director	December 22, 1998

SIGNATURES	TITLE	DATE
* Arnold S. Hiatt	Director	December 22, 1998
* Gautam S. Kaji	Director	December 22, 1998
* Roderick C.G. MacLeod	Director	December 22, 1998
* John H. McArthur	Director	December 22, 1998
* John F. O'Brien	Director	December 22, 1998
* David V. Ragone	Director	December 22, 1998
* Charles P. Siess, Jr.	Director	December 22, 1998
* Morris Tanenbaum	Director	December 22, 1998
* Lydia W. Thomas	Director	December 22, 1998
* Mark S. Wrighton	Director	December 22, 1998

*By /s/ Sarah W. Saunders

Sarah W. Saunders
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(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).

EXHIBIT NUMBER		DESCRIPTION
10(d)(ii)*	--	Supplemental Employee Stock Ownership Plan (incorporated herein by reference to Exhibit 10(e)(ii) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(d)(iii)*	--	Supplemental Retirement Incentive Savings Plan (incorporated herein by reference to Exhibit 10(e)(iii) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(d)(iv)*	--	Supplemental Employee Benefit Agreement with John G.L. Cabot (incorporated herein by reference to Exhibit 10(f) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1987, file reference 1-5667, filed with the Commission on December 28, 1987).
10(d)(v)*	--	Cabot Corporation Deferred Compensation Plan dated January 1, 1995 (incorporated herein by reference to Exhibit 10(e)(v) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1995, file reference 1-5667, filed with the Commission on December 29, 1995).
10(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).
10(e)*	--	Form of severance agreement entered into between Cabot Corporation and various managers (incorporated herein by reference to Exhibit 10(g) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1991, file reference 1-5667, filed with the Commission on December 27, 1991).
10(f)	--	Group Annuity Contract No. GA-6121 between The Prudential Insurance Company of America and State Street Bank and Trust Company, dated June 28, 1991 (incorporated herein by reference to Exhibit 10(h) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1991, file reference 1-5667, filed with the Commission on December 27, 1991).
10(g)*	--	Non-employee Directors' Stock Compensation Plan (incorporated herein by reference to Exhibit A of Cabot's Proxy Statement for its 1992 Annual Meeting of Stockholders, file reference 1-5667, filed with the Commission on December 27, 1991).
10(h)	--	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(i)	--	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(j)	--	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).

EXHIBIT NUMBER		DESCRIPTION
10(k)(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(k)(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(l)	--	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(m)	--	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(n)*	--	Cabot Corporation Short-Term Incentive Compensation Plan, effective November 12, 1998 (subject to approval at the 1999 Annual Meeting of Shareholders of Cabot Corporation, to be held March 11, 1999), filed herewith.
12	--	Statement Re: Computation of Ratios of Earnings to Fixed Charges, filed herewith.
13	--	Pages 21 through 48 of the 1998 Annual Report to Stockholders of Cabot Corporation, a copy of which is furnished for the information of the Securities and Exchange Commission. Portions of the Annual Report not incorporated herein by reference are not deemed "filed" with the Commission.
21	--	List of Significant Subsidiaries, filed herewith.
23	--	Consent of PricewaterhouseCoopers LLP, filed herewith.
24	--	Power of attorney for signing of this Annual Report on Form 10-K, filed herewith.
27(a)	--	Financial Data Schedule for the fiscal year ended September 30, 1998, filed herewith.
27(b)	--	Restated Financial Data Schedule for the fiscal year ended September 30, 1997, filed herewith.
27(c)	--	Restated Financial Data Schedule for the fiscal year ended September 30, 1996, filed herewith.

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* Management contract or compensatory plan or arrangement.

EXHIBIT 10(n)

CABOT CORPORATION
SHORT-TERM INCENTIVE COMPENSATION PLAN

The purpose of this Short-Term Incentive Compensation Plan (this "Plan") is to provide incentives for certain senior executives of Cabot Corporation (the "Company") to achieve a sustained, high level of financial success for the Company. This Plan does that by placing a portion of the senior executives' annual compensation at risk based on Company and individual performance. This Plan is intended to comply with the requirements for tax deductibility imposed by Internal Revenue Code Section 162(m) as in effect from time to time ("Section 162(m)") with respect to Awards paid pursuant to this Plan.

ADMINISTRATION

This Plan will be administered by the Compensation Committee of the Board of Directors or, if any member of the Compensation Committee is not an "outside director" for the purposes of Section 162(m), by a subcommittee of the Compensation Committee consisting of those members of the Compensation Committee who are "outside directors" for such purposes. The Compensation Committee or subcommittee administering this Plan is referred to herein as the "Committee." The Committee may delegate to management administrative functions that do not involve discretion. The Committee shall have the authority to interpret this Plan, and any interpretation or decision by the Committee with regard to any questions arising under this Plan shall be final and conclusive on all participants in this Plan.

ELIGIBILITY; PARTICIPANTS

Only officers of the Company shall be eligible to participate in this Plan for any fiscal year of the Company (an "Award Year"). Not later than 90 days after the beginning of each Award Year, the Committee shall (a) select, from among those eligible, the persons who shall participate in this Plan (the "Participants") for the Award Year, and (b) designate for each Participant a specific percentage of the Award Pool as the Participant's potential award (the "Potential Award"). No Participant shall have a Potential Award exceeding 50% of the Award Pool, and the sum of the Potential Awards specified by the Committee for an Award Year shall not exceed 100% of the Award Pool.

FORMULA

The amount available for Awards under this Plan for each Award Year (the "Award Pool") will be 10% of the amount, if any, by which the Company's Adjusted Net Income for the Award Year exceeds 10% of Average Stockholders' Equity. Adjusted Net Income for an Award Year shall be the consolidated net income of the Company as reported to shareholders in the Company's Annual Report, excluding from the calculation of net income all of the following items to the extent they appear as separate line items in the Company's audited consolidated statement of income appearing in the Annual Report: extraordinary or non-recurring items, changes in tax laws, items relating to discontinued operations, items relating to divested businesses or sales of businesses, restructuring charges, effects of accounting changes and any other special, unusual or non-recurring gain or loss; provided, however, that the Committee may in its discretion include any such item that causes the Award Pool to be reduced. Where any such item to be excluded is stated in the Company's consolidated statement of income as a pre-tax amount, the amount to be excluded shall be adjusted to an after-tax amount using an assumed tax rate (to cover all federal, state and foreign income taxes) equal to the maximum marginal federal income tax rate in effect for US corporations during the Award Year, plus 2%. Average Stockholders' Equity shall be the average of (a) the total stockholders' equity at the end of the Award Year and (b) the total stockholders' equity at the end of the preceding fiscal year (i.e., at the beginning of the Award Year), in each case as reported in the Company's Annual Report.

PAYMENTS

When the Company's financial results for the Award Year have been determined, the Committee will evaluate the Company's financial results, determine the dollar amounts of the Award Pool and of the Potential Award and the actual Award, if any, for each Participant, and shall certify its determinations in writing (the "Certification").

In determining the actual Award to be paid to each Participant, the Committee may exercise discretion to reduce (but not increase) the Award from the amount of the Participant's Potential Award, after taking into account the Company's financial performance, performance of the Participant, and competitive compensation levels. It is expected that the Committee will use its discretion carefully and apply good and rigorous judgment in appraising the performance of the Company and the contributions of each Participant to the Company's performance.

A reduction in the Award paid to a Participant shall not be available to increase the Award of any other Participant. If the total of the Awards as finally determined for any Award Year is less than the Award Pool, the unused portion of the Award Pool will not be carried over to the next Award Year or be added to any future Award Pool.

Awards will be paid in cash as soon as practical after the Certification or may, at the election of the Participant and under procedures adopted by the Committee or any deferred compensation plans from time to time in effect and in accordance with the regulations promulgated under Section 162(m), be deferred.

TAX WITHHOLDING

The Company will deduct any required withholding taxes from the payments under this Plan.

TERMINATION OF EMPLOYMENT

Any Participant who is not an employee of the Company on September 30 of an Award Year will not receive any Award for that Award Year, except that if a Participant's employment terminates due to death or disability the Committee may at its discretion authorize payment of an Award to such Participant (or his or her estate) at the time other Awards are paid in respect of that Award Year.

NO RIGHT TO AWARDS OR CONTINUED EMPLOYMENT

No person shall have any claim or right to be granted an Award, nor shall the selection for participation in the Plan for any Award Year be construed as giving a Participant the right to be retained in the employ of the Company for that Award Year or for any other period.

INTERPRETATION AND AMENDMENTS

This Plan is designed to comply with Section 162(m), and all provisions in this Plan shall be construed in a manner consistent with that intent. The Company's Board of Directors may amend or terminate this Plan at any time, but no amendment shall expand the class of eligible employees or increase either the funding formula for determining the Award Pool or the maximum Award to an individual Participant without the approval of the Company's shareholders. Subject to the foregoing restrictions, this Plan may be amended to add conditions or provisions required, or to remove conditions or provisions no longer required or permitted, by Section 162(m).

Nothing in this Plan shall be deemed in any way to limit or restrict the Company from making any award to any person (including a Participant in this Plan) under any other plan, arrangement or understanding, whether now existing or hereafter arising, or on an ad hoc basis, except as follows. No award to any Participant in this Plan shall be made under any other plan, arrangement or understanding, or on an ad hoc basis, where the amount of such other award is designed to compensate the Participant if, and to the extent that, as a result of the Company's performance, his or her Potential Award or actual Award under this Plan does not reach a particular level.

PLAN TERM

This Plan shall be effective as of the date adopted, for the Award Year ending September 30, 1999, subject to receiving shareholder approval at the 1999 Annual Shareholders Meeting, and shall remain in effect for subsequent Award Years until terminated by the Company's Board of Directors.

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				
	1998	1997	1996	1995	1994
Earnings:					
Pre-tax income from continuing operations	168.0	$117.0	$279.8	$256.0	$118.3
Distributed income of affiliated companies	7.5	10.4	11.2	11.7	5.6
Add fixed charges:					
Interest on indebtedness	42.0	43.2	41.7	35.6	41.7
Portion of rents representative of the interest factor	5.1	4.9	4.8	5.5	5.9
Income as adjusted	222.6	$175.5	$337.5	$308.8	$171.5
Fixed charges:					
Interest on indebtedness	42.0	$ 43.2	$ 41.7	$ 35.6	$ 41.7
Capitalized interest	-	-	-	-	-
Portion of rents representative of the interest factor	5.1	4.9	4.8	5.5	5.9
Total fixed charges	47.1	$ 48.1	$ 46.5	$ 41.1	$ 47.6
Ratio of earnings to fixed charges	4.7	3.6	7.3	7.5	3.6

management's discussion and analysis of financial condition and results of operations

Cabot Corporation is comprised of a Specialty Chemicals and Materials Group and an Energy Group. The Specialty Chemicals and Materials Group consists of the following businesses: carbon black, fumed silica, plastics, performance materials, microelectronics materials, inkjet colorants, and specialty fluids. The Energy Group consists of Cabot LNG Corporation, a wholly owned subsidiary, and its subsidiaries.

The following analysis of financial condition and operating results should be read in conjunction with the Company's Consolidated Financial Statements and accompanying Notes. Unless a calendar year is specified, all references in this discussion to years are to the Company's fiscal year ended September 30.

Operating profit for 1998, 1997 and 1996 was $156 million, $187 million and $284 million, respectively. Operating profit for each of the three years included special items. Special items in 1998 included charges of $60 million for an asset impairment related to an Indonesian carbon black plant and $25 million related to a tantalum ore recovery project. Special items for 1997 included $18 million of charges related to asset impairment and severance costs in the Company's Specialty Chemicals and Materials Group. Special items for 1996 included $6 million of gains related to the Company's LNG business. Operating profit before special items for 1998, 1997 and 1996 was $241 million, $205 million and $278 million, respectively. Operating margins as a percentage of sales, before special items, during 1998, 1997 and 1996 were 15%, 13% and 15%, respectively. Unless indicated otherwise, the following discussion excludes the special items noted above to form a comparative basis.

Overview

The Company reported increased operating profit for the year, despite the negative effects of weakened Asian economies and a strengthened U.S. dollar. Certain key fundamentals in the Company's operating environment, which had negatively impacted the financial results of the Company in 1997, gradually improved during 1998. For example, the Company's carbon black business experienced higher feedstock costs throughout 1997. During 1998, carbon black feedstock costs retreated. Lower carbon black feedstock costs and higher volumes offset the negative effects of lower selling prices and weak Asian market conditions, sustaining carbon black's operating profit for 1998. Also, the recovery of the U.S. electronics industry contributed to improved operating results in the Company's performance materials business, compared with 1997. The Company's fastest growing business, Microelectronics Materials Division ("MMD"), reported a significant increase in operating profit for the year. MMD is expected to continue to experience significant growth in 1999* (see page 29). The fumed silica business reported improved results year over year. Finally, the Company's liquefied natural gas ("LNG") business more than doubled its operating profit in 1998, primarily due to greater firm sales commitments of LNG.

Outlook

Looking forward, however, the LNG business is expected to have a negative operating comparison in 1999 due to lower year-to-year gas selling prices. Earnings in the Company's carbon black business are expected to improve very modestly. Given positive volume trends in the performance materials, microelectronics materials and fumed silica businesses, the Company expects some earnings growth in 1999* (see page 29).

Financial Information By Industry Segment

Years ended September 30	1998	1997	1996
Dollars in millions			
Net Sales and Other Operating Revenues			
Specialty Chemicals and Materials	$1,437	$1,430	$1,434
Energy	211	200	422
TOTAL NET SALES AND OTHER OPERATING REVENUES	$1,648	$1,630	$1,856
Operating Profit--Before Special Items			
Specialty Chemicals and Materials	$ 226	$ 199	$ 261
Energy	15	6	17
TOTAL OPERATING PROFIT--BEFORE SPECIAL ITEMS	241	205	278
Special Items	(85)	(18)	6
TOTAL OPERATING PROFIT	$ 156	$ 187	$ 284
Interest Expense	$ (42)	$ (43)	$ (42)
General Corporate/ Other Expenses	(31)	(27)	(29)
Costs Related to Divested Business	(5)	--	--
Gains on Sales of Equity Securities	90	--	28
Gain on Sale of Business	--	--	39
INCOME BEFORE			

INCOME TAXES	$ 168	$ 117	$ 280

Net Sales and Other Operating Revenues

Net sales and other operating revenues for 1998, 1997 and 1996 were $1,648 million, $1,630 million and $1,856 million, respectively. Revenues increased $18 million in 1998 compared to 1997 due to a 6% increase in volume in the Specialty Chemicals and Materials Group, which more than offset the effects of lower carbon black selling prices, and as a result of greater firm sales commitments in the Company's LNG business.

Net sales and other operating revenues for 1996 included $278 million from the operations of TUCO, the Company's

former coal-handling subsidiary. Excluding TUCO results from 1996, the Company experienced an increase in revenue during 1997 of $52 million. The increase was attributable to greater revenues in the Company's LNG business. LNG reported an increase of $56 million, or 39%, in revenue due to 36% greater volumes and better pricing.

[GRAPHIC OMITTED]

The Company's gross margin as a percentage of net sales for 1998, 1997 and 1996 was 32%, 30% and 29%, respectively. In 1998, profit improved in all of the Company's businesses. Profit improvement in the Specialty Chemicals and Materials Group was primarily the result of higher volumes and improved operating efficiencies in the Company's fumed silica, microelectronics and performance materials businesses. In the carbon black business, higher volumes and lower feedstock costs offset the effect of lower year-to-year carbon black selling prices. Higher gross margin in the Company's LNG business was primarily due to greater availability of liquefied natural gas entering into 1998, allowing the Company to take advantage of higher year-to-year gas prices and to increase firm sales commitments during the first half of the year.

Gross margin for 1996 included the operating results of TUCO, which were 5% of TUCO's net sales. Exclusive of TUCO, the gross margin percentage for 1996 was 34%. The decrease in gross margin during 1997 was primarily the result of lower year-to-year selling prices, combined with the effect of higher feedstock costs in the Company's carbon black business. Overall, carbon black selling prices were down 3% during 1997. In addition, feedstock costs during 1997 were, on average, 4% higher than in 1996.

Expenses

The Company's selling, research, technical and administrative expenses for 1998, 1997 and 1996 were $313 million, $300 million and $286 million, respectively. In 1998, selling and administrative costs included $5 million of costs related to a divested business. Exclusive of these costs, the increase in administrative expenses in 1998 was due to increased selling expenses related to new product initiatives and higher corporate expenses, which primarily related to the reorganization of certain corporate functions.

The increase in selling, research, technical and administrative expenses in 1997 was largely due to the Company's continued focus on developing new products. As part of its long-term strategy for earnings growth, the Company continues to invest in research and marketing for the development of high-value, differentiated new products and new businesses.

Asia

Weakened economies in parts of Asia have somewhat altered the risks and opportunities of the Company's activities in affected economies. The primary impact has been on the performance of the Company's Indonesian carbon black business. Weakened Asian conditions negatively impacted the operating results of the Company by approximately $17 million in 1998. Exposures continue to exist from, among other things, continued lower operating results due to decreases, or delays in, sales and orders and increased receivables delinquencies and potential bad debts in the region. While this situation continues to receive close monitoring and increased management attention, it is not expected to have a material adverse effect on the financial position, results of operations or liquidity of the Company in 1999* (see page 29).

Special Items

The financial and economic circumstances in Indonesia resulted in a significant decline in carbon black demand in the local market there. As a result, management decided to temporarily halt production at one of the Company's two Indonesian carbon black plants during 1998. The Company recognized an impairment loss of $60 million in 1998 for the difference between the carrying value of the plant's long-lived assets and the estimated fair value. The charge to the Specialty Chemicals and Materials Group consisted of $34 million for property, plant and equipment and other assets, and $26 million for goodwill and other intangible assets. The Company 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, the Company entered into an agreement to process tantalum ore residues accumulated from the Company's past production of tantalum. The Company expected that the process would 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, management discontinued the project which resulted in a charge of $25 million to the operations of the Specialty Chemicals and Materials Group in 1998.

The $18 million charge for special items in fiscal year 1997 related to the Specialty Chemicals and Materials Group. These special charges were various one-time charges of $10 million for asset impairment costs (primarily canceled capital projects and the write-off of unproductive assets) and $8 million of employee severance costs (primarily early retirement programs) mostly undertaken as part of a continuing effort to reduce costs. The Company substantially completed these initiatives during 1998. Given the effects of evolving to a market-focused structure, it is not possible to quantify the savings generated from these efforts.

During 1996, the Company recognized a gain of $3 million related to the settlement of a contractual matter and a $3 million gain from a reduction in the Company's ownership position in the Trinidad natural gas liquefaction project.

[GRAPHIC OMITTED]

Other Expenses

Interest expense for 1998, 1997 and 1996 was $42 million, $43 million and $42 million, respectively. The decrease in interest expense in 1998 was largely due to lower interest rates. The increase in interest expense in 1997 was primarily due to higher levels of debt resulting from the Company's stock repurchase program and capital expenditures.

General corporate/other expenses for 1998, 1997 and 1996 were $31 million, $27 million and $29 million, respectively. The increase in 1998 was primarily the result of changes in the Company's organizational structure (see page 20). During the year, the Company reorganized into 20 strategic business units. As a result, the Company's manufacturing, human resources, information services, safety, health and environment and finance functions are in the process of being coordinated more centrally to support the business units efficiently. The decrease in unallocated corporate expenses during 1997 was primarily due to lower environmental expenses.

Provision for Income Taxes

The effective tax rate on income from operations was 36% in 1998 and 1997, and 35% in 1996. The tax rate in 1996 reflected the impact of research and experimentation tax credits taken in 1996 relating to prior years. The effective tax rate in 1996 would have been 37% without the impact of those credits. A more detailed analysis of income taxes is presented in Note L to the Consolidated Financial Statements.

Net Income

Net income in 1998 was $122 million ($1.61 per diluted common share) compared with $93 million ($1.19 per diluted common share) in 1997 and $194 million ($2.42 per diluted common share) in 1996. Net income in 1998 included a $90 million ($0.77 per diluted common share) gain from the sale of 2.3 million shares of the Company's investment in K N Energy, Inc. common stock, a $60 million ($0.51 per diluted common share) asset impairment charge related to an Indonesian carbon black plant, and a $25 million ($0.21 per diluted common share) charge related to a tantalum ore recovery project. Net income in 1997 included special charges for asset impairments and severance costs totaling $18 million ($0.15 per diluted common share). Net income for 1996 included several special items. These items were $5 million ($0.06 per diluted common share) of tax benefits from research and experimentation tax credits, a $28 million ($0.22 per diluted common share) gain from the sale of 1.85 million shares of the Company's investment in K N Energy, Inc., a $39 million ($0.31 per diluted common share) gain from the sale of the Company's coal handling and distribution business, and other gains totaling $6 million ($0.05 per diluted common share) in the Company's LNG business. Excluding special items, net income would have been $118 million ($1.56 per diluted common share) in 1998, $104 million ($1.34 per diluted common share) in 1997, and $143 million ($1.78 per diluted common share) in 1996.

Specialty Chemicals and Materials

Specialty Chemicals and Materials Group sales increased to $1,437 million in 1998 from $1,430 million in 1997. The increase in sales reflects 6% greater chemical volumes, partially offset by lower year-to-year carbon black selling prices and the effects of a stronger U.S. dollar.

In 1997, Specialty Chemicals and Materials Group sales were flat compared with 1996, despite significantly lower year-to-year carbon black selling prices. The effect of a 6% global increase in specialty chemicals volumes was more than offset by lower selling prices, primarily in the Company's European and Asia Pacific

carbon black markets. Sales growth in the fumed silica and microelectronics materials businesses was partially offset by a decline in sales of plastics and tantalum capacitor materials.

The Company has been developing and commercializing new high-value, differentiated products in its specialty chemicals businesses. Five-year new products (defined as products that were first sold in commercial quantities within the last five years) accounted for approximately 11% of specialty chemical revenues in 1998, compared with 9% in 1997, and 8% in 1996. The Company continues to vigorously pursue a number of new product and new business opportunities.

Operating profit for the Specialty Chemicals and Materials Group totaled $226 million, $199 million and $261 million in 1998, 1997 and 1996, respectively. Operating profit, before special items, increased 14% in 1998 on 6% greater volumes. The Company's carbon black business reported a modest increase in operating profit as a result of increased volumes, primarily in North America and Europe. The effect of lower year-to-year carbon black selling prices more than offset the effect of lower feedstock costs. The Company's fumed silica, microelectronics materials, performance materials and plastics businesses all experienced improved operating results for the year.

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In 1997, the Company's carbon black operations accounted for most of the year-to-year decline in operating profit. Lower European and Asia Pacific selling prices, higher raw material costs, increased plant start-up costs, and a stronger U.S. dollar more than offset the benefits of greater volumes.

The CARBON BLACK business reported a modest increase in operating profit before special items in 1998 despite the negative effects of weak Asia Pacific demand and a strengthened U.S. dollar. Overall volumes increased 3% year over year, however, the carbon black business continued to experience lower year-to-year margins, as the effect of lower selling prices more than offset lower feedstock costs. Overall selling prices were down 4% during 1998. In addition, feedstock costs during 1998 were on average 9% lower.

The carbon black business's operating profit decreased 23% in 1997 from 1996. Lower selling prices, coupled with higher raw material costs and increased plant start-up costs, more than offset volume gains and reductions in spending on research and development, and market development initiatives.

The Company's FUMED SILICA business reported increased sales in 1998 and 1997 of 4% and 15%, respectively. The increases in 1998 and 1997 were primarily the result of higher volumes coupled with higher prices and increased sales of new products. Operating profit increased 20% and 8% in 1998 and 1997, respectively, due to higher gross margins, partially offset by increased spending to support a new market segmentation strategy. The Company's purchase of its former partner's 50% interest in the Rheinfelden, Germany, fumed silica plant contributed significantly to improved operating results in 1998.

In the PLASTICS business, sales were flat and operating profit increased 20% in 1998. Improved product mix and cost reduction efforts contributed to the earnings improvement in this business in 1998. Sales and operating profit in 1997 were down 6% and 15%, respectively from 1996. Higher volumes in 1997 were more than offset by lower selling prices. Severe pricing pressure that began in 1996 continued throughout 1997.

Sales and operating profit of the PERFORMANCE MATERIALS business, which primarily manufactures tantalum products for the electronic capacitors industry, increased 15% and 56%, respectively, in 1998. Volumes increased 19% during 1998, reflecting strengthened demand for capacitors from the U.S. electronics industry. The effects of increased volumes were partially offset by increased new product development spending.

Sales increased 4% and operating profit decreased 23% in 1997. Lower volumes and higher material costs were partially offset by higher overall selling prices. During the second half of 1996 and the first half of 1997, volumes were weak due to a slowdown in the U.S. electronics market and inventory surpluses downstream in the tantalum supply chain.

The Company's MICROELECTRONICS MATERIALS business reported a significant growth in sales and operating profit. In 1998, this business experienced a 61% increase in volumes. Operating profit improved significantly in 1998 due to increased volumes and improved plant utilization, offset somewhat by higher spending on research and development, and market development initiatives. Positive operating profit was reported for the first time in this business in 1996. The Company expects continued significant sales growth in this business during 1999* (see page 29).

The Company's SPECIALTY FLUIDS business unit is developing cesium-based drilling and completion fluids, and markets those fluids to the oil well drilling and services industry. The Company's cesium processing plant located at a mine owned by a Cabot subsidiary in Manitoba, Canada, has been producing commercial quantities of brine fluids that are now available for tests expected to be conducted during the first quarter of calendar 1999. Commercial sales of the product are expected to begin in the latter part of 1999* (see page 29).

Energy

The LNG business conducts liquefied natural gas importing, storing, transporting and marketing operations. In prior years, the LNG business, together with the Company's TUCO coal services business, formed the Company's Energy Group. The Company sold TUCO, effective September 30, 1996. During 1996, TUCO earned $14 million of operating profit.

The LNG business reported sales and operating profit of $211 million and $15 million, respectively in 1998, compared with $200 million and $6 million, respectively, in 1997. The increase in earnings in 1998 is 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. Customers pay a premium over the commodity natural gas prices in order to secure firm commitments for delivery. In the second half of the year, operating results were negatively affected by lower than usual summer gas prices and a weak summer liquid refill market due to an unusually warm winter. The LNG business supplied the New England gas market with 17 cargoes in 1998 versus 18 cargoes in 1997.

In 1997, revenue increased to $200 million from $144 million in 1996. The increase in revenue was due to significantly greater volumes and higher gas prices. The business received 18 LNG cargoes in 1997 compared with 10 cargoes in 1996. Gas volumes sold increased 36% year-to-year. Operating profit increased to $6 million during 1997, from $3 million during 1996. In 1996, operating profit excluded $6 million of special items. The positive earnings effect of higher volumes and prices was partially offset by higher gas costs.

The profitability of the LNG business during the next year, until its Trinidad LNG supply becomes available during the second half of fiscal 1999, depends in large part on its LNG supply from Algeria. To date, the political instability in Algeria has not interrupted the operations of the Company's Algerian LNG supplier* (see page 29).

Risk Management

The Company'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 cash flows and earnings. To achieve its objectives, the Company 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 Company enters into contracts with customers and suppliers that are designed to limit the risk of certain foreign currency rate and commodity price changes. The Company enters into certain contracts in the carbon black business in which the price of the product is adjusted based on certain movements in feedstock. The LNG business enters into certain supply contracts where the purchase price of the LNG is adjusted based on the final selling price. Certain contracts in the Company's foreign subsidiaries are denominated in the U.S. dollar or a currency other than the functional currency of the subsidiary. Additionally, the Company attempts to limit its net monetary exposure in currencies of hyperinflationary countries, primarily in South America and Asia.

The Company determines the net worldwide exposures to interest rate changes, foreign currency rate changes, and commodity price changes and limits the impact of rate and price changes through the use of derivative financial instruments. When entered into, these financial instruments are generally designated as hedges of underlying exposures associated with specific assets, liabilities, or firm commitments and are monitored to determine if they remain effective hedges. Market risk exposure to other financial instruments of the Company are not material to earnings, cash flow or fair values.

Foreign Currency

The Company's international operations are subject to certain opportunities and risks, including currency fluctuations and government actions. The Company closely monitors its operations in each country so it can effectively respond to changing economic and political environments and to fluctuations in foreign currencies. The primary currencies to which the Company is exposed, and that it primarily hedges, include the German deutschemark and other European currencies and, to a lesser extent, South American and Asian currencies. Accordingly, the Company utilizes foreign currency option contracts and forward contracts to hedge its exposure primarily on receivables and payables denominated in currencies other than the entities' functional currencies and on anticipated transactions and firm com-

mitments. The Company monitors its foreign exchange exposures to ensure the overall effectiveness of its foreign currency hedge positions.

Interest Rates

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

Commodity

The Company has price risk exposure due to changes in its natural gas sales prices and supply costs. The Company enters into commodity futures contracts to hedge its gross margin exposure. The Company utilizes commodity futures contracts for hedging firmly committed and anticipated transactions and monitors its exposure daily to ensure overall effectiveness of its hedge positions.

Value At Risk

The Company utilizes a Value-at-Risk ("VAR") model to determine the maximum potential loss in the fair value of its interest rate, commodity and foreign exchange sensitive derivative financial instruments. (see Note O to the Consolidated Financial Statements regarding the Company's financial instruments as of September 30, 1998). The Company's computations for each type of exposure were based on the interrelationships between movements in various currencies, commodities and interest rates. These interrelationships were determined by observing interest rate, commodity and foreign currency market changes over corresponding periods. The firm and anticipated transactions, assets and liabilities, denominated in foreign currencies, which are hedged by the 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 which can be used in the VAR computation. The Company's computations are based on the Monte Carlo simulation. The VAR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by the Company, nor does it consider the potential effect of favorable changes in market factors. The Company's VAR models estimate a maximum loss in market value for each type of derivative instrument held as of September 30, 1998. The results of the VAR models are as follows:

	Maximum Loss	Period
Foreign currency	$0.4 million	two weeks
Interest Rate	$ 12 million	six months
Commodity	$ 1 million	one month

At no time during the year did the change in market value of these instruments exceed the VAR measure stated above.

Management does not foresee or expect any significant changes in the management of hedging instruments relating to foreign currency, commodity or interest rate exposures or in the strategies it employs to manage such exposures in the near future* (see page 29).

Since the Company utilizes currency, interest rate 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

On January 1, 1999, eleven of fifteen member countries of the European Union are scheduled to establish fixed conversion rates between their existing currencies ("legacy currencies") and one common currency, the euro. The euro will then trade on currency exchanges and may be used in business transactions. The conversion to the euro will eliminate currency exchange rate risk among the eleven member countries. Beginning in January 2002, new euro-denominated bills and coins will be issued. The Company's business units affected by the euro conversion have established plans to address the issues raised by the euro currency conversion. These issues include, among others, the need to adapt computer and financial systems, business processes and equipment, and the need to accommodate euro-denominated transactions and the impact of one common currency on product pricing, taxation and governmental and legal regulations. The Company does not expect the system and equipment conversion costs to be material to its financial condition, results of operations or cash flows. Due to numerous uncertainties, the Company cannot reasonably estimate the effects one common currency will have on pricing and the resulting impact, if any, on its financial condition, results of operations or cash flows* (see page 29).

Cash Flow and Liquidity

Cash generated in 1998 from the Company's operating activities increased to $236 million from $144 million in 1997. Cash gener-

ated from operations was used substantially to fund capital spending and repurchases of the Company's common stock.

Research and technical service spending for 1998, 1997 and 1996 was $83 million, $83 million and $80 million, respectively. Spending, as a percentage of the Specialty Chemicals and Materials Group revenues, was approximately 6% in 1998, 1997 and 1996. The Company is committed to the development of new, differentiated products for its specialty chemicals businesses. The Company anticipates research and development spending to remain near $80 million in 1999 for these and other initiatives* (see page 29).

Capital spending on property, plant and equipment, and investments and acquisitions for 1998, 1997 and 1996 was $247 million, $181 million and $269 million, respectively. The major components of the 1998 capital program included new business expansion spending, the Company's share of a natural gas liquefaction project in Trinidad, refurbishment of the Company's LNG tanker, capacity expansion in the Company's fumed silica business and normal plant operating capital projects.

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Although the Company expects to continue to invest in new business opportunities, it expects to decrease the rate of capital spending in 1999 from 1998. These expenditures are expected to include portions of the projects mentioned in the preceding paragraph and several new business initiatives. In addition to normal plant operating projects, the Company expects 1999 expenditures to include environmental compliance costs in North America* (see page 29).

Over the next several years, the Company also expects to spend a significant portion of its $36 million environmental reserve in connection with remediation at various environmental sites. These sites are primarily associated with divested businesses* (see page 29).

In 1998, the Company sold 2.3 million shares of K N Energy, Inc. ("KNE") and recognized a $90 million gain from the sale of those securities. Proceeds from the sale were used to repay debt. The Company continues to own approximately 650,000 shares of KNE common stock.

In October 1997, the Company issued $50 million of notes maturing as follows: $25 million mature in 30 years and $25 million mature in 30 years with a one-time put option 7 years from issuance. Proceeds from the issuance were used to reduce short-term debt.

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

On September 11, 1998, the Company's Board of Directors authorized the repurchase of 4 million shares of its common stock. As of September 30, 1998, approximately 3.3 million shares remained available for purchase under the Board authorization.

During 1998, the Company repurchased 3.8 million shares of its common stock for a total of $101 million. During 1997, 3.5 million shares were repurchased for a total of $85 million. During 1996, 3 million shares were repurchased for a total of approximately $122 million. The Company's common stock repurchase activity is expected to continue in 1999* (see page 29).

During 1998, the Company paid cash dividends of $0.42 per share. In November 1998, the Board of Directors approved an $0.11 per share dividend payable in the first quarter of fiscal year 1999.

The ratio of total debt (including short-term debt net of cash) to capital was 43% at the end of 1998 and 1997.

The Company maintains a credit agreement under which the Company may borrow up to $300 million at floating rates. This facility is available through January 3, 2002. The Company had no borrowings outstanding under this line at September 30, 1998.

Management expects cash from operations and present financing arrangements, including the Company's unused line of credit and shelf registration, to be sufficient to meet the Company's cash requirements for the foreseeable future* (see page 29).

Year 2000 Readiness Disclosure

As the millennium approaches, there is growing public attention concerning the impact that the Year 2000 date change could have on all organizations that rely, directly or indirectly, on computerized systems to help run their operations. This issue may have a direct impact on computer systems that affect safety at a company's plants, systems that enable key suppliers to provide raw material and parts, and systems that assist a company to make and ship product and account for revenue and costs.

In evaluating its Year 2000 readiness, the Company has developed a program to inventory, assess, remediate and test its core business systems, information technology infrastructure (IT) and embedded plant systems. Core business systems are those software and hardware systems that record relevant data for business operations and summarize revenue, cost, cash flow, capital and other information. Information technology infrastructure refers primarily to computer hardware and software used in the desktop environment. Embedded plant systems are all computer based controls and equipment which are embedded within a plant's manufacturing equipment and systems.

The Company carried out an inventory of its core business systems in order to assess such systems' Year 2000 readiness. The Company's assessment indicated that, as a result of investments in significant systems renewals during the past several years, many of the Company's core business systems are Year 2000 ready. Although some of the Company's older core business systems required replacement or remedial action, such replacement or remedial action is continuing under the Company's Year 2000 program, to be completed in 1999. The Company is now performing concurrent inventory, assessment and remediation for its information technology infrastructure and embedded systems. Testing of these systems in concert will occur as the remediation process progresses. The Company expects to complete all phases of its Year 2000 program before the millennium.

The Company does not believe that the cost of implementing system and program changes specifically necessary to address Year 2000 issues will have a material effect on the Company's results of operations or financial condition. During fiscal year 1998, the Company recognized costs of approximately $1 million that it would not have spent but for the Year 2000 issue. The Company expects to spend approximately $2 million during fiscal year 1999. There can be no assurance that there will not be increased costs associated with the implementation of such program changes.

The Company cannot predict reliably 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 the Company, its operations or financial condition. The Company does not know what is the most likely "worse case scenario" as a result of Year 2000 disruptions, but believes that the effects on the Company are not substantially different from those facing industry generally. The Company 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 the Company's plants that could delay production of the Company's products and disruptions in transportation services that could delay shipments from the Company's suppliers or to the Company's customers. In addition, the Company does not know whether any of its customers will experience Year 2000 disruptions either directly or as a result of disruptions in their customers' businesses or in the economy generally, but any such disruptions might reduce demand for the Company's products and adversely affect the Company. At this time, however, the Company 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.

The Company has made appropriate inquiries of all of its critical information technology vendors (hardware and software) and is in the process of making inquiries concerning the Year 2000 readiness of certain suppliers. Even in cases where the Company has received assurances that delays or disruption will not be encountered by third parties, the Company is not in a position to determine with certainty whether the assurances will prove accurate, given the uncertainties associated with the Year 2000.

The Company is identifying those areas where it will develop contingency plans. Because such plans necessarily depend on the Company's then state of readiness with respect to the Year 2000 issues and the information it then has with respect to third parties and other external factors, those plans will likely continue to evolve until even after December 31, 1999. In addition, many of the Company's contingency plans will of necessity depend on the continued operation of various third parties, in which case such contingency plans may be hindered by Year 2000 disruptions affecting such third parties.

New Accounting Standards

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). The statement, which must be adopted for periods beginning after December 15, 1997, establishes standards for reporting and display of comprehensive income and its components in consolidated financial statements. The effect of adopting SFAS 130 is not expected to be material to the Company's financial position or results of operations.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), which must be adopted for periods beginning after December 15, 1997. Under the new standard, companies will be required to report certain information about operating segments in consolidated financial statements. Operating segments will be determined based on the way that management organizes its business for making operating decisions and assessing performance. The standard also requires that companies report certain information about their products and services, the geographic areas in which they operate, and their major customers. The Company is currently evaluating the effect of implementing SFAS 131.

In February 1998, FASB issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132"), which revises employers' disclosures about pension and other postretirement benefit plans. It significantly changes current financial statement disclosure requirements under SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 132 standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer useful. It does not change the measurement or recognition of those plans. The Statement is effective for fiscal years beginning after December 15, 1997.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This Statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company is currently evaluating the effect of implementing SFAS 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"). The SOP is applicable to the Company beginning in fiscal 2000. The Company engages in ongoing update, enhancement and replacement of its computer systems. Currently, the Company capitalizes external costs associated with services and software incurred in connection with these activities which are significant. To date, internal resources associated with these activities have not been significant. The Company is currently evaluating the effect of implementing SOP 98-1.

In April 1998, AcSEC issued Statement of Position 98-5, "Accounting for the Costs of Start-Up Activities" ("SOP 98-5"), which requires all costs of start-up activities to be expensed as incurred. SOP 98-5 is effective for years beginning after December 15, 1998. The adoption of this SOP by the Company will be reflected as a cumulative effect of a change in accounting principle. The Company is currently evaluating the effect of implementing SOP 98-5.

*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, management's expectations for the Company'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 our 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, 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 the Company to assess and mitigate risks should not be considered projections of future events or losses.

consolidated balance sheets

September 30	1998	1997
Dollars in millions		
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39.6	$ 39.2
Accounts and notes receivable (net of reserve for doubtful accounts of $4.6 and $5.6)	284.3	288.6
Inventories (Note C)	251.1	246.9
Prepaid expenses	26.1	23.4
Deferred income taxes (Note L)	17.8	15.2
Total current assets	618.9	613.3
Investments:		
Equity (Notes B and D)	91.1	86.1
Other (Notes D and N)	72.5	146.6
Total investments	163.6	232.7
Property, plant and equipment (Note E)	1,914.3	1,759.8
Accumulated depreciation and amortization	(936.3)	(837.5)
Net property, plant and equipment	978.0	922.3
Other assets:		
Intangible assets (net of accumulated amortization of $16.0 and $12.4) (Note B)	24.2	39.1
Deferred income taxes (Note L)	3.9	4.2
Other assets	16.6	14.1
Total other assets	44.7	57.4
Total assets	$1,805.2	$1,825.7

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

consolidated balance sheets

September 30	1998	1997
Dollars in millions		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	$ 253.3	$ 200.8
Current portion of long-term debt (Note G)	11.4	115.0
Accounts payable and accrued liabilities (Notes F and H)	268.2	223.9
U.S. and foreign income taxes	0.4	2.8
Deferred income taxes (Note L)	3.0	1.0
Total current liabilities	536.3	543.5
Long-term debt (Note G)	316.3	285.5
Deferred income taxes (Note L)	82.4	99.2
Other liabilities (Notes H, K and N)	139.6	146.9
Commitments and contingencies (Note N)		
Minority interest	25.1	22.8
Stockholders' equity (Notes D, G, I 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 $67.4 and $69.4)	75.3	75.3
Less cost of shares of preferred treasury stock	(13.6)	(9.4)
Common stock:		
Authorized: 200,000,000 shares of $1 par value		
Issued: 67,241,624 and 135,549,936 shares	67.2	135.5
Additional paid-in capital	4.9	39.3
Retained earnings	671.7	1,238.2
Less cost of common treasury stock	--	(705.4)
Unearned compensation	(26.2)	(18.3)
Deferred employee benefits	(60.6)	(62.5)
Unrealized gain on marketable securities	16.7	53.9
Foreign currency translation adjustments	(29.9)	(18.8)
Total stockholders' equity	705.5	727.8
Total liabilities and stockholders' equity	$ 1,805.2	$ 1,825.7

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

consolidated statements of income

Years ended September 30	1998	1997	1996
Dollars in millions, except per share amounts			
Revenues:			
Net sales and other operating revenues	$ 1,647.8	$ 1,630.0	$ 1,856.3
Interest and dividend income (Notes D and O)	5.0	6.7	8.9
Total revenues	1,652.8	1,636.7	1,865.2
Costs and expenses:			
Cost of sales	1,120.9	1,144.4	1,310.0
Selling and administrative expenses	229.7	216.5	206.9
Research and technical service	82.7	82.7	79.6
Interest expense (Notes G and O)	42.0	43.2	41.7
Special items (Note B)	85.0	18.2	--
Gain on sale of equity securities (Note D)	(90.3)	--	(28.3)
Gain on sale of business (Note B)	--	--	(38.9)
Other charges, net	14.8	14.6	14.4
Total costs and expenses	1,484.8	1,519.6	1,585.4
Income before income taxes	168.0	117.1	279.8
Provision for income taxes (Note L)	(60.5)	(42.1)	(98.2)
Equity in net income of affiliated companies (Note D)	17.0	19.5	18.5
Minority interest	(2.9)	(1.7)	(6.0)
Net income	121.6	92.8	194.1
Dividends on preferred stock, net of tax benefit of $2.0, $2.1 and $2.1	(3.2)	(3.3)	(3.3)
Income applicable to common shares	$ 118.4	$ 89.5	$ 190.8
Weighted average common shares outstanding, in millions (Notes I and J):			
Basic	65.6	67.5	69.6
Diluted	74.6	76.7	79.3
Income per common share (Note J):			
Basic	$ 1.80	$ 1.33	$ 2.74
Diluted	$ 1.61	$ 1.19	$ 2.42

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

consolidated statements of cash flows

Years ended September 30	1998	1997	1996
Dollars in millions			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$121.6	$ 92.8	$ 194.1
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	115.4	109.9	97.0
Deferred tax expense (benefit)	12.0	(13.2)	3.7
Equity in income of affiliated companies, net of dividends received	(9.5)	(9.1)	(5.6)
Special items	60.0	18.2	--
Gain on sale of equity securities	(90.3)	--	(28.3)
Gain on sale of business	--	--	(38.9)
Other, net	11.7	8.2	8.8
Changes in assets and liabilities, net of the effect of the consolidation of equity affiliates and excluding assets and liabilities of businesses sold:			
Decrease (Increase) in accounts and notes receivable	7.6	(28.9)	0.1
Decrease (Increase) in inventories	(3.2)	2.7	(39.0)
Increase (Decrease) in accounts payable and accrued liabilities	30.8	(22.6)	(3.4)
Other, net	(19.7)	(13.8)	(36.6)
Cash provided by operating activities	236.4	144.2	151.9
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	(187.4)	(162.8)	(209.1)
Proceeds from sales of property, plant and equipment	6.3	1.1	2.8
Purchases of equity securities	(20.2)	(11.3)	--
Proceeds from sales of equity securities	129.5	--	57.6
Investments and acquisitions, excluding cash acquired	(39.2)	(7.3)	(59.5)
Proceeds from sale of business	--	35.0	--
Cash from consolidation of equity affiliates and other	1.9	--	11.2
Cash used by investing activities	(109.1)	(145.3)	(197.0)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	63.1	90.0	9.8
Repayments of long-term debt	(133.5)	(21.5)	(40.2)
Net increase in short-term debt	52.5	16.7	168.6
Purchases of treasury stock	(105.2)	(85.8)	(123.5)
Sales and issuances of treasury stock	24.4	16.7	28.6
Cash dividends paid to stockholders	(31.7)	(31.3)	(30.5)
Cash provided (used) by financing activities	(130.4)	(15.2)	12.8
Effect of exchange rate changes on cash	3.5	(2.6)	(0.4)
Increase (Decrease) in cash and cash equivalents	0.4	(18.9)	(32.7)
Cash and cash equivalents at beginning of year	39.2	58.1	90.8
Cash and cash equivalents at end of year	$ 39.6	$ 39.2	$ 58.1

The accompanying notes are an integral part of these 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 (the "Company") are described below.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company 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 percent to 50 percent owned affiliates are accounted for on 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 and losses, net of taxes, are excluded from income and recognized as a separate component of 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 I)

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. (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 over 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 for 1998, 1997 and 1996, of $5.3 million, $5.0 million and $4.8 million, respectively. (Note B)

Impairment of Long-Lived Assets

The Company 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 in a separate component of 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 1998, 1997 and 1996 are foreign exchange losses of $6.6 million, $6.1 million and $2.6 million, respectively. The financial statements of foreign operations that operate in hyperinflationary economies are translated at either current or historical exchange rates, as appropriate. These currency adjustments are included in net income. (Note I)

Financial Instruments

Derivative financial instruments are used by the Company to manage its interest rate and foreign currency exposures, and to a lesser extent, commodity prices. Interest rate swaps are employed to achieve the Company'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 expense or income. Realized gains and losses on foreign currency instruments, that are effective as hedges of net cash flows in foreign operations, are recognized in income as the instruments mature. Realized and unrealized gains and losses on forward currency contracts, that are effective as hedges of assets and liabilities, are recognized in income. Realized gains and losses on foreign currency instruments, that are hedges of committed transactions, are recognized at the time the underlying transaction is completed. Commodity futures and forward contracts are used by the Company, on occasion, to hedge the procurement of raw materials, primarily feedstock, and to hedge the sale of liquefied natural gas. Realized gains and losses on commodity futures and forward contracts on qualifying hedges are included as a component of raw materials or sales revenues, as appropriate, and are recognized when the related materials are purchased or sold. (Note O)

Fair Values of Financial Instruments

The recorded amounts of cash and cash equivalents, receivables, investments in securities, accounts payable, and short-term debt approximate their fair values. The fair value of long-term debt and derivatives is based upon third party sources. Fair values received from third party sources are estimated by appropriate valuation techniques based on information available. The fair-value estimates do not necessarily reflect the values the Company could realize in the current market. (Notes G and O)

Revenue Recognition

Revenues are recognized when finished products are shipped to unaffiliated customers or services have been rendered, with 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 the Company has designated to be permanently reinvested. (Note L)

Stock-Based Compensation

In accordance with the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company 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, and accordingly, does not recognize compensation cost. The Company discloses the summary of pro forma effects to reported net income and earnings per share for 1998, 1997 and 1996 as if the Company 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 K)

Year 2000 Costs

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

Earnings Per Share

During the quarter ended December 31, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128"). SFAS No. 128 establishes standards for computing and presenting earnings per share ("EPS") and requires the presentation of both basic and diluted EPS. As a result, primary and fully diluted EPS have been replaced by basic and diluted EPS. Prior years' EPS have been restated to conform with the standards established by SFAS No. 128. (Notes J and Q)

Environmental Cleanup Matters

The Company expenses environmental costs related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible. The Company 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. The Company'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 the Company is not discounted or reduced for possible recoveries from insurance carriers. (Note N)

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.

Reclassification

Certain amounts in 1997 and 1996 have been reclassified to conform to the 1998 presentation.

Note B Business Developments and Special Items

On December 18, 1997, the Company signed an agreement, effective October 1, 1997, to acquire the remaining 50% interest in its fumed silica joint venture in Rheinfelden, Germany, for approximately $20.0 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 $11.0 million, was recorded as goodwill and is being amortized over 15 years.

The Company acquired an 80% ownership interest in P.T. Continental Carbon Indonesia ("PTCCI"), an Indonesian carbon black plant located in Merak, Indonesia, during 1996. The recent financial and economic circumstances in Indonesia have resulted in a significant decline in demand for carbon black in the region. As a result, management decided to halt production at this plant during 1998. In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets" ("SFAS No. 121"), the Company recognized an impairment loss of $60.0 million for the difference between the carrying value of PTCCI's long-lived assets of $77.0 million and the estimated fair value. The charge to the Specialty Chemicals and Materials Group consisted of $34.0 million for property, plant and equipment and other assets and $26.0 million for goodwill and other intangible assets. The Company 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, the Company entered into an agreement to process tantalum ore residues accumulated from the Company's past production of tantalum. The Company expected the process would produce economic recoveries of tantalum and capitalized prepaid expenses of approximately $25.0 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 $25.0 million to operations of the Specialty Chemicals and Materials Group.

During 1997, earnings were reduced by the recognition of special charges totaling $18.2 million for asset impairments of $10.3 million and employee severance costs of $7.9 million in the Specialty Chemicals and Materials Group.

During 1996, the Company sold its coal transportation business, TUCO, for $85.0 million and recorded a gain of $38.9 million related to the sale. Cash proceeds of $35.0 million from the sale were received on October 4, 1996.

During 1996, the Company recognized gains of $2.5 million on the settlement of a contractual matter and $3.3 million from a reduction in its ownership position in the Trinidad natural gas liquefaction project.

On November 14, 1995, the Company modified its existing joint venture agreement for its carbon black venture in Shanghai, China. This amendment provided for the expansion of the facility and the increase of the Company's ownership interest to 70%, which is to take effect as the expansion is funded. As a result, the Company will account for this venture on a consolidated basis as of October 1, 1998.

Note C Inventories

Inventories were as follows:

September 30	1998	1997
Dollars in millions		
Raw materials	$ 68.2	$ 81.1
Work in process	62.9	59.8
Finished goods	76.1	64.1
Other	43.9	41.9
Total	$251.1	$246.9

Inventories valued under the LIFO method comprised approximately 32% and 35% of 1998 and 1997 total inventory, respectively. At September 30, 1998 and 1997, the estimated current cost of these inventories exceeded their stated valuation determined on the LIFO basis by approximately $32.0 million and $31.0 million, respectively.

Note D Investments

At September 30, 1998 and 1997, investments in common stock accounted for under the equity method, amounted to $91.1 million and $86.1 million, respectively. Dividends received from equity affiliates were $7.5 million in 1998, $10.4 million in 1997 and $12.9 million in 1996.

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

September 30	1998	1997
Dollars in millions		
Condensed Income Statement Information:		
Net sales	$617.5	$632.1
Gross profit	237.5	234.7
Net income	26.1	40.7
Condensed Balance Sheet Information:		
Current assets	$280.5	$296.6
Non-current assets	419.1	419.5
Current liabilities	221.9	260.1
Non-current liabilities	306.6	287.3
Net assets	171.1	168.7

Other investments include available-for-sale equity securities. The fair market value of available-for-sale equity securities was $53.9 million and $136.8 million as of September 30, 1998 and 1997, respectively. Gains related to sales of available-for-sale securities were $90.3 million and $28.3 million in 1998 and 1996, respectively. Sales of available-for-sale 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	1998	1997
Dollars in millions		
Land and improvements	$ 73.6	$ 50.2
Buildings	290.6	294.2
Machinery and equipment	1,277.2	1,218.0
Other	74.7	55.2
Construction in progress	198.2	142.2
Total property, plant and equipment	$1,914.3	$1,759.8
Less: accumulated depreciation	936.3	837.5
Net property, plant and equipment	$ 978.0	$ 922.3

Depreciation expense was $110.1 million, $104.9 million and $92.2 million for the years ended September 30, 1998, 1997 and 1996, respectively.

Note F Accounts Payable & Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following:

September 30	1998	1997
Dollars in millions		
Accounts payable	$147.8	$116.6
Accrued employee compensation	22.4	21.2
Other accrued liabilities	98.0	86.1
Total	$268.2	$223.9

Note G Debt

Unsecured long-term debt consisted of the following:

September 30	1998	1997
Dollars in millions		
Fixed Rate Notes (stated rate):		
Notes due 1997, 10.25%	$ --	$ 100.0
Notes due 2002-2022, 8.07%	105.0	105.0
Notes due 2004-2011, 7.17%	90.0	90.0
Note due 2027, 7.28%	25.0	--
Note due 2027, put option 2004, 6.57%	25.0	--
Guarantee of ESOP notes, due 2013, 8.29%	60.6	62.5
Foreign term loan, due 2000, 8.7%	6.7	10.1
Other, due beginning in 1999 with various rates from 3.0% to 18.5%	7.1	12.7
Variable Rate Notes (end of year rate):		
Foreign term loan, due 2001, floating rate 5.4%	8.3	10.8
Overseas Private Investment Corporation term loan, due 2002, floating rate 7.5%	--	9.4
	$327.7	$ 400.5
Less: current portion of long-term debt	(11.4)	(115.0)
Total	$316.3	$ 285.5

In June 1992, the Company filed a $300.0 million shelf registration statement with the Securities and Exchange Commission. Subsequently, $105.0 million of notes payable were refinanced with notes of a weighted average maturity of 19 years and a weighted average interest rate of 8.07%. The notes were issued at par and provide for principal to be repaid at maturity.

In February 1997, the Company issued $90.0 million of medium term notes. The notes have a weighted average maturity of 11 years and a weighted average interest rate of 7.17%.

In October 1997, the Company issued a total of $50.0 million in medium term notes. These notes included a $25.0 million note, with an interest rate of 7.28% due in 2027, and a $25.0 million note, with an interest rate of 6.57% due in 2027 and a put option in 2004.

On September 29, 1998, the Company filed a $500.0 million shelf registration statement with the Securities and Exchange Commission which was effective as of October 13, 1998. This registration includes the remaining $55.0 million not yet issued under the 1992 registration. As of September 30, 1998, no notes have been issued under the new registration.

During fiscal 1989, the Company's Employee Stock Ownership Plan ("ESOP") borrowed $75.0 million from an institutional lender in order to finance its purchase of 75,000 shares of the Company's Series B ESOP Convertible Preferred Stock. This debt bears interest at 8.29% per annum, and is to be repaid in equal quarterly installments through December 31, 2013. The Company, as guarantor, has reflected the outstanding balance of $60.6 million and $62.5 million as a liability on the Company's consolidated balance sheet at September 30, 1998 and 1997, respectively. An equal amount, representing deferred employee benefits, has been recorded as a reduction of stockholders' equity.

The Company may borrow up to $300.0 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, 1998 or 1997.

The aggregate principal amounts of long-term debt due in each of the five fiscal years 1999 through 2003 and thereafter are $11.4 million, $10.3 million, $4.1 million, $25.8 million, $3.0 million and $273.1 million, respectively.

At September 30, 1998 and 1997, the fair value of long-term borrowings was approximately $333.5 million and $313.0 million, respectively.

The weighted average interest rate on short-term borrowing was approximately 6% and 7% as of September 30, 1998 and 1997, respectively.

Note H Pension Plans & Postretirement Benefits

Pension Plans

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

Pension benefits accrue under several benefit plans, including the following two plans: the Cash Balance Plan ("CBP"), a defined benefit pension plan, and the Employee Stock Ownership Plan ("ESOP"). In November 1988, the ESOP was funded with the Company's newly issued Series B ESOP Convertible Preferred Stock, which was acquired with $75.0 million borrowed by the ESOP.

At September 30, 1998 and 1997, the projected benefit obligations included accumulated benefit obligations of $204.1 million and $175.6 million, respectively, of which $197.2 million and $167.7 million were vested in 1998 and 1997, respectively.

Net periodic pension cost was comprised of the following elements:

Years ended September 30	1998	1997	1996
Dollars in millions			
Service cost	$ 7.9	$ 7.7	$ 7.8
Interest cost	11.2	14.0	13.4
Actual return on plan assets	(20.7)	(28.3)	(18.8)
Net amortization	5.5	10.3	2.9
Net periodic pension cost	$ 3.9	$ 3.7	$ 5.3

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

September 30	1998	1997
Dollars in millions		
Actuarial present value of projected benefit obligation	$220.2	$195.0
Plan assets at fair value (primarily fixed-income and equity securities)	237.8	222.4
Excess of plan assets over projected benefit obligation	17.6	27.4
Unrecognized net gain	(33.9)	(48.9)
Unrecognized prior service cost being amortized over 6-12 years	1.3	6.1
Unrecognized net transition asset being amortized over 6 years	(3.5)	(4.9)
Net deferred pension credit (included in other liabilities)	$ (18.5)	$ (20.3)

The following weighted average rates were used in the calculations:

Years ended September 30	1998	1997
Discount rate	6.3%	7.4%
Expected rate of return on plan assets	8.1%	8.9%
Assumed rate of increase in compensation	4.6%	5.0%

Postretirement Benefits

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

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

Years ended September 30	1998	1997	1996
Dollars in millions			
Service cost	$0.8	$0.9	$0.8
Interest cost	5.6	5.6	5.3
Net amortization	0.2	0.2	0.2
Net periodic postretirement benefit cost	$6.6	$6.7	$6.3

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

Years ended September 30	1998	1997
Dollars in millions		
Accumulated postretirement benefit obligations:		
Retirees	$ 66.3	$ 61.9
Fully eligible active plan participants	8.0	6.3
Other active plan participants	15.9	12.1
	90.2	80.3
Plan assets at fair value	--	--
Excess of accumulated postretirement benefit obligations over plan assets	(90.2)	(80.3)
Unrecognized net loss	20.0	10.8
Unrecognized prior service cost	(1.4)	(1.1)
Accrued postretirement benefit cost	$(71.6)	$(70.6)

Health care cost trend rate assumptions have a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point for each future year would increase the

accumulated postretirement benefit obligation by approximately $8.4 million as of September 30, 1998 and 1997, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years then ended by approximately $0.8 million.

The following weighted average rates were used in the calculations:

Years ended September 30	1998	1997
Discount rate	6.3%	7.3%
Assumed rate of increase in compensation	5.3%	5.3%
Assumed annual rate of increase in health care benefits	5.5%	5.5%

notes to consolidated financial statements (continued)

Note I Stockholders' Equity

The following table summarizes the changes in stockholders' equity.

Years ended September 30	1998	1997	1996
Dollars in millions (except per share amounts)			
Preferred Stock			
Beginning of year	$ 75.3	$ 75.3	$ 75.3
End of year	$ 75.3	$ 75.3	$ 75.3
Preferred Treasury Stock			
Beginning of year	$ (9.4)	$ (6.6)	$ (4.9)
Purchase of treasury stock	(4.2)	(2.8)	(1.7)
End of year	$ (13.6)	$ (9.4)	$ (6.6)
Common Stock			
Beginning of year	$ 135.5	$ 135.5	$ 67.8
Retirement of treasury stock	(68.3)	--	--
Two-for-one stock split	--	--	67.7
End of year	$ 67.2	$ 135.5	$ 135.5
Additional Paid-In Capital			
Beginning of year	$ 39.3	$ 23.6	$ 17.8
Sale of common treasury stock to the Company's savings plans	2.7	2.2	2.4
Issuance of common treasury stock under employee compensation plans, including tax benefit of $4.7, $3.6 and $9.4	26.8	13.5	21.8
Retirement of common treasury stock	(63.9)	--	--
Two-for-one stock split	--	--	(18.4)
End of year	$ 4.9	$ 39.3	$ 23.6
Retained Earnings			
Beginning of year	$ 1,238.2	$ 1,176.7	$ 1,062.5
Net income	121.6	92.8	194.1
Common dividends paid ($0.42, $0.40 and $0.36 per share), net of tax benefit of $0.2, $0.2 and $0.6	(28.5)	(28.0)	(25.3)
Preferred dividends paid to ESOP, net of tax benefit	(3.2)	(3.3)	(3.3)
Retirement of common treasury stock	(656.4)	--	--
Redemption of preferred stock purchase rights	--	--	(1.9)
Two-for-one stock split	--	--	(49.4)
End of year	$ 671.7	$ 1,238.2	$ 1,176.7
Common Treasury Stock			
Beginning of year	$ (705.4)	$ (634.4)	$ (528.8)
Purchase of treasury stock	(101.0)	(84.7)	(122.4)
Sale of treasury stock to the Company's savings plans	1.7	1.5	1.4
Issuance of treasury stock under employee compensation plans	16.1	12.2	15.4
Retirement of treasury stock	788.6	--	--
End of year	$ 0.0	$ (705.4)	$ (634.4)
Unearned Compensation			
Beginning of year	$ (18.3)	$ (16.6)	$ (10.8)
Issuance of treasury stock under employee compensation plans	(18.0)	(10.9)	(11.9)
Amortization	10.1	9.2	6.1
End of year	$ (26.2)	$ (18.3)	$ (16.6)
Deferred Employee Benefits			
Beginning of year	$ (62.5)	$ (64.3)	$ (65.9)
Principal payment by ESOP under guaranteed loan	1.9	1.8	1.6
End of year	$ (60.6)	$ (62.5)	$ (64.3)
Unrealized Gain on Marketable Equity Securities			
Beginning of year	$ 53.9	$ 29.9	$ 32.0
Net change in unrealized gain	(37.2)	24.0	(2.1)
End of year	$ 16.7	$ 53.9	$ 29.9
Foreign Currency Translation Adjustments			
Beginning of year	$ (18.8)	$ 25.8	$ 39.9
Foreign currency translation adjustments, including tax charge (benefit) of $0.0, $0.1 and $(4.3)	(11.1)	(44.6)	(14.1)
End of year	$ (29.9)	$ (18.8)	$ 25.8
Total stockholders' equity, end of year	$ 705.5	$ 727.8	$ 744.9

Shares of Stock

September 30	1998	1997	1996
Preferred shares in thousands Common shares in millions			
PREFERRED STOCK			
Beginning of year	75.3	75.3	75.3
End of year	75.3	75.3	75.3
PREFERRED TREASURY STOCK			
Beginning of year	7.0	5.7	5.0
Purchased	1.5	1.3	0.7
End of year	8.5	7.0	5.7
COMMON STOCK			
Beginning of year	135.5	135.5	67.8
Retirement of treasury stock	(68.3)	--	--
Two-for-one stock split	--	--	67.7
End of year	67.2	135.5	135.5
COMMON TREASURY STOCK			
Beginning of year	66.1	64.0	30.4
Purchased	3.8	3.5	3.0
Issued	(1.6)	(1.4)	(1.5)
Retirement of treasury stock	(68.3)	--	--
Two-for-one stock split	--	--	32.1
End of year	0.0	66.1	64.0

On September 11, 1998, the Board of Directors adopted a resolution to retire the entire balance of shares of common stock held in the Corporate Treasury and all subsequent acquisitions/purchases effective September 30, 1998. For the year ended September 30, 1998, a total of 68.3 million shares of the Company's common stock had been retired.

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

During fiscal 1989, the Company placed 75,336 shares of its Series B ESOP Convertible Preferred Stock with the Company's Employee Stock Ownership Plan ("ESOP") for cash at a price of $1,000 per share. Each share of the Series B ESOP Convertible Preferred Stock is convertible into 87.5 shares of the Company's common stock subject to certain events and anti-dilution adjustment provisions, and carries voting rights on an "as converted" basis. The trustee for the ESOP has the right to cause the Company to redeem shares sufficient to provide for periodic distributions to plan participants. Such shares shall be redeemed at their fair market value, and may be redeemed by the Company, for cash, shares of the Company's common stock, or a combination thereof at the Company's option. Each share is redeemable at the option of the Company at a price of $1,008. The redemption price declines annually until it becomes $1,000 per share on and after November 19, 1998, plus accrued but unpaid dividends to the redemption date.

The issued shares of Series B ESOP Convertible Preferred Stock are entitled to receive preferential and cumulative quarterly dividends, and rank as to dividends and liquidation prior to the Company's Series A Junior Participating Preferred Stock and common stock. At September 30, 1998, 5.85 million shares of the Company's common stock were reserved for conversion of the Series B ESOP Convertible Preferred Stock.

In September 1998, the Board of Directors authorized the Company to purchase up to 4.0 million shares of the Company's common stock, superseding the previous authorization issued in May, 1997. As of September 30, 1998, the Company had purchased approximately 0.7 million shares under the new authorization.

On November 10, 1995, a two-for-one stock split in the form of a stock dividend was authorized, payable to stockholders of record on March 15, 1996. A total of 67.8 million shares were issued in connection with the split. Also, reclassified to common stock was $18.4 million from additional paid-in capital and $49.3 million from retained earnings. All common share and per share amounts in these financial statements have been restated to reflect the split where appropriate.

Note J Earnings per Share

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

Years ended September 30	1998	1997	1996
Dollars in millions (except per share amounts)			
Basic EPS:			
Income available to common shares (numerator)	$ 118.4	$ 89.5	$ 190.8
Weighted-average common shares outstanding	68.1	69.9	72.0
Less: Contingently issuable shares	(2.5)	(2.4)	(2.4)
Adjusted weighted-average shares (denominator)	65.6	67.5	69.6
Basic EPS	$ 1.80	$ 1.33	$ 2.74
Diluted EPS:			
Income available to common shares	$ 118.4	$ 89.5	$ 190.8
Dividends on preferred stock	3.2	3.3	3.3
Less: Income impact of assumed conversion of preferred stock	(1.7)	(1.8)	(2.1)
Income available to common shares plus assumed conversions (numerator)	$ 119.9	$ 91.0	$ 192.0
Weighted-average common shares outstanding	68.1	69.9	72.0
Effect of dilutive securities: Stock-based compensation	6.5	6.8	7.3
Adjusted weighted-average shares (denominator)	74.6	76.7	79.3
Diluted EPS	$ 1.61	$ 1.19	$ 2.42

Note K Savings Plan & Incentive Compensation Plans

The Plans

The Company sponsors a profit sharing and savings plan called the Cabot Retirement Incentive Savings Plan ("CRISP"). Under the plan, the Company will make matching contributions of at least 75% of a participant's contribution of up to 7.5% of the participant's eligible compensation, subject to limitations required by governmental laws or regulations. Company contributions to the CRISP for 1998, 1997 and 1996 were $4.4 million, $4.0 million and $3.5 million, respectively.

The Company has an Equity Incentive Plan for key employees. Under the plan adopted in 1988, participants may be granted various types of stock and stock-based awards. During 1988 through 1991, the awards granted consisted of stock options, performance appreciation rights ("PARs"), and tandem units that may be exercised as stock options or PARs. These awards were granted at the fair market value of the Company'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. In 1992 through 1995, awards consisted of common stock of the Company, which employees could elect to receive in the form of restricted stock purchased at a price equal to 50% of the fair market value on the date of the award, nonqualified stock options at fair market value of the Company's common stock on the date of the award, or a combination of one-half of each. Effective in March of 1996, no new awards were permitted under this plan.

In December 1995, the Board of Directors adopted the 1996 Equity Incentive Plan. The 1996 plan was approved by the stockholders of the Company in March 1996. Awards under the 1996 plan 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 at the fair market value of the Company's common stock on the date of the award. Variations of these awards were made to international employees in order to try to provide results comparable to U.S. employees. The awards generally vest on the third anniversary date of the award for employees then employed by the Company and the options generally expire five years from the date of grant.

The Company has reserved 2.8 million shares of common stock for issuance under the 1996 plan. There were approximately 1.3 million shares available for future grants at September 30, 1998. Compensation expense recognized during 1998, 1997 and 1996 for restricted stock grants was $10.1 million, $9.2 million and $6.1 million, respectively.

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

Shares in thousands	Restricted Stock	Weighted Average Exercise Price
Outstanding at September 30, 1995	2,078	$11.15
Granted	829	10.68
Vested	(571)	11.39
Canceled	(49)	10.92
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

Stock-Based Compensation

Had the fair value based method been adopted, the Company's proforma net income and proforma net income per common share for fiscal 1998, 1997 and 1996 would have been as follows:

Years ended September 30	1998	1997	1996
Net income-proforma (in millions)	$121.4	$92.7	$194.0
Net income per common share-proforma:			
Basic	$ 1.80	$1.32	$ 2.74
Diluted	$ 1.60	$1.18	$ 2.42

The estimated weighted average fair value of the options granted during fiscal 1998, 1997 and 1996 were $11.00, $6.37 and $6.82, respectively on the date of grant using the Black-Scholes option-pricing model and the following weighted average assumptions:

Years ended September 30	1998	1997	1996
Expected stock price volatility	34%	26%	24%
Risk free interest rate	5.63%	6.54%	6.53%
Expected life of options	4 years	4 years	4 years
Expected annual dividends	$ 0.44	$ 0.40	$ 0.40

The effects of applying the fair value based method in this proforma 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.

The following table summarizes the plans' stock option activity from September 30, 1995 through September 30, 1998:

	Stock Options	Weighted Average Exercise Price
Options in thousands		
Outstanding at September 30, 1995	2,350	$ 9.12
Granted	60	26.70
Exercised	(681)	8.78
Canceled	(29)	10.53
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

Of the 1.3 million stock options outstanding as of September 30, 1998, 0.9 million were exercisable at a weighted average exercise price of $9.05.

Options outstanding at September 30, 1998:

		Weighted Average	
Range of Exercise Price	Thousands of Options Outstanding	Exercise Price	Remaining Contractual Life Years
$ 7.59- 7.94	683	$ 7.77	2.66
8.00- 8.72	23	8.35	1.41
10.47-12.28	139	10.79	1.89
20.00-23.88	148	22.32	3.20
26.70-35.31	329	34.01	4.70

Note L Income Taxes

Income before income taxes was as follows:

Years ended September 30	1998	1997	1996
Dollars in millions			
Domestic	$ 46.1	$ 30.2	$134.3
Foreign	121.9	86.9	145.5
Total	$168.0	$117.1	$279.8

Taxes on income consisted of the following:

Years ended September 30	1998	1997	1996
Dollars in millions			
U.S. federal and state:			
Current	$ (1.4)	$ 8.6	$33.3
Deferred	6.4	(9.4)	1.0
Total	$ 5.0	$ (0.8)	$34.3
Foreign:			
Current	$49.9	$46.7	$61.2
Deferred	5.6	(3.8)	2.7
Total	$55.5	$42.9	$63.9
Total U.S. and Foreign	$60.5	$42.1	$98.2

notes to consolidated financial statements (continued)

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

Years ended September 30	1998	1997	1996
Dollars in millions			
Computed tax expense at the Federal statutory rate	$58.8	$41.0	$97.9
Foreign income:			
Impact of taxation at different rates, repatriation and other	2.6	0.9	5.8
Impact of foreign losses for which a current tax benefit is not available	4.1	4.2	2.5
State taxes, net of federal effect	1.3	1.0	2.7
Foreign sales corporation	(1.6)	(1.2)	(3.0)
U.S. and state benefits from research and experimentation activities	(4.3)	(1.3)	(6.0)
Other, net	(0.4)	(2.5)	(1.7)
Provision for income taxes	$60.5	$42.1	$98.2

Significant components of deferred income taxes were as follows:

Years ended September 30	1998	1997
Dollars in millions		
Deferred tax assets:		
Depreciation and amortization	$ 30.3	$ 26.0
Pension and other benefits	56.5	54.1
Environmental matters	12.6	12.6
Special charges	5.4	7.1
Investments	10.9	10.8
State and local taxes	4.0	4.7
Net operating loss and other tax carryforwards	12.1	17.3
Other	31.5	26.4
Subtotal	163.3	159.0
Valuation allowances	(10.7)	(16.1)
Total deferred tax assets	$152.6	$142.9
Deferred tax liabilities:		
Depreciation and amortization	$ 79.1	$ 65.7
Pension and other benefits	13.8	13.0
Investments	11.6	42.8
Other	111.8	102.2
Total deferred tax liabilities	$216.3	$223.7

The valuation allowance at September 30, 1998 and 1997 represents management's best estimate of the ultimate realization of the net deferred tax amounts. The deferred tax valuation allowance decreased in 1998 by $5.4 million due primarily to decreases in the U.S. dollar value of certain foreign net operating loss carryforwards reflected as deferred tax assets.

Approximately $39.7 million of net operating losses and other tax carryforwards remain at September 30, 1998, $26.4 million of which expire in the years 1999 through 2005, and $13.3 million of which can be carried forward indefinitely. The benefits of these carryforwards are dependent on taxable income during the carryforward period in those foreign jurisdictions wherein they arose, and accordingly, a valuation allowance has been provided where management has determined that it is more likely than not that the carryforwards will not be utilized.

United States income tax returns for fiscal years 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 $130.0 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 the Company or a U.S. subsidiary, or if the Company should sell its stock in the subsidiaries. However, the Company believes that U.S. foreign tax credits would largely eliminate any U.S. income tax and offset any foreign withholding tax that might otherwise be due.

Note M Supplemental Cash Flow Information

Cash paid in 1998, 1997 and 1996 for income taxes and interest was as follows:

Dollars in millions	1998	1997	1996
Income taxes	$40.5	$65.5	$109.1
Interest	$40.0	$38.8	$ 39.1

Note N Commitments & Contingencies

Lease Commitments

The Company leases certain transportation vehicles, warehouse facilities, office space, machinery and equipment under cancelable and non-cancelable leases, most of which expire within ten years and may be renewed by the Company. Rent expense under such arrangements for 1998, 1997 and 1996, totaled $15.4 million, $14.8 million and $14.5 million, respectively. Future minimum rental commitments under non-cancelable leases are as follows:

Dollars in millions	
1999	$13.1
2000	11.8
2001	6.4
2002	2.4
2003	2.1
2004 and thereafter	9.2
	$45.0

Other Long-Term Commitments

The Company has entered into long-term purchase agreements for various key raw materials. The purchase commitments covered by these agreements aggregate approximately $135.0 million for the periods 1999 to 2003.

The Company has also entered into purchase agreements for liquefied natural gas that expire in 2003. The purchase commitments covered by this agreement have a firm take provision of nine cargoes per winter season at current prices subject to the supplier's shipping capacity.

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

Also during 1995, the Company agreed to participate as a 10% owner in a liquefaction plant in Trinidad, and to purchase approximately 60% of the natural gas produced by the plant. At September 30, 1998, the Company's investment in this project was approximately $17.6 million and is included in other investments. Liquefied natural gas from the project is not expected to be available until the second half of fiscal year 1999.

Contingencies

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

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, 1998, the Company has approximately $35.6 million reserved for environmental matters primarily related to divested businesses. The amount represents the Company's current best estimate of its share of costs likely to be incurred 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. The Company reviews the adequacy of this reserve as circumstances change at individual sites. The Company is unable to estimate the amount of reasonably possible loss in excess of the accrued amount. Included in other charges for 1998 and 1996 are environmental expenses of $3.5 million and $3.0 million, respectively. There were no charges for 1997.

In July 1998, the Environmental Protection Agency ("EPA") informed Cabot that it will be undertaking corrective action under the Resource Conservation and Recovery Act at Cabot's facility in Boyertown, Pennsylvania. A site visit by the Army Corps of Engineers to initiate this action occurred in late September, 1998. It is unclear at this time what corrective action, if any, will be required at the site and what costs Cabot will incur as a result.

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

The Company is contingently liable under a limited guarantee of its proportionate share for the project financing of the liquefaction plant in Trinidad. The Company's guarantee will expire when the plant begins commercial production, which is expected to occur in the second half of fiscal year 1999. At September 30, 1998, approximately $457.8 million was outstanding under the joint venture's debt agreement. Cabot's 10% share amounted to $45.8 million.

Note O Risk Management

Cabot Corporation is a global company divided into two distinct segments, the Specialty Chemicals and Materials Group and Energy Group. Cabot manufactures, markets, and distributes specialty chemicals and materials through seven businesses: carbon black, fumed silica, plastics, performance materials (principally tantalum), microelectronics materials, inkjet colorants and specialty fluids. 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, the Company's Energy Group operates a liquefied natural gas importing, storing and distribution company serving markets which include gas and electric utilities and independent power producers. In total, Cabot operates 45 plants in 23 countries.

Market Risk

The Company uses derivative financial instruments primarily to reduce exposure to fluctuations in interest rates and foreign exchange rates, and to a lesser extent, to reduce exposure to fluctuations in commodity prices and other market risks. When entered into, these financial instruments are generally designated as hedges of underlying exposures associated with specific assets, liabilities or firm commitments, 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 the Company 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, or other financial indices.

The Company is exposed to credit loss in the event of nonperformance by counterparties to the swap agreements. However, the Company has established strict counter-party credit guidelines and only enters into transactions with financial institutions of investment grade or better. The Company 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

The Company maintains a percentage of fixed and variable rate debt within defined parameters. The Company 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 interest rate provided by the swap on variable rate debt is 7.4%.

At September 30, 1998 and 1997, the notional principal amounts of the interest rate swap agreements were $150.0 million, expiring in 2004 and 2007. The notional amount is the amount used for the calculation of interest payments which are exchanged over the life of the swap transaction and equal to the amount of principal exchanged at maturity. For 1998, 1997 and 1996, the gains or losses in interest income or expense associated with these agreements were immaterial. The fair value of the swaps were $(17.7) million and $(6.3) million as of September 30, 1998 and 1997, respectively.

Foreign Currency

The Company's international operations are subject to certain opportunities and risks, including currency fluctuations and government actions. The Company closely monitors its operations in each country so that it can respond to changing economic and political environments and to fluctuations in foreign currencies. Accordingly, the Company utilizes foreign currency option contracts and forward contracts to hedge its exposure on anticipated transactions and firm commitments, primarily for receivables and payables denominated in currencies other than the entities' functional currencies. The Company 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.

The Company has foreign currency instruments, primarily denominated in the German deutschemark, Japanese yen, British pound sterling, Swedish krona, Canadian dollar, and Australian dollar. At September 30, 1998 and 1997, the Company had $20.0 million and $63.4 million in foreign currency instruments outstanding, respectively. For 1998, 1997 and 1996, the net realized gains or (losses) associated with these types of instruments were $1.6 million, $4.6 million and $(0.5) million, respectively. The net unrealized gain as of September 30, 1998 and net unrealized loss as of September 30, 1997, based on the fair market value of the instruments, were not material to each respective period.

Commodities

The Company has price risk exposure, due to changes, in its natural gas sales revenue and supply costs. The Company has entered into commodity futures contracts and commodity price swaps to hedge its gross margin exposure. The Company utilizes commodity futures contracts and commodity price swaps for hedging firmly committed sales transactions and monitors its exposure daily to ensure overall effectiveness of its hedge positions.

At September 30, 1998, the notional principal amounts of the futures contracts were $6.3 million, maturing through February, 1999. As the contracts were executed on September 30, 1998, no gain or loss, realized or unrealized, has been recorded. The Company committed to a commodity price swap at September 30, 1997 for natural gas volumes during the winter season with a notional principal amount of $2.3 million, maturing through February, 1998. For 1998, the realized gain associated with this swap was $0.4 million.

Concentration of Credit

Financial instruments that subject the Company to concentrations of credit risk consist principally of trade receivables. Tire manufacturers comprise a significant portion of the Company's trade receivable balance. At September 30, 1998 and 1997, the Company had trade receivables of approximately $48.5 million and $62.6 million, respectively, from tire manufacturers. Although the Company's exposure to credit risk associated with nonpayment by tire manufacturers is affected by conditions or occurrences within the tire industry, trade receivables from the tire manufacturers were current at September 30, 1998, and no such manufacturer exceeded 5% of the Company's receivables at that date.

Note P Financial Information by Industry Segment & Geographic Area

The Company's business consists of two segments, the Specialty Chemicals and Materials Group and Energy Group. A description of the Company's two business segments and their products,

services, and markets served is included in Note O. The Energy Group is located exclusively in the United States and has no export sales. Energy Group sales for 1996 include sales to a major customer in the amount of $278.0 million.

Financial information by geographic area was as follows:

Years ended September 30	1998	1997	1996
Dollars in millions			
Sales			
United States:			
Sales, excluding export sales			
Specialty Chemicals and Materials	$ 563.7	$ 566.9	$ 526.6
Energy	210.9	199.7	422.0
Export sales	119.6	93.9	109.7
Total	894.2	860.5	1,058.3
Europe	598.6	603.8	638.6
Other areas	284.2	302.1	281.5
Total	1,777.0	1,766.4	1,978.4
Less: Eliminations	129.2	136.4	122.1
Net sales	$1,647.8	$1,630.0	$1,856.3
Operating Profit			
United States:			
Specialty Chemicals and Materials	$ 90.1	$ 107.3	$ 142.3
Energy	15.1	6.6	23.0
Europe	82.0	67.0	99.2
Other areas(a)	(31.0)	6.0	19.0
Total operating profit	156.2	186.9	283.5
Interest expense	42.0	43.2	41.7
General corporate/other expenses, net(b)	31.4	26.6	29.2
Costs related to divested business	5.1	--	--
Gain on sale of business	--	--	(38.9)
Gain on sale of equity securities	(90.3)	--	(28.3)
Income before income taxes	$ 168.0	$ 117.1	$ 279.8
Depreciation and Amortization			
Specialty Chemicals and Materials	$ 113.5	$ 107.6	$ 93.8
Energy	1.7	2.0	2.9
General corporate	0.2	0.3	0.3
Total	$ 115.4	$ 109.9	$ 97.0
Fixed Asset Additions			
Specialty Chemicals and Materials	$ 151.3	$ 157.4	$ 207.7
Energy	34.2	5.4	0.5
General corporate	1.9	--	0.9
Total	$ 187.4	$ 162.8	$ 209.1
Identifiable Assets			
United States:			
Specialty Chemicals and Materials	$ 629.2	$ 602.6	$ 529.2
Energy	121.3	88.4	79.7
Europe	506.1	434.1	494.8
Other areas	321.5	405.6	403.7
General corporate(c)	136.0	208.9	270.8
Equity in affiliates-Europe	--	6.8	9.3
Equity in affiliates-Other areas	91.1	79.3	70.1
Total	$1,805.2	$1,825.7	$1,857.6

(a) Results for 1998 include a $60.0 million pretax asset impairment charge related to an Indonesian carbon black facility.

(b) General corporate/other expenses, net, include corporate management costs reduced by investment income.

(c) General corporate assets include cash, short-term investments, investments

other than equity basis, income taxes receivable, deferred taxes and headquarters' assets.

Note Q Unaudited Quarterly Financial Information

Unaudited financial results, by quarter for the fiscal years ended September 30, 1998 and 1997, are summarized below and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations. Certain 1998 items have been reclassified to reflect changes in the Company's organization during the year.

Dollars in millions, except per share amounts	December	March	June	September	Year
Fiscal 1998					
Net sales	$435.4	$457.0	$376.3	$379.1	$1,647.8
Cost of sales	302.2	312.5	247.3	258.9	1,120.9
Net income	31.5	37.5	33.2(a)	19.4	121.6
Income applicable to common shares	$ 30.6	$ 36.7	$ 32.5	$ 18.6	$ 118.4
Income per common share (diluted)(c)	$ 0.41	$ 0.50	$ 0.44	$ 0.26	$ 1.61
Fiscal 1997					
Net sales	$398.8	$432.0	$398.6	$400.6	$1,630.0
Cost of sales	279.7	305.6	274.2	284.9	1,144.4
Net income	25.2	29.4	28.7	9.5(b)	92.8
Income applicable to common shares	$ 24.3	$ 28.6	$ 27.9	$ 8.7	$ 89.5
Income per common share (diluted)(c)	$ 0.32	$ 0.38	$ 0.37	$ 0.12	$ 1.19

(a) Includes a $60.0 million pretax asset impairment charge related to an Indonesian carbon black facility and a $25.0 million pretax charge related to a tantalum ore recovery project. Also includes a $90.3 million pretax gain from the sale of K N Energy, Inc. common stock.

(b) Includes asset impairments and severance pretax charges of $18.2 million.

(c) During the first quarter of 1998, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128"). As a result, fully diluted earnings per share have been replaced by diluted earnings per share. The 1997 amounts have been restated to reflect SFAS No. 128.

management responsibility

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

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

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

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

/s/ Samuel W. Bodman
Samuel W. Bodman
Chief Executive Officer

/s/ 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 of cash flows present fairly, in all material respects, the financial position of Cabot Corporation and its subsidiaries at September 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1998, 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 26, 1998

EXHIBIT 21

CABOT CORPORATION

SIGNIFICANT SUBSIDIARIES
AS OF SEPTEMBER 30, 1998

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 consent to the incorporation by reference in the registration statements of Cabot Corporation on Form S-3 (File No. 333-64787) and on Form S-8 (File Nos. 33-28699, 33-52940, 33-53659, 333-03683, 333-06629, 333-19103 and 133-19099) of our report dated October 26, 1998, on our audits of the consolidated financial statements of Cabot Corporation as of September 30, 1998 and 1997, and for each of the three fiscal years in the period ended September 30, 1998, which report is included in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Boston, Massachusetts
December 21, 1998

EXHIBIT 24

POWER OF ATTORNEY

We, the undersigned directors and officers of Cabot Corporation, hereby severally constitute and appoint Robert Rothberg and Sarah W. Saunders, 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, 1998, 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/ SAMUEL W. BODMAN Samuel W. Bodman	Director, Chairman and Chief Executive Officer	November 13, 1998
/s/ KENNETT F. BURNES Kennett F. Burnes	Director and President	November 13, 1998
/s/ ROBERT L. CULVER Robert L. Culver	Executive Vice President and Chief Financial Officer	November 13, 1998
/s/ WILLIAM T. ANDERSON William T. Anderson	Controller	November 13, 1998
/s/ JANE C. BRADLEY Jane C. Bradley	Director	November 13, 1998
/s/ JOHN G.L. CABOT John G.L. Cabot	Director	November 13, 1998
/s/ JOHN S. CLARKESON John S. Clarkeson	Director	November 13, 1998
/s/ ARTHUR L. GOLDSTEIN Arthur L. Goldstein	Director	November 13, 1998
/s/ ROBERT P. HENDERSON Robert P. Henderson	Director	November 13, 1998
/s/ ARNOLD S. HIATT Arnold S. Hiatt	Director	November 13, 1998
/s/ GAUTAM S. KAJI Gautam S. Kaji	Director	November 13, 1998

SIGNATURE	TITLE	DATE
/s/ JOHN H. MCARTHUR John H. McArthur	Director	November 13, 1998
/s/ RODERICK C.G. MACLEOD Roderick C.G. MacLeod	Director	November 13, 1998
/s/ JOHN F. O'BRIEN John F. O'Brien	Director	November 13, 1998
/s/ DAVID V. RAGONE David V. Ragone	Director	November 13, 1998
/s/ CHARLES P. SIESS, JR. Charles P. Siess, Jr.	Director	November 13, 1998
/s/ MORRIS TANENBAUM Morris Tanenbaum	Director	November 13, 1998
/s/ LYDIA W. THOMAS Lydia W. Thomas	Director	November 13, 1998
/s/ MARK S. WRIGHTON Mark S. Wrighton	Director	November 13, 1998

YEAR
SEP-30-1998
SEP-30-1998
40
0
289
5
251
619
1,914
936
1,805
536
316
0
62
67
577
1,805
1,648
1,653
1,121
1,121
92
0
42
168
60
122
0
0
0
122
1.80
1.61

The EPS-Primary amount represents basic earnings per share and the
EPS-Diluted amount represents diluted earnings per share, computed in
accordance with Statement of Financial Accounting Standards No. 128, "Earnings
Per Share."

YEAR
SEP-30-1997
SEP-30-1997
39
0
295
6
247
613
1,760
838
1,826
543
286
0
66
136
526
1,826
1,630
1,637
1,144
0
116
0
43
117
42
93
0
0
0
93
1.33
1.19

The EPS-Primary amount represents basic earnings per share and the EPS-Diluted amount represents diluted earnings per share, computed in accordance with Statements of Financial Accounting Standards No. 128, "Earnings Per Share."

U.S. DOLLARS

YEAR
SEP-30-1996
OCT-01-1995
SEP-30-1996
1
58
0
369
5
260
710
1,712
809
1,857
528
322
0
69
136
540
1,857
1,856
1,865
1,310
1,310
94
0
42
280
98
194
0
0
0
194
2.74
2.42

The EPS-Primary amount represents basic earnings per share and the EPS-Diluted amount represents diluted earnings per share, computed in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share."