UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the Fiscal year ended September 30, 2003

or

o **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** *(I.R.S. Employer Identification No.)*
Two Seaport Lane, Suite 1300 **Boston, Massachusetts** *(Address of Principal Executive Offices)*	**02210** *(Zip Code)*

(617) 345-0100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $1.00 par value per share	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 ☑ No o

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 definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☑ No o

As of the last business day of the Company's most recently completed second fiscal quarter, the aggregate market value of the Registrant's common stock held by non-affiliates was approximately $1,380,504,860 based on the closing price on that date of $23.86 reported on the New York Stock Exchange, Inc. As of November 28, 2003, there were 61,661,744 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its 2004 Annual Meeting of Shareholders are incorporated by reference in Part III of this annual report on Form 10-K.

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PART I

Item 1. *Business*

General

Cabot's business was founded in 1882 and incorporated in the State of Delaware in 1960. The Company's principal products are carbon black, fumed metal oxides, inkjet colorants, tantalum and related products, and cesium formate drilling fluids. The Company and its affiliates have manufacturing facilities in the United States and more than 20 other countries.

The terms "Cabot" and "Company" as used in this Report refer to Cabot Corporation and its consolidated subsidiaries.

The description of the Company's businesses is as of September 30, 2003, unless otherwise noted. The Company is organized into three reportable segments: the Chemical Business, the Supermetals Business and the Specialty Fluids Business. Financial information about the Company's business segments and geographic areas appears in the Overview and Continuing Operations sections of Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 below, and in Note W of the Notes to the Company's Consolidated Financial Statements in Item 8 below.

In May 2003, the Company initiated a restructuring plan of certain of its European operations aimed at reducing costs, enhancing customer service and improving competitiveness. The restructuring initiatives are all related to the Chemical Business segment and included the closure of the Company's carbon black manufacturing facility in Zierbena, Spain; the consolidation of administrative activities for all European businesses in one shared service center; the implementation of a consistent staffing model for all manufacturing facilities in Europe; and the discontinuance of two energy projects. The Company expects these restructuring initiatives to result in a pre-tax charge to earnings of approximately $65 million. As of September 30, 2003, the Company has recorded $46 million of these charges, and expects to record $9 million over the next 15 to 21 months. At September 30, 2003, $10 million of foreign currency translation adjustments existed and will be recognized upon the substantial liquidation of the entity through which the Company conducted its operations in Zierbena, Spain. In addition, in the fourth quarter of the fiscal year, Cabot implemented a reduction in workforce in North America to reduce costs. This initiative resulted in a pre-tax charge to earnings of $5 million for involuntary terminations for 88 employees at facilities throughout North America, of which $4 million relates to the Chemical Business and $1 million relates to the Supermetals Business.

In May 2003, the Company purchased the assets of Superior MicroPowders ("CSMP"), a privately-held company located in New Mexico, for $16 million. CSMP is a development stage enterprise with multiple technology platforms and core competencies in advanced powder manufacturing across a wide range of materials, as well as the related materials chemistry. CSMP's technology is expected to enable the Company to develop materials that will expand the Company's technology to areas that complement existing markets and provide opportunities for new business growth. Although CSMP is in the development stage, it has been working with several major companies to develop particle applications for use in the electronics, fuel cell, display, and other markets.

During the fiscal year ended September 30, 2003, Cabot repurchased approximately 1.5 million shares of its common stock, $1.00 par value per share (the "Common Stock"), for approximately $41 million in the aggregate, principally to offset a similar number of shares issued during the year under the Company's employee incentive compensation programs.

Additional information regarding significant events affecting the Company during its fiscal year ended September 30, 2003 is set forth in Item 7 below under Management's Discussion and Analysis of Financial Condition and Results of Operations.

SEC and Corporate Governance Matters

The Company's internet address is *www.cabot-corp.com*. The Company makes available free of charge on or through its internet website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the Securities and Exchange Commission (the "Commission").

The Company's Board of Directors has throughout its history developed corporate governance practices to fulfill its responsibility to the Company's stockholders. As part of these practices, the Board of Directors is developing Corporate Governance Guidelines that address matters such as director qualification standards and responsibilities, director compensation, director education, director access to management and independent advisors, annual Board performance evaluations and management succession. In addition, the Company has adopted Global Ethics and Compliance Standards that apply to all of the Company's employees and directors. The Board is also in the process of amending the charters for its Audit Committee, Compensation Committee, and Nominating and Governance Committee to comply with the New York Stock Exchange's new corporate governance rules. The Board will adopt the Company's Corporate Governance Guidelines and amended Committee charters before the Company's 2004 Annual Stockholder Meeting in March 2004. By that time, the Corporate Governance Guidelines, the Global Ethics and Compliance Standards and the Committee charters will be available on the Company's website and in print to any shareholder who requests them.

Chemical Business

The Chemical Business is principally comprised of the carbon black, fumed metal oxides, inkjet colorants and aerogels product lines. In addition, certain of the Company's new business development activities, including those associated with the recently purchased assets of Superior MicroPowders, are conducted in the Chemical Business reporting segment. The businesses within the Chemical Business share regional administrative services organizations and sales organizations.

Carbon Black

The Company manufactures and sells carbon black. Carbon black is a form of elemental carbon, which is manufactured in a highly controlled process to produce particles and aggregates of varied structure and surface chemistry, resulting in many different performance characteristics for a wide variety of applications. Carbon black is widely used to enhance the physical, electrical and optical properties of the systems and applications in which it is incorporated. The Company's carbon black products are used in tires, industrial products and high performance applications. Carbon blacks are used in the tire industry as a rubber reinforcing agent and a performance additive. These products are marketed globally and are used in all types of tires. Carbon blacks are used in industrial products in applications such as hoses, belts, extruded profiles and molded goods. In fiscal year 2000, the Company combined its plastics business with its special blacks business to form its performance products business group ("PPBG"). PPBG manufactures specialized grades of carbon black, which are used to enhance conductivity and static charge control, to provide UV protection, to enhance mechanical properties, to provide chemical flexibility through surface treatment and as pigments. These products are used in a wide variety of industries such as inks, coatings, cables, pipes, toners and electronics. PPBG also produces and markets black and white thermoplastic concentrates and specialty compounds and markets carbon black to the plastics industry.

Cabot sells products under various trademarks, a large number of which are registered or for which the Company is seeking registration in one or more countries. Sales are made in Europe (concentrates, compounds and carbon black), North America (carbon black), South America (concentrates, compounds and carbon black), and Asia (concentrates, compounds and carbon black) through Company employees, and through distributors and sales representatives.

Many of the Company's carbon black products are used in products associated with the automotive industry. The Company's financial results may be affected by the cyclical nature of the automotive industry, although a large portion of the market for the Company's products is in replacement tires and other parts that

are less subject to automobile industry cycles. Under appropriate circumstances, the Company has pursued a strategy of entering into long-term supply contracts (those with a term longer than one year) designed to provide the Company's 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 automotive industry cycles. The Company currently has several long-term carbon black supply contracts, including one with a major tire customer for the supply of carbon black in North America, and recently entered into a long-term global supply contract with a major tire manufacturer with which the Company in the past has had only regional short-term supply agreements. In fiscal year 2003, approximately 28% of the volume of carbon black sold by the Company was sold under long-term contracts in effect during the fiscal year.

The Company believes that it is the leading manufacturer of carbon black in the world, with an estimated one-quarter of the worldwide production capacity and market share of carbon black. The Company competes in the manufacture of carbon black primarily with two companies having a global presence and with at least 20 other companies in various regional markets in which it operates.

The Company owns and operates carbon black production plants in Argentina, Australia, Brazil, Canada, the Czech Republic, China, Colombia, the United Kingdom, France, India, Indonesia, Italy, The Netherlands, and the United States. Affiliates of the Company own carbon black plants in Japan, Malaysia, Mexico and Venezuela. Some of the plants listed above are built on leased land (see "Properties" below). Headquarters for the Company's carbon black business are located in Boston, Massachusetts, with regional headquarters in Alpharetta, Georgia (North America), São Paulo, Brazil (South America), Suresnes, France and Leuven, Belgium (Europe) and Kuala Lumpur, Malaysia (Asia Pacific).

The principal raw material used in the manufacture of carbon black is a portion of the residual heavy oils derived from petroleum refining operations and from the distillation of coal tars and the production of ethylene throughout the world. Natural gas is also used in the production of carbon black. While the lack of availability of raw materials has not been a significant factor for the Company's carbon black business, the Company may experience some difficulty obtaining low sulfur feedstock at an acceptable cost for its European operations in the event the proposed Best Available Techniques Reference Documents, which are commonly referred to as "BREF Notes," are adopted. The proposed BREF Note for the European carbon black industry, which is described more fully under "Safety, Health and Environment" below, call for a reduction in annual average sulfur content in carbon black feedstock to 0.5%. Raw material costs are influenced by the cost and availability of oil worldwide, the availability of various types of carbon black oils and related transportation costs.

The thermoplastic concentrates and specialty compounds sold by the Company are produced at facilities in Belgium, Italy, the United Kingdom and Hong Kong. In Europe, the Company is one of the five leading producers of thermoplastic concentrates. Other than carbon black feedstock, the primary raw materials used in this business are titanium dioxide, thermoplastic resins and mineral fillers. Raw materials for these concentrates and components are, in general, readily available.

Management continues to support carbon black new product development initiatives that have significant customer involvement or sponsorship. Management also supports process research and development initiatives that can lead to production optimization.

Fumed Metal Oxides

The Company manufactures and sells fumed metal oxides, including fumed silica and fumed alumina and dispersions thereof, under various trademarks. Fumed silica is an ultra-fine, high-purity particle used as a reinforcing, thickening, abrasive, thixotropic, suspending or anti-caking agent in a wide variety of products produced for the automotive, construction, microelectronics, and consumer products industries, including adhesives, sealants, cosmetics, inks, silicone rubber, coatings, polishing slurries and pharmaceuticals. The headquarters for the Company's fumed metal oxides business are located in Billerica, Massachusetts. This business has two North American fumed metal oxides manufacturing plants, which are located in Tuscola, Illinois and Midland, Michigan. The Company also owns manufacturing plants in Wales and Germany. In addition, a joint venture owned 50% by the Company and 50% by an Indian entity owns a plant in India, which began operations in the spring of 1998. Raw materials for the production of fumed silica are various

chlorosilane feedstocks. The feedstocks are either purchased or converted to product on a fee-basis (so called “toll conversion”) for owners of the feedstock. The Company also purchases aluminum chloride as feedstock for the production of fumed alumina. The Company has long-term procurement contracts or arrangements in place for the purchase of feedstock for this business, which it believes will enable it to meet its raw material requirements for the foreseeable future. In addition, the Company buys some materials in the spot market to help ensure flexibility and minimize costs.

The Company currently supplies fumed metal oxides to two of its customers pursuant to long-term contracts. These contracts accounted for approximately 57% of the volume of fumed metal oxides sold by the Company in fiscal year 2003. In addition, sales of fumed metal oxides products are made by Company employees and through distributors and sales representatives. There are four principal producers of fumed silica in the world. The Company believes it is the leading producer and seller of this chemical in the United States and second worldwide.

Inkjet Colorants

Inkjet colorants are pigment-based black and other colorants, which are designed to replace traditional pigment dispersions and dyes used in inkjet printing applications. Products produced by the Company’s inkjet colorants business target various printing markets, including home and office printers, wide format printers, and commercial and industrial printing applications. The Company’s black colorants have become integral components in several inkjet printing systems introduced to the market since 1998. The Company commercialized color pigments during fiscal year 2002. Sales are made by Company employees and through distributors and sales representatives. The headquarters of the Company’s inkjet colorants business are located in Billerica, Massachusetts. Raw materials for the inkjet colorants business include carbon black, as well as other products that are available from various sources. The Company believes that all raw materials for this business are in adequate supply.

Aerogels

Cabot’s aerogels, which are marketed under the Nanogel™ trademark, are hydrophobic silica particles with potential uses in a variety of thermal and sound insulation applications. During 2002, the aerogels business completed construction of a new semi-works facility located in Frankfurt, Germany. During fiscal year 2003, substantial attention was paid to refining the unique manufacturing process at the semi-works facility to improve production rates and quality yield and to permit full scale manufacturing at the facility sometime in the future. The headquarters for the business are located in Boston, Massachusetts. The principal raw materials for the production of aerogels are silicic acid and sodium silicate, which the Company believes are in adequate supply.

The first commercial shipment of the Company’s Nanogel™ product occurred in December 2002. To date, the product has been used in the manufacture of translucent panels for four projects in the daylighting segment of the construction industry. Because this business and its products represent a new business for the Company utilizing a new chemical process, its operations are subject to several risks, including the risk that expected capacity output at the business’s newly constructed semi-works facility is delayed or not achieved, and that the business’s products do not achieve market acceptance.

Supermetals

Through Cabot Supermetals, formerly Cabot Performance Materials, the Company produces tantalum, niobium (columbium) and their alloys. Tantalum, which accounts for substantially all of this business’s sales, is produced in various forms including powder and wire for electronic capacitors. Tantalum and niobium and their alloys are also produced in wrought form for non-electronic applications such as the production of superalloys and chemical process equipment, and for various other industrial and aerospace applications.

The headquarters for Cabot Supermetals are located in Boston, Massachusetts. The Company operates manufacturing facilities for this business in Boyertown, Pennsylvania, and Higashi-Nagahara, Japan. Raw materials are obtained by the Company from ores mined principally in Australia and Canada. Because the

Company purchases a significant portion of the ore it needs under two long-term supply contracts from one supplier, the Company currently has an adequate supply of raw materials.

Many of the Company's tantalum products are used in products for the electronics industry, which is cyclical in nature. The Company has long-term contracts for the supply of tantalum powder and wire with four customers, which are designed to provide the Company's customers with a secure supply of such products and to reduce volatility in the Company's tantalum volumes and revenues caused by cycles in the electronics industry. These contracts accounted for approximately 67% of the volume of finished powder and wire sold by Cabot Supermetals in fiscal year 2003. Sales in the United States are also 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 Company employees and distributors. There are currently two principal competitors producing tantalum and niobium. The Company believes that it is the leading producer of electronic grade tantalum powder products, with competitors having greater production in some other product lines.

In August of 2003, the Company began construction of a facility in Etna, Ohio for the manufacture of tantalum sputtering targets for use in thin film applications, including semiconductors, optics, magnetics and flat panel display. At the new facility, which is scheduled to be fully operational sometime in fiscal year 2005, the Company plans to use high-purity grade tantalum to manufacture complete assemblies for use in thin film deposition systems.

During the fiscal year Cabot Supermetals ended its business development efforts with respect to barium titanate.

Specialty Fluids

The Company's Specialty Fluids Business produces and markets cesium formate as a drilling and completion fluid for use primarily in high pressure and high temperature oil and gas well operations. Cesium formate products are solids-free, high-density fluids that have a low viscosity, permitting them to flow readily in oil and gas wells. The fluid is resistant to high temperatures, does not damage producing reservoirs and is readily biodegradable. The Company has been shipping the fluid to facilities in Aberdeen, Scotland, and in Bergen and Kristiansund, Norway for application in the North Sea, and to facilities in The Woodlands, Texas for application in the Gulf of Mexico. To date, cesium formate has been used successfully in 72 oil and gas well completions and drill-in applications. The Company recently entered into an agreement with a major energy services company to provide a supply of cesium formate fluids for both reservoir drilling and completion activities on two large gas and condensate field projects in the Norwegian Continental Shelf being developed and operated by Statoil.

The Specialty Fluids Business has its headquarters in Aberdeen, Scotland, and has a mine and a cesium formate manufacturing facility in Manitoba, Canada. The Company makes cesium formate sales directly to oil and gas operating companies and through oil field service companies. The Company generally leases cesium formate to its customers for use in drilling operations. After completion of a job, the customer returns the fluid to the Company, and it is returned to inventory for use in subsequent well operations. Any of the fluid that is lost during use and not returned to the Company is purchased by the customer. On average, 10% of the cesium formate used in an operation is lost and therefore purchased by customers.

The principal raw material used in this business is pollucite ore, which the Company obtains from its mine in Manitoba. The Company has an adequate supply of this cesium-rich ore, owning approximately 82% of the world's known cesium reserves. Because each job for which cesium formate is used requires a large volume of the product, the Specialty Fluids Business must carry a large inventory. The Company's Specialty Fluids Business also markets fine cesium chemicals to various industrial chemical companies, and mined spodumene to the pyroceramics industry. Sales of those products are made either by Company employees or sales representatives. The Specialty Fluids Business also mines and processes tantalum ore for shipment to Cabot Supermetals. As of October 1, 2003, the operation of the tantalum mine in Manitoba was transferred from the Company's Specialty Fluids Business to Cabot Supermetals.

Discontinued Businesses

As reported in the Company's Form 8-K filed with the Commission on October 3, 2000, in September 2000 the Company sold all of its liquefied natural gas (LNG) business. The Company also completed the initial public offering of approximately 20% of its microelectronics materials business, conducted by Cabot Microelectronics Corporation, in the third quarter of fiscal year 2000. The offering was followed by a distribution of the Company's remaining shares of Cabot Microelectronics Corporation common stock to Cabot shareholders. The distribution was completed on September 29, 2000 and was also reported in the Company's Form 8-K filed with the Commission on October 3, 2000. During fiscal years 2003 and 2002, the Company recorded insurance recovery proceeds related to these and other discontinued businesses. During fiscal year 2001, a gain on the sale of the LNG business was recorded. See Note C of the Notes to the Company's Consolidated Financial Statements.

Patents and Trademarks

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

Backlog

The Company's businesses are generally not seasonal in nature, although they experience some decline in European and North American sales in the fourth fiscal quarter due to summer plant shutdowns. The Company believes that as of September 30, 2003, approximately $204 million of backlog orders for its businesses were firm, compared to firm backlog orders as of September 30, 2002 of approximately $201 million. Backlog consists of firm purchase orders for which a delivery date has been scheduled. Because customers may generally cancel purchase orders with little or no notice and without significant penalty, and because most orders are typically shipped within 30 days of receipt, backlog at any particular time is not typically a good indicator of future revenues. All of the 2003 backlog orders are expected to be filled during fiscal year 2004.

Customers

Five major tire and rubber customers, one silicones customer, three capacitor materials customers and one microelectronics customer represent a material portion of the total net sales and operating revenues of the Company's businesses; the loss of one or more of these customers could materially adversely affect the Company's businesses taken as a whole. In fiscal year 2003, sales to Goodyear Tire and Rubber Company by the Company's Chemical Business amounted to 11% of the Company's consolidated revenues.

Competition

Competition in the Company's 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. On behalf of certain carbon black producers, including the Company, in November 2001, an industry group filed an anti-dumping petition with authorities in the European Union in response to rubber black imports from Egypt and Russia. In March 2003, the Company was notified that a proposal by the European Commission to impose anti-dumping measures on those imports was not adopted by the European Council of Ministers.

Employees

As of September 30, 2003, the Company had approximately 4,400 employees. Approximately 400 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 in the Consolidated Statements of Income.

Safety, Health and Environment

The Company has been named as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (the "Superfund law") and comparable state statutes 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 $26 million environmental reserve for costs associated with such remediation. The Company anticipates that the expenditures at these sites will be made over a number of years, and will not be concentrated in any one year. Adjustments are made to the reserve based on the Company's continuing analysis of its share of costs likely to be incurred at each site. Inherent uncertainties exist in these estimates due to unknown conditions at the various sites, changing governmental regulations and legal standards regarding liability, and changing technologies for handling site investigation and remediation. No assurance can be given that the actual costs to investigate and remediate these sites will not exceed the accrued amounts in the environmental reserve. While it is always possible that such an unusual event may occur with respect to a given site and have a material adverse effect on the results of operations in a particular period, in light of the environmental reserve, the Company does not believe that the cost relating to these sites, in the aggregate, are likely to have a material adverse effect on the Company's financial condition. The sites are primarily associated with divested businesses. It is possible that the Company may also incur future costs relating to sites that are not currently known to the Company or as to which it is currently not possible to make an estimate.

The Company's ongoing operations are subject to extensive federal, state, local, and foreign laws, regulations, rules, and ordinances relating to safety, health, and environmental matters ("SH&E Requirements"). The Company has expended considerable sums to construct, maintain, operate, and improve facilities for safety, health and environmental protection and to comply with SH&E Requirements. The Company anticipates spending an estimated $20 to $25 million in capital costs related to environmental protection in fiscal year 2004. This includes a portion of the costs necessary to comply with the new carbon black emissions standards under the Generic Maximum Achievable Control Technology standards applicable to carbon black production, as described more fully below. In recognition of the importance of SH&E Requirements to the Company, in February 1990, the Company's Board of Directors established a Safety, Health, and Environmental Affairs Committee. The Committee, which is comprised of six non-employee directors and generally meets three times a year, provides oversight and guidance in respect of the Company's safety, health and environmental management programs and performance. In particular, the Committee reviews the Company's environmental reserve, risk assessment and management processes, environmental and safety audit reports, performance metrics, performance as benchmarked against industry peer groups, assessed fines or penalties, site security and safety issues, health and environmental training initiatives, and SH&E budget and capital expenditures, and consults with the Company's outside and internal advisors regarding management of the Company's safety, health and environmental programs.

The operation of any chemical manufacturing business as well as the sale and distribution of chemical products involve risks under SH&E Requirements, many of which provide for substantial monetary fines and criminal sanctions for violations. The production and/or processing of carbon black, fumed metal oxides, tantalum, niobium, aerogels and other chemicals involves the handling, manufacture or use of certain

substances or components that may be considered toxic or hazardous within the meaning of applicable SH&E Requirements, and certain operations have the potential to cause environmental or other damage as well as injury or death to employees or third parties. The Company could incur significant expenditures in connection with such operational risks. The Company believes that its ongoing operations comply with current SH&E Requirements in a manner that should not materially affect the earnings or cash flow of the Company in an adverse manner. There can be no assurance, however, that significant costs or liabilities will not be incurred with respect to SH&E Requirements and the Company's operations. Moreover, the Company is not able to predict whether future changes or developments in SH&E Requirements will affect its earnings or cash flow in a materially adverse manner.

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. The Company anticipates that IARC will review the classification of carbon black regarding carcinogenicity over the next two years, and as a result, it is possible that IARC could change the classification of carbon black from possible human carcinogen to probable human carcinogen. In the event that IARC does change the classification of carbon black to probable human carcinogen (Group 2A), this change would impose additional labeling and other hazard communication requirements on the Company.

In October 1999, the California Office of Environmental Health Hazard Assessment ("OEHHA") published a Notice of Intent to add "carbon black (airborne particles of respirable size)" to its list of chemicals known to the State to cause cancer promulgated pursuant to the California Safe Drinking Water and Toxic Enforcement Act, commonly referred to as Proposition 65. OEHHA stated it was taking this action in light of IARC's 1996 reclassification of carbon black. Proposition 65 requires businesses to give warnings to individuals before they knowingly or intentionally expose them to chemicals subject to its requirements, and it prohibits businesses from knowingly discharging or releasing the chemicals into water or onto land where they could contaminate drinking water. In February 2003, OEHHA published a notice adding "carbon black (airborne, unbound particles of respirable size)" to the Proposition 65 list. Cabot is working with the International Carbon Black Association ("ICBA") and various customers and carbon black user groups to comply with the requirements associated with the Proposition 65 listing of carbon black. These requirements become effective in February 2004.

In April 2002, The Netherlands published the "Dutch Notes on BAT for the Carbon Black Industry" to support the identification of Best Available Techniques ("BAT") for the European carbon black industry pursuant to European Union ("EU") Directive 96/61/EEC. BAT Reference Documents, so-called BREF Notes, are being prepared by various EU member countries under the supervision of the Integrated Pollution Prevention and Control Bureau (the "IPPC Bureau"). The Netherlands has taken initial responsibility for preparing a BREF Note for the carbon black manufacturing industry. The proposed BREF Note for the carbon black industry calls for an annual average sulfur content in carbon black feedstock of 0.5% to control sulfur dioxide emissions. If adopted, this could have significant financial effects on the carbon black industry, including the Company, and could cause the Company to experience difficulty obtaining low sulfur feedstock at an acceptable cost for its European operations. The ICBA has proposed a 1.5% annual average. The Dutch BREF Note proposal will be taken up for further review by the IPPC Bureau's Technical Working Group in 2004. The Company is not able to predict whether this regulatory development in the EU will affect its earnings or cash flow in a materially adverse manner.

On May 15, 2002, the United States Environmental Protection Agency ("EPA") signed the final rule amending the Generic Maximum Achievable Control Technology ("MACT") standards to add National Emissions Standards for Hazardous Air Pollutants ("NESHAP") for the carbon black production source category ("Carbon Black MACT") as required under Title III of the Clean Air Act Amendments of 1990.

This new rule was published in the Federal Register on July 12, 2002 and will become effective for carbon black plants located in the United States on July 12, 2005. EPA has identified hazardous air pollutants ("HAPs") associated with the production of carbon black. The Carbon Black MACT requires 98% elimination of HAPs emissions from process vents on facility main unit filters. This is generally accomplished by combusting the tail gas vented from these filters. The Company estimates that it may be required to expend as much as $20 million in capital improvements by July 12, 2005 to comply with the Carbon Black MACT in connection with three of the Company's carbon black facilities located in the United States.

Since the terrorist attacks on September 11, 2001, various U.S. agencies and international bodies have adopted new requirements that impose increased security requirements on certain manufacturing and industrial facilities and locations. The new security-related requirements involve the preparation of security assessments and security plans in some cases and in other cases, the registration of certain facilities with specified governmental authorities. The Company is closely monitoring all security related regulatory developments and believes it is in compliance with all existing requirements. Compliance with such requirements is not expected to have a material adverse effect on the Company's operations.

Financial Information About Segments, Foreign and Domestic Operations and Export Sales

Segment financial data are set forth in the Continuing Operations section of Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7, and in Note W of the Notes to the Company's Consolidated Financial Statements, which appear in Item 8 of this annual report on Form 10-K for the fiscal year ended September 30, 2003. A significant portion of the Company's revenues and operating profits is derived from overseas operations. The profitability of the Company's segments is affected by fluctuations in the value of the U.S. dollar relative to foreign currencies. (See the Geographic Information portion of Note W for further information relating to sales and long-lived assets by geographic area and "Management's Discussion and Analysis of Financial Condition and Results of Operations".) Currency fluctuations and nationalization and expropriation of assets are risks inherent in international operations. The Company has taken steps it deems prudent in its international operations to diversify against these risks, including the use of foreign currency financial instruments to reduce the risk associated with changes in the value of certain foreign currencies compared to the U.S. dollar. (See the discussion contained in "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A below, and Note V of the Notes to the Company's Consolidated Financial Statements, which appear in Item 8 of this annual report on Form 10-K for the fiscal year ended September 30, 2003.)

Item 2. ***Properties***

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

The Company's corporate headquarters are in leased office space in Boston, Massachusetts. The Company also leases or owns other principal facilities that are used by its business segments, as set forth in the table below. In addition, the Company holds mining rights in Canada.

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CHEMICAL BUSINESS

Carbon Black:

Owned — Administrative Offices and Manufacturing Plants:

• Ville Platte, Louisiana

• Centerville, Louisiana
• Billerica, Massachusetts
• Pampa, Texas
• Waverly, West Virginia
• Campana, Argentina
• Altona, Australia
• Loncin, Belgium
• Pepinster, Belgium
• Maua, Brazil
• Sarnia, Canada
• Hong Kong, China*
• Shanghai, China*
• Cartagena, Colombia
• Dukinfield, England
• Stanlow, England
• Berre, France
• Port Jerome, France*
• Hanau, Germany
• Maharashtra, India*
• Cilegon, Indonesia*
• Merak, Indonesia
• Grigno, Italy
• Ravenna, Italy
• Zierbena, Spain*
• Botlek, The Netherlands*
• Leiden, The Netherlands*

Leased — Administrative Offices and Manufacturing Plants:

• Alpharetta, Georgia†

• Leuven, Belgium†
• São Paulo, Brazil
• Shanghai, China
• Stanlow, England
• Suresnes, France
• Mumbai, India
• Jakarta, Indonesia
• Kuala Lumpur, Malaysia
• Barcelona, Spain

Owned — Research and Development Facilities:

• Billerica, Massachusetts

• Pampa, Texas
• Pepinster, Belgium
• Hong Kong, China*

Leased — Research and Development Facilities:

• Port Dickson, Malaysia

Fumed Metal Oxides:

Owned — Administrative Offices and Manufacturing Plants:

• Tuscola, Illinois

• Billerica, Massachusetts
• Midland, Michigan
• Stanlow, England
• Hanau, Germany
• Rheinfelden, Germany
• Zierbena, Spain*

Leased — Administrative Offices and Manufacturing Plants:

• São Paulo, Brazil

• Shanghai, China
• Tokyo, Japan
• Kuala Lumpur, Malaysia
• Barcelona, Spain
• Barry, Wales

Inkjet Colorants:

Owned — Administrative Offices and Manufacturing Plants:

• Billerica, Massachusetts

• Haverhill, Massachusetts
• Stanlow, England

Leased — Administrative Offices and Manufacturing Plants:

• Tokyo, Japan

Aerogels:

Leased — Administrative Offices, Manufacturing Plants and Research and Development Facilities:

• Frankfurt, Germany

Superior MicroPowders:

Leased — Administrative Offices and Research and Development Facilities:

• Albuquerque, New Mexico

SUPERMETALS

Owned — Administrative Offices and Manufacturing Plants:

• Boyertown, Pennsylvania

• Etna, Ohio
• Higashi-Nagahara, Japan*

Leased — Administrative Offices and Manufacturing Plants:

• Columbus, Ohio

• Tokyo, Japan

SPECIALTY FLUIDS

Owned — Administrative Offices and Manufacturing Plants:

• Lac du Bonnet, Canada*

Leased — Administrative Offices and Manufacturing Plants:

• The Woodlands, Texas

• Bergen, Norway
• Kristiansund, Norway
• Aberdeen, Scotland

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* On leased land

† Shared Service Center for the Chemical Business.

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

Item 3. ***Legal Proceedings***

The Company is a defendant in various lawsuits and environmental proceedings wherein substantial amounts are claimed. The following is a description of the significant proceedings pending as of September 30, 2003, 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. In July 1998, an arbitration panel ordered Cabot to pay $3.38 million for past response costs incurred by KNE as well as up to 80% of future groundwater remediation costs at six of the sites as such costs are incurred by KNE. In April 2002, Cabot and Kinder Morgan, Inc. (KNE's successor), settled all remaining issues with Cabot paying an additional $942,000 and taking remedial responsibility directly at three of the remaining disputed sites. Cabot's investigations at these three sites are ongoing.

Beginning in May 1986, the New Jersey Department of Environmental Protection ("NJDEP") issued directives under New Jersey's cleanup law to Cabot and a number of other potentially responsible parties ("PRPs") to fund an investigation for the cleanup of a six-acre site known as the Evor Phillips Site in Old Bridge Township near Perth Amboy, New Jersey ("Site"). Cabot and other PRPs subsequently entered into various Administrative Consent Orders ("ACOs") with NJDEP to fund and perform various investigations of the Site. Cabot and certain other PRPs also initiated litigation against the current site owner and other parties in the United States District Court for the District of New Jersey to obtain monetary contribution and deed restrictions on the Site. The District Court has approved the imposition of such deed restrictions and the PRPs have received cash settlements from some of the parties. In addition, in April 2002, the PRPs entered into an ACO with the NJDEP to perform further investigation and the final remedy for the Site. The site investigations are ongoing. The Company does not expect to have any significant financial exposure at this site.

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, the EPA issued an order to NGK requiring it to address soil and groundwater

contamination at the site. Remediation activities at the Reading property are ongoing and the Company is contributing to the costs associated with certain of those activities pursuant to the cost-sharing agreement with NGK.

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, performed the design and other preliminary work relating to remediation of sediment in the Brook and soil in the floodplain and wetlands areas adjacent to the Brook. In 1997, EPA and the companies reached agreement on the remedy for these areas. EPA made certain changes to that remedy in response to its finding low levels of previously undetected radioactive material in the Brook. In addition, EPA's cost recovery claims have been settled, and the companies have negotiated consent decrees with EPA, the State of Ohio and the Natural Resource Trustees that settle the governments' claims for past costs and natural resource damages and obligates the companies to implement the agreed remedy. Those consent decrees were entered by the United States District Court for the Northern District of Ohio on July 7, 1999. Remediation of the site was completed in 2003, and the remaining obligations at the site involve operation and maintenance activities.

During the summer of 1998, Cabot joined a group of companies in forming the Ashtabula River Cooperative Group ("ARCG"), which collectively agreed on an allocation for funding private party shares of a public/private partnership (the Ashtabula River Partnership (the "ARP")), established to conduct navigational dredging and environmental restoration of the Ashtabula River (the "River") in Ashtabula, Ohio. The ARP expects to obtain additional funding from both the federal and state governments for the project under the Federal Water Resources Development Act ("WRDA"). In September 1999, the ARP issued a Comprehensive Management Plan ("CMP") which placed an initial estimate of $42 million on the project. An updated cost estimate for the project of approximately $48 million was released in 2002 by the U.S. Army Corps of Engineers as part of the WRDA process. Under the statutory formula available for funding this project under WRDA, approximately 68% of the project's cost is to be borne by the federal government, leaving 32% of the cost for non-federal participants. The State of Ohio has pledged a contribution of $7 million to the project, which will reduce the cost to be borne by the non-federal participants. The ARCG expects to be asked to bear a substantial percentage of the remaining costs, of which the Company expects to have a significant share. In addition, the ARCG has received a notice of claim for natural resource damages related to the River and the amount of that claim remains to be negotiated with the Natural Resource Trustees.

In September 2002, EPA Region III filed three administrative complaints against Cabot under various federal environmental statutes in connection with the Company's Boyertown, Pennsylvania facility. The complaints related to alleged violations of reporting obligations in connection with two accidental releases of hazardous substances at the Boyertown facility in February and March 2000, and alleged violations of hazardous waste training and storage requirements. EPA sought a total of approximately $170,000 in proposed penalties under those three administrative complaints. Cabot filed answers to the complaints and entered into settlement discussions with EPA in an effort to resolve the allegations raised in the complaints. The matter settled in July 2003 with a civil penalty of approximately $100,000 paid to EPA.

In 1994, Detrex Chemical Industries, Inc. filed third-party complaints against eight companies, including Cabot, in connection with material allegedly sent to the Koski/ Reserve Environmental Services ("RES") landfill in Ashtabula, Ohio. Cabot and other third-party defendants filed complaints against five additional companies that sent waste to the site. In May 1998, Cabot and certain other defendants agreed to settle their liability for this matter by agreeing to fund and conduct a portion of the remedy at the landfill site. That remediation is expected to commence in 2004.

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. Cabot has prepared a site decommis-

sioning 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 August 1998. The City of Reading and the Reading Redevelopment Authority (the "RRA") filed requests for a hearing with the NRC concerning Cabot's decommissioning plan, alleging various deficiencies with the plan. In October 2000, Cabot reached an agreement with the City of Reading and the RRA to settle their claims. In July 2002, the Pennsylvania Department of Environmental Protection ("DEP") submitted comments to the NRC opposing Cabot's proposed decommissioning plan claiming that Cabot has not adequately characterized the environmental and health risks associated with the site. Cabot continues to work with the NRC to obtain approval of the decommissioning plan.

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. In April 1996, EPA proposed that ten companies, including Cabot, undertake the remaining remediation required at the site and indicated it would be willing to reconsider, to some extent, the remediation technology to be used. After further study, EPA agreed that the alternative remedy proposed by the private parties was feasible. The companies, including Cabot, entered into a Consent Decree concerning implementation of the alternative remedy and payment of certain EPA past costs. During fiscal year 2003, the remedy was completed and approved by the EPA.

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 and complete the work required by EPA. Cabot entered into a settlement agreement with the performing parties in October 2001 covering response costs at the site, and most of the costs Cabot is obligated to pay under that agreement have been paid. In addition, Cabot entered into a final agreement with the U.S. Department of Justice ("DOJ") and EPA relating to EPA's claim that Cabot failed to comply with the EPA order. Pursuant to that agreement, Cabot paid a $75,000 civil penalty to the United States in January 2003.

The EPA has completed an investigation of certain areas surrounding the Company's Boyertown, Pennsylvania facility. The investigation was prompted by media reports of complaints by area farmers of health impacts and damage to livestock and crops allegedly associated with emissions from the Boyertown facility. In a report dated November 2000, EPA stated that increased concentrations of some elements in environmental media at locations near the Boyertown site did not pose a health threat to the broad community necessitating a cleanup action by the EPA. The EPA report concluded that EPA could find no relationship between industrial emissions and reported poor farm production and animal health concerns. In November 1999, Cabot received a letter from an attorney representing certain farmers in the area threatening litigation concerning contamination alleged to be caused by the Boyertown plant. In September of 2001, two of the farmers filed suit in Pennsylvania state court alleging damage to their herds. Cabot removed the case to federal court and discovery is ongoing. The Company has filed a motion for summary judgment, which is pending. The Company believes that it has strong defenses against plaintiffs' claims.

In January 1999, the French Direction Régionale de L'Industrie, de la Réchérche et de L'Environnement ("DRIRE") notified Cabot France S.A., a French subsidiary of Cabot, that the DRIRE was investigating groundwater pollution in the Montée des Pins area where Cabot France S.A.'s carbon black plant in Berre l'Etang, France is located. The DRIRE convened meetings of various industries in the area and asked them to work together on a study of area groundwater conditions. Ten companies, including Cabot France S.A., worked together to fund and undertake the initial study requested by the DRIRE. Based on the results of that study, a neighboring company, Shell Oil, appears to be responsible for the existing groundwater contamination, including groundwater contamination under Cabot's Berre facility. Cabot and the other companies are expecting Shell Oil to assume responsibility for remediating the groundwater conditions in the area. To date,

Shell Oil has only assumed partial responsibility for the groundwater contamination. The DRIRE has not yet taken a position on what level of remediation may be required to address the groundwater conditions.

Cabot, along with a number of other companies, is a PRP under the Superfund law with respect to the King of Prussia Technical Corp. site in Winslow Township, New Jersey. Work on site remediation was completed several years ago except for ongoing operation and maintenance of groundwater treatment facilities. Cabot and four other companies involved have agreed on the portions of the costs to be borne by each company. In May 2001, the NJDEP informed Cabot, along with the other named parties, that NJDEP has incurred certain unreimbursed response costs at the site. In Spring 2003, Cabot and the other parties agreed in principle with the NJDEP to settle the claim for past costs for approximately $82,000. In addition, the PRP Group has a tentative settlement agreement with NJDEP to resolve a pending natural resource damages claim at this site.

On June 5, 1999, there was a break in the pipeline used to transport carbon black feedstock from a nearby port to a Ravenna, Italy carbon black facility owned by Cabot Italiana S.p.A., a wholly-owned subsidiary of Cabot. The break was in a portion of the pipeline adjacent to a neighboring industrial facility. As a result, a substantial amount of carbon black feedstock was released at the neighboring facility. An expert for the public prosecutor in Ravenna has completed an initial investigation of the facts of the spill. He has concluded that the pipeline was damaged from drilling activity conducted by a third party, and that Cabot is not responsible for causing the spill. In the interim, the Company undertook emergency remediation efforts immediately following the spill. Claims have been asserted against the Company by the owner of the facility where the spill occurred and by the owners of a sewer system into which some of the oil flowed. In addition, the Company has asserted a claim against the third parties that caused the spill. The municipal environmental authorities issued an order to the Company and the parties who damaged the pipeline ordering them to undertake further activities to address conditions caused by the spill. The Company and the other parties have challenged issuance of the order, and the administrative courts in Italy are hearing the matter. The parties, including the Company, have entered into an agreement to fund most of the activities required by the administrative order, and work under that agreement is proceeding. As of September 2003, the Company has spent approximately $6.5 million in connection with this spill. The Company has notified its insurers about the spill and has received reimbursement from them for a substantial portion of those costs. At this point, the Company does not know the likely course that legal proceedings will take, and does not have an estimate of the costs that the Company will ultimately bear.

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

As of September 30, 2003, approximately $26 million was reserved for environmental matters by the Company. This amount represents the Company’s current best estimate of costs likely to be incurred for remediation 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 exposure in connection with a safety respiratory products business that a subsidiary acquired from American Optical Corpration (“AO”) in an April 1990 asset transaction. The subsidiary disposed of that business in July 1995. In connection with its acquisition of the business, the subsidiary agreed, in certain circumstances, to assume a portion of AO’s liabilities, including costs of legal fees together with amounts paid in settlements and judgments allocable to AO respiratory products used prior to the 1990 purchase by the Cabot subsidiary. In exchange for the subsidiary’s assumption of certain of AO’s respirator liabilities, AO agreed to provide to the subsidiary the benefits of: (1) AO’s insurance coverage for the period prior to the acquisition, and (2) a former owner’s indemnity of AO holding it harmless from any liability allocable to AO respiratory products used prior to May 1982. Generally, these respirator liabilities involve claims for personal injury, including asbestosis and silicosis, allegedly resulting from the use of AO respirators that were negligently designed or labeled.

Neither the Company, nor its past or present subsidiaries, at any time manufactured asbestos or asbestos-containing products. Moreover, not every person with exposure to asbestos giving rise to an asbestos claim used a form of respiratory protection. At no time did AO's respiratory product line represent a significant portion of the respirator market. In addition, other parties, including AO, AO's insurers, and another former owner and its insurers (collectively, the "Payor Group"), are responsible for significant portions of the costs of these liabilities, leaving the Company's subsidiary with a portion of the liability in only some of the pending cases.

The Company's subsidiary disposed of the business in July 1995 by transferring it to a newly-formed joint venture called Aearo Corporation ("Aearo") and retaining an equity interest in Aearo. The Company agreed to have its subsidiary retain liabilities allocable to respirators used prior to the 1995 transaction so long as Aearo pays the Company an annual fee of $400,000. Aearo can discontinue payment of the fee at any time, in which case it will assume the responsibility for and indemnify the Company against the liabilities allocable to respirators manufactured and used prior to the 1995 transaction. The Company has no liability in connection with any products manufactured by Aearo after 1995. Between July 1995 and September 30, 2001, the Company's total costs and payments in connection with these respirator liabilities did not exceed the total amounts received from Aearo. Because of the significant increase in claims filed against AO beginning in calendar year 2001, since September 30, 2001, Cabot's total costs and payments in connection with these liabilities have exceeded the amount it has received from Aearo. In August 2003, the Company and its subsidiary sold all of the subsidiary's equity interest in Aearo for approximately $35 million. This sale did not alter the arrangements described above.

As of December 31, 2002, there were approximately 50,000 claimants in pending cases asserting claims against AO in connection with respiratory products. As of September 30, 2003 there were approximately 87,000 claimants. A large portion of the new claims since January 1, 2003 have been filed in Mississippi and appear to have been prompted by changes in Mississippi's state procedural laws which caused claimants to file their claims prior to the effective date of these changes. Cabot has contributed to the costs of a percentage of, but not all, pending claims depending on several factors, including the period of alleged product use.

Since December 2002, Cabot and the members of the Payor Group have been in settlement negotiations that would fix the allocation of liabilities among them. In general, the settlement being discussed would provide that as long as the Payor Group continues to pay all costs and liabilities in connection with the respirator litigation, Cabot's liability under the settlement would be limited to a specified annual amount.

Previous to June 2003, given the uncertainties of the settlement with the Payor Group, the complexity of Cabot's contractual indemnity obligations and the unusual increase in the number of claims in certain jurisdictions that appears to have resulted from changes in state procedural laws, Cabot did not believe it was able to reasonably estimate a range of possible loss for future claims. As members of the Payor Group had not yet reached an acceptable settlement, Cabot, through its outside legal advisors, retained the assistance of Hamilton, Rabinovitz & Alschuler, Inc. ("HR&A"), a leading expert, to assist Cabot in calculating its estimated share of liability with respect to existing and future respirator liability claims. The methodology developed by HR&A addresses the complexities surrounding Cabot's potential liability by making assumptions about future claimants with respect to periods of asbestos exposure and respirator use. Using those and other assumptions, HR&A estimated the number of future claims that would be filed and the related costs that would be incurred in resolving those claims. On this basis, HR&A then estimated the net present value of the share of these liabilities that reflected Cabot's actual contractual obligations assuming that all other members of the Payor Group meet their obligations. Based on the HR&A estimates, Cabot recorded a $20 million reserve during the third quarter of fiscal year 2003 to cover its share of liability for existing and future respirator liability claims. This reserve remained unchanged at September 30, 2003.

The Company's current estimate of the cost of its share of existing and future respirator liability claims is based on facts and circumstances existing at this time. However, this cost is subject to numerous variables that are extremely difficult to predict. Developments that could affect the Company's estimate include, but are not limited to, (i) significant changes in the number of future claims, (ii) significant changes in the average cost of resolving claims, (iii) significant changes in the legal costs of defending these claims, (iv) changes in the

nature of claims received, (v) changes in the law and procedure applicable to these claims, (vi) the financial viability of members of the Payor Group, and (vii) a determination that the Company's interpretation of the contractual obligations on which it has estimated its share of liability is inaccurate. The Company cannot determine the impact of these potential developments on its current estimate of its share of liability for these existing and future claims. Accordingly, the actual amount of these liabilities for existing and future claims could be higher than the reserved amount.

On July 29, 2002, AVX Corporation commenced an action against the Company in the United States District Court for the District of Massachusetts. The complaint involved a tantalum supply agreement between the Company and AVX, one of the Company's tantalum customers, and alleged unfair and deceptive trade practices, breach of contract and other related matters. This action was dismissed on procedural grounds during fiscal year 2003. In connection with the dismissal, the Company filed an action against AVX in the Business Litigation Section of the Superior Court of Massachusetts seeking a declaratory judgment as to the validity of the supply agreement, as well as a declaration that Cabot is not in breach of an alleged prior agreement, and that Cabot did not engage in unfair and deceptive trade practices. Cabot filed a motion for summary judgment in this matter in October 2003. AVX continues to purchase product in accordance with the terms of its contract during the dispute.

In November 2002, United States and European antitrust authorities initiated a joint investigation into possible price-fixing within the carbon black industry. As part of this investigation, European antitrust authorities reviewed documents at the Company's offices in Suresnes, France, and United States authorities contacted Cabot's Boston, Massachusetts headquarters. Neither the Company nor any of its employees has been charged with any wrongdoing. These types of proceedings are typically lengthy, and Cabot has no way to predict when there will be a resolution.

During fiscal year 2003, the Company, Phelps Dodge Corporation, Columbian Chemicals Co., Degussa Engineered Carbons, LP, Degussa AG, and Degussa Corporation (referred to collectively as the "Defendants"), were named in fifteen antitrust lawsuits filed in several federal district courts, one of which has been dismissed. The complaints have been filed by the plaintiffs on their own behalf and on behalf of all individuals or entities who purchased carbon black in the United States directly from the Defendants from approximately 1999 until the present (the "Period") and allege that the Defendants conspired to fix, raise, maintain or stabilize prices for carbon black sold in the United States during the Period. The plaintiffs seek treble damages in an unspecified amount and attorneys' fees. In August 2003, the pending federal cases were consolidated by a multi-jurisdictional panel and transferred to the federal court for the District of Massachusetts. Discovery is ongoing in these matters. Cabot believes it has strong defenses to all of these claims, which it intends to assert vigorously.

The Company and certain other companies have also been named in nine actions filed in Superior Court of the State of California on behalf of a purported class of indirect purchasers of carbon black in the state of California from as early as November 1998 to the present. Included in the nine actions are the following actions filed during and subsequent to the fiscal quarter ended September 30, 2003: Manning v. Cabot Corp., Cory v. Cabot Corp., and Bookman Press v. Cabot Corp., each of which was filed in the Superior Court of the State of California (City and County of San Fransisco). Each of these complaints assert violations under California law for conduct that is similar to what is alleged in the federal complaints described above. The California complaints also seek treble damages in an unspecified amount and attorneys' fees. In December 2003, the eight cases that were filed during the 2003 fiscal year were coordinated in the Superior Court of the State of California (City and County of San Fransisco). Cabot believes it has strong defenses to all of these claims, which it intends to assert vigorously.

Subsequent to the end of the fiscal year ended September 30, 2003, the Company and certain other companies have also been named in the following civil antitrust actions: Vichreva v. Cabot Corp., filed in the Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County, Florida; and Weaver v. Cabot Corp., filed in the County of Buncombe, Superior Court Division of the State of North Carolina. These complaints assert violations under Florida and North Carolina law, respectively, for conduct that is similar to

what is alleged in the federal complaints, and seek treble damages in an unspecified amount and attorneys' fees. Cabot believes it has strong defenses to all of these claims, which it intends to assert vigorously.

Cabot is a party to several pending actions in connection with its discontinued beryllium operations. Cabot entered the beryllium industry through an acquisition in 1978. It ceased manufacturing beryllium products at one of the acquired facilities in 1979, and the balance of Cabot's former beryllium business was sold to NGK Metals, Inc. in 1986. During the last several years, several individuals who have resided or worked for many years in the immediate vicinity of Cabot's former beryllium facility located in Reading, Pennsylvania have brought suits against Cabot and NGK for personal injury allegedly caused by beryllium particle emissions produced at that facility. Cabot prevailed on summary judgment in six of these cases. All six cases have been appealed by the plaintiffs to the Court of Appeals for the Third Circuit and in December, 2003, the Third Circuit reversed the federal District Court's dismissal in three of these cases, while affirming its judgment in one of them. Cabot is seeking re-hearing by the Third Circuit in connection with its decision. Should re-hearing not be granted, these three cases will be returned to the District Court for trial. Very recently, a large number of individuals and their spouses have asserted claims, now pending in 34 separate Pennsylvania state court actions, for person injury and/or medical monitoring. These plaintiffs allege contact with beryllium in various ways, including residence or employment in the area surrounding the Reading facility, employment at the Reading facility or contact with individuals who worked at the Reading facility. Discovery is underway in these cases.

There are also seven beryllium product liability cases pending in state courts in California, Florida and New York. Four cases pending in state court in California are stayed until February 2004, pending beryllium sensitization testing of a group of additional potential plaintiffs. The matter in Florida has been scheduled for trial in July 2004, and discovery is ongoing. Discovery is ongoing in the two matters pending in New York, and Cabot anticipates filing motions for summary judgment there in the future.

In 2000, individuals who reside within a 6-mile zone surrounding the Reading facility filed a purported class action in Pennsylvania state court seeking the creation of a trust fund to pay for the medical monitoring of the surrounding resident population. Class certification was denied and the plaintiffs have appealed.

The Company believes it has valid defenses to all of these beryllium actions and will assert them vigorously in the various venues in which claims have been asserted. In addition, there is a contractual indemnification obligation running from NGK to Cabot in connection with many of these matters. Moreover, federal legislation creating a federally funded compensation scheme for beryllium workers injured or otherwise requiring medical screening or testing may well affect certain of these pending beryllium cases.

The Company has various other lawsuits, claims and contingent liabilities arising in the ordinary course of its business, including a number of claims asserting premises liability for asbestos exposure. In the opinion of the Company, although final disposition of all of its suits and claims may impact the Company's financial statements in a particular period, they should not, in the aggregate, have a material adverse effect on the Company's financial position. (See Note U of the Notes to the Company's Consolidated Financial Statements, which appear in Item 8 of this annual report on Form 10-K for the fiscal year ended September 30, 2003.)

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 2003 fiscal year, is information, as of November 30, 2003, regarding his age, position(s) with Cabot, the periods during which he served as an officer and his business experience during at least the past five years:

Name	Age	Offices Held/Business Experience	Dates Held
Brian A. Berube	41	Cabot Corporation	
		Vice President and General Counsel	March 2003 to present
		Vice President and Business General Counsel	March 2002 to March 2003
		Deputy General Counsel	June 2001 to March 2002
		Counsel	September 1994 to June 2001
William J. Brady	42	Cabot Corporation	
		Executive Vice President	March 2003 to present
		General Manager, Carbon Black	July 2003 to present
		Vice President	March 1997 to July 2003
		General Manager, Fumed Metal Oxides	January 2000 to July 2003
		General Manager, Special Blacks	July 1996 to January 2000
Kennett F. Burnes	60	Cabot Corporation	
		Chairman of the Board	May 2001 to present
		President	February 1995 to present
		Chief Executive Officer	March 2001 to present
		Chief Operating Officer	March 1996 to March 2001
		Executive Vice President	October 1988 to February 1995
Eduardo E. Cordeiro	36	Cabot Corporation	
		Vice President	March 2003 to present
		General Manager, Fumed Metal Oxides	July 2003 to present
		Corporate Controller	March 2002 to July 2003
		Director, Finance and Investor Relations	January 2000 to March 2002
		Manager, Corporate Planning and Development	July 1998 to January 2000
Paul J. Gormisky	50	Cabot Corporation	
		Vice President, Corporate Planning	March 2000 to present
		Vice President and Chief Financial Officer, Global Manufacturing	July 1998 to March 2000
		Vice President and Asia Pacific General Manager	January 1997 to July 1998
		Vice President, Corporate Controller and Chief Accounting Officer	March 1995 to January 1997
		Vice President and Director of Finance for Carbon Black	February 1994 to March 1995
Thomas H. Odle	45	Cabot Corporation	
		Vice President	March 1997 to present
		General Manager, Cabot Supermetals	October 1996 to present
John A. Shaw	55	Cabot Corporation	
		Executive Vice President and Chief Financial Officer	January 2002 to present
		Dominion Resources	
		Senior Vice President Financial Management, Dominion Energy	June 1999 to December 2001
		Senior Vice President and Chief Financial Officer, Virginia Power	March 1998 to June 1999
		ARCO Chemical Company	
		Vice President, Financial Services	1997 to 1998
		Vice President and Controller	1995 to 1996

PART II

Item 5. *Market for 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, 2003, there were approximately 1,500 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 2003					
Cash dividends per share	$ 0.13	$ 0.13	$ 0.13	$ 0.15	$ 0.54
Price range of Common Stock:					
High	$27.59	$26.80	$30.34	$30.80	$30.80
Low	$19.45	$20.80	$23.00	$24.92	$19.45
Close	$26.54	$23.86	$28.70	$28.51	$28.51

	December	March	June	September	Year
Fiscal 2002					
Cash dividends per share	$ 0.13	$ 0.13	$ 0.13	$ 0.13	$ 0.52
Price range of Common Stock:					
High	$42.24	$37.22	$36.75	$28.74	$42.24
Low	$31.00	$30.60	$22.95	$20.50	$20.50
Close	$35.70	$36.85	$28.65	$21.00	$21.00

Item 6. *Selected Financial Data*

Cabot Corporation Selected Financial Data

	Years Ended September 30,				
	2003	2002	2001	2000	1999
	(Dollars in millions, except per share amount)				
Financial Highlights					
Net sales and other operating revenues	$1,795	$1,557	$1,670	$1,574	$1,405
Income from continuing operations	$ 75	$ 105	$ 121	$ 108	$ 82
Long-term debt	$ 516	$ 495	$ 419	$ 329	$ 419
Minority interest	40	35	27	31	32
Stockholders' equity	1,079	977	950	1,047	706
Total capitalization	$1,635	$1,507	$1,396	$1,047	$1,157
Total assets	$2,308	$2,077	$1,939	$2,161	$1,866
Income from continuing operations per common share:					
Basic	$ 1.24	$ 1.74	$ 1.89	$ 1.65	$ 1.24
Diluted	$ 1.08	$ 1.48	$ 1.62	$ 1.46	$ 1.11
Cash dividends (declared and paid)	$ 0.54	$ 0.52	$ 0.48	$ 0.44	$ 0.44
Weighted average common shares outstanding in millions (diluted)	70	71	74	73	73

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Cautionary Factors that May Affect Future Results and Forward-Looking Statements

This report on Form 10-K contains "forward-looking statements" based on Cabot's current expectations, assumptions, estimates and projections about Cabot's businesses and the industries in which it operates. These forward-looking statements include statements relating to Cabot's expected financial position, business, business prospects, revenues, working capital, liquidity, management's projections and expectations of future profits, the possible achievement of Cabot's financial goals and objectives, management's expectations for shareholder value creation initiatives, product development programs, environmental matters and the outcome of legal proceedings. From time to time, Cabot also provides forward-looking statements in other materials it releases to the public and in oral statements made by authorized officers.

Forward-looking statements may be identified by the use of words such as "may," "should," "will," "could," "estimates," "predicts," "potential," "continue," "anticipates," "believes," "plans," "expects," "future," "intends" and similar expressions whether in the negative or affirmative. These statements are not guarantees of future performance and are subject to risks, uncertainties, potentially inaccurate assumptions, and other factors, some of which are beyond Cabot's control and difficult to predict. If known or unknown risks materialize, or should underlying assumptions prove inaccurate, Cabot's actual results could differ materially from past results and from those expressed or forecasted in the forward-looking statements.

Cabot undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Investors are advised, however, to consult any further disclosures Cabot makes on related subjects in its 10-Q and 8-K reports filed with the Commission.

Also note that, as permitted by the Private Securities Litigation Reform Act of 1995, Cabot provides the following cautionary discussion of risks and uncertainties relevant to Cabot's businesses. These are factors that, individually or in the aggregate, Cabot believes could cause its actual results to differ materially from expected or historical results. It is not possible, however, to predict or identify all such factors. Accordingly, investors should not consider the following to be a complete discussion of all potential risks or uncertainties.

- Demand for Cabot's products on a worldwide basis could affect Cabot's future performance. The Company's key customers in mature carbon black markets such as North America and Europe continue to shift their manufacturing capacity from those regions to developing regions such as China, South America and Eastern Europe. Although the Company is responding to meet these market demand conditions, there is no assurance that the Company will be successful. Similarly, demand for Cabot's customers' products and Cabot's competitors' reactions to market conditions could affect the Company's results.

- Cabot's Chemical Business is sensitive to industry capacity utilization. As a result, pricing tends to fluctuate when capacity utilization changes occur within the industry in which Cabot's Chemical Business operates, which could affect the Company's financial performance.

- The Company's success in strengthening relationships and growing business with its largest customers and retaining their business over extended time periods could affect the Company's future results. Five major tire and rubber customers, one silicone customer, three capacitor materials customers and one microelectronics customer represent a material portion of Cabot's total net sales and operating revenues. In fiscal year 2003, sales to Goodyear Tire and Rubber Company by Cabot's Chemical Business amounted to 11% of Cabot's consolidated revenues. The loss of one of these customers could adversely affect the Company's financial condition and results of operations until such business is replaced. In addition, any deterioration of the financial condition of any of the Company's customers that impairs their ability to make payments to the Company could affect the Company's future results and financial condition.

- A material portion of the Company's sales are made to customers under long-term contracts. The loss of any of these customer contracts could increase the volatility of the Company's business results.

- The cost, availability and quality of raw materials affect the Company's results. Dramatic increases in such costs or decreases in the availability of raw materials could have an adverse effect on the Company's results of operations. For example, if proposed environmental regulations applicable to the European carbon black industry that call for a reduction in the annual average sulfur content in carbon black feedstock are adopted, the Company may experience some difficulty obtaining low sulfur feedstock at an acceptable cost for its European operations.

- Cabot has manufacturing and marketing operations throughout the world, with approximately 63% of its revenues attributable to sales outside the United States. Cabot is thus exposed to certain risks, including fluctuations in currency exchange rates and political or country risks inherent in doing business in some countries. The political risks may include actions of governments (especially newly appointed governments), importing and exporting issues, contract loss and asset abandonment. In particular, the Company's business could be affected by political uncertainty within the Asia Pacific and Latin American regions. The Company considers these currency and political risks carefully in connection with its investment and operations activities. (See *"Item 7A — Quantitative and Qualitative Disclosures About Market Risk"* and Note V of the Notes to the Company's Consolidated Financial Statements for more information about foreign currency risk.) The risk management discussion included under Item 7A and 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 those projected results due to developments in the global financial markets. The methods used by Cabot to assess and mitigate risks should not be considered projections of future events or losses.

- Cabot has undertaken and will continue to undertake cost reduction initiatives and organizational restructurings to improve performance and generate cost savings. There can be no assurance that these will be completed as planned or that the estimated cost savings from such activities will be realized.

- The Company's strategic focus is on optimizing its core businesses and investing the cash and intellectual resources they generate in developing new businesses. There can be no assurance that the investments in these new businesses will result in a proportional increase in revenues. In addition, the timely commercialization of products under development by Cabot, which may be disrupted or delayed by technical difficulties, market acceptance, competitors' new products, as well as difficulties in moving from experimental scale to commercial scale, could affect Cabot's future results.

- Cabot's facilities and businesses are subject to complex safety, health and environmental requirements. Cabot spends, and will continue to spend, significant amounts to comply with such requirements, which could adversely affect Cabot's profitability.

- As more fully described in *"Item 1 — Safety, Health and Environment,"* Cabot has been named as a potentially responsible party under the U.S. Superfund law and comparable state statutes with respect to several sites. During the next several years, as remediation of various environmental sites is carried out, Cabot expects to spend a significant portion of its environmental reserve for costs associated with such remediation. Cabot anticipates that the expenditures at these Superfund sites will be made over a number of years, and will not be concentrated in any one year. However, Cabot may also incur future costs relating to sites that are not currently known to it or as to which it is currently not possible to make an estimate.

- As described in *"Item 1 — Safety, Health and Environment,"* since the mid-1990s, various state, federal and foreign agencies have taken actions to address concerns that carbon black might be carcinogenic. The Company expects the International Agency for Research on Cancer ("IARC") to review the classification of carbon black regarding carcinogenicity over the next two years, and as a result, it is possible that IARC could change the classification of carbon black from possible human carcinogen to probable human carcinogen. In the event IARC does change the classification of carbon black to probable human carcinogen (Group 2A), additional labeling and other hazard communication requirements would be imposed on the Company. In addition, there could be other consequences

resulting from a change in IARC's classification of carbon black to Group 2A which could have a material adverse effect on the Company's carbon black business.

- As more fully described in *"Item 3 — Legal Proceedings,"* the Company is a party to or the subject of lawsuits, claims, investigations, and proceedings, including those involving contract, environmental, antitrust, health and safety, and employment matters as well as product liability and personal injury claims relating to asbestosis, silicosis and berylliosis. Adverse rulings, judgments or settlements in pending or future litigation (including carbon black antitrust claims and liabilities associated with respirator claims) or the outcome of pending governmental investigations (including investigations of the carbon black industry by European antitrust authorities) could cause the Company's results to differ materially from those expressed or forecasted in any forward-looking statements.

- The Company owns and is a licensee of various patents covering many of its products, as well as processes and product uses. Nonetheless, there is no assurance that the Company will not be subject to claims that its products, processes or product uses infringe the intellectual property rights of others. These claims, even if they are without merit, could be expensive and time consuming to defend and if the Company were to lose such claims, it could be subject to injunctions or damages or be required to enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may not be available to the Company on acceptable terms or at all.

- In addition to the factors described above, the following other factors, among others, could affect Cabot's future performance and cause its actual results to differ materially from those expressed or implied by any forward-looking statements: changes in the rate of economic growth in the United States and other major international economies; changes in trade, monetary and fiscal policies throughout the world; fluctuations in interest rates; stock market conditions; acts of war and terrorist activities; and the impact of global health and safety concerns on economic conditions and market opportunities.

I. Critical Accounting Policies

The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. Critical accounting policies are those that are central to the presentation of the Company's financial condition and results of operations and that require management to make estimates about matters that are highly uncertain. On an ongoing basis, the Company evaluates its policies and estimates. The Company bases its estimates on historical experience, current conditions and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition and Accounts Receivable

The Company primarily derives its revenue from the sale of specialty chemicals, tantalum and related products and cesium formate. Other operating revenues include tolling, services and royalties received for licensed technology. The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", which establishes the criteria that must be satisfied before revenue is realized or realizable and earned.

Revenue from product sales is typically recognized when the product is shipped and title and risk of loss have passed to the customer. The Company generally is able to ensure that products meet customer specification prior to shipment. Under certain multi-year supply contracts with declining prices and minimum volumes, Cabot recognizes revenue based on an estimated average selling price over the contract lives.

The Company prepares its estimates for sales returns and allowances, discounts, and rebates quarterly based primarily on historical experience updated for changes in facts and circumstances, as appropriate. The Company offers its customers cash discounts and volume rebates as sales incentives. The discounts and

rebates are recorded as a reduction of sales at the time revenue is recognized. Rebates that are earned over a period of time are recorded based on the estimated amount to be earned, which is reviewed periodically. A provision for sales returns and allowances is recorded at the time of sale based on historical experience as a reduction of sales. If actual future results vary, the Company may need to adjust its estimates, which could have a material impact on earnings in the period of adjustment.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the potential inability of its customers to make required payments. If the financial conditions of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required, which could materially affect future earnings. As of September 30, 2003, the allowance for doubtful accounts was $3 million.

Inventory Valuation

The cost of most raw materials, work in process, and finished goods inventories in the U.S. is determined by the last-in, first-out ("LIFO") method. Had the Company used the first-in, first-out ("FIFO") method instead of the LIFO method for such inventories, the value of those inventories would have been $71 million higher as of September 30, 2003. The cost of other U.S. and all non-U.S. inventories is determined using the average cost method or the FIFO method.

In cases where the market value of inventories is below cost, the inventory is stated at market value. The Company writes down its inventories for estimated obsolescence or unmarketable inventory by an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. Such write-downs have not historically been significant. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Valuation of Long-Lived Assets

The Company's long-lived assets include property, plant, equipment, long-term investments, goodwill and other intangible assets. The Company reviews the carrying values of long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be recoverable. An asset impairment is recognized when the carrying value of the asset, excluding goodwill, is not recoverable based on the undiscounted estimated cash flows. The Company's estimates reflect management's assumptions about selling prices, production and sales volume, costs, and market conditions over an estimate of the remaining operating period. If an impairment is indicated, the asset is written down to the estimated fair value. In circumstances when an asset does not have separate identifiable cash flows, an impairment charge is recorded when Cabot abandons the asset.

The Company performs an annual impairment test for goodwill in accordance with Statement of Financial Accounting Standard ("FAS") No. 142. The fair value of the assets including goodwill balances is based on discounted estimated cash flows. The assumptions used to estimate fair value include management's best estimates of future growth rates, capital expenditures, discount rates, and market conditions over an estimate of the remaining operating period. If an impairment exists, a loss to write down the value of goodwill is recorded.

Environmental Costs

The Company accrues environmental costs when it is probable that the Company has incurred a liability and the amount can be reasonably estimated. When a single liability amount cannot be reasonably estimated, but a range can be reasonably estimated, the Company accrues the amount that reflects its best estimate within that range or the low end of the range if no estimate within the range is better. The amount accrued reflects the Company's assumptions about remediation requirements at the contaminated site, the nature of the remedy, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number and financial viability of other potentially responsible parties. A portion of the reserve for environmental matters is recognized on a discounted basis. The availability of new information,

changes in the estimates on which the accruals are based, unanticipated government enforcement action, or changes in applicable government laws and regulations could result in higher or lower costs. The Company does not reduce its estimated liability for possible recoveries from insurance carriers. Proceeds from insurance carriers are recorded when realized by the receipt of cash or a contractual agreement. As of September 30, 2003, the Company had $26 million reserved for various environmental matters.

Pensions and Other Postretirement Benefits

The Company maintains both defined benefit and defined contribution plans for its employees. In addition, the Company provides certain health care and life insurance benefits for retired employees. The costs and obligations related to these benefits reflect the Company's assumptions concerning the general economic conditions, including interest rates, expected return on plan assets, and the rate of compensation increases for employees. Projected health care benefits reflect the Company's assumptions about health care cost trends. The cost of providing plan benefits also depends on demographic assumptions including retirements, mortality, turnover, and plan participation. If actual experience differs from these assumptions, the cost of providing these benefits could increase or decrease. Actual results that differ from the assumptions are generally accumulated and amortized over future periods and therefore affect the recognized expense and recorded obligation in such future periods.

Litigation and Contingencies

The Company accrues a liability for litigation when it is probable that a liability will be incurred and the amount can be reasonably estimated. The estimated reserves are recorded based on the Company's best estimate of the liability associated with such matters or the low end of the estimated range of liability if the Company is unable to identify a better estimate within that range. Litigation is highly uncertain and there is always the possibility of an unusual result in any particular case that may have an adverse effect on the results of operations.

Income Taxes

The Company estimates its income taxes in each jurisdiction that imposes a tax on its income. This process involves estimating the tax exposure for differences between actual results and estimated results. The Company has filed its tax returns in accordance with its interpretation of each jurisdiction's tax laws and has established reserves for potential differences in interpretation of those laws. In the event that actual results are significantly different from these estimates, the Company's provision for income taxes could be significantly impacted.

II. Results of Operations

Cabot Corporation and its subsidiaries (the "Company" or "Cabot") are organized into three reportable segments: the Chemical Business, Supermetals ("CSM"), and Specialty Fluids ("CSF"). The Chemical Business is primarily comprised of the carbon black, fumed metal oxides, inkjet colorants, and aerogels product lines.

The following discussion of results includes diluted earnings per share, segment sales, and segment operating profit before taxes ("PBT"). Segment PBT is used by Cabot to measure the Company's consolidated operating results and assess segment performance. The following discussion has been prepared on a basis consistent with segment reporting as outlined in Note W of the consolidated financial statements. (Refer to Note W of the consolidated financial statements for a definition of segment PBT and additional segment information.)

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

Net sales and operating profit before taxes by segment are shown in Note W of the consolidated financial statements.

Overview

Cabot reported diluted earnings per share of $1.14, $1.50, and $1.66 in 2003, 2002, and 2001, respectively. For 2003, the $1.14 amount included $0.67 per diluted share for certain items and discontinued operations, as detailed in the Company Summary section that follows, compared to the $1.50 amount, which included $0.16 per diluted share for certain items and discontinued operations in 2002. For 2001, $1.66 in earnings included $0.16 per diluted share for certain items and discontinued operations. Charges from certain items are detailed in the Company Summary section below.

The Chemical Business operated in a difficult environment throughout 2003. Raw material costs remained high and low industry capacity utilization levels resulted in decreased margins compared to 2002 due to competitive price pressure in the non-contracted business. Slightly higher volumes, positive currency translations to U.S. dollars, and lower inventory costs partly offset the impact of lower margins. Supermetals' volumes were higher than 2002 due to the resolution of customer contract disputes. CSM average prices were flat as improved product mix was offset by reduced prices in Asia and lower contract prices. Improved manufacturing utilization positively impacted results in CSM. Cabot Specialty Fluids' sales decreased compared to 2002 due to lower North Sea drilling activity.

In 2002, weak economic conditions persisted through much of the year, resulting in flat volumes, lower pricing, and compressed margins in the Chemical Business compared to 2001. The Chemical Business received some benefit from decreased feedstock costs and positive currency translations. In total, however, pricing declines exceeded raw material cost reductions. As a result of contract disagreements with certain tantalum customers, CSM experienced lower volumes compared to 2001. These negative impacts were offset by improved contract related pricing and reduced tantalum ore costs. CSF continued to gain market acceptance and experienced slightly higher volumes and increased pricing.

Cabot's sales for 2003, 2002 and 2001 were $1,795 million, $1,557 million and $1,670 million, respectively. In 2003, increased pricing for the contracted portion of the carbon black business, increased volumes for CSM, and favorable foreign exchange rates contributed to a $238 million increase in sales. In 2002, decreased pricing for the carbon black business and decreased volumes in CSM resulted in a $113 million sales decline from 2001.

Percentage of Total Sales

Segment Sales	2003	2002	2001
Chemical Business	77%	79%	79%
Supermetals	22%	19%	20%
Specialty Fluids	1%	2%	1%

Sales by Geographic Region	2003	2002	2001
North America	38%	42%	47%
Europe	31%	31%	31%
South America	7%	6%	7%
Asia Pacific	24%	21%	15%

Continuing Operations

Chemical Business: carbon black, fumed metal oxides, inkjet colorants, and aerogels

	Segment Sales	Segment PBT
(Dollars in millions)		
2003	$1,371	$ 88
2002	1,217	101
2001	1,301	121

Sales for the Chemical Business were $1,371 million in 2003, compared with $1,217 million in 2002 and $1,301 million in 2001. In 2003, sales increased 13%, primarily as a result of increased pricing on long-term carbon black contract business due to higher raw material costs, as well as positive currency translation, and slightly higher volumes over 2002. Segment PBT decreased 13%, from $101 million in 2002 to $88 million in 2003, primarily due to $34 million of lower operating margins. The lower margins were due to a combination of rising raw material costs ($91 million) and the Company's inability to increase prices in the non-contract business during this period of low industry capacity utilization. In addition, the Chemical Business PBT declined due to an $11 million increase in aerogel costs associated with refining the manufacturing process and developing commercial markets for this emerging business. These declines were partially offset by favorable foreign exchange ($15 million) and lower inventory costs ($23 million). In 2002, sales decreased 6% compared to 2001, primarily as a result of lower pricing on flat volume. Segment PBT decreased 17%, from $121 million in 2001 to $101 million in 2002, largely as the result of reduced pricing on contract business, which was more than the benefit from lower raw material costs.

Carbon black sales, which comprise the majority of the sales in the Chemical Business segment, improved 13% from 2002 due to contract related price increases and positive currency translation. Globally, carbon black volumes increased slightly (1%). Volumes decreased in North America and Europe, but improved in Asia Pacific and South America due to a combination of regional specific growth and tire capacity migrating to these lower cost regions. Strengthened demand in Asia Pacific, particularly in China, resulted in a 21% improvement in volumes for the region. Carbon black PBT decreased by 7% compared to 2002, due primarily to lower unit margins as price increases were insufficient to offset higher feedstock costs. Lower inventory costs and positive currency translation, primarily from the strengthening Euro, partially offset the impact of the margin decline.

In 2003, the fumed metal oxides business experienced an overall volume increase (5%) with improvement in all market sectors. Lower feedstock, administrative and inventory costs more than offset lower prices in the niche markets and an unfavorable regional sales mix. The profitability of the fumed metal oxide business increased 20% from 2002.

The inkjet colorants business continues to gain market acceptance with OEM and after-market customers. Sales revenue increased 55% from 2002 due to an increase in the installed base of printers using pigment technology as well as higher acceptance of non-OEM branded cartridges. The positive revenues were partly offset by higher research and development costs associated with the pursuit of new OEM platforms and the advancement of color pigment technology.

In 2003, the aerogels business increased its spending by $11 million to refine the unique manufacturing process at its semi-works facility and continue to develop commercial markets. During the year, the business completed four commercial translucent panel projects.

Outlook for 2004

The Company remains cautious regarding the business outlook for the Chemical Business. The uncertainty is based on downward pricing pressure due to competition in the non-contracted business combined with increasing raw material costs which make it difficult to maintain margin levels. Carbon black continues to have low industry capacity utilization and increasing migration of tire customers to lower cost regions, which has led to the closure of Cabot's carbon black plant in Zierbena, Spain and a carbon black

production line in West Virginia. It is unclear whether carbon black margins will improve as the economy recovers and as the migration of tire manufacturing continues to low cost regions. In addition, by July, 2005 the Chemical Business may incur additional expenditures of as much as $20 million for capital improvements of its carbon black facilities located in the United States that will be required in order to reduce emissions of hazardous air pollutants as required by the EPA's final rule amending the Generic Maximum Achievable Control Technology standards. The Company will diligently manage its cost structure and capacity in an effort to mitigate the impact of these issues.

Carbon black is expected to obtain fixed cost savings through leveraged purchasing, shared services and the closure of the Zierbena, Spain plant. Fumed metal oxides is expected to improve as volumes increase with the economic recovery and the business focuses on reducing costs, which could be offset by strong competition in the niche markets. The inkjet business should continue to expand OEM and aftermarket sales, which will be offset by increased research and development costs.

Supermetals Business

	Segment Sales	Segment PBT
(Dollars in millions)		
2003	$390	$109
2002	301	79
2001	329	78

Supermetals sales were $390 million in 2003, compared with $301 million in 2002 and $329 million in 2001. Segment PBT for CSM was positively impacted in 2003 by the resolution of contract disputes relating to tantalum supply and strong intermediate product sales. The resolution of the tantalum supply contract disputes stabilized the business and contributed to a 25% increase in powder volumes in 2003 compared to 2002. Improved CSM manufacturing utilization and lower research and development costs contributed significantly to the higher results. As a result of recognizing revenue under certain contracts on an estimated average selling price basis over the lives of the contracts, the Company deferred $8 million of revenue and profit in fiscal 2003 to future periods extending through 2006. A legal dispute continues with one customer, AVX Corporation ("AVX"), in connection with its tantalum supply agreement. However, AVX continues to purchase product in accordance with the terms of its contract.

Outlook for 2004

The Supermetals Business PBT is expected to decline to a level below $79 million primarily due to the expiration of contracted obligations for the sale of intermediate products. The outlook for the electronics industry is still uncertain, but the Company believes that inventory in the supply chain is approaching normal levels. CSM believes it is well positioned for a long-term turnaround in the electronics sector due to its tantalum ore supply contracts and the available capacity at its two manufacturing facilities.

Specialty Fluids Business

	Segment Sales	Segment PBT
(Dollars in millions)		
2003	$ 20	$(3)
2002	28	2
2001	27	0

Specialty Fluids sales in 2003 were $20 million versus $28 million in 2002 and $27 million in 2001. The 29% decline in sales from 2002 to 2003 was due to a slowdown in drilling activity in the North Sea and the revenue associated with the jobs completed, which resulted in an operating loss for the year. Improvements in cesium formate production costs partly offset the impact of the lower volumes. Since CSF's formation, cesium formate has been successfully used in 72 oil and gas well completions and drill-in applications.

Outlook for 2004

Specialty Fluids is expected to improve as a result of the Company's supply arrangement for two large gas and condensate field projects being developed by Statoil, which the Company believes should lead to the use of Cabot's fluids in a significant number of those drilling and completion projects over the next several years. The outlook for increased drilling activity in the North Sea is still uncertain, however, the Company is actively pursuing business in other regions to expand its geographical presence.

Company Summary

Income from Continuing Operations

Income from continuing operations before income taxes was $94 million in 2003, a 30% decline from $134 million in 2002. In 2001, income from continuing operations before income taxes was $150 million. Results in 2003 included $72 million of pre-tax charges for certain items, detailed in the table below, compared with $17 million in 2002 and $21 million in 2001.

Results in 2003 were negatively impacted by lower operating margins in the Chemical Business and the certain items noted below. However, the lower results were partly offset by higher volumes in the Supermetals and Chemical Businesses, favorable currency translation to U.S. dollars, and lower inventory costs.

The following table highlights the detail of certain items before tax.

	Fiscal Year		
	2003	2002	2001
(Dollars in millions)			
Certain Items (before income taxes)			
Investment impairment charges	$ (22)	$ —	$ —
Reserve for respirator claims	(20)	(5)	—
Restructuring initiatives	(51)	(1)	—
Insurance recoveries	4	8	1
Environmental reserve	—	(3)	—
In-process research and development	(14)	—	—
Asset impairment charges	(4)	(13)	(2)
Sale of equity interest	35	—	—
Retirement of CEO and resignation of CFO	—	—	(21)
Other non-operating items	—	(3)	1
Certain Items	$ (72)	$ (17)	$ (21)
Amounts per diluted common share after-tax	$(0.73)	$(0.18)	$(0.20)

The following table delineates where the total of certain items are classified in Cabot's Consolidated Statements of Income.

	Fiscal Year		
	2003	2002	2001
(Dollars in millions)			
Certain Items represented in the various lines of the Consolidated Statements of Income			
Cost of sales	$(40)	$ —	$ (2)
Selling and administrative expenses	(31)	(14)	(20)
Research and technical service	(14)	—	—
Other income (expense)	13	(3)	1
Certain Items before income taxes	$(72)	$(17)	$(21)

Gross profit declined by $7 million in 2003 due to a decrease in margins in the Chemical Business and $40 million of certain items included in cost of sales, mostly due to restructuring costs related to the closure of the Zierbena, Spain carbon black plant, the consolidation of administrative services for the European businesses in one shared service center and a reduction in workforce in North America. These declines were partly offset by 25% higher tantalum powder volumes and improved manufacturing utilization in CSM. The Chemical Business benefited from slightly higher volumes, lower inventory costs, and positive currency translation, primarily due to the strength of the Euro versus the dollar. In 2002, gross profit declined by $2 million from 2001 due to weaker margins in the Chemical Business and lower volumes in CSM. Fiscal 2002 results were partially offset by improved pricing and lower raw material costs in CSM and, to a lesser degree, positive foreign exchange translations.

Operating expenses include research and technical expense and selling and administrative expenses. Research and technical spending increased $16 million in 2003 versus 2002 primarily due to the purchase of assets of Superior MicroPowders. Approximately $14 million of the purchase price of $16 million represents the estimated fair value of acquired in-process research and development and was immediately expensed and recorded in research and technical expense. Selling and administrative expenses for 2003, 2002, and 2001 were $251 million, $233 million, and $228 million, respectively. The $18 million increase in 2003 is due to the inclusion of $31 million of certain items related to European and North American restructuring and respirator charges partly offset by insurance recoveries as compared to $14 million of certain items in 2002. In 2002, selling and administrative expenses increased $5 million compared to 2001, primarily due to the consolidation of Cabot Supermetals Japan (“CSJ”) selling and administration costs following the acquisition of that joint venture.

Interest and dividend income was $4 million less than 2002, primarily due to a decrease in Cabot’s average cash position and the negative impact of lower interest rates. Interest expense of $28 million in 2003 was equal to 2002 as lower interest rates on variable rate debt were offset by foreign exchange impacts of a weaker U.S. dollar. In 2002, interest expense was $4 million lower than 2001 due to the benefit of lower interest rates on the Company’s variable rate debt and the retirement of high coupon debt.

In 2003, other income and charges was $5 million higher than 2002 due to the sale of the Company’s equity interest in Aearo Corporation for $35 million (included in certain items). This income was partially offset by the write-down of investments in Sons of Gwalia and Angus & Ross for $22 million (included in certain items) and costs associated with the refinancing of debt.

The effective tax rate on continuing operations was 18% for fiscal 2003, 22% for fiscal 2002, and 28% for fiscal 2001. The income tax rates reflect the U.S. statutory rate of 35% reduced for earnings in non-U.S. jurisdictions that were taxed lower than the U.S. rate, benefits from extraterritorial income exclusion/foreign sales corporations, and benefits from U.S. research and experimentation credits. The reduction in the effective tax rate from 2001 to 2002 was principally related to an increase in the benefits from the extraterritorial income exclusion. The Company expects its effective tax rate for fiscal 2004 to be in a range between 22% and 27%.

Cabot’s share of earnings from equity affiliates of $5 million, in 2003, was equal to the prior year. In 2002, earnings from equity affiliates decreased to $5 million from $20 million in 2001. This decline resulted from the purchase of the remaining 50% interest in CSJ on February 8, 2002, which caused the results to be consolidated in the Company’s income statement from that date forward.

Discontinued Operations

In 2003, Cabot received additional income of $5 million, net of tax of $2 million, or $0.06 per diluted common share from insurance recoveries related to discontinued businesses. Income from insurance recoveries in 2002 was $1 million, net of tax of $1 million, or $0.02 per diluted common share. In 2001, Cabot received additional after tax proceeds of $3 million, or $0.04 per diluted common share, related to the fiscal year 2000 sale of its liquefied natural gas (“LNG”) business.

Net Income

Net income was $80 million in 2003 compared to $106 million in 2002 and $124 million in 2001. The following table is an earnings summary that highlights the after-tax impact of certain items and discontinued operations.

	Fiscal Year		
Amounts Per Diluted Common Share	**2003**	**2002**	**2001**
Net Income	$ 1.14	$ 1.50	$ 1.66
Certain items & discontinued operations after-tax	$(0.67)	$(0.16)	$(0.16)
Certain items after-tax	$(0.73)	$(0.18)	$(0.20)
Discontinued operations after-tax	$ 0.06	$ 0.02	$ 0.04

III. Cash Flow and Liquidity

Cash generated in 2003 from operating activities was $254 million, compared with $192 million in 2002 and $29 million in 2001. The increase in operating cash in 2003 is largely attributable to improvements in working capital. The increase in operating cash in 2002 is primarily due to a $178 million tax payment made in fiscal 2001 which was related to the sale of the LNG business in fiscal 2000. In addition, the increase in operating cash in 2002 was somewhat offset by an increase in working capital related to an inventory build at CSM.

Capital spending on property, plant and equipment, investments and acquisitions for 2003, 2002 and 2001 was $145 million, $254 million and $133 million, respectively. The major components of the 2003 capital program included the purchase of Superior MicroPowders for $16 million, normal plant operating capital projects, and capacity expansion in fumed metal oxides and carbon black. The increase in spending in 2002 from 2001 was largely attributable to the acquisition of the remaining 50% of Cabot Supermetals Japan (CSJ) and to the construction of a semi-works facility for the aerogels business. The major components of the 2001 capital program included new business expansion, normal plant operating capital projects, and capacity expansion in Cabot's Supermetals, fumed metal oxides and inkjet businesses. Capital expenditures for 2004 are expected to be approximately $134 million and include replacement projects, plant expansions, and the completion of projects started in fiscal 2003.

Cash used in 2003 for financing activities was $64 million, compared with $164 million in 2002 and $179 million in 2001. In 2003, the majority of the financing activities related to payments of dividends, purchases of Cabot stock, the refinancing of debt assumed in the February 2002 acquisition of CSJ, and the refinancing of Euro debt in September 2003. During the month of September 2002, Cabot repaid approximately $10 million of bank notes. This repayment was included in the consolidated fiscal 2003 results due to the one-month lag in reporting of CSJ as of September 30, 2002. In October 2002, Cabot entered into a 9.3 billion yen ($84 million) term loan agreement to refinance the majority of the remaining debt assumed in the CSJ acquisition. With the proceeds, Cabot repaid the remaining bank notes and $51 million of the long-term debt at CSJ. In September 2003, a Cabot subsidiary completed a $175 million bond issuance. The Cabot subsidiary repaid the November 2000, 150 million Euro borrowing with the proceeds from the new bond issuance. Cabot repurchased approximately 1.5 million, 2.6 million, and 6.7 million shares of its common stock for $41 million, $82 million, and $218 million in 2003, 2002, and 2001, respectively. Approximately 1.7 million shares remain available to be purchased under the current share repurchase authorization. During 2003, 2002, and 2001, Cabot paid cash dividends of $0.54, $0.52, and $0.48, respectively, per share of common stock. On November 14, 2003, the Board of Directors approved a $0.15 per share dividend on Cabot's common stock payable in the first fiscal quarter of 2004 to holders of record on November 28, 2003.

The Company is not involved in any transactions, arrangements or other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of or requirements for capital resources. The Company is not involved in any trading activities involving commodity contracts that are accounted for at fair value.

The following table sets forth Cabot's long-term contractual obligations.

	Payments Due by Fiscal Year						
(Dollars in millions)	Total	2004	2005	2006	2007	2008	Thereafter
Long-term debt	$ 556	$ 40	$ 22	$118	$ 38	$ 4	$334
Fixed interest on long-term debt*	$ 249	$ 35	$ 34	$ 29	$ 23	$ 21	$107
Operating leases	$ 65	$ 10	$ 9	$ 8	$ 7	$ 7	$ 24
Purchase commitments	$ 525	$147	$104	$ 19	$ 19	$ 19	$217
Total	$1,395	$232	$169	$174	$ 87	$ 51	$682

* The fixed interest on long-term debt does not include the effect of swaps.

At September 30, 2003, the Company's obligations related to long-term debt totaled $556 million to be paid over a period of 10 years. Included in this amount is $84 million of Japanese yen based long-term debt. All other long-term debt is denominated in U.S. dollars. The repayment schedule above does not include the effect of swaps. The weighted-average interest rate related to the long-term debt is 5.6%.

The Company also has notes payable to banks totaling $8 million. The bank notes are classified as current since they have renewable one-year terms and are short-term in nature.

The Company has operating leases primarily comprised of leases for transportation vehicles, warehouse facilities, office space, and machinery and equipment.

The Company has long-term purchase commitments for raw materials with various key suppliers in the Supermetals and Chemical Businesses.

In September 1998, the Company filed with the Securities and Exchange Commission ("SEC") a shelf registration statement covering $500 million of debt securities. There were $400 million of debt securities remaining under this shelf registration at September 30, 2003. The Company has no immediate plans to offer additional securities under the registration statement.

In July 2001, Cabot replaced its revolving credit facility with a new agreement. Under the new agreement, Cabot may, under certain conditions, borrow up to $250 million at floating interest rates. The new facility is available through July 13, 2006. As of September 30, 2003, Cabot had no borrowings outstanding under this arrangement.

The 9.3 billion yen term loan and the revolving credit facility contain specific covenants. The covenants include financial covenants for certain maximum indebtedness limitations and minimum cash flow requirements, that would limit the amount available for future borrowings. As of September 30, 2003, Cabot was in compliance with all of its covenants.

At September 30, 2003, the Company had provided standby letters of credit totaling $12 million, which expire in fiscal 2004.

A downgrade of one level in the Company's credit rating is not anticipated, but should it occur, it would not cause a significant impact on the commitments or sources of capital described above and would not have a material impact on the Company's results of operations.

In May 2003, Cabot initiated a European restructuring plan to reduce costs, enhance customer service and create a stronger and more competitive organization. The European restructuring initiatives are all related to the Chemical Business segment and included the closure of Cabot's carbon black manufacturing facility in Zierbena, Spain, the consolidation of administrative services for all European businesses in one shared service center, the implementation of a consistent staffing model for all manufacturing facilities in Europe, and the discontinuance of two energy projects. As of September 30, 2003, Cabot expects the restructuring initiatives to result in a pre-tax charge to earnings of approximately $65 million. The $65 million of estimated charges includes approximately $31 million for severance and employee benefits, $7 million for asset retirement

obligations, $5 million for asset impairments, $12 million for accelerated depreciation and $10 million for the recognition of foreign currency translation adjustments. As of September 30, 2003, Cabot recorded $46 million of European restructuring charges and expects to record an additional $9 million over the next 15 to 21 months. At September 30, 2003, $10 million of foreign currency translation adjustments existed and will be recognized upon substantial liquidation of the entity through which the Company conducted its operations in Zierbena, Spain. As part of the restructuring initiative, Cabot expects the employment of approximately 220 people to be terminated over this period throughout Europe. As of September 30, 2003, there were 30 voluntary employee terminations in Stanlow, U.K. and 127 involuntary employee terminations in various other European locations. In addition, Cabot plans to hire employees to staff the new European shared service center.

In fiscal 2003, Cabot initiated and completed a restructuring initiative in North America to reduce costs through a reduction in workforce. The restructuring initiative resulted in a pre-tax charge of $5 million for involuntary employment terminations for 88 employees at facilities throughout North America, of which $4 million relates to the Chemical Business and $1 million relates to Supermetals.

Restructuring costs for fiscal 2003 of $36 million, $14 million and $1 million were recorded as costs of goods sold, selling and administrative expenses, and research and technical expenses, respectively. At September 30, 2003, $19 million of restructuring costs remain in accrued expenses in the consolidated balance sheet. Cabot made cash payments of $15 million related to restructuring costs in fiscal 2003 and expects to make cash payments of $28 million in the next 15 to 21 months.

The Company provides defined benefit plans for U.S. and foreign employees. The Company has an unfunded status of approximately $204 million as of September 30, 2003, comprised of underfunded pension plans of $83 million, and unfunded postretirement benefits of $121 million.

The $83 million of underfunded pension plans is comprised of the following:

	U.S.	Foreign	Total
Fair value of plan assets at September 30, 2003	$116	$124	$240
Projected benefit obligation at September 30, 2003	$133	$190	$323
Funded (underfunded) status at September 30, 2003	$ (17)	$ (66)	$ (83)

The increase in the underfunding of the pension plans was primarily the result of lower interest rates, which decreased the discount rate used by the actuaries, and lower than expected return on plan assets.

Cabot made a contribution of $10 million in its fourth fiscal quarter of 2003 to improve the funding of its U.S. defined benefit plan. Cabot currently expects to make annual contributions of approximately $6 million to this plan in each of the next two years.

Cabot’s significant foreign plans are in The Netherlands, the United Kingdom, Canada and Japan, which collectively represented 93% of the consolidated fair value of foreign plan assets. For those significant foreign plans, the fair value of assets was approximately $48 million below the projected benefit obligation. Cabot contributed an aggregate amount of $8 million in 2003 to the foreign plans and expects to contribute approximately $10 million in 2004 to those plans. Contributions to foreign plans are made in foreign currencies and therefore are subject to fluctuations in exchange rates.

Cabot also has postretirement benefit plans that provide certain health care and life insurance benefits for retired employees. Typical of such plans, the Cabot postretirement plans are unfunded. Cabot funds the plans as claims or insurance premiums come due. The accumulated postretirement benefit obligation is $121 million at September 30, 2003. Cabot has accrued $89 million for this liability at September 30, 2003. The Company paid benefits of $8 million during fiscal 2003 in connection with those plans and expects to pay $9 million in 2004.

On an ongoing basis, Cabot reviews its historical insurance policies, some of which cover disposed and discontinued businesses, for potential recovery. Various amounts have been recovered in prior periods under

these policies for environmental claims and Cabot received $11 million in 2003, of which $4 million is from continuing operations and $7 million is from discontinued operations.

Cabot has a $26 million reserve for environmental matters as of September 30, 2003, for remediation costs at various environmental sites. These sites are primarily associated with businesses divested in prior years. The Company anticipates that the expenditures at these sites will be made over a number of years, and will not be concentrated in any one year. Cabot also has recorded a $20 million reserve for respirator claims as of September 30, 2003, and has various other litigation costs, including defense costs associated with the pending antitrust actions and lawsuits filed against the Company in connection with certain discontinued operations, incurred in the ordinary course of business. Due to the uncertain nature and timing of litigation proceedings, it is difficult to predict the timing of their cash flows.

Management expects cash on hand, cash from operations and present financing arrangements, including Cabot's unused line of credit, to be sufficient to meet Cabot's cash requirements for the foreseeable future.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which clarifies the application of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements." FIN 46 provides guidance on the identification of and financial reporting for entities over which control is achieved through a means other than by voting rights. FIN 46 determines whether such entities should be consolidated under the variable interest model of FIN 46. Cabot adopted FIN 46 as of January 31, 2003 for variable interest entities created after January 31, 2003 with no impact on the consolidated financial statements. Cabot will adopt FIN 46 as of March 31, 2004 for variable interest entities that were created before January 31, 2003. The adoption of FIN 46 is not expected to have a significant effect on the consolidated financial statements.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Market Risk

Cabot's principal financial risk management objective is to identify and monitor its exposure to changes in interest rates and foreign currency rates in order to assess the impact that changes in each could have on future cash flow and earnings. Cabot manages these risks through normal operating and financial activities and, when deemed appropriate, through the use of derivative financial instruments as well as foreign currency debt.

Cabot's financial risk management policy prohibits entering into financial instruments for speculative purposes. Cabot's Financial Risk Management Committee is charged with enforcing the financial risk management policy.

By using derivative instruments, Cabot is subject to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, Cabot's credit risk will equal the fair-value gain on the derivative. Generally, when the fair value of a derivative contract is positive, the counterparty owes Cabot, thus creating a repayment risk for Cabot. Cabot minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with highly-rated counterparties that are reviewed periodically by Cabot.

Interest Rates

As of September 30, 2003, Cabot has debt totaling $556 million and interest rate swaps with a net notional value of $216 million. The interest rate swaps were entered into as a hedge of the underlying debt instruments to effectively change the characteristics of the interest rate without actually changing the debt instrument. For fixed rate debt, interest rate changes affect the fair market value, but do not impact earnings or cash flows. Conversely, for floating rate debt, interest rate changes generally do not affect the fair market value, but do impact future earnings and cash flows, assuming other factors are held constant.

As part of the Cabot Supermetals Japan ("CSJ") acquisition, Cabot assumed variable rate debt that was economically hedged with interest rate swaps. In October 2002, Cabot refinanced the underlying variable rate debt and the interest rate swaps were terminated. These swaps had a fair value of ($1) million on September 30, 2002 and were included in other liabilities.

During fiscal 2003, Cabot began using both yen based debt and cross currency swaps to hedge its net investment in Japanese subsidiaries against adverse movements in exchange rates. On October 24, 2002, Cabot entered into a 9.3 billion yen ($84 million) three-year term loan agreement with a group of banks to refinance existing debt at CSJ. In connection with the term loan, in October 2002, Cabot entered into two interest rate swaps with an aggregate notional amount of 9.3 billion yen ($84 million). The swaps are variable-for-fixed swaps of the quarterly interest payments on related debt and mature in fiscal 2008. The swaps are derivative instruments as defined by FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and have been designated as cash flow hedges. These swaps hedge the variability of the cash flows caused by changes in interest rates over the life of the debt instrument. Changes in the value of the effective portion of cash flow hedges are reported in other comprehensive income (loss), while the ineffective portion is reported in earnings. The swaps had a fair value of $1 million on September 30, 2003 and are included in other assets.

In November 2002, Cabot entered into two three-year cross currency swaps. Cabot swapped $41 million at three-month U.S. LIBOR interest rates for 5 billion Japanese yen at three-month yen LIBOR interest rates. Cabot is also entitled to receive semi-annual interest payments on $41 million at three-month U.S. dollar LIBOR interest rates and is obligated to make semi-annual interest payments on 5 billion yen at three-month Japanese yen LIBOR interest rates. The cross currency swaps reduce Cabot's interest rate by one percentage point on the notional amount of $41 million as of September 30, 2003. Included in other liabilities at September 30, 2003 is $4 million related to the fair value of the cross currency swaps and $9 million related to the cumulative translation differences in Cabot's yen denominated debt.

The debt and cross currency swaps have been designated as hedges of Cabot's net investment in Japan and are accounted for under FAS No. 133. Effectiveness of these hedges is based on changes in the spot foreign exchange rates and the balance of Cabot's yen denominated net investments. The changes in value of the yen based debt and of the cross currency swaps, totaling $13 million for the twelve months ended September 30, 2003, have been recorded as a foreign currency translation loss in accumulated other comprehensive income (loss), offsetting foreign currency translation gains of Cabot's yen denominated net investments. Net losses recorded in earnings representing the amount of the hedges' ineffectiveness for the period were nominal.

In October 2001, Cabot entered into four fixed-to-variable interest rate swaps in an aggregate notional amount of $97 million. The swaps have been designated as fair value hedges. The swaps hedge the change in the fair value of $97 million of Cabot's fixed rate medium term notes due to changes in interest rates. The interest rate swaps and the medium term notes they hedge mature on various dates through February 2007. The fair values of the derivative instruments are recorded as other assets in the consolidated balance sheet. A corresponding increase to long-term debt of approximately $4 million was recorded for the change in the fair value of the debt at September 30, 2003. The interest rate swaps were determined to be highly effective and no amount of ineffectiveness was recorded in earnings during the period ended September 30, 2003. These swaps had a fair value of $4 million and $5 million on September 30, 2003 and 2002, respectively, and are included in other assets.

As of September 30, 2003 and 2002, after adjusting for the effect of the interest rate swap agreements, Cabot has fixed rate debt of $424 million and $217 million, respectively, and floating rate debt of $132 million and $283 million, respectively. Holding other variables constant (such as exchange rates and debt levels), a 100 basis point increase in interest rates would decrease the unrealized fair market value of the fixed rate debt by approximately $29 million and $17 million on September 30, 2003 and 2002, respectively. The earnings and cash flow impact in 2004 resulting from a 100 basis point increase in interest rates would be approximately $1 million, holding all other variables constant.

A 100 basis point increase in global interest rates would decrease the derivative instruments' fair value by $1 million and $3 million at September 30, 2003 and 2002, respectively. Any increase or decrease in the fair value of the Company's interest rate sensitive derivative instruments would be substantially offset by a corresponding decrease or increase in the fair value of the hedged underlying asset, liability, or cash flow.

In 2003, Cabot changed the method used to evaluate the qualitative market risk from the value-at-risk model to the sensitivity model. Based on the volatility of foreign exchange rates in fiscal 2003, the sensitivity model provides a better analysis of the changes in foreign currency rates as compared to the value-at-risk model.

As of September 30, 2003, Cabot had $247 million in cash and short-term investments. In order of priority, it is the Company's practice to invest excess cash in instruments that will protect principal, ensure liquidity and optimize the rate of return. Interest income earned may vary as a result of changes in interest rates and average cash balances, which could fluctuate over time.

Foreign Currency

Cabot's international operations are subject to certain risks, including currency fluctuations and government actions. The Company's Treasury function, under the guidance of the Financial Risk Management Committee, regularly monitors foreign exchange exposures, so that Cabot can respond to changing economic and political environments. Exposures primarily relate to assets and liabilities denominated in foreign currencies as well as the risk that currency fluctuations could affect the dollar value of future cash flows generated in foreign currencies. Accordingly, Cabot utilizes short-term forward contracts to minimize the exposure to foreign currency risk. In 2003, 2002 and 2001, none of Cabot's forward contracts were designated as hedging instruments under FAS No. 133. Cabot's forward foreign exchange contracts are denominated primarily in the Euro, Japanese yen, British pound sterling, Canadian dollar, and Australian dollar.

As part of the $175 million bond issuance in September 2003, a subsidiary of the Company entered into a ten-year contract with a notional amount of $140 million to swap U.S. dollars to Euros. This cross currency swap has been designated as a foreign currency cash flow hedge. This swap hedges the variability of the cash flows on 80% of the debt issuance, due to changes in the exchange rates over the life of the debt instrument. Changes in the value of the effective portion of the cash flow hedge are reported in other comprehensive income (loss), while the ineffective portion is reported in earnings. There was no charge to earnings for the period ended September 30, 2003. This swap had a fair value of ($6) million on September 30, 2003 and is included in other liabilities.

In September 2003, the Cabot subsidiary swapped the remaining $35 million (20%) of the bond issuance. The Cabot subsidiary swapped the fixed rate coupon of 5.25% to six-month U.S. LIBOR plus a spread of 62 basis points. The variable interest rate resets with the terms of the bond coupon payments. This swap has been designated as a fair value hedge. This swap had a fair value of zero on September 30, 2003. Additionally, the subsidiary swapped the $35 million at variable U.S. dollar interest rates to Euros at variable interest rates. Changes in the fair value of this swap will be recorded in earnings. These changes will be offset by the remeasurement of the debt at current exchange rates. The interest rates swaps were determined to be highly effective and a nominal amount of ineffectiveness was recorded in earnings during the period ended September 30, 2003. This swap had a fair value of ($1) million on September 30, 2003 and is included in other liabilities.

The Company recorded $2 million of assets and $11 million of liabilities to recognize the fair value of currency instruments at September 30, 2003 compared with zero of assets and liabilities at September 30, 2002. A 10% appreciation in the U.S. dollar's value relative to the hedged currencies would increase the derivative instruments' fair value by $28 million and $4 million at September 30, 2003 and 2002, respectively. A 10% depreciation in the U.S. dollar's value relative to the hedged currencies would decrease the derivative instruments' fair value by $29 million and by $4 million at September 30, 2003 and 2002, respectively. Any increase or decrease in the fair value of the Company's currency exchange rate sensitive derivative instruments

would be substantially offset by a corresponding decrease or increase in the fair value of the hedged underlying asset, liability, or cash flow.

Political Risk

Cabot is exposed to political or country risks inherent in doing business in some countries. These risks may include actions of governments (especially those newly appointed), importing and exporting issues, contract loss and asset abandonment. Cabot considers these risks carefully in connection with its investing and operating activities.

Share Repurchases

Cabot repurchases its shares in order to offset dilution caused by issuing shares under its various employee stock plans. In addition, Cabot may repurchase its shares as a preferred method of returning excess cash to shareholders. From time to time, Cabot enters into derivative instruments in its stock in order to fix the price of stock for delivery at a future date. These agreements provide Cabot with the right to settle forward contracts in cash or an equivalent value of Cabot Corporation common stock. In 2001, Cabot purchased 100,000 shares of its common stock under share repurchase contracts at an average price of $35 per share. There were no share repurchase contracts executed in fiscal 2003 or 2002, and there were no open share repurchase contracts at September 30, 2003.

Item 8. ***Financial Statements and Supplementary Data***

INDEX TO FINANCIAL STATEMENTS

CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

(Dollars in millions, except share and per share amounts)	September 30, 2003	September 30, 2002
Current assets:		
Cash and cash equivalents	$ 247	$ 159
Accounts and notes receivable, net of reserve for doubtful accounts of $3 and $4	333	307
Inventories	485	435
Prepaid expenses and other current assets	35	36
Deferred income taxes	40	20
Total current assets	1,140	957
Investments:		
Equity	50	48
Other	27	32
Total investments	77	80
Property, plant and equipment	2,202	2,040
Accumulated depreciation and amortization	(1,289)	(1,151)
Net property, plant and equipment	913	889
Other assets:		
Goodwill	110	105
Intangible assets, net of accumulated amortization of $6 and $5	9	8
Deferred income taxes	17	4
Other assets	42	34
Total other assets	178	151
Total assets	$ 2,308	$ 2,077

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

CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS — (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

(Dollars in millions, except share and per share amounts)	September 30, 2003	2002
Current liabilities:		
Notes payable to banks	$ 15	$ 45
Current portion of long-term debt	40	5
Accounts payable and accrued liabilities	278	232
Income taxes payable	16	10
Deferred income taxes	3	3
Total current liabilities	352	295
Long-term debt	516	495
Deferred income taxes	101	104
Other liabilities	220	171
Commitments and contingencies (Note U)		
Minority interest	40	35
Stockholders' equity:		
Preferred stock:		
Authorized: 2,000,000 shares of $1,000 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, outstanding: 53,490 and 56,273 shares (aggregate per share redemption value of $53 and $56)	70	73
Less cost of shares of preferred treasury stock	(38)	(38)
Common stock:		
Authorized: 200,000,000 shares of $1 par value		
Issued and outstanding: 62,243,010 and 61,615,503 shares	62	62
Less cost of shares of common treasury stock	(5)	(6)
Additional paid-in capital	14	5
Retained earnings	1,160	1,120
Unearned compensation	(36)	(38)
Deferred employee benefits	(48)	(51)
Notes receivable for restricted stock	(21)	(23)
Accumulated other comprehensive loss	(79)	(127)
Total stockholders' equity	1,079	977
Total liabilities and stockholders' equity	$2,308	$2,077

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

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in millions, except per share amounts)	Years Ended September 30, 2003	2002	2001
Net sales and other operating revenues	$1,795	$1,557	$1,670
Cost of sales	1,373	1,128	1,239
Gross profit	422	429	431
Selling and administrative expenses	251	233	228
Research and technical expense	64	48	48
Income from operations	107	148	155
Interest and dividend income	5	9	28
Interest expense	(28)	(28)	(32)
Other (charges) income	10	5	(1)
Income from continuing operations before taxes	94	134	150
Provision for income taxes	(17)	(30)	(42)
Equity in net income of affiliated companies, net of tax of $2, $3 and $13	5	5	20
Minority interest in net income, net of tax of $2, $1 and $2	(7)	(4)	(7)
Net income from continuing operations	75	105	121
Discontinued operations:			
Income from operations of discontinued businesses, net of income taxes of $2 and $1	5	1	—
Gain on sale of business, net of income taxes of $2	—	—	3
Net Income	80	106	124
Dividends on preferred stock, net of tax benefit of $1, $2 and $2	(3)	(3)	(3)
Income available to common shares	$ 77	$ 103	$ 121
Weighted-average common shares outstanding, in millions:			
Basic	59	59	62
Diluted	70	71	74
Income per common share:			
Basic:			
Continuing operations	$ 1.24	$ 1.74	$ 1.89
Discontinued operations:			
Income from operations of discontinued businesses	0.08	0.02	—
Gain on sale of business	—	—	0.05
Net income per share — basic	$ 1.32	$ 1.76	$ 1.94
Diluted:			
Continuing operations	$ 1.08	$ 1.48	$ 1.62
Discontinued operations:			
Income from operations of discontinued businesses	0.06	0.02	—
Gain on sale of business	—	—	0.04
Net income per share — diluted	$ 1.14	$ 1.50	$ 1.66

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

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	Years Ended September 30, 2003	2002	2001
Cash Flows from Operating Activities:			
Net income	$ 80	$ 106	$ 124
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	135	109	115
Deferred tax expense (benefit)	(31)	(4)	6
Equity in net income of affiliated companies	(5)	(5)	(20)
Impairment charges and non-cash items	33	16	14
Gain on sale of business, net of income taxes	—	—	(3)
Non-cash compensation	23	22	22
In process research and development charge	14	—	—
Gain on sale of investment	(35)	—	—
Other non-cash charges, net	14	6	23
Changes in assets and liabilities, net of acquisitions and the effect of consolidation of equity affiliates:			
Accounts and notes receivable	4	(8)	(2)
Inventories	(25)	(64)	(55)
Accounts payable and accrued liabilities	20	(4)	(35)
Income taxes payable	3	9	(155)
Other liabilities	1	14	(6)
Other, net	23	(5)	1
Cash provided by operating activities	254	192	29
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	(129)	(146)	(122)
Proceeds from sales of property, plant and equipment	2	2	4
Purchases of equity securities	—	(9)	(5)
Acquisitions, net of cash acquired	(16)	(89)	(6)
Proceeds from sale of investments	36	—	5
Cash from consolidation of equity affiliates	—	10	—
Cash used in investing activities	(107)	(232)	(124)
Cash Flows from Financing Activities:			
Proceeds from long-term debt	250	—	129
Repayments of long-term debt	(227)	(28)	(63)
Decrease in notes payable to banks, net	(32)	(27)	(7)
Purchases of preferred and common stock	(41)	(82)	(229)
Sales and issuances of preferred and common stock	19	6	13
Cash dividends paid to stockholders	(36)	(35)	(34)
Cash dividends paid to minority interest stockholders	(4)	(5)	(3)
Restricted stock loan repayments	7	7	15
Cash used in financing activities	(64)	(164)	(179)
Effect of exchange rate changes on cash	5	(1)	—
Increase (decrease) in cash and cash equivalents	88	(205)	(274)
Cash and cash equivalents at beginning of year	159	364	638
Cash and cash equivalents at end of year	$ 247	$ 159	$ 364

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

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in millions) Years ended September 30	Preferred Stock, Net of Treasury Stock	Common Stock, Net of Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Deferred Employee Benefits	Notes Receivable for Restricted Stock	Total Stockholders' Equity	Total Comprehensive Income
2001										
Balance at September 30, 2000	$ 51	$ 68	$ 111	$1,040	$(101)	$(39)	$(56)	$(27)	$1,047	
Net income				124						$124
Foreign currency translation adjustments					(26)					(26)
Change in unrealized gain on available-for- sale securities					2					2
Total comprehensive income										$100
Common dividends paid				(31)						
Issuance of stock under employee compensation plans, net of forfeitures		2	45			(27)		(11)		
Windfall tax benefit			4							
Purchase and retirement of common stock		(7)	(161)	(52)						
Purchase of treasury stock — preferred	(9)									
Preferred dividends paid to Employee Stock Ownership Plan, net of tax benefit of $2				(3)						
Principal payment by Employee Stock Ownership Plan under guaranteed loan							2			
Amortization and acceleration of unearned compensation			10			26				
Notes receivable for restricted stock — payments and forfeitures								15		
Balance at September 30, 2001	$ 42	$ 63	$ 9	$1,078	$(125)	$(40)	$(54)	$(23)	$ 950	
2002										
Net income				106						$106
Foreign currency translation adjustments					11					11
Change in unrealized loss on available-for- sale securities					(6)					(6)
Minimum pension liability adjustment					(7)					(7)
Total comprehensive income										$104
Common dividends paid				(32)						
Issuance of stock under employee compensation plans, net of forfeitures		1	30			(20)		(7)		
Windfall tax benefit			4							
Purchase and retirement of common stock		(3)	(40)	(29)						
Purchase of treasury stock — common		(6)								
Purchase of treasury stock — preferred	(5)									
Preferred stock conversion	(2)	1	2							
Preferred dividends paid to Employee Stock Ownership Plan, net of tax benefit of $2				(3)						
Principal payment by Employee Stock Ownership Plan under guaranteed loan							3			
Amortization of unearned compensation						22				
Notes receivable for restricted stock — payments and forfeitures								7		
Balance at September 30, 2002	$ 35	$ 56	$ 5	$1,120	$(127)	$(38)	$(51)	$(23)	$ 977	

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

CABOT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)

(Dollars in millions) Years ended September 30	Preferred Stock, Net of Treasury Stock	Common Stock, Net of Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Deferred Employee Benefits	Notes Receivable for Restricted Stock	Total Stockholders' Equity	Total Comprehensive Income
2003										
Net income				80						$ 80
Foreign currency translation adjustments					63					63
Change in unrealized gain on available- for-sale securities					8					8
Changes in unrealized loss on derivative instruments					(1)					(1)
Minimum pension liability adjustment					(22)					(22)
Total comprehensive income										$128
Common dividends paid				(33)						
Issuance of stock under employee compensation plans, net of forfeitures		2	39			(21)		(7)		
Windfall tax benefit			3							
Purchase and retirement of common stock		(2)	(35)	(4)						
Preferred stock conversion	(3)	1	2							
Preferred dividends paid to Employee Stock Ownership Plan, net of tax benefit of $1				(3)						
Principal payment by Employee Stock Ownership Plan under guaranteed loan							3			
Amortization of unearned compensation						23				
Notes receivable for restricted stock — payments and forfeitures								9		
Balance at September 30, 2003	$ 32	$ 57	$ 14	$1,160	$(79)	$(36)	$(48)	$(21)	$1,079	

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 accounting principles generally accepted in the United States. The significant accounting policies of Cabot Corporation (Cabot) are described below.

Principles of Consolidation

The consolidated financial statements include the accounts of Cabot and majority-owned and controlled U.S. and non-U.S. subsidiaries. Investments in 20% to 50% owned affiliates are accounted for using the equity method. Intercompany transactions have been eliminated.

Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with a maturity of three months or less at date of acquisition. Cash overdrafts of $7 million and $5 million are included in notes payable to banks on the consolidated balance sheets at September 30, 2003 and 2002, respectively.

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.

Investments

Investments include investments in equity affiliates, investments in equity securities and investments accounted for under the cost method. All investments are subject to impairment reviews annually. Investments in equity affiliates, where Cabot owns between 20% and 50% of the affiliate, are accounted for using the equity method. Cabot records its share of the equity affiliate's results of operations based on its percentage of ownership of the affiliate. Dividends received from equity affiliates are a return of capital and recorded as a reduction to the equity investment value. All investments in marketable equity securities are classified as available-for-sale and are recorded at their fair market values. Accordingly, any unrealized holding gains or losses, net of taxes, are excluded from income and recognized as a separate component of other comprehensive income (loss) within stockholders' equity. Unrealized losses that are determined to be other than temporary are recognized in net income. The fair value of marketable equity securities is determined based on quoted market prices at the balance sheet dates. The cost of equity securities sold is determined by the specific identification method. Investments that do not have readily determinable market values are recorded at cost.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation of property, plant and equipment is generally calculated using the straight-line method over the estimated useful lives. The depreciable lives for buildings, machinery and equipment, and other fixed assets are twenty to twenty-five years, ten to twenty years, and three to twenty years, respectively. The cost and accumulated depreciation for property, plant and equipment sold, retired, or otherwise disposed of are relieved from the accounts, and resulting gains or losses are reflected as a component of net income.

Cabot capitalizes internal use software costs in accordance with Statement of Position (SOP) 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use." This SOP provides the guidance to determine if internal use computer software costs are expensed as incurred or capitalized.

Goodwill and Other Intangible Assets

Effective October 1, 2001, Cabot adopted Statement of Financial Accounting Standard (FAS) No. 142, "Goodwill and Other Intangible Assets." Goodwill is comprised of the cost of business acquisitions in excess of the fair value assigned to the net tangible assets and identifiable intangible assets acquired. Goodwill is

reviewed for impairment at least annually. The fair value of assets, including goodwill balances, is based on discounted estimated cash flows. The assumptions used to estimate fair value include management's best estimates of future growth rates, capital expenditures, discount rates, and market conditions over an estimate of the remaining operating period. If an impairment exists, a loss to write down the value of goodwill is recorded.

Cabot's intangible assets are primarily comprised of patented and unpatented technology and minimum pension liability adjustments. Finite lived intangible assets are amortized over their estimated useful lives. Amortization expense of $1 million, $1 million and $4 million was recorded in 2003, 2002, and 2001, respectively.

Asset Retirement Obligations

Cabot adopted FAS No. 143, "Accounting for Asset Retirement Obligations", on October 1, 2002. Upon implementation, Cabot determined that certain legal obligations do exist. These obligations primarily relate to site restoration activities legally required upon the closing of certain facilities. However, until a closure date is determined for a facility, these facilities and the associated legal obligations have an indeterminate life. Accordingly, the fair value of the liability cannot be reasonably estimated and an asset retirement obligation will not be recognized until Cabot decides to close such facilities. Cabot does not have any assets that are legally restricted for purposes of settling these asset retirement obligations.

Impairment of Long-Lived Assets

Cabot's long-lived assets include property, plant, equipment, long-term investments, goodwill and other intangible assets. The carrying values of long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be recoverable. An asset impairment is recognized when the carrying value of the asset, excluding goodwill, is not recoverable based on the undiscounted estimated cash flows. Cabot's estimates reflect management's assumptions about selling prices, production and sales volumes, costs, and market conditions over an estimate of the remaining operating period. If an impairment is indicated, the asset is written down to fair value. In circumstances when an asset does not have separate identifiable cash flows, an impairment charge is recorded when Cabot abandons the utilization of the asset.

Foreign Currency Translation

The functional currency of the majority of Cabot's foreign subsidiaries is the local currency. Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet dates. Income and expense items are translated at average exchange rates during the year. Unrealized currency translation adjustments are accumulated as a separate component of other comprehensive income (loss) within stockholders' equity. Foreign currency gains and losses arising from transactions denominated in currencies other than the subsidiary's functional currency are reflected in net income, other than the hedges discussed in Note K. Included in other charges for 2003, 2002, and 2001 are net foreign currency transaction losses of $1 million, zero, and $3 million, respectively. Cabot included in net income a loss of zero in 2003, $2 million in 2002 and a $1 million gain in 2001 related to currency translation adjustments upon substantial liquidation of Cabot's entities.

Financial Instruments

Derivative financial instruments are used to manage certain of Cabot's foreign currency and interest rate exposures. Cabot does not enter into financial instruments for speculative purposes. Derivative financial instruments are accounted for in accordance with FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and related interpretations, and are measured at fair value and recorded on the balance sheet. Cabot formally documents the relationships between hedging instruments and hedged items, as well as its risk management objective. Hedge accounting is followed for derivatives that have been designated and qualify as fair value, cash flow and net investment hedges. For fair value hedges, changes in the fair value of

highly effective derivatives, along with changes in the fair value of the hedged liabilities that are attributable to the hedged risks, are recorded in current period earnings. For cash flow hedges, changes in the fair value of the effective portion of the derivatives' gains or losses are reported in other comprehensive income (loss), and the ineffective portion is reported in earnings. For net investment hedges, changes in the fair value of the effective portion of the derivatives' gains or losses are reported as foreign currency translation gains or losses in other comprehensive income (loss), and the ineffective portion is reported in earnings. The gain or loss from changes in the fair value of a derivative instrument that is not designated as a hedge is recognized in earnings.

Revenue Recognition

Cabot's revenue recognition policies are in compliance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), which establishes criteria which must be satisfied before revenue is realized or realizable and earned.

Cabot primarily derives its revenues from the sale of specialty chemicals, tantalum and related products and cesium formate. Other operating revenues which represent less than ten percent of total revenues, include tolling, services and royalties for licensed technology. Cabot recognizes revenue when persuasive evidence of a sales arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is probable.

Revenue from product sales is typically recognized when the product is shipped and title and risk of loss have passed to the customer. Cabot generally is able to ensure that products meet customer specifications prior to shipment.

Under certain multi-year supply contracts with declining prices and minimum volumes, Cabot recognizes revenue based on the estimated average selling price over the contract lives. During fiscal 2003, Cabot deferred approximately $8 million of revenue related to certain supply agreements representing the difference between the billed price and the estimated average selling price over the life of the contracts. The deferred revenue will be recognized over the remaining life of the contracts, based on an estimated average selling price of the contracted minimum volumes, extending through 2006.

Cabot prepares its estimates for sales returns and allowances, discounts and volume rebates quarterly based primarily on historical experience updated for changes in facts and circumstances, as appropriate. Cabot offers its customers cash discounts and volume rebates as sales incentives. The discounts and rebates are recorded as a reduction of sales at the time revenue is recognized based on historical experience. Rebates that are earned over a period of time are recorded based on the estimated amount to be earned. A provision for sales returns and allowances is recorded at the time of sale based on historical experience as a reduction of sales. If actual future results vary, Cabot may need to adjust its estimates, which could have an impact on earnings in the period of adjustment.

Shipping and handling charges related to sales transactions are recorded as sales revenue when billed to customers or included in the sales price in accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs." Shipping and handling costs are included in cost of sales.

Research and Development

Research and development costs are expensed as incurred in accordance with FAS No. 2, "Accounting for Research and Development Costs." The majority of Cabot's research and technical expense recorded on the consolidated statements of income relates to research and development costs.

Income Taxes

Deferred income taxes are determined based on the estimated future tax effects of differences between financial statement carrying amounts and the tax bases of existing assets and liabilities. Provisions are made for the U.S. income tax liability and additional non-U.S. taxes on the undistributed earnings of non-U.S. subsidiaries, except for amounts Cabot has designated to be indefinitely reinvested.

Equity Incentive Plans

In accordance with the provisions of FAS No. 123, “Accounting for Stock-Based Compensation”, Cabot has elected to account for stock-based compensation plans consistent with Accounting Principles Board Opinion (APB) No. 25, “Accounting for Stock Issued to Employees”, and related interpretations. If Cabot applied the fair value recognition provisions of FAS No. 123 and expensed stock options, Cabot would have recorded compensation expense of $2 million for stock options, in addition to the $23 million, $22 million and $26 million of compensation expense for restricted stock in each of the fiscal years 2003, 2002 and 2001, respectively. The following table illustrates the effect on net income and earnings per share if Cabot had applied the fair value recognition provisions of FAS No. 123.

	Years Ended September 30		
	2003	2002	2001
(Dollars in millions, except per share amounts)			
Net income, as reported	$ 80	$ 106	$ 124
Add: Stock-based compensation expense included in reported net income, net of related tax effects	23	22	26
Deduct: Stock-based compensation using fair value method for all awards, net of related tax effects	(25)	(24)	(28)
Pro forma net income (in millions)	$ 78	$ 104	$ 122
Net income per common share:			
Basic, pro forma	$1.29	$1.73	$1.91
Basic, as reported	$1.32	$1.76	$1.94
Diluted, pro forma	$1.12	$1.47	$1.63
Diluted, as reported	$1.14	$1.50	$1.66

The effects of applying the fair value method in this pro forma disclosure are not indicative of future amounts.

Under Cabot’s Equity Incentive Plans, common stock may be granted at a discount to certain key employees. Generally, restricted stock awards cannot be sold or otherwise encumbered during the three years following the grant. Upon issuance of stock under the plan, unearned compensation, calculated as the difference between the market value on the measurement date of the grant and the discounted price, is charged to a separate component of stockholders’ equity and subsequently amortized as compensation expense over the vesting period. Cabot also offers stock options to certain employees in accordance with APB No. 25.

Comprehensive Income (Loss)

Accumulated other comprehensive income (loss), which is included as a component of stockholders’ equity, includes unrealized gains or losses on available-for-sale securities and derivative instruments, currency translation adjustments in foreign subsidiaries, translation adjustments on foreign equity securities and minimum pension liability adjustments.

Environmental Costs

Cabot accrues environmental costs when it is probable that a liability has been incurred and the amount can be reasonably estimated. When a single liability amount cannot be reasonably estimated, but a range can be reasonably estimated, Cabot accrues the amount that reflects the best estimate within that range or the low end of the range if no estimate within the range is better. The amount accrued reflects Cabot’s assumptions about remediation requirements at the contaminated site, the nature of the remedy, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number and financial viability of other potentially responsible parties. A portion of the reserve for environmental matters is recognized on a discounted basis. The availability of new information, changes in the estimates on which the accruals are based, unanticipated government enforcement action, or changes in applicable

government laws and regulations could result in higher or lower costs. Cabot does not reduce its estimated liability for possible recoveries from insurance carriers. Proceeds from insurance carriers are recorded when realized by the receipt of cash or a contractual agreement.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States 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 2002 and 2001 have been reclassified to conform to the 2003 presentation.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, “Consolidation of Variable Interest Entities” (FIN 46), which clarifies the application of Accounting Research Bulletin (ARB) No. 51, “Consolidated Financial Statements.” FIN 46 provides guidance on the identification of and financial reporting for entities over which control is achieved through a means other than by voting rights. This pronouncement determines whether such entities should be consolidated under the variable interest model of FIN 46. Cabot adopted FIN 46 as of January 31, 2003 for variable interest entities created after January 31, 2003 with no impact on the consolidated financial statements. Cabot will adopt FIN 46 as of March 31, 2003 for variable interest entities that were created before January 31, 2003. The adoption of FIN 46 is not expected to have a significant effect on the consolidated financial statements.

Note B. Acquisitions

On May 30, 2003, Cabot purchased the assets of Superior MicroPowders (CSMP), a privately-held company located in New Mexico. CSMP was a development stage enterprise with proprietary powder production systems and manufacturing capability.

This transaction has been accounted for as an acquisition of tangible and intangible assets and the results of operations of CSMP have been included in the consolidated financial statements since the date of acquisition. A summary of the consideration paid, the allocation of the acquisition purchase price and the amount of expensed in-process research and development projects, which was based on a valuation prepared by an independent valuation consultant, is as follows:

Cash paid	$ 16
Fair value of intangible assets acquired	1
Fair value of net tangible assets acquired	1
Fair value of net assets acquired	$ 2
Acquired in-process research and development projects	$ 14

Allocation of the purchase price is based on estimates of the fair value of the net assets acquired and the in-process research and development projects.

The intangible assets acquired are comprised primarily of patents that will be amortized over a fourteen year remaining estimated life. Tangible assets acquired are comprised primarily of property, plant and equipment. Approximately $14 million of the purchase price represented the estimated fair value of acquired in-process research and development projects that had not yet reached technological feasibility and had no alternative future use. Accordingly, the amount was immediately expensed and recorded in research and

technical expense in the consolidated statement of income. The value assigned to purchased in-process research and development is comprised of $5 million for an electrocatalysts project, $6 million for a fuel processors project and $3 million for a membrane electrode assemblies project.

The estimated fair value of these projects was determined using the discounted cash flow method. The discount rates used take into account the stage of completion and the risks associated with the successful development and commercialization of each of the purchased in-process research and development projects.

On February 8, 2002, Cabot purchased the remaining 50% of the shares in Showa Cabot Supermetals KK, herein referred to as Cabot Supermetals Japan (CSJ). CSJ is a supplier of tantalum powders and metal products to the global electronics, aerospace and chemical processing industries. The acquisition of CSJ expanded the capacity and the capabilities of Cabot's existing tantalum business in the Supermetals segment.

The aggregate purchase price was $89 million in cash, net of cash acquired. The assets and liabilities assumed in the purchase are detailed in the table below. This acquisition has been accounted for as a purchase and the results of operations of CSJ have been included in the consolidated financial statements of fiscal 2002 since the date of acquisition on a one-month lag due to a delay in the availability of financial information. Prior to the acquisition, Cabot's investment in CSJ was accounted for as an equity investment and the results were reported on a three-month lag. The equity investment income recorded to change from a three-month lag to a one-month lag was not material in fiscal 2002 to the consolidated results of operations.

Included in Cabot's consolidated results for fiscal 2002 are 50% of the operating results of CSJ for the months of July 2001 through January 2002 and 100% of the operating results of CSJ for the months of February through August 2002. Included in Cabot's consolidated results for fiscal 2003 is 100% of the operating results of CSJ for the months September 2002 through September 2003. Cabot no longer reports the results of CSJ on a one-month lag. The additional month of operating profit was approximately $1 million.

The fair value of the assets acquired and liabilities assumed represents the 50% of CSJ purchased. The following table summarizes the purchased half of the fair values of the assets acquired and liabilities assumed at the date of acquisition:

Cash Paid	$ 99
Cash and cash equivalents	$ 10
Accounts and notes receivable	14
Inventory	42
Other current assets	1
Property, plant and equipment	23
Other long term assets	12
Fair value of assets acquired	$102
Notes payable to banks	$ 24
Accounts payable and accruals	8
Long-term debt	30
Other long-term liabilities	11
Fair value of liabilities assumed	$ 73
Fair value of net assets acquired	$ 29
Recorded goodwill	$ 70

In accordance with FAS No. 142, goodwill recorded as a result of the acquisition will not be amortized, but is tested for impairment at least annually. Cabot recorded $6 million of identifiable intangible assets

primarily comprised of patented and unpatented technology. These intangible assets are being amortized on a straight-line basis over useful lives ranging from two to ten years. The weighted average amortization period for the intangible assets recognized as a result of the acquisition is nine years. No residual value is estimated for the assets.

Assuming Cabot owned 100% of CSJ for all periods presented, the following table would be the unaudited pro forma consolidated operating results for fiscal 2002 and 2001:

	September 30	
	2002	2001
(Dollars in millions, except per share amounts)		
Total Revenues	$1,584	$1,791
Net Income	104	130
Net Income per share		
Basic	$ 1.73	$ 2.04
Diluted	$ 1.47	$ 1.74

The goodwill recorded in the CSJ acquisition was not deductible for tax purposes.

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisition taken place in fiscal 2001 or the results that may occur in the future. Furthermore, the pro forma results do not give effect to all cost savings or incremental costs which may occur as a result of the integration and consolidation of CSJ.

On March 16, 2001, Cabot announced an open offer for approximately 4 million shares of Cabot India Limited, at 100 Rupees per share. Cabot India Limited was a majority-owned subsidiary of Cabot Corporation and its shares were traded on Indian stock exchanges. The tender offer was for the 40% ownership of Cabot India Limited held by minority interest shareholders. The offer closed on June 16, 2001 and the share transfer procedures occurred in July 2001. Approximately 3 million of the outstanding shares were acquired for $6 million, raising Cabot's total ownership to approximately 92% as of September 30, 2001. Cabot made a follow-on offer at the same price for the remaining shares. During fiscal 2002, under the follow-on offer, Cabot acquired an additional 3% ownership for a nominal amount. The excess of the purchase price over the fair value of the minority interest acquired of approximately $2 million was recorded as goodwill. Cabot India Limited's shares were de-listed from the Indian stock exchanges when Cabot's ownership percentage exceeded the 90% threshold.

In March 2001, Cabot exercised an option to purchase 1 million shares of Angus & Ross Plc common stock. In May 2001, Cabot purchased an additional 4 million shares of Angus & Ross Plc common stock. The total purchase price of the 5 million shares was $1 million. The purchase of the additional 4 million shares increased Cabot's ownership in Angus & Ross Plc to approximately 21%. In August 2002, Cabot purchased an additional 850,000 shares for a nominal amount. Cabot's ownership in Angus and Ross Plc decreased to approximately 14% in fiscal 2003 due to an increase in outstanding shares of Angus and Ross Plc.

Note C. Discontinued Operations

In fiscal 2003, Cabot recorded insurance recovery proceeds of $7 million, related to various businesses that Cabot had presented as discontinued businesses in previous years. The receipt, net of $2 million of taxes, is classified as income from operations of a discontinued business in the consolidated statements of income.

In fiscal 2002, Cabot recorded insurance recovery proceeds of $2 million from various discontinued businesses, including $1 million from the disposed liquefied natural gas (LNG) business. The receipt, net of $1 million of taxes, is classified as income from operations of a discontinued business in the consolidated statements of income.

In fiscal 2001, Cabot received additional cash proceeds of $5 million from the LNG sale. The receipt, net of $2 million of taxes, is classified as a gain on sale of business in the discontinued operations section of the fiscal 2001 consolidated statement of income.

Note D. Inventories

Inventories, net of LIFO reserves, were as follows:

	September 30	
	2003	2002
(Dollars in millions)		
Raw materials	$129	$120
Work in process	155	156
Finished goods	159	124
Other	42	35
Total	$485	$435

Inventories valued under the LIFO method comprised approximately 28% and 29% of 2003 and 2002 total inventory, respectively. At September 30, 2003 and 2002, the LIFO reserve recorded was $71 million and $85 million, respectively. There were no significant liquidations of LIFO layers of inventories in 2003, 2002 or 2001. Other inventory is comprised of spare parts and supplies.

Note E. Investments

At September 30, 2003 and 2002, investments in common stock accounted for using the equity method amounted to $50 million and $48 million, respectively. Dividends received from equity affiliates were $3 million in 2003 and 2002, and $11 million in 2001. CSJ was a 50% joint venture in the Supermetals segment until February 8, 2002 when Cabot purchased the remaining 50% interest and the subsidiary was consolidated. Other equity affiliates consist of several joint ventures in the Chemical Business segment.

The results of operations and financial position of CSJ for the periods as an equity affiliate and Cabot's other equity-basis affiliates are summarized below:

	Cabot Supermetals Japan			Other Equity Affiliates		
	September 30			September 30		
	2003	2002*	2001	2003	2002	2001
(Dollars in millions)						
Condensed Income Statement Information:						
Net sales	$ —	$ 58	$209	$212	$471	$475
Gross profit	—	11	64	49	181	173
Net income	—	2	30	13	23	18
Condensed Balance Sheet Information:						
Current assets	$ —	$ —	$147	$122	$193	$171
Non-current assets	—	—	53	139	322	337
Current liabilities	—	—	77	100	143	153
Non-current liabilities	—	—	66	51	254	245
Net assets	—	—	57	110	118	110

* Equity affiliate results for the period July 1, 2001 through February 8, 2002.

Other investments of $27 million include $2 million of cost based investments and $25 million of available-for-sale equity securities at September 30, 2003. At September 30, 2002, other investments of $32 million include $2 million of cost based investments and $30 million of available-for-sale equity securities.

Dividends received from available-for-sale equity securities were zero in 2003 and $1 million in 2002 and 2001. The cost and fair value of available-for-sale equity securities included in other investments are summarized as follows:

	September 30	
	2003	2002
(Dollars in millions)		
Cost	$ 12	$ 33
Cumulative unrealized holding gains	12	—
Foreign currency translation adjustment on foreign denominated securities	1	(3)
Fair value	$ 25	$ 30

In fiscal 2003, Cabot recorded a pre-tax impairment charge of $22 million related to the decline in the fair value of two investments. See further discussion in Note Q. In fiscal 2003, subsequent to recording the impairment charge on available-for-sale securities an unrealized gain of $8 million, net of deferred tax of $4 million, was recorded in accumulated other comprehensive income in stockholders' equity. In fiscal 2002, an unrealized loss was recorded in accumulated other comprehensive income in stockholders' equity of $6 million, net of deferred tax of $3 million. In fiscal 2001, an unrealized holding gain of $2 million was recorded in accumulated other comprehensive income in stockholders' equity, net of deferred taxes of $4 million. Foreign currency translation adjustments on foreign securities are included in accumulated other comprehensive income within stockholders' equity.

In fiscal 2003, Cabot received $35 million of proceeds from the sale of an equity interest in an investment. The investment had a carrying value of zero and the $35 million of proceeds were recorded as other income on the consolidated statement of income.

Note F. Property, Plant & Equipment

Property, plant and equipment is summarized as follows:

	2003	2002
	September 30	
(Dollars in millions)		
Land and improvements	$ 56	$ 51
Buildings	352	323
Machinery and equipment	1,567	1,415
Other	90	90
Construction in progress	137	161
Total property, plant and equipment	2,202	2,040
Less: accumulated depreciation	(1,289)	(1,151)
Net property, plant and equipment	$ 913	$ 889

Depreciation expense was $134 million, $108 million and $111 million for fiscal 2003, 2002 and 2001, respectively.

Note G. Goodwill and Other Intangible Assets

Cabot adopted FAS No. 142 on October 1, 2001. As a result, all goodwill amortization ceased for Cabot on October 1, 2001. Upon adoption, the goodwill attributable to each reporting unit was tested for impairment by comparing the fair value of each reporting unit to its carrying value. The fair value of a reporting unit was determined by estimating the present value of expected future cash flows. No impairment existed upon adoption of FAS No. 142.

As required by FAS No. 142, impairment tests are performed at least annually. During the third quarter of fiscal 2003, Cabot performed the fiscal 2003 FAS No. 142 impairment test and determined that no impairment loss should be recognized.

At September 30, 2003 and 2002, Cabot had goodwill balances of $110 million and $105 million, respectively. During the first quarter of 2002, Cabot acquired shares of certain minority interest shareholders in the Chemical Business segment, resulting in $5 million of additional goodwill. During the second quarter of 2002, Cabot acquired the remaining 50% of the shares in CSJ in the Supermetals segment, resulting in $70 million of additional goodwill.

The carrying amount of goodwill attributable to each reportable operating segment with goodwill balances and the changes in those balances during the year ended September 30, 2003 are as follows:

(Dollars in millions)	Chemical Business	Supermetals	Total
Balance at September 30, 2002	$ 22	$ 83	$105
Foreign exchange translation adjustment	1	5	6
Adjustment to goodwill	—	(1)	(1)
Balance at September 30, 2003	$ 23	$ 87	$110

The $1 million adjustment to Supermetals goodwill is due to changes in the allocation of the purchase price of CSJ. Certain contingencies that existed at the date of acquisition are in the process of being resolved and may effect the allocation of the purchase price in the future.

Cabot does not have any indefinite-lived intangible assets. At September 30, 2003 and 2002, Cabot had $9 million and $8 million, of finite-lived intangible assets, including related accumulated amortization of $6 million and $5 million, respectively. The intangible assets at September 30, 2003 are comprised of $7 million of patents, $1 million for other intellectual property and $1 million for a minimum pension liability adjustment, with related accumulated amortization of $5 million for patents and $1 million for other intellectual property. Intangible assets are amortized over their estimated useful lives, which range from two to fifteen years, with a weighted average amortization period of ten years. Amortization expense is estimated to be approximately $1 million in each of the next five years.

If FAS No. 142 had been adopted in the prior periods, Cabot's pro forma net income and pro forma net income per common share for the year ended September 30, 2001 would have been:

(Dollars in millions, except per share amounts)	Year Ended September 30, 2001
Net income available for common shares — as reported	$ 121
Goodwill amortization, net of tax benefit	2
Net income available for common shares — pro forma	$ 123
Net income per common share — pro forma:	
Basic	$1.98
Diluted	$1.69

Note H. Asset Retirement Obligations

In May 2003, Cabot announced the anticipated closure of its carbon black manufacturing facility in Zierbena, Spain. The facility is located on leased land and Cabot is required to perform site remediation and restoration activities as a condition of the lease agreement. Cabot has recorded a $7 million current liability for these costs, to be paid over the next eighteen months.

The following is a description of the changes to the Company's asset retirement obligations from October 1, 2002 through September 30, 2003:

(Dollars in millions)	
Asset retirement obligation — October 1, 2002	$ —
Additions	7
Asset retirement obligation — September 30, 2003	$ 7

Note I. Accounts Payable & Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following:

	2003	2002
	September 30	
(Dollars in millions)		
Accounts payable	$144	$122
Accrued employee compensation	30	30
Accrued restructuring	19	—
Other accrued liabilities	85	80
Total	$278	$232

Note J. Debt

Long-term debt is summarized below:

	2003	2002
	September 30	
(Dollars in millions)		
Fixed Rate Notes (stated rate):		
Notes due 2002 - 2022, 8.1%	$ 66	$ 67
Notes due 2004 - 2011, 7.1%	92	90
Notes due 2027, 7.3%	8	8
Note due 2027, put option 2004, 6.6%	1	1
Notes due 2005 - 2018, 7.0%	62	64
Total medium-term notes	229	230
Guarantee of ESOP notes, due 2013, 8.3%	48	51
Yen notes due 2004 - 2006, 1.5% to 2.1%	18	28
Note due 2013, 5.25%, net of discount	174	-
Other, due beginning in 2002, 6.0% to 15.5%	3	5
Variable Rate Notes (end of year rate):		
Yen notes due 2005 - 2006, 0.5% to 0.7%	—	39
Euro note due 2003, 4.0%	—	147
Yen note due 2006, 0.97%	84	—
	556	500
Less: current portion of long-term debt	(40)	(5)
Total long-term debt	$516	$495

On September 24, 2003, a Cabot subsidiary completed a $175 million bond issuance with a fixed coupon rate of 5.25%. The functional currency of this subsidiary is the Euro. The notes are due September 1, 2013, with interest on the notes payable on March 1 and September 1 of each year, beginning on March 1, 2004. A discount of approximately $1 million was recorded at inception of the issuance and will be amortized over the life of the notes. Amortization of the discount was nominal for fiscal 2003. The $175 million bond proceeds were used to pay off the Cabot subsidiary's November 2000 borrowing of 150 million Euro from institutional lenders.

On February 8, 2002, Cabot acquired the remaining 50% ownership of CSJ from its joint venture partner (See Note B.) On the date of acquisition, CSJ had notes payable to banks of $48 million and long-term debt of $60 million from institutional lenders denominated in Japanese yen. In the fourth quarter of fiscal 2002, CSJ borrowed an additional 700 million yen ($6 million) in the form of bank note. As of September 30, 2002, the outstanding balance of these notes payable to banks was $36 million. Because the notes payable to banks have renewable one-year terms, they are classified as current liabilities on the consolidated balance sheet. In fiscal 2003, all of the notes payable to banks were repaid.

The long-term debt of CSJ is payable in Japanese yen and mature on various dates in fiscal years 2005 through 2006. In fiscal 2003, Cabot repaid $51 million of the CSJ long-term debt. The principal balance on the long-term debt was approximately $18 million and $28 million at September 30, 2003 and 2002, respectively. The weighted average maturity of the long-term debt is two years with a weighted average interest rate of 1.7%.

In 2003, Cabot refinanced most of its yen based borrowing that were assumed during the fiscal 2002 acquisition of CSJ. Associated with the refinancing, Cabot entered into a new 9.3 billion yen ($84 million) term loan agreement that matures in fiscal 2006. This new loan is based in yen and bears interest at yen-LIBOR (0.07% at September 30, 2003) plus 0.9%.

During 2001, Cabot entered into a $250 million revolving credit loan facility at floating interest rates, replacing a $300 million revolving credit and term loan facility. Commitment fees are based on both the used and unused portions of the facility. The facility is available through July 13, 2006. No amounts were outstanding under the revolving credit facility at September 30, 2003 or 2002.

The 9.3 billion yen term loan and the revolving credit loan facility agreements contain specific

covenants. The covenants include financial covenants for certain maximum indebtedness limitations and minimum cash flow requirements, that would limit the amount available for future borrowings.

In September 1998, Cabot filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission covering $500 million of debt securities. The securities registered under the 1998 shelf registration statement included the amount of unsold securities registered for sale under a shelf registration statement filed with the SEC in 1992. There were $400 million of debt securities available for sale under the 1998 shelf registration at September 30, 2003 and 2002. At September 30, 2003 and 2002, there were $229 million and $230 million respectively, of medium-term notes outstanding under Cabot's shelf registration. In fiscal 2003, 2002 and 2001 Cabot repurchased zero, $23 million and $57 million respectively, of these medium-term notes. The weighted average maturity of the total outstanding medium-term notes is eight years with a weighted average interest rate of 7.4%.

Included in the 8.1% medium-term notes outstanding balances of $66 million and $67 million are zero and $1 million of mark-to-market swap valuations related to Cabot's fixed-to-variable interest rate swaps at September 30, 2003 and 2002, respectively.

Included in the 7.1% medium-term notes outstanding balances of $92 million and $90 million are $2 million and zero of mark-to-market swap valuations related to Cabot's fixed-to-variable interest rate swaps at September 30, 2003 and 2002, respectively.

Included in the 7.0% medium-term notes outstanding balances of $62 million and $64 million are $2 million and $4 million of mark-to-market swap valuations related to Cabot's fixed-to-variable interest rate swaps at September 30, 2003 and 2002, respectively.

In November 1988, Cabot's Employee Stock Ownership Plan (ESOP) borrowed $75 million from an institutional lender in order to finance its purchase of 75,000 shares of Cabot's Series B ESOP Convertible Preferred Stock. This debt bears interest at 8.3% per annum and is to be repaid in equal quarterly installments through December 31, 2013. Cabot, as guarantor, has reflected the outstanding balance of $48 million and $51 million as a liability in the consolidated balance sheet at September 30, 2003 and 2002, respectively. An equal amount, representing deferred employee benefits, has been recorded as a reduction to stockholders' equity.

The aggregate principal amounts of long-term debt due in each of the five years from fiscal 2004 through 2008 and thereafter are as follows:

(Dollars in millions)	September 30 2003
2004	$ 40
2005	22
2006	118
2007	38
2008	4
Thereafter	334
Total	$556

The weighted-average interest rate on notes payable to banks of $8 million and $40 million was approximately 2.6% and 1.4% as of September 30, 2003 and 2002, respectively.

At September 30, 2003, Cabot had provided standby letters of credit totaling $12 million, which expire in fiscal 2004.

Note K. Financial Instruments

As part of the $175 million bond issuance in September 2003, the Cabot subsidiary also entered into a ten-year contract with a notional amount of $140 million to swap U.S. dollars to Euros. This cross currency swap has been designated as a foreign currency cash flow hedge. This swap hedges the variability of the cash flows on 80% of the debt issuance, due to changes in the exchange rates over the life of the debt instrument. Changes in the value of the effective portion of the cash flow hedge are reported in other comprehensive income (loss), while the ineffective portion is reported in earnings. There was no charge to earnings for the period ended September 30, 2003. This swap had a fair value of ($6) million on September 30, 2003 and is included in other liabilities.

In September of 2003, the Cabot subsidiary swapped the remaining 20% of the bond issuance ($35 million). The Cabot subsidiary swapped the fixed rate coupon of 5.25% to six-month U.S. LIBOR plus a spread of 62 basis points. The variable interest rate resets with the terms of the bond coupon payments. This swap has been designated as a fair value hedge. This swap had a fair value of zero on September 30, 2003. Additionally, the subsidiary swapped the $35 million U.S. dollars at variable interest rates to Euros at variable interest rates. This swap has been designated as a fair value hedge. Changes in the fair value of this swap will be recorded in earnings. These changes will be offset by the remeasurement of the debt at current exchange rates. The interest rates swaps were determined to be highly effective and a nominal amount of ineffectiveness was recorded in earnings during the period ended September 30, 2003. This swap had a fair value of ($1) million on September 30, 2003 and is included in other liabilities.

As part of the CSJ acquisition, Cabot assumed variable rate debt that was economically hedged with interest rate swaps. In October 2002, Cabot refinanced the underlying variable rate debt and the interest rate swaps were terminated. These swaps had a fair value of ($1) million on September 30, 2002 and were included in other liabilities.

During fiscal 2003, Cabot began using both yen based debt and cross currency swaps to hedge its net investment in Japanese subsidiaries against adverse movements in exchange rates. On October 24, 2002, Cabot entered into a 9.3 billion yen ($84 million) three-year term loan agreement with a group of banks to refinance existing debt at CSJ. In November 2002, Cabot entered into two three-year cross currency swaps. Cabot swapped $41 million at three-month U.S. LIBOR interest rates for 5 billion Japanese yen at three-month yen LIBOR interest rates. Cabot is also entitled to receive semi-annual interest payments on $41 million at three-month U.S. dollar LIBOR interest rates and is obligated to make semi-annual interest payments on 5 billion yen at three-month Japanese yen LIBOR interest rates. The cross currency swaps reduce Cabot's interest rate by one percentage point on the notional amount of $41 million as of September 30, 2003. Included in other liabilities at September 30, 2003 is $4 million related to the fair value of the cross currency swaps and $9 million related to the cumulative translation differences in Cabot's yen denominated debt.

Effectiveness of these hedges is based on changes in the spot foreign exchange rates and the balance of Cabot's yen denominated net investments. The changes in value of the yen based debt and of the cross currency swaps, totaling $13 million for the twelve months ended September 30, 2003, have been recorded as a foreign currency translation loss in accumulated other comprehensive income (loss), offsetting foreign currency translation gains of Cabot's yen denominated net investments. Net losses recorded in earnings representing the amount of the hedges' ineffectiveness for the period were nominal.

In connection with the 9.3 billion yen ($84 million) term loan, Cabot entered into two interest rate swaps with an aggregate notional amount of 9.3 billion yen ($84 million). The swaps are variable-for-fixed swaps of the quarterly interest payments on the related debt and mature in fiscal 2008. The swaps have been designated as cash flow hedges. These swaps hedge the variability of the cash flows caused by changes in interest rates over the life of the debt instrument. Changes in the value of the effective portion of cash flow hedges are reported in other comprehensive income (loss), while the ineffective portion is reported in earnings. The swaps had a fair value of $1 million on September 30, 2003 and are included in other assets.

In October 2001, Cabot entered into four fixed-to-variable interest rate swaps in an aggregate notional amount of $97 million. The swaps have been designated as fair value hedges. The swaps hedge the change in the fair value of $97 million of Cabot's fixed rate medium term notes due to changes in interest rates. The interest rate swaps and the medium term notes they hedge mature on various dates through February 2007. The fair values of the derivative instruments are recorded as other assets in the consolidated balance sheet. A corresponding increase to long-term debt of approximately $4 million was recorded for the change in the fair value of the debt at September 30, 2003. The interest rate swaps were determined to be highly effective and no amount of ineffectiveness was recorded in earnings during the period ended September 30, 2003. These swaps had a fair value of $4 million and $5 million on September 30, 2003 and 2002, respectively and are included in other assets.

Note L. Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments at September 30, 2003 and 2002 are as follows:

	2003		2002	
(Dollars in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash, cash equivalents and investments	$247	$247	$159	$159
Foreign exchange contracts	2	2	—	—
Fair value hedge interest rate swaps	4	4	5	5
Cash flow hedge interest rate swaps	1	1	—	—
Liabilities:				
Notes payable to banks — short-term	$ 8	$ 8	$ 40	$ 40
Long-term debt — fixed rate	472	514	314	351
Long-term debt — floating rate	84	84	186	186
Cross currency net investment hedges	4	4	—	—
Foreign currency fair value hedge	1	1	—	—
Foreign currency cash flow hedge	6	6	—	—
Cash flow hedge interest rate swaps	—	—	1	1

At September 30, 2003 and 2002, the fair values of cash, cash equivalents, and notes payable to banks approximated carrying values because of the short-term nature of these instruments. The estimated fair values of the derivative instruments disclosed above are estimated based on the amount that Cabot would receive or pay to terminate the agreements at the respective year-ends. The derivative instruments are carried at fair value. The fair value of Cabot's fixed rate long-term debt is estimated based on quoted market prices at the end of each fiscal year. The carrying amounts of Cabot's floating rate long-term debt approximate their fair value. Considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that Cabot could realize in a current market exchange.

Note M. Employee Benefit Plans

Cabot provides both defined benefit and defined contribution plans for its employees. The defined benefit plans consist of the Cabot Cash Balance Plan (CBP) and several foreign pension plans. The defined contribution plans consist of the Cabot Retirement Savings Plan (RSP) and several foreign plans. Cabot also provides postretirement benefit plans, which include medical coverage and life insurance. The information provided below includes a brief summary of the plans.

Defined Contribution Plans

Retirement Savings Plan

The RSP is a defined contribution plan, which encourages long-term systematic savings and provides funds for retirement or possible earlier needs. The RSP has two components, a 401(k) plan and an Employee Stock Ownership Plan.

401(k)

The 401(k) plan allows an eligible participant to contribute a percentage of his or her eligible compensation on a before-tax basis or an after-tax basis. For employees not subject to a collective bargaining agreement, Cabot makes a matching contribution of 75% of a participant's eligible before-tax or after-tax

contribution up to 7.5% of the participant's eligible compensation. This matching contribution is in the form of Cabot stock and is made on a quarterly basis.

Employee Stock Ownership Plan

All regular employees of Cabot and its participating subsidiaries in the U.S., except employees of the Supermetals business subject to collective bargaining agreements, are eligible to participate in the ESOP. Under the ESOP, which is 100% Company funded, Cabot allocates 742.6 shares of convertible preferred stock to participant accounts on a quarterly basis. The allocation is generally between 4% and 8% of a participant's compensation. The allocation to each participant is based on the value of Cabot's preferred stock, the number of shares allocated as dividends, and the total eligible compensation. If the amount of the participant allocation were to fall below 4%, Cabot would make an additional contribution to bring the total value to 4% for the participant. At September 30, 2003, 22,302 shares have been allocated to participants, 743 shares have been released and will be allocated in fiscal 2004, and 30,445 shares are unallocated. The ESOP is accounted for in compliance with SOP 76-3, "Accounting Practices for Certain Employee Stock Ownership Plans".

In November 1988, Cabot placed 75,336 shares of its Series B ESOP Convertible Preferred Stock in the ESOP for cash at a price of $1,000 per share. Each share of the Series B ESOP Convertible Preferred Stock is convertible into 146.4 shares of Cabot's common stock, subject to certain events and anti-dilution adjustment provisions, and carries voting rights on an "as converted" basis. The trustee for the ESOP has the right to cause Cabot to redeem shares sufficient to provide for periodic distributions to plan participants. Cabot has the option to redeem the shares for $1,000 per share, convert the shares to common stock, or a combination thereof.

The issued shares of Series B ESOP Convertible Preferred Stock receive preferential and cumulative quarterly dividends and are ranked as to dividends and liquidation prior to Cabot's Series A Junior Participating Preferred Stock and common stock. For purposes of calculating diluted earnings per share, the Series B ESOP Convertible Preferred Stock is assumed to be converted to common stock based on the conversion rate. At September 30, 2003, 8 million shares of Cabot's common stock were reserved for conversion of the Series B ESOP Convertible Preferred Stock.

Cabot is the guarantor for the outstanding debt held by the ESOP (See Note J). Cabot contributed $3 million in 2003 and 2002 and $2 million in 2001 to the ESOP to service the debt. Dividends on ESOP shares used for debt services were $4 million in 2003 and 2002 and $5 million in 2001. In addition, actual interest incurred on debt associated with the ESOP was $4 million in 2003 and 2002 and $5 million in 2001.

Cabot recognized expenses related to all defined contribution plans in the amounts of $6 million in 2003, $7 million in 2002, and $6 million in 2001.

Defined Benefit Plans

Defined benefit plans provide pre-determined benefits to employees to be distributed for future use upon retirement. Cabot's defined benefit plans are primarily pension plans. At September 30, 2003, Cabot has pension obligations exceeding assets by $83 million. Cabot is making all contributions required for each plan. Cabot has accrued $3 million of this liability.

Measurement of defined benefit pension expense is based on assumptions used to value the defined benefit pension liability at the beginning of the year. The CBP and certain foreign pension plans use the straight-line method of amortization over five years for the unrecognized net gains and losses. In fiscal 2003 and 2002, Cabot used a June 30 measurement date for all plan obligations and assets.

Cash Balance Plan

The CBP is a U.S. defined benefit plan in which participants accrue benefits in the form of account balances, with a defined or guaranteed rate of return and defined notional contributions. While Cabot does not make actual cash contributions into participants' accounts, the plan meets its obligations through the plan assets. The notional contributions take the form of pay-based credits, which are computed as a percentage of

eligible pay, and credited quarterly to an account balance for each participant. Interest is credited quarterly based on the average one-year Treasury bill rate for the month of November in the preceding calendar year. Cabot's obligation to contribute to the plan is a function of the fair value of plan assets, expected returns and Cabot's projected benefit obligations and their timing.

Cabot provides similar benefits to employees in foreign locations through several other foreign defined benefit plans.

Plan Assets

The assets of the worldwide defined benefit pension plans are comprised principally of investments in equity securities and government bonds.

Cabot Supermetals Japan

Cabot assumed the liability for the retirement obligations of Showa Denko KK employees who transferred to CSJ as of February 8, 2002 (See Note B). The amount of the liability and assets assumed are presented in the reconciliation of benefit obligations and plan assets as business combinations.

Postretirement Benefit Plans

Cabot also has postretirement benefit plans that provide certain health care and life insurance benefits for retired employees. Typical of such plans, the Cabot postretirement benefit plans are unfunded. Cabot funds the plans as claims or insurance premiums come due, as plans are not required to have assets for this obligation. The current accumulated benefit obligation for postretirement benefit plans is $121 million. Cabot has, however, accrued $89 million for this liability at September 30, 2003.

Measurement of postretirement benefit expense is based on assumptions used to value the postretirement benefit liability at the beginning of the year. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The current weighted-average assumed health care cost trend rate is 10.7% and the ultimate weighted-average health care cost trend rate of 5.1% is expected to be achieved in fiscal 2009. A one percentage point change in the 2003 assumed health care cost trend rate would have the following effects:

	1-Percentage-Point	
	Increase	Decrease
(Dollars in millions)		
Effect on total of service and interest cost components	$ —	$—
Effect on postretirement benefit obligation	$ 7	$ (3)

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

	Pension Benefits		Postretirement Benefits	
	Years Ended September 30			
	2003	2002	2003	2002
(Dollars in millions)				
Change In Benefit Obligation:				
Benefit obligation at beginning of year	$258	$233	$ 115	$ 95
Service cost	10	12	2	8
Interest cost	16	15	7	7
Plan participants' contribution	1	—	1	1
Amendments	—	1	—	—
Foreign currency exchange rate changes	21	7	1	—
Loss from changes in actuarial assumptions	34	1	5	12
Benefits paid	(19)	(20)	(8)	(8)
Business combinations	—	9	—	—
Termination benefits	2	—	—	—
Settlements	—	—	(2)	—
Benefit obligation at end of year	$323	$258	$ 121	$ 115
Change In Plan Assets:				
Fair value of plan assets at beginning of year	$244	$256	$ —	$ —
Actual return on plan assets	(12)	(12)	—	—
Employer contribution	9	10	7	7
Plan participants' contribution	1	—	1	1
Foreign currency exchange rate changes	15	8	—	—
Benefits paid	(18)	(20)	(8)	(8)
Business combinations	—	2	—	—
Termination benefits	1	—	—	—
Fair value of plan assets at end of year	$240	$244	$ —	$ —
Funded status	$ (83)	$ (14)	$(121)	$(115)
Unrecognized transition amount	(1)	(1)	—	—
Unrecognized prior service cost	7	7	(2)	(2)
Unrecognized net loss	63	1	32	28
Fourth quarter contributions	11	—	2	2
Recognized liability	$ (3)	$ (7)	$ (89)	$ (87)
Amounts Recognized in the Consolidated Balance Sheets Consist of:				
Prepaid benefit cost	$ 8	$ 19	$ —	$ —
Accrued benefit liabilities	(53)	(37)	(89)	(87)
Intangible asset	1	1	—	—
Accumulated other comprehensive loss	41	10	—	—
Net amount recognized	$ (3)	$ (7)	$ (89)	$ (87)

Weighted-Average Rates:

Assumptions as of September 30	2003	2002	2003	2002
Discount rate	5.2%	6.2%	5.5%	6.7%
Expected rate of return on plan assets	6.9%	8.2%	N/A	N/A
Assumed rate of increase in compensation	4.0%	4.1%	N/A	N/A
Assumed annual rate of increase in health care benefits	N/A	N/A	10.7%	11.5%

The termination benefits, accounted for under FAS No. 88, “Employers’ Accounting for Settlements and Curtailments for Defined Benefit Pension Plans and for Termination Benefits”, for fiscal 2003 represent special termination benefits for retired employees in two foreign defined benefit pension plans.

The settlement recorded in fiscal 2003 for postretirement benefits represents the termination of a foreign plan for certain participants as well as a decrease in the percentage of employer participation for the remaining participants in this foreign plan.

The service cost for fiscal 2002 shown in the reconciliation of benefit obligations for pension benefits and postretirement benefits includes $4 million and $6 million, respectively, of costs related to benefits earned in previous years. Employer contributions for fiscal 2002 shown in the reconciliation of plan assets of pension benefits includes $2 million related to contributions and appreciation of assets from previous years. The net effect of these costs in fiscal 2002 was $8 million and was not material to the consolidated results.

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

	Pension Benefits			Postretirement Benefits		
	Years Ended September 30					
(Dollars in millions)	2003	2002	2001	2003	2002	2001
Service cost	$ 10	$ 12	$ 8	$ 2	$ 8	$ 1
Interest cost	16	15	14	7	7	6
Expected return on plan assets	(20)	(20)	(19)	—	—	—
Amortization of transition asset	—	(1)	(1)	—	—	—
Recognized losses (gains)	1	(2)	(3)	1	1	1
Settlements or termination benefits	2	1	—	(2)	—	(3)
Net periodic benefit cost (benefit)	$ 9	$ 5	$ (1)	$ 8	$ 16	$ 5

For those plans where the accumulated benefit obligation exceeded the related fair value of plan assets, the accumulated benefit obligation and fair value of plan assets for Cabot’s pension benefits are as follows:

	2003	2002
Accumulated benefit obligation	$158	$ 47
Fair value of plan assets	$109	$ 39

For those plans where the projected benefit obligation exceeded the related fair value of plan assets, the projected benefit obligation and fair value of plan assets for Cabot’s pension benefits are as follows:

	2003	2002
Projected benefit obligation	$312	$ 95
Fair value of plan assets	$227	$ 67

Note N. Equity Incentive Plans

Cabot has an Equity Incentive Plan for key employees. In December 1995, the Board of Directors adopted, and in March 1996, Cabot stockholders approved, the 1996 Equity Incentive Plan. Under this plan, Cabot can make various types of stock and stock-based awards, the terms of which are determined by Cabot's Compensation Committee. Awards under the 1996 plan have been made primarily as part of Cabot's Long-Term Incentive Program. These awards consisted of restricted stock, which could be purchased at a price equal to 40% of the fair market value on the date of the award, or nonqualified stock options exercisable at the fair market value of Cabot's common stock on the date of the award. Variations of the restricted stock awards were made to international employees in order to provide benefits comparable to U.S. employees. The awards generally vested on the third anniversary of the grant for participants then employed by Cabot, and the options generally expired five years from the date of grant. In November 1998, the Board of Directors adopted, and in March 1999, Cabot stockholders approved, the 1999 Equity Incentive Plan. This plan is similar to the 1996 Equity Incentive Plan with the exception of the discount price, which was established at a price equal to 30% of the fair market value on the date of the award.

During March 2002, Cabot reserved an additional 3 million shares of common stock, increasing the shares reserved for issuance under the 1996 and 1999 plans to approximately 9 million. There are approximately 3 million shares available for future grants at September 30, 2003, under both plans. Compensation expense recognized during 2003, 2002 and 2001 for restricted stock grants was $23 million, $22 million, and $26 million, respectively. Compensation expense for 2001 includes $4 million to accelerate the vesting of restricted stock grants and stock options held by Cabot's former Chief Executive Officer and Chief Financial Officer.

Restricted Stock

The following table summarizes the plans' restricted stock activity from September 30, 2000 through September 30, 2003:

	Restricted Stock	Weighted-Average Purchase Price
	(Shares in thousands)	
Outstanding at September 30, 2000	3,072	$ 8.82
Granted	1,169	9.80
Vested	(1,204)	11.36
Canceled	(113)	9.14
Outstanding at September 30, 2001	2,924	$ 8.22
Granted	1,149	7.54
Vested	(590)	7.82
Canceled	(281)	8.05
Outstanding at September 30, 2002	3,202	$ 8.08
Granted	1,229	8.09
Vested	(992)	7.14
Canceled	(323)	8.56
Outstanding at September 30, 2003	3,116	$ 8.33

Stock Options

The following table summarizes the plans' stock option activity from September 30, 2000 through September 30, 2003:

	Stock Options	Weighted-Average Exercise Price
	(Options in thousands)	
Outstanding at September 30, 2000	2,126	$15.07
Granted	284	34.87
Exercised	(437)	12.46
Canceled	(117)	15.70
Outstanding at September 30, 2001	1,856	$18.67
Granted	401	26.40
Exercised	(301)	16.57
Canceled	(102)	22.36
Outstanding at September 30, 2002	1,854	$20.48
Granted	212	28.00
Exercised	(613)	16.46
Canceled	(62)	25.89
Outstanding at September 30, 2003	1,391	$23.16

Options outstanding at September 30, 2003, were as follows:

	Options Outstanding			Vested Options	
		Weighted-Average			
Range of Exercise Price	Thousands of Options Outstanding	Exercise Price	Remaining Contractual Life Years	Thousands of Vested Options	Weighted-Average Exercise Price
10.83 - 10.83	114	$10.83	1.11	114	$10.83
15.50 - 15.57	448	$15.54	1.21	448	$15.54
20.27 - 26.40	396	$26.21	3.49	13	$20.27
28.00 - 28.00	212	$28.00	4.60	—	$ —
34.87 - 34.87	221	$34.87	2.61	—	$ —
Total Options	1,391	$23.16	2.59	575	$14.71

The estimated weighted-average fair value of the options granted during fiscal 2003, 2002 and 2001 were $8.86, $9.99, and $7.06 per option share, respectively, on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Years Ended September 30		
	2003	2002	2001
Expected stock price volatility	46%	48%	49%
Risk free interest rate	2.2%	4.0%	4.5%
Expected life of options	4 years	3 years	3 years
Expected annual dividends	$0.52	$0.52	$0.48

Note O. Guarantee Agreements

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which elaborates on required disclosures by a guarantor in its financial statements about obligations under certain guarantees that it has issued and clarifies the need for a guarantor to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee.

Cabot has provided certain indemnities pursuant to which it may be required to make payments to an indemnified party in connection with certain transactions and agreements. In connection with certain acquisitions and divestitures, Cabot has provided routine indemnities with respect to such matters as environmental, tax, insurance, product and employee liabilities. In addition, in connection with various other agreements, including service and supply agreements, Cabot may provide routine indemnities for certain contingencies and routine warranties. Generally, a maximum obligation is not explicitly stated, thus the potential amount of future maximum payments cannot be reasonably estimated. The duration of the indemnities varies, and in many cases is indefinite. Cabot has not recorded any liability for these indemnities in the consolidated financial statements, except as otherwise disclosed.

Note P. Restructuring

In May 2003, Cabot initiated a European restructuring plan to reduce costs, enhance customer service and create a stronger and more competitive organization. The European restructuring initiatives are all related to the Chemical Business segment and included the closure of Cabot's carbon black manufacturing facility in Zierbena, Spain, the consolidation of administrative services for all European businesses in one shared service center, the implementation of a consistent staffing model for all manufacturing facilities in Europe, and the discontinuance of two energy projects. As of September 30, 2003, Cabot expects the restructuring initiatives to result in a pre-tax charge to earnings of approximately $65 million. The $65 million of estimated charges includes approximately $31 million for severance and employee benefits, $7 million for asset retirement obligations at the Zierbena, Spain facility, $5 million for asset impairments associated with the discontinuance of an energy project, $12 million for accelerated depreciation on the Zierbena, Spain facility and $10 million for the recognition of foreign currency translation adjustments. As of September 30, 2003, Cabot recorded $46 million of European restructuring charges and expects to record an additional $9 million over the next fifteen to twenty-one months. At September 30, 2003, $10 million of foreign currency translation adjustments existed and will be recognized upon substantial liquidation of the entity. As part of the restructuring initiative, Cabot expects the employment of approximately 220 people to be terminated over this period. In addition, Cabot plans to hire employees to staff the new European shared service center.

In fiscal 2003, Cabot initiated and completed a restructuring initiative in North America to reduce costs through a reduction in workforce. The restructuring initiative resulted in a pre-tax charge of $5 million.

Details of the activity of the restructuring reserve during the current period are as follows:

(Dollars in millions)	Beginning Reserve at October 1, 2002	Charges for Twelve Months Ended September 30, 2003	Cash Paid	Costs Charged Against Assets	Ending Reserve at September 30, 2003
Severance and employee benefits	$ —	$ 27	$(15)	$ —	$ 12
Asset retirement obligations	—	7	—	—	7
Total	—	34	15	—	19
Other restructuring activity					
Asset impairments	—	5	—	(5)	—
Accelerated depreciation	—	12	—	(12)	—
	$ —	$ 51	$(15)	$(17)	$ 19

Included in the restructuring charge for fiscal 2003, are severance and other employee benefits of $27 million. Cabot recorded $5 million for involuntary employment terminations for 88 employees at facilities throughout North America, of which $4 million relates to the Chemical Business and $1 million relates to Supermetals. Approximately $22 million relates to voluntary employment terminations for 30 employees in Stanlow, U.K. and involuntary employment terminations for 127 employees in various other European locations in the Chemical Business.

In the consolidated statement of operations for fiscal 2003, $36 million, $14 million and $1 million of restructuring costs were recorded in cost of goods sold, selling and administrative expenses, and research and technical expenses, respectively. As of September 30, 2003, the unpaid balance of restructuring costs is included in accrued expenses in the consolidated balance sheet.

Note Q. Stockholders' Equity

The following table summarizes Cabot's stock activity:

	Years Ended September 30		
	2003	2002	2001
Preferred Stock (in thousands)			
Beginning of year	73	75	75
Converted preferred stock	(3)	(2)	—
End of year	70	73	75
Preferred Treasury Stock (in thousands)			
Beginning of year	17	16	13
Purchased preferred treasury stock	—	1	3
End of year	17	17	16
Common Stock (in millions)			
Beginning of year	62	63	68
Issued common stock	2	1	2
Purchased and retired common stock	(2)	(3)	(7)
Converted preferred stock	—	1	—
End of year	62	62	63
Common Treasury Stock (in thousands)			
Beginning of year	166	—	—
Issued common treasury stock	(4)	(12)	—
Purchased common treasury stock	1	178	—
End of year	163	166	—

In May 2003, 2002 and 2001, Cabot offered a stock purchase assistance plan whereby Cabot extended credit to purchase restricted shares of Cabot Corporation common stock awarded under Cabot's 1999 Equity Incentive Plan to those participants, in Cabot's 2003, 2002 and 2001 Long-Term Incentive Programs. Beginning with awards granted under the 2002 Long-Term Incentive Program, Cabot's executive officers are not eligible to participate in the stock purchase assistance plan. The full recourse notes issued in 2003, 2002 and 2001 bear interest at 5.5% per annum on a principal amount of up to 30% of the aggregate fair market value of such purchased stock on the day of grant. Interest is payable quarterly and principal is due on various dates through 2006. At September 30, 2003, 2002 and 2001, the balance of notes receivable for restricted stock was $21 million, $23 million and $23 million, respectively.

In May 2002, the Board of Directors authorized Cabot to purchase up to 12.6 million shares of Cabot Corporation common stock, superceding the authorization approved in September 2000 to repurchase up to 10 million shares. Approximately 11 million shares have been repurchased pursuant to this and prior authorizations during the three fiscal years ended September 30, 2003.

In fiscal 2002, the Company purchased shares of Cabot's common stock to be held in treasury for use in the Supplemental Executive Retirement Plan (SERP). The SERP is a non-qualified plan which is intended to provide supplemental benefits to highly compensated employees who are otherwise limited by Internal Revenue Service (IRS) benefit maximums. Contributions to the plan are generally based on pay in excess of the IRS maximum and the RSP match and ESOP formula described in Note M. Effective January 1, 2002, participants receive distributions of their vested account balance in the form of shares of Cabot common stock.

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

During 2003, 2002 and 2001, Cabot paid cash dividends of $77.50 per share of Series B ESOP preferred stock and $0.54, $0.52 and $0.48, respectively, per share of common stock.

Comprehensive Income

The pre-tax, tax, and after-tax effects of the components of other comprehensive income (loss) are shown below:

(Dollars in millions)	Years Ended September 30		
	Pre-tax	Tax	After-tax
2001			
Foreign currency translation adjustments	$(26)	$—	$(26)
Unrealized holding gain arising during the period on marketable equity securities	6	(4)	2
Other comprehensive loss	$(20)	$ (4)	$(24)
2002			
Foreign currency translation adjustments	$ 11	$—	$ 11
Unrealized holding loss arising during the period on marketable equity securities	(9)	3	(6)
Minimum pension liability adjustment	(10)	3	(7)
Other comprehensive income (loss)	$ (8)	$ 6	$ (2)
2003			
Foreign currency translation adjustments	$ 63	$—	$ 63
Unrealized holding gain arising during the period on marketable equity securities	12	(4)	8
Unrealized holding loss arising during the period on derivative instruments	(1)	—	(1)
Minimum pension liability adjustment	(32)	10	(22)
Other comprehensive income	$ 42	$ 6	$ 48

During fiscal 2003, Cabot recorded a pre-tax impairment charge of $22 million because of a significant decline in the fair market value of two investments during the first six months of fiscal 2003. This decline in fair market value was deemed to be other than temporary and the impairment charge was recorded in accordance with FAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”. The loss was recognized and the book value of these two investments was reduced from $34 million to $12 million. Since the date of the impairment, the fair market value of these investments increased and Cabot has recorded a pre-tax unrealized gain on investments of $12 million.

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

(Dollars in millions)	2003	2002
	September 30	
Foreign currency translation adjustments	$(57)	$(120)
Unrealized holding gain on marketable equity securities	8	—
Unrealized holding loss on derivative instruments	(1)	—
Minimum pension liability adjustment	(29)	(7)
Accumulated other comprehensive loss	$(79)	$(127)

Note R. Earnings per Share

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

(Dollars in millions, except per share amounts)	Years Ended September 30 2003	2002	2001
Basic EPS:			
Income available to common shares (numerator)	$ 77	$ 103	$ 121
Weighted-average common shares outstanding	62	62	65
Less: contingently issuable shares[a]	(3)	(3)	(3)
Adjusted weighted-average shares (denominator)	59	59	62
Basic EPS	$1.32	$1.76	$1.94
Diluted EPS:			
Income available to common shares	$ 77	$ 103	$ 121
Dividends on preferred stock	3	3	3
Income available to common shares plus assumed conversions (numerator)	$ 80	$ 106	$ 124
Weighted-average common shares outstanding	62	62	65
Effect of dilutive securities:			
Assumed conversion of preferred stock	8	8	9
Assumed conversion of incentive stock options[b]	—	1	—
Adjusted weighted-average shares (denominator)	70	71	74
Diluted EPS	$1.14	$1.50	$1.66

(a) Represents restricted stock issued under Cabot Equity Incentive Plans.

(b) At September 30, 2003 and 2002, 0.8 million and 0.3 million, respectively, of options to purchase shares of common stock outstanding were not included in the calculation of diluted earnings per share because those options' exercise price was greater than the average market price of common shares. At September 30, 2001, the average fair value of Cabot's stock price exceeded the exercise prices of all options outstanding. As a result, all options outstanding have been included in the calculation of diluted earnings per share.

Note S. Income Taxes

Income before income taxes was as follows:

(Dollars in millions)	Years Ended September 30 2003	2002	2001
Income from continuing operations:			
Domestic	$ 38	$ 68	$ 66
Foreign	56	66	84
	94	134	150
Discontinued Operations:			
Income from operations of discontinued businesses	7	2	—
Gain on sale of business	—	—	5
	7	2	5
Total	$101	$136	$155

Taxes on income consisted of the follows:

(Dollars in millions)	Years Ended September 30 2003	2002	2001
U.S. federal and state:			
Current	$ 21	$ 9	$ 17
Deferred	(18)	2	(2)
Total	3	11	15
Foreign:			
Current	27	25	29
Deferred	(13)	(6)	(2)
Total	14	19	27
Total U.S. and foreign	17	30	42
Discontinued Operations:			
Income from operations of discontinued businesses	2	1	—
Gain on sale of business	—	—	2
Total Discontinued Operations	2	1	2
Total	$ 19	$ 31	$ 44

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

(Dollars in millions)	Years Ended September 30 2003	2002	2001
Continuing Operations:			
Computed tax expense at the federal statutory rate	$ 33	$ 46	$ 53
Foreign income:			
Impact of taxation at different rates, repatriation and other	(9)	(13)	(13)
Impact of foreign losses for which a current tax benefit is not available	4	6	1
State taxes, net of federal effect	—	—	2
Extraterritorial income exclusion/foreign sales corporation	(7)	(8)	(2)
U.S. and state benefits from research and experimentation activities	(2)	(2)	(1)
Other, net	(2)	1	2
Total Continuing Operations	17	30	42
Discontinued Operations:			
Income from operations of discontinued businesses	2	1	—
Gain on sale of businesses	—	—	2
Total Discontinued Operations	2	1	2
Provision for income taxes	$ 19	$ 31	$ 44

Significant components of deferred income taxes were as follows:

(Dollars in millions)	September 30 2003	2002
Deferred tax assets:		
Depreciation and amortization	$ 45	$ 30
Pension and other benefits	74	73
Environmental matters	10	11
Certain charges	13	6
Investments	8	12
Inventory	23	15
Deferred revenue	5	—
Net operating loss and other tax carryforwards	30	23
Other	20	20
Subtotal	228	190
Valuation allowances	(19)	(19)
Total deferred tax assets	$209	$171
Deferred tax liabilities:		
Depreciation and amortization	$ 95	$ 91
Pension and other benefits	19	17
Certain charges	4	5
Investments	5	—
State and local taxes	1	1
Inventory	2	
Other	130	140
Total deferred tax liabilities	$256	$254

Approximately $109 million of net operating losses and other tax carryforwards remain at September 30, 2003. Of this amount, $56 million will expire in the years 2004 through 2010, $11 million will expire in years after 2010 and $42 million can be carried forward indefinitely. The benefits of these carryforwards are dependent upon taxable income during the carryforward period in those foreign jurisdictions where they arose. Accordingly, a valuation allowance has been provided where management has determined that it is more likely than not that the carryforwards will not be utilized.

The valuation allowance at September 30, 2003 and 2002 represent management’s best estimate of the non-recoverable portion of the deferred tax assets. The valuation allowance did not materially change from 2002 to 2003.

Provisions have not been made for U.S. income taxes or non-U.S. withholding taxes on approximately $40 million of undistributed earnings of non-U.S. subsidiaries, as these earnings are considered indefinitely reinvested. These earnings could become subject to U.S. income taxes and non-U.S. withholding taxes if they were remitted as dividends, were loaned to Cabot or a U.S. subsidiary, or if Cabot should sell its stock in the subsidiaries.

Cabot has filed its tax returns in accordance with the tax laws in each jurisdiction and maintains tax reserves for differences between actual results and estimated income taxes for exposures that can be reasonably estimated. In the event that actual results are significantly different from those estimates, Cabot’s provision for income taxes could be significantly impacted.

Note T. Supplemental Cash Flow Information

Cash payments for interest and taxes were as follows:

	Years Ended September 30		
	2003	2002	2001
(Dollars in millions)			
Income taxes paid	$ 33	$ 15	$197
Interest paid	$ 22	$ 27	$ 21

Cabot issued restricted stock for notes receivable of $7 million, $7 million and $11 million in 2003, 2002 and 2001, respectively.

Note U. Commitments & Contingencies

Lease Commitments

Cabot leases certain transportation vehicles, warehouse facilities, office space, machinery and equipment under operating cancelable and non-cancelable leases, most of which expire within ten years and may be renewed by Cabot. Rent expense under such arrangements for 2003, 2002 and 2001 totaled $12 million, $11 million and $11 million, respectively. Future minimum rental commitments under non-cancelable leases are as follows:

	(Dollars in millions)
2004	$ 10
2005	9
2006	8
2007	7
2008	7
2009 and thereafter	24
Total future minimum rental commitments	$ 65

The original costs of assets under capital leases at September 30, 2003 and 2002 was $2 million. The accumulated depreciation of assets under capital leases at September 30, 2003 and 2002 was $1 million. The amortization related to those assets under capital lease is included in depreciation expense. Cabot has capital leases with a net present value of $2 million. Cabot will make future payments of a total of $4 million over the next eighteen years, including $2 million of interest.

Other Long-Term Commitments

Cabot has entered into long-term purchase agreements for various key raw materials in the Supermetals and Chemical Business segments. The purchase commitments for the Supermetals segment covered by these agreements are estimated to aggregate approximately $155 million for the periods 2004 through 2005. Purchases under these agreements are expected to be $76 million and $79 million in 2004 and 2005, respectively. Raw materials purchased under these agreements were $71 million, $71 million and $75 million in 2003, 2002 and 2001, respectively. The purchase commitments for the Chemical Business covered by these agreements are with six suppliers and are estimated to aggregate approximately $370 million for the periods 2004 through 2028. Purchases under these agreements are expected to be $71 million, $25 million, $19 million, $19 million, $19 million and $217 million for 2004, 2005, 2006, 2007, 2008 and thereafter, respectively. Raw materials purchased under these agreements were $62 million in 2003 and $66 million in 2002 and 2001.

During 2001, Cabot entered into long-term supply agreements with certain Supermetals customers. The contracts provide such customers with agreed upon amounts of product at agreed upon prices. These supply

agreements are with four customers and expire in the periods from 2005 through 2006. The supply agreements contributed approximately $290 million and $220 million of revenue in 2003 and 2002.

Contingencies

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

As of September 30, 2003 and 2002, Cabot had approximately $26 million and $29 million, respectively, reserved for environmental matters primarily related to divested businesses. In 2003 and 2002, there was $5 million in accrued expenses and $21 million and $24 million, respectively, in other liabilities on the consolidated balance sheets. These reserves represent Cabot's best estimates 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 clean up required, alternative clean up methods available, abilities of other responsible parties to contribute, and its interpretation of laws and regulations applicable to each site. Cabot reviews the adequacy of this reserve as circumstances change at individual sites. Charges for environmental expense of a nominal amount in 2003, $3 million in 2002 and $1 million in 2001 were included in other charges on the consolidated statements of income.

At September 30, 2003, $5 million for the operational and maintenance component of the $26 million reserve for environmental matters is recognized on a discounted basis. The total expected aggregate undiscounted amount is $12 million dollars, with a total expected payment stream of $3 million dollars from fiscal 2004 through 2008 and $9 million thereafter. A discount rate of 7.25% is used for the environmental liability at September 30, 2003. The book value of the liabilities will be accreted up to the undiscounted liability value through interest expense over the expected cash flow period.

Cabot has exposure in connection with a safety respiratory products business that a subsidiary acquired from American Optical Corporation ("AO") in an April 1990 asset transaction. The subsidiary disposed of that business in July 1995. In connection with its acquisition of the business, the subsidiary agreed, in certain circumstances, to assume a portion of AO's liabilities, including costs of legal fees together with amounts paid in settlements and judgments allocable to AO respiratory products used prior to the 1990 purchase by the Cabot subsidiary. In exchange for the subsidiary's assumption of certain of AO's respirator liabilities, AO agreed to provide to the subsidiary the benefits of: (1) AO's insurance coverage for the period prior to the acquisition, and (2) a former owner's indemnity of AO holding it harmless from any liability allocable to AO respiratory products used prior to May 1982. Generally, these respirator liabilities involve claims for personal injury, including asbestosis and silicosis, allegedly resulting from the use of AO respirators that were negligently designed or labeled.

Neither Cabot, nor its past or present subsidiaries, at any time manufactured asbestos or asbestos-containing products. Moreover, not every person with exposure to asbestos giving rise to an asbestos claim used a form of respiratory protection. At no time did AO's respiratory product line represent a significant portion of the respirator market. In addition, other parties, including AO, AO's insurers, and another former owner and its insurers (collectively, the "Payor Group"), are responsible for significant portions of the costs of these liabilities, leaving the Company's subsidiary with a portion of the liability in only some of the pending cases.

Cabot's subsidiary disposed of the business in July 1995 by transferring it to a newly-formed joint venture called Aearo Corporation ("Aearo") and retaining an equity interest in Aearo. Cabot agreed to have its subsidiary retain liabilities allocable to respirators used prior to the 1995 transaction so long as Aearo pays Cabot an annual fee of $400,000. Aearo can discontinue payment of the fee at any time, in which case it will assume the responsibility for and indemnify Cabot against the liabilities allocable to respirators manufactured and used prior to the 1995 transaction. Cabot has no liability in connection with any products manufactured by Aearo after 1995. Between July 1995 and September 30, 2001, Cabot's total costs and payments in connection with these respirator liabilities did not exceed the total amounts received from Aearo. Because of the significant increase in claims filed against AO beginning in calendar year 2001, since September 30, 2001, Cabot's total costs and payments in connection with these liabilities have exceeded the amount it has received

from Aearo. In August 2003, Cabot and its subsidiary sold all of the subsidiary's equity interest in Aearo for approximately $35 million. This sale did not alter the arrangements described above.

As of December 31, 2002, there were approximately 50,000 claimants in pending cases asserting claims against AO in connection with respiratory products. As of September 30, 2003, there were approximately 87,000 claimants. A large portion of the new claims since January 1, 2003 have been filed in Mississippi and appear to have been prompted by changes in Mississippi's state procedural laws which caused claimants to file their claims prior to the effective date of these changes. Cabot has contributed to the costs of a percentage of, but not all, pending claims depending on several factors, including the period of alleged product use.

Since December 2002, Cabot and the members of the Payor Group have been in settlement negotiations that would fix the allocation of liabilities among them. In general, the settlement being discussed would provide that as long as the Payor Group continues to pay all costs and liabilities in connection with the respirator litigation, Cabot's liability under the settlement would be limited to a specified annual amount.

Previous to June 2003, given the uncertainties of the settlement with the Payor Group, the complexity of Cabot's contractual indemnity obligations and the unusual increase in the number of claims in certain jurisdictions that appears to have resulted from changes in state procedural laws, Cabot did not believe it was able to reasonably estimate a range of possible loss for future claims. As members of the Payor Group had not yet reached an acceptable settlement, Cabot, through its outside legal advisors, retained the assistance of Hamilton, Rabinovitz & Alschuler, Inc. ("HR&A"), a leading expert, to assist Cabot in calculating its estimated share of liability with respect to existing and future respirator liability claims. The methodology developed by HR&A addresses the complexities surrounding Cabot's potential liability by making assumptions about future claimants with respect to periods of asbestos exposure and respirator use. Using those and other assumptions, HR&A estimated the number of future claims that would be filed and the related costs that would be incurred in resolving those claims. On this basis, HR&A then estimated the net present value of the share of these liabilities that reflected Cabot's actual contractual obligations assuming that all other members of the Payor Group meet their obligations. Based on the HR&A estimates, Cabot recorded a $20 million reserve during the third quarter of fiscal year 2003 to cover its share of liability for existing and future respirator liability claims. This reserve remained unchanged at September 30, 2003, with $4 million included in accrued expenses and $16 million included in other liabilities.

Cabot's current estimate of the cost of its share of existing and future respirator liability claims is based on facts and circumstances existing at this time. However, this cost is subject to numerous variables that are extremely difficult to predict. Developments that could affect Cabot's estimate include, but are not limited to, (i) significant changes in the number of future claims, (ii) significant changes in the average cost of resolving claims, (iii) significant changes in the legal costs of defending these claims, (iv) changes in the nature of claims received, (v) changes in the law and procedure applicable to these claims, (vi) the financial viability of members of the Payor Group, and (vii) a determination that the Company's interpretation of the contractual obligations on which it has estimated its share of liability is inaccurate. The Company cannot determine the impact of these potential developments on its current estimate of its share of liability for these existing and future claims. Accordingly, the actual amount of these liabilities for existing and future claims could be higher than the reserved amount.

The $20 million long term liability for respirator claims is recognized on a discounted basis. A discount rate of 6.00% is used for the litigation liability at September 30, 2003. The total expected aggregate undiscounted amount is $27 million dollars. Due to the uncertainty of the pending litigation, Cabot is not currently able to predict when it will be required to make payment in connection with the liability. The book value of the liabilities will be accreted up to the undiscounted liability value through interest expense over the expected cash flow period.

Cabot has various other lawsuits, claims and contingent liabilities arising in the ordinary course of its business, including a number of claims asserting premises liability for asbestos exposure. In the opinion of Cabot, although final disposition of all of its suits and claims may impact the Company's financial statements in a particular period, they should not, in the aggregate, have a material adverse effect on Cabot's financial position.

Note V. Risk Management

Market Risk

Cabot's principal financial risk management objective is to identify and monitor its exposure to changes in interest rates and foreign currency rates in order to assess the impact that changes in each could have on future cash flow and earnings. Cabot manages these risks through normal operating and financial activities and, when deemed appropriate, through the use of derivative financial instruments as well as foreign currency debt.

Cabot's financial risk management policy prohibits entering into financial instruments for speculative purposes. Cabot's Financial Risk Management Committee is charged with enforcing Cabot's financial risk management policy.

By using derivative instruments, Cabot is subject to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, Cabot's credit risk will equal the fair-value gain on the derivative. Generally, when the fair value of a derivative contract is positive, the counterparty owes Cabot, thus creating a repayment risk for Cabot. Cabot minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with highly-rated counterparties that are reviewed periodically by Cabot.

Interest Rates

Cabot'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 overall borrowing costs. Cabot is using interest rate swaps to adjust fixed and variable rate debt positions for the dollar, the Euro and the yen. (See Note K).

Foreign Currency

Cabot's international operations are subject to certain risks, including currency fluctuations and government actions. The Company's Treasury function, under the guidance of the Financial Risk Management Committee, regularly monitors foreign exchange exposures, so that Cabot can respond to changing economic and political environments. Exposures primarily relate to assets and liabilities denominated in foreign currencies as well as the risk that currency fluctuations could affect the dollar value of future cash flows generated in foreign currencies. Accordingly, Cabot utilizes short-term forward contracts to minimize the exposure to foreign currency risk. In 2003, 2002 and 2001, none of Cabot's forward contracts were designated as hedging instruments under FAS No. 133. Cabot's forward foreign exchange contracts are denominated primarily in the Euro, Japanese yen, British pound sterling, Canadian dollar, and Australian dollar.

At September 30, 2003 and 2002, Cabot had $58 million and $39 million in foreign currency forward contracts outstanding, respectively. For 2003, 2002 and 2001, the net realized gain or (loss) associated with these types of instruments were $1 million, zero and $(2) million, respectively. The net unrealized gain as of September 30, 2003 was $1 million, based on the fair value of the instruments. Gains and losses associated with foreign exchange contracts were not material to each respective period and are recorded in other (charges) income on the consolidated statements of income.

Cabot also uses non-U.S. dollar denominated derivatives (cross currency swaps as discussed in Note K) and non-derivative (foreign currency debt) financial instruments to hedge its foreign currency risk related to the Japanese yen and the Euro. (See Note K)

Political Risk

Cabot is exposed to political or country risks inherent in doing business in some countries. These risks may include actions of governments (especially those newly appointed), importing and exporting issues, contract loss and asset abandonment. Cabot considers these risks carefully in connection with its investing and operating activities.

Share Repurchases

Cabot repurchases its shares in order to offset dilution caused by issuing shares under its various employee stock plans. In addition, Cabot may repurchase its shares as a preferred method of returning excess cash to shareholders. From time to time, Cabot enters into derivative instruments in its stock in order to fix the price of stock for delivery at a future date. These agreements provide Cabot with the right to settle forward contracts in cash or an equivalent value of Cabot Corporation common stock. In 2001, Cabot purchased 100,000 shares of its common stock under share repurchase contracts at an average price of $35 per share. There were no share repurchase contracts executed in fiscal 2003 or 2002, and there were no open share repurchase contracts at September 30, 2003.

Concentration of Credit

Credit risk represents the loss that would be recognized if counterparties failed to completely perform as contracted. Financial instruments that subject Cabot to credit risk consist principally of trade receivables. Furthermore, concentrations of credit risk exist for groups of customers when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

During 2003, 2002 and 2001, Goodyear Tire and Rubber Company accounted for approximately 11%, 11% and 10%, respectively, of Cabot's consolidated net sales. No other customer individually represented more than 10% of net sales for any period presented. Cabot's loss of this or other customers that may account for a significant portion of the Company's sales, or any decrease in sales to any of these customers, could have a material adverse effect on Cabot's business, financial condition or results of operations.

Tire manufacturers in the Chemical segment and customers of the Supermetals segment comprise significant portions of Cabot's trade receivable balance. The concentration of credit risk for these major groups of customers is as follows:

	September 30	
	2003	2002
(Dollars in millions)		
Tire manufacturers	$102	$84
Supermetals customers	$53	$57

Cabot has not experienced significant losses in the past from these groups of customers. Cabot monitors its exposure to customer groups to minimize potential credit losses.

Employee Benefits

Cabot provides defined benefit, defined contribution, and postretirement plans for its employees (See Note M). Cabot is exposed to risk related to the defined benefit plan in the U.S. and several foreign defined benefit plans. Cabot is obligated to pay certain future benefits to employees under these plans. Cabot contributes to the plan assets each quarter based on the estimated future obligation. If the fair value of plan assets held for the defined benefit plans decreases due to market conditions, the expense to Cabot for providing these benefits could increase in future years. At September 30, 2003, the projected obligation for pension benefits was greater than the fair value of related plan assets by $83 million. Cabot has a projected benefit obligation for pension benefits of $323 million and a fair value of related plan assets of $240 million.

Cabot funds the postretirement plans as claims or insurance premiums come due. The expense to Cabot for providing these benefits could increase in future years. At September 30, 2003, the accumulated postretirement benefit obligation is $121 million, of which $89 million is reserved for this liability.

Other Market Risks

Cabot is partially self-insured for certain third party liability, workers' compensation and employee health benefits in the United States and Canada. The third party and workers' compensation liabilities are managed

through a wholly-owned insurance captive and the related liabilities are included in the consolidated financial statements. Cabot has accrued amounts equal to the actuarially determined liabilities. The actuarial valuations are based on historical information along with certain assumptions about future events. Changes in assumptions for such matters as legal actions, medical costs and changes in actual experience could cause these estimates to change.

Note W. Financial Information by Segment & Geographic Area

Segment Information

Cabot's operations are organized into market-focused strategic business units (SBUs), each having responsibility for individual global marketing strategies, day-to-day business operations and new product development. Under FAS No. 131, "Disclosure about Segments of an Enterprise and Related Information", these SBUs aggregate into three reportable segments: the Chemical Business (which includes carbon black, fumed metal oxides, inkjet colorants and aerogels), Supermetals and Specialty Fluids. Cabot is organized into SBUs to better direct its technical strengths and focus on key markets. Cabot's business segment reporting under FAS No. 131 is consistent with the financial reporting structure incorporated in Cabot's management reporting.

The Chemical Business primarily produces carbon black, fumed metal oxides, inkjet colorants and aerogels. Carbon black is a fine particle used as an agent for rubber reinforcement, pigmentation, conductivity or UV protection. Carbon black is produced in a wide variety of commodity and specialty grades. Some of the end products which use carbon black include tires, rubber hoses, roofing materials, inks, paints and sealants. Fumed metal oxides are ultra fine, high-purity particles used as reinforcing, thickening, abrasive, thixotropic, suspending or anti-caking agents. The automotive, construction, microelectronics and consumer products industries use fumed metal oxides in their sealants, coatings, silicone rubber, polishing materials, adhesives and cosmetics. Inkjet colorants are high-purity black and other pigment dispersions used in inkjet printing applications. Aerogels are hydrophobic silica particles with potential uses in a wide variety of thermal and sound insulation applications and industries.

The Supermetals segment produces tantalum, niobium and their alloys for the electronic materials and refractory metals industries. Tantalum, which accounts for the majority of this segment's sales, is produced in various forms, including powder and wire for electronic capacitors. Tantalum, niobium and their alloys are also produced in wrought form for non-electronic applications, such as chemical process equipment, the production of superalloys and for various other industrial and aerospace applications. As of October 1, 2003, the operation of the tantalum mine in Manitoba was transferred from Cabot's Specialty Fluids Business to Cabot Supermetals.

The Specialty Fluids segment produces cesium formate as a drilling and completion fluid for use in high pressure and high temperature oil and gas well operations. Cesium formate products are solids-free high density fluids that have a low viscosity, permitting them to flow readily in oil and gas wells. The fluid is resistant to high temperatures, does not damage producing reservoirs and is readily biodegradable. The Specialty Fluids Business also markets fine cesium chemicals to various industrial chemical companies, mined spodumene for the pyroceramics industry, and also mines and produces tantalum ore for shipment to Cabot's Supermetals Business.

The accounting policies of the segments are the same as those described in the summary of "Significant Accounting Policies." Exceptions are noted as follows and are incorporated in the tables below. Revenues from external customers for certain operating segments within the Chemical Business include 100% of sales from one equity affiliate. Transfers of ore to Supermetals from Specialty Fluids are generally valued at market-based prices, and revenues generated by these transfers are shown as segment revenues from external customers. Segment profit is a measure used by Cabot's operating decision-makers to measure consolidated operating results and assess segment performance. Cabot evaluates the performance of its segments and allocates resources based on segment profit or loss before taxes (PBT). Segment PBT includes equity in net income of affiliated companies, royalties paid by equity affiliates, minority interest and corporate governance costs, and excludes interest expense, foreign currency transaction gains and losses, interest income, dividend

income, non-allocated corporate overhead and certain cost of goods sold, selling and administrative, and research and development expenses that are not included in segment PBT. Cash, short-term investments, investments other than equity basis, income taxes receivable, deferred taxes and headquarters' assets are included in Unallocated and Other. Expenditures for additions to long-lived assets include total equity and other investments (including available-for-sale securities), property, plant and equipment, and intangible assets.

Financial information by segment is as follows:

Years ended September 30 (Dollars in millions)	Chemical Business	Supermetals	Specialty Fluids	Segment Total	Unallocated and Other[1]	Consolidated Total
2003						
Revenues from external customers[2]	$1,371	$390	$ 20	$1,781	$ 14	$1,795
Depreciation and amortization	106	22	4	132	3	135
Equity in net income of affiliated companies	5	—	—	5	—	5
Profit (loss) from continuing operations before taxes[3]	88	109	(3)	194	(100)	94
Assets[4]	1,307	557	63	1,927	381	2,308
Investment in equity-basis affiliates	50	—	—	50	—	50
Total expenditures for additions to long-lived assets[5]	117	24	2	143	2	145
2002						
Revenues from external customers[2]	$1,217	$301	$ 28	$1,546	$ 11	$1,557
Depreciation and amortization	88	14	4	106	3	109
Equity in net income of affiliated companies	4	1	—	5	—	5
Profit (loss) from continuing operations before taxes[3]	101	79	2	182	(48)	134
Assets[4]	1,186	565	58	1,809	268	2,077
Investment in equity-basis affiliates	47	1	—	48	—	48
Total expenditures for additions to long-lived assets[5]	92	141	3	236	18	254
2001						
Revenues from external customers[2]	$1,301	$329	$ 27	$1,657	$ 13	$1,670
Depreciation and amortization	98	10	4	112	3	115
Equity in net income of affiliated companies	5	15	—	20	—	20
Profit (loss) from continuing operations before taxes[3]	121	78	—	199	(49)	150
Assets[4]	1,151	249	55	1,455	484	1,939
Investment in equity-basis affiliates	47	29	—	76	—	76
Total expenditures for additions to long-lived assets[5]	87	25	3	115	18	133

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

(2) Revenues from external customers for certain operating segments includes 100% of sales from one equity affiliate and transfers of materials at cost and at market-based prices. Unallocated and Other reflects an adjustment for the equity affiliate sales and interoperating segment revenues and includes royalties paid by equity affiliates offset by external shipping and handling fees:

	2003	2002	2001
Equity affiliate sales	$(32)	$(28)	$(29)
Royalties paid by equity affiliates	6	5	6
Shipping and handling fees	45	41	44
Interoperating segment revenues	(5)	(7)	(8)
Total	$ 14	$ 11	$ 13

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

	2003	2002	2001
Interest expense	$ (28)	$(28)	$(32)
Corporate governance costs/other expenses, net[(a)]	(66)	(15)	6
Equity in net income of affiliated companies	(5)	(5)	(20)
Foreign currency transaction gains (losses)[(b)]	(1)	—	(3)
Total	$(100)	$(48)	$(49)

(a) Corporate governance costs/ other expenses, net includes investment income, and certain other items that are not included in segment PBT. These certain items for fiscal 2003 include $51 million for restructuring charges as discussed in Note P, a $14 million charge for acquired in-process research and development as discussed in Note B, a $22 million charge for the impairment of two investments as discussed in Note E, a $20 million reserve for respirator claims as discussed in Note U, a $4 million asset impairment charge, proceeds of $4 million for insurance recoveries and proceeds of $35 million for the sale of an equity interest in an investment as discussed in Note E. Other items in fiscal 2002 include an $8 million charge for pension and postretirement benefit plans, a $5 million charge for a respirator reserve, $1 million for severance charges, a $3 million charge for an environmental reserve, $13 million for asset impairment charges, $2 million for a translation adjustment at a closed plant, $1 million for non-capitalizable currency transaction costs, and proceeds of $8 million for insurance recoveries. Other items in fiscal 2001 include a $21 million charge related to the retirement of the Chief Executive Officer and Chief Financial Officer, $2 million from the discontinuance of a toll manufacturing agreement, proceeds of $1 million from insurance recoveries and a $1 million recovery of costs from a currency translation adjustment at a closed plant.

(b) Net of other hedging activity.

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

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

Geographic Information

Sales are attributed to the United States and to all foreign countries based on the customer location (region of sale) and not on the geographic location from which goods were shipped (region of manufacture). Revenues and long-lived assets from external customers attributable to an individual country, other than the United States and Japan, were not material for disclosure.

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

(Dollars in millions) Years ended September 30	United States	Japan	Other Foreign Countries	Consolidated Total
2003				
Revenues from external customers	$669	$154	$972	$1,795
Long-lived assets[1]	409	145	551	1,105
2002				
Revenues from external customers	$644	$ 88	$825	$1,557
Long-lived assets[1]	429	137	512	1,078
2001				
Revenues from external customers	$757	$ 31	$882	$1,670
Long-lived assets[1]	397	24	512	933

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

Note X. Unaudited Quarterly Financial Information

Unaudited financial results by quarter for the fiscal years ended September 30, 2003 and 2002 are summarized below and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations.

(Dollars in millions, except per share amounts) Fiscal 2003	December	March	June	September	Year
Net sales	$ 410	$ 466	$ 468	$ 451	$1,795
Gross profit	117	127	101	79	422
Net income from continuing operations	33	23(a)	(8) [b]	27(c)	75
Income from discontinued businesses, net of income taxes	—	—	3	2	5
Dividends on preferred stock, net of tax benefit	(1)	(1)	—	(1)	(3)
Income available to common shares	$ 32	$ 22	$ (5)	$ 28	$ 77
Income from continuing operations per common share (diluted)	$0.48	$0.33	$(0.14)	$0.38	$ 1.08
Income from discontinued businesses per common share (diluted)	—	—	0.05	0.02	0.06
Income per common share (diluted)	$0.48	$0.33	$(0.09)	$0.40	$ 1.14

	December	March	June	September	Year
Fiscal 2002					
Net sales	$ 377	$ 350	$ 390	$ 440	$1,557
Gross profit	117	103	98	111	429
Net income from continuing operations	38	26(d)	18(e)	23(f)	105
Income from discontinued businesses, net of income taxes	—	—	1	—	1
Dividends on preferred stock, net of tax benefit	(1)	(1)	—	(1)	(3)
Income available to common shares	$ 37	$ 25	$ 19	$ 22	$ 103
Income from continuing operations per common share (diluted)	$0.53	$0.36	$0.27	$0.32	$ 1.48
Income from discontinued businesses per common share (diluted)	—	—	0.01	—	0.02
Income per common share (diluted)	$0.53	$0.36	$0.28	$0.32	$ 1.50

(a) Includes impairment charge of $22 million on two investments, $1 million charge for severance and proceeds of $1 million for insurance recoveries.

(b) Includes a charge for an increase in the reserve for respirator claims of $20 million, restructuring initiative and asset impairment charges of $17 million, a charge for acquired in-process research and development of $14 million and proceeds from insurance recoveries of $1 million.

(c) Includes charges for restructuring initiatives of $33 million and an asset impairment of $4 million and proceeds from the sale of an equity interest in an investment of $35 million and insurance recoveries of $1 million.

(d) Includes a $2 million asset impairment charge and a $1 million charge for non-capitalizable transaction costs, both associated with the purchase of CSJ.

(e) Includes a $5 million charge to increase the respirator claims reserve, a $3 million asset impairment charge for the cancellation of a Supermetals expansion project and a $1 million benefit from insurance recoveries.

(f) Includes an $8 million asset impairment charge to discontinue an energy project, a $3 million charge to increase an environmental reserve, a $2 million charge related to a discontinued business, a $1 million charge for a reduction in force at the Boyertown Supermetals facility and an $8 million charge related to pension and postretirement plans. Also includes a $7 million benefit for insurance recoveries.

Selected Financial Data-Five Year Summary

	Years Ended September 30				
	2003	2002	2001	2000	1999
(Dollars in millions, except per share amounts and ratios)					
Consolidated Income					
Net sales and other operating revenues	$1,795	$1,557	$1,670	$1,574	$1,405
Cost of sales	1,373	1,128	1,239	1,164	991
Gross profit	422	429	431	410	414
Selling and administrative expenses	251	233	228	183	212
Research and technical expense	64	48	48	43	58
Income from operations[a]	107	148	155	184	144
Interest and dividend income	5	9	28	6	4
Interest expense	(28)	(28)	(32)	(33)	(39)
Gain on sale of assets	—	—	—	—	10
Other (charges) income[b]	10	5	(1)	—	(6)
Income from continuing operations before income taxes	94	134	150	157	113
Provision for income taxes[c]	(17)	(30)	(42)	(57)	(41)
Equity in net income of affiliated companies	5	5	20	13	13
Minority interest	(7)	(4)	(7)	(5)	(3)
Net income from continuing operations	75	105	121	108	82
Discontinued operations:[d]					
Income from operations of discontinued businesses, net of income taxes	5	1	—	36	15
Gain on sale of business, net of income taxes[e]	—	—	3	309	—
Net income	$ 80	$ 106	$ 124	$ 453	$ 97
Common Share Data					
Diluted Net Income:					
Continuing operations	$ 1.08	$ 1.48	$ 1.62	$ 1.46	$ 1.11
Discontinued operations:					
Income from operations of discontinued businesses	0.06	0.02	—	0.49	0.20
Gain on sale of business	—	—	0.04	4.25	—
Net Income	$ 1.14	$ 1.50	$ 1.66	$ 6.20	$ 1.31
Dividends	$ 0.54	$ 0.52	$ 0.48	$ 0.44	$ 0.44
Stock prices[f] — High	$30.60	$41.13	$41.35	$21.97	$18.05
Low	$19.53	$21.00	$18.56	$10.55	$11.37
Close	$28.51	$21.00	$39.90	$18.19	$13.63
Average diluted shares outstanding — millions	70	71	74	73	73
Shares outstanding at year end — millions	62	62	63	68	67
Consolidated Financial Position					
Total current assets	$1,140	$ 957	$ 979	$1,210	$ 681
Net property, plant and equipment	913	889	811	810	1,024
Other assets	255	231	149	141	161
Total assets	$2,308	$2,077	$1,939	$2,161	$1,866
Total current liabilities	$ 352	$ 295	$ 311	$ 521	$ 474
Long-term debt	516	495	419	329	419
Other long-term liabilities and minority interest	361	310	259	264	267
Stockholders' equity	1,079	977	950	1,047	706
Total liabilities and stockholders' equity	$2,308	$2,077	$1,939	$2,161	$1,866
Working capital	$ 788	$ 662	$ 668	$ 689	$ 207
Selected Financial Ratios					
Income from continuing operations as a percentage of sales	4%	7%	7%	7%	6%
Return on average stockholders' equity	7%	11%	12%	58%	13%
Net debt to capitalization ratio	22%	27%	9%	(29%)	44%

(a) Income from operations for 2003 includes charges of $51 million for restructuring, $14 million for acquired in-process research and development, $20 million for a reserve for respirator claims, $4 million for asset impairments, and proceeds of $4 million for insurance recoveries. Income from operations for

2002 includes a $5 million charge for the respirator claims liability, a $5 million asset impairment, a $3 million charge to increase the environmental reserve, an $8 million charge related to the cancellation of an energy project, a $1 million charge for severance, and the benefit of $8 million for insurance recoveries. Income from operations for 2001 includes a $2 million charge related to the discontinuance of a toll manufacturing agreement and the benefit of a $1 million insurance recovery. Additionally, results include a $10 million and $3 million charge to accelerate the vesting of the shares under the Long Term Incentive Compensation Plan, and a $7 million and $1 million cash payment related to the retirement of the Chief Executive Officer and the resignation of the Chief Financial Officer, respectively. Income from operations for 2000 reflects an $18 million charge for the closure of two plants, a $2 million environmental charge and a benefit of a $10 million insurance recovery. Income from operations in 1999 includes a $26 million charge for cost reduction initiatives and capacity utilization and a $10 million gain from the sale of 1 million shares of K N Energy, Inc.

(b) Other (charges) income for 2003 includes a $22 million charge for the impairment of two investments and proceeds of $35 million for the sale of an equity interest in an investment. Other (charges) income for 2002 includes $2 million of costs related to a translation adjustment at a closed plant and a $1 million charge for non-capitalizable currency transaction costs related to the acquisition of CSJ. In 2001, other (charges) income includes a $1 million recovery of costs from a translation adjustment at a closed plant.

(c) The Company’s effective tax rate for was 18%, 22% and 28% for 2003, 2002 and 2001, respectively.

(d) Discontinued operations include the liquefied natural gas (LNG) and Cabot Microelectronics businesses as well as other discontinued businesses.

(e) Gain from the sale of the liquefied natural gas (LNG) business, net of tax.

(f) The stock prices presented are adjusted to reflect the 2000 stock dividend distribution of Cabot’s ownership in Cabot Microelectronics and represent the high and low closing stock price for the period.

(g) Certain amounts in 2002, 2001, 2000 and 1999 have been reclassified to conform to the 2003 presentation.

Report of Independent Auditors

To the Board of Directors and Shareholders

of Cabot Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index appearing in Item 15(a) present fairly, in all material respects, the financial position of Cabot Corporation and its subsidiaries at September 30, 2003 and September 30, 2002, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2003 in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America, 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 our opinion.

/S/ PRICEWATERHOUSECOOPERS LLP

Boston, Massachusetts

November 13, 2003

Item 9. ***Changes In and Disagreements With Accountants and Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

The Company, under the supervision and with the participation of its management, including the Company's Chairman of the Board, President and Chief Executive Officer and its Executive Vice President and Chief Financial Officer, carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of September 30, 2003. Based on that evaluation, the Company's Chairman of the Board, President and Chief Executive Officer and its Executive Vice President and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective, in all material respects, with respect to the recording, processing, summarizing and reporting, within the time periods specified in the Securities and Exchange Commission's rules and forms, of information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, although subsequent to the issuance of the Company's fourth quarter and fiscal year earnings release, the Company announced that its earnings for the quarter and fiscal year were higher than previously announced because of an adjustment for the foreign currency revaluation of a previously recorded tax liability and the recognition of a prepaid pension asset for a foreign pension plan. Neither of the adjustments impacted segment operating profit before tax.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The Company has undertaken a review of its internal control over financial reporting to ensure that it meets the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. The Company has made and will continue to make changes that enhance the effectiveness of its internal controls.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

The information required regarding the executive officers of Cabot is included at the end of Part I in the table following Item 4 captioned "Executive Officers of the Registrant." Certain required information regarding the directors of Cabot is contained in the Registrant's Proxy Statement for the 2004 Annual Meeting of Stockholders ("Proxy Statement") under the heading "Certain Information Regarding Directors." Certain required information regarding compliance with Section 16 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 from the Proxy Statement.

The Company has adopted Global Ethics and Compliance Standards, a code of ethics that applies to all of the Company's employees and directors, including the Chief Executive Officer, the Chief Financial Officer, the Controller and other senior financial officers of the Company. By the time of the Company's 2004 Annual Stockholder Meeting in March 2004, the Global Ethics and Compliance Standards will be posted on the Company's website, www.cabot-corp.com (under the "Governance" caption). Until that time, the Company will make available to any person without charge, upon request, a copy of its Global Ethics and Compliance Standards. Such a request may be made by writing to the Corporate Secretary of the Company at the following address: Two Seaport Lane, Suite 1300, Boston, Massachusetts 02210-2019. The Company intends to satisfy the disclosure requirement regarding any amendment to, or waiver of, a provision of the Global Ethics and Compliance Standards applicable to the Chief Executive Officer, the Chief Financial Officer, Controller or other senior financial officers by posting such information on its website.

Item 11. ***Executive Compensation***

The required information is contained in the Proxy Statement under the heading "Executive Compensation." All of such information is incorporated herein by reference from the Proxy Statement.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management***

The information required by Item 403 of Regulation S-K ("Security Ownership of Certain Beneficial Owners and Management") is contained in the Proxy Statement under the heading "Beneficial Stock Ownership of Directors, Executive Officers and Persons Owning More than Five Percent of Common Stock." All of such information is incorporated herein by reference from the Proxy Statement.

The following table provides information as of September 30, 2003 regarding the number of shares of Common Stock that may be issued under the Company's equity compensation plans. All of the Company's equity compensation plans, other than the Supplemental Retirement Savings Plan, have been approved by the Company's stockholders.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,391,225	$23.16	1,962,392
Equity compensation plans not approved by security holders[(1)]	155,619	N/A	(1)

(1) The Supplemental Retirement Savings Plan was established by the Company to provide benefits to executive officers and other officers and managers of the Company in circumstances in which the maximum limits established under ERISA and the Internal Revenue Code of 1986 prevent participants in the Company's Retirement Savings Plan (the "Savings Plan") from receiving some of the benefits provided under the Savings Plan. Contributions to this plan are generally based on pay in excess of the IRS maximum eligible compensation and the Company match and ESOP formulas described in the Savings Plan. Prior to January 1, 2002, payments were made under the Supplemental Retirement Savings Plan in cash. Effective January 1, 2002, participants receive distributions of their vested account balances in the form of shares of Common Stock. In March 2002, the Board of Directors authorized the Company to repurchase 250,000 shares of Common Stock to be held in Treasury for issuance pursuant to the Supplemental Retirement Savings Plan, as well as the repurchase of additional shares from time to time after such distributions to replenish the amount of Treasury shares available for future distributions. The total number of shares issuable pursuant to the Supplemental Retirement Savings Plan is not determinable.

Item 13. ***Certain Relationships and Related Transactions***

The required information is contained in the Proxy Statement under the heading "Certain Relationships and Related Transactions." All of such information is incorporated herein by reference from the Proxy Statement.

Item 14. ***Principal Accounting Fees and Services***

The required information is contained in the Proxy Statement under the heading "Independent Auditors Fees and Services." All of such information is incorporated herein by reference from the Proxy Statement.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a) *Financial Statements.* The following appear in Item 8 in this annual report on Form 10-K for the fiscal year ended September 30, 2003:

(b) *Reports on Form 8-K.*

The Company filed the following reports on Form 8-K during the quarter ended September 30, 2003:

1. On July 29, 2003, the Company filed a report on Form 8-K disclosing that on July 28, 2003, the Company had issued a press release announcing certain management changes in the Company's carbon black and fumed metal oxides businesses and in financial management.

The Company furnished the following reports on Form 8-K during the quarter ended September 30, 2003:

1. On July 23, 2003, the Company furnished a report on Form 8-K that included the text of the Company's third quarter earnings press release dated July 23, 2003.

2. On August 15, 2003, the Company furnished a report on Form 8-K disclosing that on August 14, 2003, the Company had issued a press release correcting its third quarter earnings per share calculation.

(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 (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).

Exhibit Number		Description
4(a)	—	Rights Agreement, dated as of November 10, 1995, between Cabot Corporation and Fleet National Bank (formerly 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), as amended by Amendment No. 1 to Rights Agreement dated July 12, 2002, between Fleet National Bank, as Rights Agent, and Cabot Corporation dated November 10, 1995 (incorporated herein by reference to Exhibit 4.1 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002, file reference 1-5667, filed with the Commission on August 14, 2002).
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 July 13, 2001, among Cabot Corporation, the banks listed therein and Fleet National Bank, as Agent (incorporated herein by reference to Exhibit 10(a) of Cabot's Annual Report on Form 10-K for the fiscal year ended September 30, 2001, file reference 1-5667, filed with the Commission on December 20, 2001).
10(b)(i)*	—	1996 Equity Incentive Plan (incorporated herein by reference to Exhibit 28 of Cabot's Registration Statement on Form S-8, Registration No. 333-03683, filed with the Commission on May 14, 1996).
10(b)(ii)*	—	1999 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999, file reference 1-5667, filed with the Commission on May 17, 1999).
10(b)(iii)*	—	Amendments to Cabot Corporation 1996 and 1999 Equity Incentive Plans, dated May 12, 2000 (incorporated herein by reference to Exhibit 10 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000, file reference 1-5667, filed with the Commission on May 15, 2000).
10(b)(iv)*	—	Amendment to 1999 Equity Incentive Plan dated March 7, 2002 (incorporated herein by reference to Exhibit 10.1 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2002, file reference 1-5667, filed with the Commission on May 15, 2002).
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).

Exhibit Number		Description
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 Cash Balance Plan, as amended and restated effective January 1, 2002.
10(d)(iii)*	—	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)(iv)*	—	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)(v)†	—	Supplemental Retirement Savings Plan, as amended and restated effective December 31, 2000.
10(d)(vi)*	—	Supplemental Employee Benefit Agreement with John G.L. Cabot (incorporated herein by reference to Exhibit 10(g) 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)(vii)*	—	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)(viii)*	—	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)	—	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(f)*	—	Non-employee Directors' Stock Compensation Plan (incorporated herein by reference to Exhibit A of Cabot's Proxy Statement for its 1992 Annual Meeting of Stockholders, file reference 1-5667, filed with the Commission on December 27, 1991), as amended by the First Amendment to Non-Employee Directors' Stock Compensation Plan dated January 10, 2003 (incorporated herein by reference to Exhibit 10.1 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003, filed with the Commission on May 15, 2003).
10(g)	—	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(h)*	—	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).

Exhibit Number		Description
10(i)*	—	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(j)*	—	Cabot Corporation Short-Term Incentive Compensation Plan (incorporated herein by reference to Exhibit 10 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001, file reference 1-5667, filed with the Commission on May 14, 2001).
10(k)	—	Loan Agreement, dated October 15, 2002, among Cabot Corporation, Mizuho Corporate Bank, Ltd., New York Branch and the banks listed on the signature pages thereto (incorporated herein by reference to Exhibit 10(m) of Cabot's Annual Report on Form 10-K for the year ended September 30, 2002, file reference 1-5667, filed with the Commission on December 24, 2002).
10(l)†	—	Fiscal Agency Agreement dated as of September 24, 2003 among Cabot Finance B.V., Cabot Corporation, and U.S. Bank Trust National Association.
10(m)†	—	Severance Agreement, dated August 25, 2003, between Cabot Corporation and William P. Noglows
12†	—	Statement Re: Computation of Ratios of Earnings to Fixed Charges.
21†	—	List of Significant Subsidiaries.
23†	—	Consent of PricewaterhouseCoopers LLP.
31(i)†	—	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
31(ii)†	—	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32†	—	Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

* Management contract or compensatory plan or arrangement.

† Filed herewith.

(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 or 15(d) 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

By: /s/ KENNETT F. BURNES

Kennett F. Burnes
Chairman of the Board, President and Chief Executive Officer

Date: December 22, 2003

Pursuant to the requirements 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/ KENNETT F. BURNES Kennett F. Burnes	Director, Chairman of the Board, President and Chief Executive Officer	December 22, 2003
/s/ JOHN A. SHAW John A. Shaw	Executive Vice President and Chief Financial Officer (principal financial officer)	December 22, 2003
/s/ DAVID J. ELLIOTT David J. Elliott	Controller (principal accounting officer)	December 22, 2003
/s/ JOHN G.L. CABOT John G.L. Cabot	Director	December 22, 2003
/s/ JOHN S. CLARKESON John S. Clarkeson	Director	December 22, 2003
/s/ ARTHUR L. GOLDSTEIN Arthur L. Goldstein	Director	December 22, 2003
/s/ GAUTAM S. KAJI Gautam S. Kaji	Director	December 22, 2003
/s/ RODERICK C.G. MACLEOD Roderick C.G. MacLeod	Director	December 22, 2003
/s/ JOHN H. MCARTHUR John H. McArthur	Director	December 22, 2003

Signatures	Title	Date
/s/ JOHN F. O'BRIEN	Director	December 22, 2003
John F. O'Brien		
/s/ RONALDO H. SCHMITZ	Director	December 22, 2003
Ronaldo H. Schmitz		
/s/ LYDIA W. THOMAS	Director	December 22, 2003
Lydia W. Thomas		
/s/ MARK S. WRIGHTON	Director	December 22, 2003
Mark S. Wrighton		

EXHIBIT INDEX

Exhibit Number		Description
3(a)	—	Certificate of Incorporation of Cabot Corporation restated effective October 24, 1983, as amended (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 Fleet National Bank (formerly 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), as amended by Amendment No. 1 to Rights Agreement dated July 12, 2002, between Fleet National Bank, as Rights Agent, and Cabot Corporation dated November 10, 1995 (incorporated herein by reference to Exhibit 4.1 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002, file reference 1-5667, filed with the Commission on August 14, 2002).
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 July 13, 2001, among Cabot Corporation, the banks listed therein and Fleet National Bank, as Agent (incorporated herein by reference to Exhibit 10(a) of Cabot's Annual Report on Form 10-K for the fiscal year ended September 30, 2001, file reference 1-5667, filed with the Commission on December 20, 2001).
10(b)(i)*	—	1996 Equity Incentive Plan (incorporated herein by reference to Exhibit 28 of Cabot's Registration Statement on Form S-8, Registration No. 333-03683, filed with the Commission on May 14, 1996).
10(b)(ii)*	—	1999 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999, file reference 1-5667, filed with the Commission on May 17, 1999).
10(b)(iii)*	—	Amendments to Cabot Corporation 1996 and 1999 Equity Incentive Plans, dated May 12, 2000 (incorporated herein by reference to Exhibit 10 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000, file reference 1-5667, filed with the Commission on May 15, 2000).

Exhibit Number		Description
10(b)(iv)*	—	Amendment to 1999 Equity Incentive Plan dated March 7, 2002 (incorporated herein by reference to Exhibit 10.1 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2002, file reference 1-5667, filed with the Commission on May 15, 2002).
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 Cash Balance Plan, as amended and restated effective January 1, 2002.
10(d)(iii)*	—	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)(iv)*	—	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)(v)†	—	Supplemental Retirement Savings Plan, as amended and restated effective December 31, 2000.
10(d)(vi)*	—	Supplemental Employee Benefit Agreement with John G.L. Cabot (incorporated herein by reference to Exhibit 10(g) 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)(vii)*	—	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)(viii)*	—	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)	—	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(f)*	—	Non-employee Directors' Stock Compensation Plan (incorporated herein by reference to Exhibit A of Cabot's Proxy Statement for its 1992 Annual Meeting of Stockholders, file reference 1-5667, filed with the Commission on December 27, 1991), as amended by the First Amendment to Non-Employee Directors' Stock Compensation Plan dated January 10, 2003 (incorporated herein by reference to Exhibit 10.1 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003, filed with the Commission on May 15, 2003).

Exhibit Number		Description
10(g)	—	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(h)*	—	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(i)*	—	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(j)*	—	Cabot Corporation Short-Term Incentive Compensation Plan (incorporated herein by reference to Exhibit 10 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001, file reference 1-5667, filed with the Commission on May 14, 2001).
10(k)	—	Loan Agreement, dated October 15, 2002, among Cabot Corporation, Mizuho Corporate Bank, Ltd., New York Branch and the banks listed on the signature pages thereto (incorporated herein by reference to Exhibit 10(m) of Cabot's Annual Report on Form 10-K for the year ended September 30, 2002, file reference 1-5667, filed with the Commission on December 24, 2002).
10(l)†	—	Fiscal Agency Agreement dated as of September 24, 2003 among Cabot Finance B.V., Cabot Corporation, and U.S. Bank Trust National Association.
10(m)†	—	Severance Agreement, dated August 25, 2003, between Cabot Corporation and William P. Noglows
12†	—	Statement Re: Computation of Ratios of Earnings to Fixed Charges.
21†	—	List of Significant Subsidiaries.
23†	—	Consent of PricewaterhouseCoopers LLP.
31(i)†	—	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
31(ii)†	—	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32†	—	Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

* Management contract or compensatory plan or arrangement.

† Filed herewith.

EXHIBIT 10(d)(ii)

CABOT CORPORATION

SUPPLEMENTAL CASH BALANCE PLAN

PREAMBLE

A supplemental pension program was authorized by a vote of the Board of Directors of Cabot Corporation (the "Corporation") on September 10, 1976. Pursuant to that vote, letter agreements were entered into between the Corporation and certain of the Corporation's executive officers.

The Supplemental Cash Balance Plan (as herein amended and restated, and as the same may hereafter be amended, the "Supplemental CBP") was originally adopted pursuant to a vote of the Board of Directors of the Corporation on February 10, 1984, its purpose being to provide benefits to a designated group of managers who are highly compensated employees of the Corporation or its subsidiaries, supplemental to the benefits provided under the Corporation's tax-qualified pension program. The Corporation currently provides tax-qualified pension benefits through its Cash Balance Plan (together with predecessor programs, the "Cash Balance Plan"). The terms of the Supplemental CBP as amended and restated and set forth herein are effective as of January 1, 2002. Except as otherwise explicitly provided herein, the rights to benefits of persons (and their beneficiaries) who were participants in the Plan before January 1, 2002, and who are not employed by the Corporation or its subsidiaries on or after that date, will be determined in accordance with the provisions of the Plan as in effect from time to time prior to January 1, 2002.

SECTION 1

Definitions

When used herein, the words and phrases defined shall have the following meanings unless a different meaning is clearly required by the context. Terms used herein which are defined in Article 1 of the Cash Balance Plan shall have the meanings assigned to them in the Cash Balance Plan unless a different meaning is set forth below.

1.1. "Beneficiary" means the individual(s) or entity(ies) entitled under Section 3.7 below to receive any benefits hereunder upon the death of a Supplemental CBP Participant.

1.2. "Change in Control" has the same meaning as in the Cabot Cash Balance Plan.

1.3. "Committee" means the Benefits Committee as defined in the Cash Balance Plan.

1.4. "Retirement" means termination of employment with the Group following attainment of (i) age fifty-five (55) with at least ten years of Service, or (ii) age 65. An individual whose employment has terminated by reason of Retirement shall be treated as having "Retired."

1.5. "Supplemental CBP Participant" has the meaning provided in Section 2 below.

SECTION 2

Participation

2.1. Participation. Any person who was a participant in the Cabot Corporation Supplemental CBP on January 1, 2002, will continue to participate in this Plan in accordance with its terms after such date. Each other individual who is a Participant in the Cash Balance Plan shall be eligible to participate in and accrue benefits under this plan for any calendar year if such individual satisfies either (a) or (b) below for such year:

(a) This Section 2.1(a) is satisfied if such individual's base salary for any such year (as determined by the Committee), before reduction for deferrals, if any, under the Cabot Retirement Incentive Savings Plan, the Corporation's nonqualified Deferred Compensation Plan, or any salary deferral under Sections 125 and 132 of the Code, equals or exceeds the dollar limitation applicable to such year under Section 401(a) (17) of the Code.

(b) This Section 2.1(b) is satisfied if such individual's Compensation for such year, reduced by deferrals, if any, under the Corporation's nonqualified Deferred Compensation Plan equals or exceeds the dollar limitation applicable to such year under Section 401(a)(17) of the Code.

For purposes of Section 3(36) of ERISA, the Supplemental CBP shall be treated as two separate plans, one of which will be deemed to provide only benefits (if any) in excess of the limitations of Section 415 of the Code.

SECTION 3

Benefits

3.1. Amount of Benefits. The amount of the benefit payable by the Corporation under this Supplemental CBP with respect to a Supplemental CBP Participant shall be: (i) the Accrued Benefit, if any, which would be payable with respect to such individual under the Cash Balance Plan (determined after applying the vesting schedule under the Cash Balance Plan and any special vesting applicable upon a Change in Control) if such Accrued Benefit were determined without regard to the limitations of Sections 401(a) (17) and 415 of the Code (and the corresponding limitations under the Cash Balance Plan) and based on Compensation unreduced (but only if Section 2.1(a) is satisfied) for any deferrals under the Corporation's nonqualified Deferred Compensation Plan reduced by (ii) the portion of the Accrued Benefit described in clause (i) above which is actuarially equivalent to any special additions credited to such individual's Cash Balance Plan Account (and interest credits on such special additions) in accordance with the provisions of Appendix H, Appendix I, and similar Appendices of the Cash Balance Plan, and further reduced by (iii) the benefit actually payable with respect to the Supplemental CBP Participant under the Cash Balance Plan.

3.2. Form of Benefit Payments. The benefit payable to a Supplemental CBP Participant as determined under Section 3.1 hereunder shall be paid in the same form and commencing at the same time as the Supplemental CBP Participant's benefit under the Cash Balance Plan; provided, however, that in the discretion of the Committee the actuarial equivalent of the benefit hereunder, determined on the basis of actuarial assumptions chosen in accordance with Section 3.4 hereof, shall instead be paid in an immediate lump sum or on such other accelerated basis as the Committee may determine. The proviso in the preceding sentence shall apply, in the case of a Supplemental CBP Participant who Retires, dies, or becomes a Disabled Participant, only if the present value of the amount payable under Section 3.1 (determined on the basis of such actuarial assumptions) is less than $50,000. Notwithstanding the foregoing provisions of this Section, if the employment of a Supplemental CBP Participant shall be

terminated without cause (as determined under Section 4.1 hereof) within the three-year period immediately following a Change in Control, payment of such Supplemental CBP Participant's benefit hereunder shall be made in a lump sum payment.

3.3. Death Benefits. If a Supplemental CBP participant dies before his or her Benefit Commencement Date, the Corporation shall pay to the decedent's Beneficiary a benefit equal to (i) the actuarial equivalent (determined on the basis of actuarial assumptions chosen in accordance with Section 3.4 hereof) of the death benefit that would be payable under the Cash Balance Plan if such benefit were determined without regard to the limitations of Sections 401(a)(17) and 415 of the Code (and the corresponding limitations under the Cash Balance Plan) and based on Compensation unreduced (but only if Section 2.1(a) is satisfied) for any deferrals under the Corporation's nonqualified Deferred Compensation Plan reduced by (ii) the portion of the death benefit described in clause (i) above which is actuarially equivalent to any special additions credited to such decedent's Cash Balance Plan Account (and interest credits on such special additions) in accordance with the provisions of Appendix H, Appendix I, and similar Appendices of the Cash Balance Plan, and further reduced by (iii) the death benefit actually payable under the Cash Balance Plan. No death benefit shall be payable if the Supplemental CBP participant dies after his or her Benefit Commencement Date, except to the extent the form of payment applicable with respect to the Supplemental CBP participant under Section 3.2 provided for payments to a survivor.

3.4. Actuarial Equivalency, Etc.. Benefits payable hereunder shall be actuarially adjusted to carry out the purposes of this Supplemental CBP, which is intended (i) to offset reductions in the value of benefits under the Cash Balance Plan attributable to (A) the limitations of Sections 401(a)(17) and 415 of the Code and (B) reductions in Compensation caused by deferrals under the Corporation's nonqualified Deferred Compensation Plan, and (ii) to ensure that the different ways in which the aggregate benefit hereunder and under the Cash Balance Plan may be paid are of substantially equivalent value. The actuarial assumptions used in determining actuarial equivalency hereunder shall be determined from time to time by the Committee and may, but need not, be the same as those used to determine actuarial equivalency

under the Cash Balance Plan; provided, that upon and following a Change in Control, the actuarial assumptions used for purposes of this Supplemental CBP shall not be less favorable to Supplemental CBP Participants or their Beneficiaries than those last specified by the Committee prior to the Change in Control, or to the extent none was so specified, than those applicable under the Cash Balance Plan.

3.5. Time of Benefit Payments. Benefits due under Section 3.1 above shall be paid commencing as soon as practicable after the Supplemental CBP Participant's Benefit Commencement Date. Survivor benefits due under Section 3.2 above shall be paid commencing as soon as practicable following the receipt by the Employer of notice of the Supplemental CBP Participant's death.

3.6. Benefits Unfunded. This Supplemental CBP shall not be construed to create a trust of any kind or a fiduciary relationship between any Employer and a Supplemental CBP Participant. Neither Supplemental CBP Participants nor their Beneficiaries, nor any other person, shall have any rights against any Employer or its assets in respect of any benefits hereunder, other than rights as general creditors. Nothing in this Section 3.6, however, shall preclude an Employer from establishing and funding a trust for the purpose of paying benefits hereunder, if such trust's assets are subject to the claims of the Employer's general creditors in the event of the Employer's bankruptcy or insolvency.

3.7. Designation of Beneficiary. A Supplemental CBP Participant may designate, in writing, one or more Beneficiaries under this Supplemental CBP who may be the same as or different from those named in the Cash Balance Plan to receive benefits, if any, payable upon the Supplemental CBP Participant's death; provided, that in the case of a Supplemental CBP Participant who is married at the time of death, the Supplemental CBP Participant's surviving spouse shall be treated as the sole Beneficiary unless he or she has consented (in accordance with procedures similar to those in the Cash Balance Plan relating to spousal consent) to the designation of one or more other Beneficiaries. In the absence of any Beneficiary so designated, benefits payable following death shall be paid to the Supplemental CBP participant's surviving spouse, if any; if none (and if a death benefit is nevertheless payable under Section 3.3 above), to

such. person or persons (including the decedent's estate) as are designated to receive any benefits remaining to be paid under the Cash Balance Plan; or if none of the foregoing, to such person or persons as shall be designated by the Committee.

SECTION 4

Certain Forfeitures

4.1. Forfeiture of Supplemental Benefits. Notwithstanding anything to the contrary in this Supplemental CBP, benefits payable hereunder shall be forfeited by the Supplemental CBP Participant if the Supplemental CBP Participant's termination of employment was requested by an Employer and the termination was determined by the Committee to be for "cause." For purposes of this Supplemental CBP, "cause" shall mean any action or failure to act by the Supplemental CBP Participant which the Committee in its sole discretion determines to have constituted negligence or misconduct in the performance of the Supplemental CBP Participant's duty to his or her Employer. Notwithstanding the foregoing provisions of this Section 4.1, in respect of any termination of a Supplemental CBP Participant's employment requested by such Employer within the three-year period immediately following a Change in Control, "cause" shall mean only (i) the willful and continued failure by the Supplemental CBP Participant to perform substantially his or her duties with the Employer, after a written demand for substantial performance is delivered to the Supplemental CBP Participant by the Employer which demand specifies the manner in which the Employer believes that the Supplemental CBP Participant has not substantially performed the Supplemental CBP Participant's duties, or (ii) the willful engaging by the Supplemental CBP Participant in conduct which is demonstrably and materially injurious to the Employer, monetarily or otherwise. For purposes of clauses (i) and (ii) of the preceding sentence, no act, or failure to act, on the Supplemental CBP Participant's part shall be deemed "willful" unless done, or omitted to be done, by the Supplemental CBP Participant not in good faith and without reasonable belief that the Supplemental CBP Participant's act or failure to act was in the best interest of the Employer.

SECTION 5

Administration

5.1. Duties of Committee. This Supplemental CBP shall be administered by the Committee in accordance with its terms and purposes. The Committee shall determine, in accordance with Section 3 hereunder, the amount and manner of payment of the benefits due to or on behalf of each Supplemental CBP Participant from this Supplemental CBP and shall cause them to be paid by the Corporation accordingly. The Committee may delegate its powers, duties and responsibilities to one or more individuals (including in the discretion of the Committee employees of one or more Employers) or one or more committees of such individuals.

5.2. Finality of Decision. The decisions made, and the actions taken, by the Committee in the administration of this Supplemental CBP shall be final and conclusive with respect to all persons, and neither the Committee nor individual members thereof, nor its or their delegates hereunder, shall be subject to individual liability with respect to this Supplemental CBP.

5.3. Benefit Claims; Appeal and Review.

(a) If any person believes that he or she is being denied any rights or benefits under this Supplemental CBP, such person may file a claim in writing with the Committee or its designee. If any such claim is denied, the Committee or its designee will notify such person of its decision in writing. Such notification shall be written in a manner calculated to be understood by such person and will contain (i) specific reasons for denial, (ii) specific reference to pertinent plan provisions, (iii) a description of any additional material or information necessary for such person to perfect such claim and an explanation of why such material or information is necessary, and (iv) information as to the steps to be taken if the person wishes to submit a request for review. Such notification will be given within 90 days after the claim is received by the Committee or its designee (or within 180 days, if special circumstances require an extension of time for processing the claim, and if written notice of such extension and circumstances is given to such person within the initial 90-day period). If such notification is not given within

such period, the claim will be considered denied as of the last day of such period and such person may request a review of his or her claim by the Committee.

(b) Within 60 days after the date on which a person receives a written notice of a denied claim (or, if applicable, within 60 days after the date on which such denial is considered to have occurred) such person (or his or her duly authorized representative) may (i) file a written request with the Committee for a review of his or her denied claim and of pertinent documents and (ii) submit written issues and comments to the Committee. The Committee will notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain specific reasons for the decision as well as specific references to pertinent plan provisions. The decision on review will be made within 60 days after the request for review is received by the Committee (or within 120 days, if special circumstances require an extension of time for processing the request, such as an election by the Committee to hold a hearing, and if written notice of such extension and circumstances is given to. such person within the initial 60-day period). If the decision on review is not made within such period, the claim will be considered denied.

SECTION 6

Amendment and Termination

6.1. Amendment and Termination. While the Corporation intends to maintain this Supplemental CBP in conjunction with the Cash Balance Plan for as long as it deems necessary, the Board of Directors reserves the right to amend and/or terminate it at any time for whatever reasons it may deem appropriate; provided, that no such amendment shall reduce the benefit amount that a Supplemental CBP Participant would be entitled to receive hereunder if he or she were deemed to have terminated employment (other than by reason of death) immediately prior to the date of such amendment, unless the Supplemental CBP Participant consents to such reduction. For clarification, a Supplemental CBP Participant's benefit under this Plan may fluctuate, up and down, due to increases and decreases in the Participant's Accrued Benefit under the Cash Balance Plan as a result of increases or decreases to the limits under Sections 401(a)(17) and 415 of the Code. Such fluctuations are not "amendments" for purposes of the immediately preceding sentence.

Notwithstanding any other provision hereunder, during the three-year period immediately following a Change in Control, this Supplemental CBP may not be terminated, altered or amended in a way that would decrease future accrual of, eligibility for, or entitlement to, a benefit hereunder. This Section 6.1 may not be altered or amended during that same three year period in any way except with the prior written consent of all of the then Supplemental CBP Participants.

SECTION 7

Miscellaneous

7.1. No Employment Rights. Nothing contained in this Supplemental CBP shall be construed as a contract of employment between any Employer and a Supplemental CBP Participant, or as giving any Supplemental CBP Participant the right to be continued in the employment of an Employer, or as a limitation of the right of an Employer to discharge any Supplemental CBP Participant, with or without cause.

7.2. Assignment. Subject to the provisions of this Supplemental CBP relating to payment of benefits upon the death of a Supplemental CBP Participant, the benefits payable under this Supplemental CBP may not be assigned, alienated, transferred, pledged, or encumbered.

7.3. Withholding, Etc. Benefits payable under this Supplemental CBP shall be subject to all applicable federal, state or other tax withholding requirements. To the extent any amount credited or accrued hereunder for the benefit of a Supplemental CBP Participant's benefit is treated as "wages" for FICA/Medicare or FUTA tax purposes on a current basis (or when vested) rather than when distributed, all as determined by the Committee, then the Committee shall require that the Supplemental CBP Participant either (i) timely pay such taxes in cash by separate check to his or her Employer, or (ii) make other arrangements satisfactory to such Employer (e.g., additional withholding from other wage payments) for the payment of such taxes. To the extent a Supplemental CBP Participant fails to pay or provide for such taxes as required, the Committee may suspend the Supplemental CBP Participant's participation in the Supplemental CBP or reduce benefits accrued hereunder.

7.4. Distribution of Taxable Amounts. Anything in the Plan to the contrary notwithstanding, in the event any Supplemental CBP Participant or Beneficiary is determined to be subject to federal income tax on any benefit accrued under the Plan prior to the time payment is otherwise due hereunder, the portion of the accrued benefit determined to be so taxable shall be paid to such Participant or Beneficiary as soon as practicable following such determination.

The Committee's determination of the amount to be distributed shall be binding and conclusive. Such accrued benefit shall be determined to be subject to federal income tax upon the earlier of:

(a) determination by the Internal Revenue Service addressed to the Supplemental CBP Participant or Beneficiary which is not appealed; or

(b) a final determination by the United States Tax Court or any other Federal Court affirming any such determination by the Internal Revenue Service that amounts credited to a Supplemental CBP Participant's Account are subject to federal income tax.

7.5. No Guarantee of Benefits. Nothing contained in the Plan shall constitute a guarantee by the Corporation, Affiliated Employer, the Committee, or any other person or entity that the assets of the Corporation of Affiliated Employers will be sufficient to pay any benefits hereunder. No Supplemental CBP Participant shall have any right to receive a benefit payment under the Plan except in accordance with the terms of the Plan.

In no event shall the employees, officers, directors, or stockholders of the Corporation of Affiliated Employers be liable to any individual or entity on account of any claim arising by reason of the Plan provisions or any instrument or instruments implementing its provisions, or for the failure of any Participant, Beneficiary or other individual or entity to be entitled to any particular tax consequences with respect to the Plan or any credit or payment hereunder.

7.6. Incapacity of Recipient. If any person entitled to a benefit payment under the Plan is deemed by the Administrator to be incapable of personally receiving and giving a valid receipt for such payment, then, unless and until claim therefor shall have been made by a duly appointed guardian or other legal representative of such person, the Committee may provide for such payment or any part thereof to be made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Corporation and Affiliated Employers and the Plan therefor.

7.7. Limitations on Liability. Notwithstanding any of the preceding provisions of the Plan, neither the Corporation nor Affiliated Employers, nor any individual acting as employee or agent of the foregoing, nor the Committee shall be liable to any Supplemental CBP

Participant or other person for any claim, loss, liability or expense incurred in connection with the Plan.

7.8. Provisions to Facilitate Plan Operations. If it is impossible or difficult to ascertain the person to receive any benefit under the Plan, the Committee may, in its discretion and subject to applicable law, direct payment to the person it deems appropriate consistent with the Plan's purposes; or retain such amounts in the Plan for payment to a court pending judicial determination of the rights thereto. Any payment under this Section 7.8 shall be a complete discharge of any liability for the making of such payment under the provisions of the Plan.

7.9. Correction of Payment Mistakes. Any mistake in the payment of a Supplemental CBP Participant's benefits under the Plan may be corrected by the Committee when the mistake is discovered. The mistake may be corrected in any reasonable manner authorized by the Committee (e.g., adjustment in the amount of future benefit payments, repayment to the Plan of an overpayment, or catch-up payment to a Participant for an underpayment). In appropriate circumstances (e.g., where a mistake is not timely discovered), the Committee may waive the making of any correction. A Supplemental Plan Participant or Beneficiary receiving an overpayment by mistake shall repay the overpayment if requested to do so by the Committee.

7.10. Schedules. The Committee may by Schedule modify the benefits available hereunder to one or more specified individuals. The provisions of each such Schedule shall, with respect to the individual or individuals thereby affected, be deemed a part of the Supplemental CBP and shall be incorporated herein.

7.11. Law Applicable. This Supplemental CBP shall be construed in accordance with the laws of the Commonwealth of Massachusetts.

IN WITNESS WHEREOF, this instrument is executed this 11th day of December, 2002.

CABOT CORPORATION

By: /s/ Robby D. Sisco

SCHEDULE A

Effective May 13, 1994, the Board of Directors deemed it advisable to provide certain additional benefits to one or more Supplemental CBP Participants. Pursuant to such action of the Board, and in accordance with Section 7.10 of the Plan, the foregoing terms of this Supplemental Cash Balance Plan are modified as follows:

1. "Schedule A Participant" shall mean Kennett F. Burnes.

2. Amount of Benefit. The following shall be substituted for Sections 3.1 and 3.3 of the Plan for the Schedule A Participant:

"3.1. Amount of Benefits. The amount of the benefit payable by the Corporation under this Supplemental CBP with respect to a Supplemental CBP Participant shall be an amount calculated as follows:

(a) Determine the Accrued Benefit, if any, which would be payable with respect to such individual under the Cash Balance Plan (determined after applying the vesting schedule under the Cash Balance Plan and any special vesting applicable upon a Change in Control) if such Accrued Benefit were determined without regard to the limitations of Sections 401(a) (17) and 415 of the Code (and the corresponding limitations under the Cash Balance Plan) and based on Compensation unreduced (but only if Section 2.1(a) of the Plan is satisfied) for any deferrals under the Corporation's nonqualified Deferred Compensation Plan.

(b) Multiple the result in subsection (a) by two (2).

(c) Reduce the result in subsection (b) above by the portion of the Accrued Benefit described in subsection (a) above which is actuarially equivalent to any special additions credited to such individual's Cash Balance Plan Account (and interest credits on such special additions) in accordance with the provisions of Appendix H, Appendix I, and similar Appendices of the Cash Balance Plan,.

(d) Further reduce the result in subsection (b) above by the benefit actually payable with respect to the Supplemental CBP Participant under the Cash Balance Plan."

...

"3.3. Death Benefits. If a Supplemental CBP participant dies before his or her Benefit Commencement Date, the Corporation shall pay to the decedent's Beneficiary a benefit calculated as follows:

(a) Determine the actuarial equivalent (determined on the basis of actuarial assumptions chosen in accordance with Section 3.4 hereof) of the death benefit that would be payable under the Cash Balance Plan if such benefit were determined without regard to the limitations of Sections 401(a) (17) and 415 of the Code (and the corresponding limitations under the Cash Balance Plan) and based on Compensation unreduced (but only if Section 2.1(a) of the Plan is satisfied) for any deferrals under the Corporation's nonqualified Deferred Compensation Plan.

(b) Multiple the result in subsection (a) by two (2).

(c) Reduce the result in subsection (b) by the portion of the death benefit described in subsection (a) above which is actuarially equivalent to any special additions credited to such decedent's Cash Balance Plan Account (and interest credits on such special additions) in accordance with the provisions of Appendix H, Appendix I, and similar Appendices of the Cash Balance Plan.

(d) Further reduce the result in subsection (b) by the death benefit actually payable under the Cash Balance Plan.

No death benefit shall be payable if the Supplemental CBP participant dies after his or her Benefit Commencement Date, except to the extent the form of payment applicable with respect to the Supplemental CBP participant under Section 3.2 provided for payments to a survivor."

EXHIBIT 10(d)(v)

CABOT CORPORATION

SUPPLEMENTAL RETIREMENT SAVINGS PLAN

PREAMBLE

Cabot Corporation (the "Corporation") initially adopted the Cabot Corporation Supplemental Retirement Incentive Savings Plan, a nonqualified supplemental plan, pursuant to a vote of the Board of Directors of the Corporation on February 10, 1984. The Supplemental Retirement Incentive Savings Plan incorporated a supplemental profit-sharing plan previously authorized by the Board of Directors on September 10, 1976. The Supplemental Retirement Incentive Savings Plan was amended and restated effective September 9, 1988, and subsequently amended from time to time. The Corporation adopted the Cabot Corporation Supplemental Employee Stock Ownership Plan pursuant to a vote of the Board of Directors, effective September 9, 1988, and subsequently amended from time to time.

Effective December 31, 2000, the CRISP was merged with and into the ESOP, and the combined amended and restated plan was renamed the Cabot Retirement Savings Plan (the "CRSP"). Similarly, effective December 31, 2000, the Supplemental Retirement Incentive Savings Plan was merged with and into the Supplemental ESOP. The combined amended and restated plan, as set forth herein and renamed the Cabot Supplemental Retirement Savings Plan (the "Plan"), shall be effective from and after December 31, 2000. The purpose of the Plan is to provide benefits to a designated group of managers who are highly compensated employees of the Corporation or its subsidiaries, supplemental to benefits provided under the CRSP.

Except as otherwise specifically provided herein, the rights and benefits, if any, of an individual who was a participant in the Plan (including any component predecessor plan) and who ceased to be an participant on or prior to December 31, 2000, will be determined in accordance with the provisions of the Plan as in effect on the date he or she ceased to be a

participant.

SECTION 1

Definitions

When used herein,, the words and phrases defined shall have the following meanings unless a different meaning is clearly required by the context. Terms used herein which are defined in Article 1 of the CRSP shall have the meanings assigned to them in the CRSP unless a different meaning is set forth below.

1.1. "Applicable Matching Percentage" means (i) for any period for which Basic Matching Contributions but no Discretionary Matching Contributions are made under the CRSP, five and five-eighths (5.625%) percent; and (ii) for any period for which Discretionary Matching Contributions are made under the CRSP, 5.625% plus the maximum rate (expressed as a percentage of Compensation) at which Discretionary Matching Contributions are made for such period with respect to any participant in the CRSP.

1.2. "Beneficiary" means the individual(s) or entity(ies) entitled under Section 3.6 below to receive any benefits hereunder upon the death of a Supplemental Plan Participant.

1.3. "Committee" means the Benefits Committee as defined in the CRSP.

1.4. "Memorandum account" means the account established by the Corporation on behalf of each Supplemental Plan Participant, to which amounts described in Sections 3.1 shall be credited. The Committee shall establish such subaccounts as may be necessary or desirable to implement the terms of this Plan. A Supplemental Plan Participant's Memorandum Account shall include amounts accrued under the Cabot Corporation Supplemental Retirement Incentive Savings Plan and Cabot Corporation Supplemental Employee Stock Ownership Plan as of December 31, 2000, the effective date of the amendment and restatement of this Plan.

1.5. "Retirement" means termination of employment with the Corporation and other Affiliated Employers following attainment by the Supplemental Plan Participant of his or her Early Retirement Age or Normal Retirement Age. An individual whose employment has terminated by reason of Retirement shall be treated as having "Retired."

1.6. "Supplemental Plan Participant" has the meaning provided in Section 2 below.

SECTION 2

Participation

2.1. Participation. Any person who was a participant in the Cabot Corporation Supplemental Retirement Incentive Savings Plan or Cabot Corporation Supplemental Employee Stock Ownership Plan on December 31, 2000, will continue to participate in this Plan in accordance with its terms after such date. Each other individual who is a participant in the CRSP shall be eligible to participate in and accrue benefits under this Plan for any calendar year if such individual satisfies either (i) or (ii) below, and, with respect to accruals described in Section 3.1(a), also satisfies (iii) below.

(a) This Section 2.1(a) is satisfied if such individual's base salary for any such year (as determined by the Committee), before reduction for deferrals, if any, under the CRSP, the Corporation's nonqualified Deferred Compensation Plan, or any salary deferral under Sections 125 and 132 of the Code, equals or exceeds the dollar limitation applicable to such year under Section 401(a) (17) of the Code.

(b) This Section 2.1(b) is satisfied if such individual's Compensation for such year, reduced for deferrals, if any, under the Corporation's nonqualified Deferred Compensation Plan equals or exceeds the dollar limitation applicable to such year under Section 401(a)(17) of the Code.

(c) This Section 2.1(c) is satisfied if, for such year (or for such portion of the year during which he or she satisfies the requirements of (a) or (b) above) such individual has elected to participate in pre-tax deferrals and/or after-tax contributions under CRSP to the maximum extent required and permissible thereunder (taking into account any limitations imposed under the CRSP to comply with the qualification requirements of the Code) to obtain the maximum possible Matching Contribution under CRSP.

For purposes of Section 3(36) of ERISA, the Plan shall be treated as two separate plans, one of which will be deemed to provide only benefits (if any) in excess of the limitations of section 415 of the Code.

SECTION 3

Benefits

3.1. Credits to Memorandum Accounts.

(a) For each Plan Quarter for which Matching Contributions are made to the CRSP, the Committee shall, as soon as practicable after the close of such quarter accrue to the Memorandum Account of each individual who is a Supplemental Plan Participant for all or any part of such period, an amount equal to the excess of (i) the Applicable Matching Percentage of the Supplemental Plan Participant's Compensation for such period (such Compensation to be determined, solely for this purpose, without regard to the limitations described in the last paragraph of Section 2.21 of the CRSP, but taking into account the limitations described in Section 2.21(b) of the CRSP), over (ii) the sum of (A) the amount which is actually allocated to the Supplemental Plan Participant's Matching Contribution Account in the CRSP with respect to such period, plus (B) any additional credit made for the benefit of the Supplemental Plan Participant with respect to such period under Section 4(a) (ii) of the Corporation's nonqualified Deferred Compensation Plan.

(b)(i) As soon as practicable after the end of each Plan Year, the Committee shall also accrue to each Supplemental Plan Participant's Memorandum Account an amount equal to the amount (if any) that would have been contributed for the benefit of the Supplemental Plan Participant by his or her Affiliated Employer under Sections 6.5 of the CRSP for such Plan Year had the limitations of Sections 401(a) (17) and 415 of the Code and the corresponding limitations under the CRSP not applied and had such contributions and allocations under the CRSP been based on Compensation increased (but only if Section 2.1(a) is satisfied) by deferrals (if any) under the Corporation's nonqualified Deferred Compensation Plan, such amount to be reduced by the amount (if any) which is actually contributed and allocated under Section 6.5 of the CRSP to the Supplemental Plan Participant's Company Contribution Account.

(b)(ii) As soon as practicable after the last business day of each Plan Quarter, the Committee shall also accrue to each Supplemental Plan Participant's Memorandum Account an amount equal to the amount (if any) that would have been contributed to the Supplemental Plan Participant's ESOP Allocation Account by his or her Affiliated Employer under Sections 7.5 of the CRSP for such Plan Quarter had the limitations of Sections 401(a) (17) and 415 of the Code and the corresponding limitations under the CRSP not applied and had such contributions and allocations under the CRSP been based on Compensation increased (but only if Section 2.1(a) is satisfied) by deferrals (if any) under the Corporation's nonqualified Deferred Compensation Plan, such amount to be reduced by the amount (if any) which is actually contributed and allocated to the Supplemental Plan Participant's ESOP Allocation Account under Section 7.5 of the CRSP.

(c) Amounts accrued hereunder shall be converted to units and treated as if invested in the Cabot Stock Fund under the CRSP, except as provided in Sections 3.1(d) and 3.1(e) hereof.

(d) From and after the date of a Change in Control, each memorandum account shall be treated as if invested (i) in a fixed-income vehicle earning interest at the rate earned by the most currently issued 10-year Treasury Notes on the date of reference or (ii) on such other reasonable basis as the Committee shall determine from time to time; provided, that this paragraph shall operate to change the basis for measuring investment return on Memorandum Accounts upon a Change in Control only if such change would then be consistent with continued exemption of interests hereunder from the definition of "derivative securities" under Rule 16a-1(c) promulgated under the Securities Exchange Act of 1934, as amended (or any successor Rule). The earnings shall be determined and shall accrue as of each Valuation Date until all amounts have been paid to or on behalf of the Supplemental Plan Participant.

(e) Beginning as of the Valuation Date next following the earliest of the Supplemental Plan Participant's becoming a Disabled Participant, Retirement, other

termination of employment, or death while employed by an Affiliated Employer, the Supplemental Plan Participant's account shall be treated as if invested (i) in a fixed-income vehicle earning interest at the rate earned by the most currently issued 10-year U.S. Treasury Notes on the date of reference, or (ii) on such other reasonable basis as the Committee shall determine from time to time. The earnings shall be determined and shall accrue as of each Valuation Date until all amounts have been paid to or on behalf of the Supplemental Plan Participant.

3.2. Amount, Form and Timing of Benefit Payments. This Section 3.2 applies to Supplemental Plan Participants whose Annuity Starting Dates are on or after January 1, 2002. Distributions with respect to Supplemental Plan Participants whose Annuity Starting Dates are prior to January 1, 2002, shall be governed by the provisions of Appendix A.

(a) In the event of a Supplemental Plan Participant's termination of employment with the Affiliated Employers for any reason, his or her vested balance under the Plan shall be paid, or shall commence to be paid, as soon as practicable on or after the Participant's termination date. For purposes of this paragraph, the vested balance of a Supplemental Plan Participant shall mean:

(i) in the event of a Supplemental Plan Participant's termination of employment with the Affiliated Employers by reason of Retirement or becoming a Disabled Participant, the entire balance of his or her memorandum Account; and

(ii) in the event of a Supplemental Plan Participant's termination of employment with the Affiliated Employers other than by reason of Retirement or becoming a Disabled Participant or death, the product of (A) the balance of his or her Memorandum Account determined under Section 3.1, times (B) the percentage representing the vested interest of such Supplemental Plan Participant in his or her CRSP Account as determined under the vesting rules applicable to a Supplemental Plan Participant's Matching Contribution Account, Company Contributions Account, and ESOP Allocation Account under the CRSP.

(b) (i) A Supplemental Plan Participant shall elect, at such time and in such manner as prescribed by the Committee, to receive his or her benefits payable under the Plan in either a lump sum payment, or in installments for 5, 10 or 15 years. The Supplemental Plan Participant may change his or her election to any alternative form of payment then available by submitting a new election to the Committee, provided, that any such election is submitted at least 13 months prior to the Participant's Annuity Starting Date and is accepted by the Committee in its sole discretion. The election form most recently accepted by the Committee shall govern the payment of the Supplemental Plan Participant's Memorandum Account. If a Supplemental Plan Participant does not make any election with respect to the payment of his or her Memorandum Account, then (A) if such individual terminated employment with the Affiliated Employers prior to January 1, 2002, such benefits shall be paid in 120 monthly installments, and (B) if such individual terminates employment with the Affiliated employers on or after January 1, 2002, such benefits shall be paid in a lump sum. If the Supplemental Plan Participant's Memorandum Account is to be distributed in installments, the amount of each installment shall be calculated by dividing the unpaid balance, valued as of the preceding Valuation Date, by the number of installments remaining to be paid.

(ii) Section 3.2(b)(i) notwithstanding, (A) if the balance of the Supplemental Plan Participant's Memorandum Account determined as soon as practicable following his or her termination of employment with the Affiliated Employers totals less than $50,000, the Committee shall distribute the vested balance of such Memorandum Account in a lump sum as soon as practicable following such termination, notwithstanding the Supplemental Plan Participant's election under the Plan, and (B) if the balance of the Supplemental Plan Participant's Memorandum Account on his or her Annuity Starting Date totals $50,000 or more, the Committee may, in its discretion, accelerate payment of all or any portion of the Memorandum Account if it determines such acceleration to be in the interests of the Corporation.

(c) In the event of a Supplemental Plan Participant's termination of

employment with the Affiliated Employers by reason of death, the balance of his or her memorandum account determined under Section 3.1 shall be paid in a single sum to the Supplemental Plan Participant's Beneficiary as soon as practicable after the receipt by the Supplemental Plan Participant's Affiliated Employer of notice of the Supplemental Plan Participant's death.

(d) If a Supplemental Plan Participant dies prior to the complete distribution of his or her vested benefit, the remaining installments shall be paid to his or her Beneficiary; provided, that upon application by such Beneficiary showing financial hardship or other adequate cause as determined by the Committee in its sole discretion, the Committee may cause the remaining balance in the decedent's memorandum account to be paid in a lump sum to the Beneficiary in complete satisfaction of any remaining benefit obligation to such Beneficiary hereunder.

(e) All amounts payable hereunder shall be paid in cash or in whole shares of common Stock of Cabot Corporation as follows:

(i) If a Supplemental Plan Participant is employed by the Corporation or an Affiliated Employer on January 1, 2002, then payment shall be made in common Stock.

(ii) If a Supplemental Plan Participant is not employed by the Corporation or an Affiliated Employer on January 1, 2002, and such individual's Annuity Starting Date is on or after January 1, 2002, then such payment shall be made in cash, unless such individual irrevocably elects, at such time and in such manner as prescribed by the Committee, to receive payment in common Stock. A Supplemental Plan Participant shall be entitled to make only one such election. Sections 3.2(e)(i) and (e)(2) above notwithstanding, amounts represented by fractional shares of common Stock shall be paid in cash,

3.3. Nature of Account. The Memorandum Account maintained by the Corporation for a Supplemental Plan Participant shall be book-entry account only, shall hold no actual shares of the Corporation's stock, and shall represent no interest in or ownership of any such stock.

Supplemental Plan Participants shall have no voting rights or any other shareholder rights by reason of participation in this Plan. No Participant, his Beneficiary or Beneficiaries, or any other person shall have, under any circumstances, any interest whatever in any particular property or assets of the Company by virtue of this Plan, and the rights of the Participant, his Beneficiary or Beneficiaries under this Plan shall be no greater than the rights of a general unsecured creditor of the Company.

3.4. No Payment While Employed. No amounts accrued hereunder on behalf of a Supplemental Plan Participant may be distributed prior to his or her termination of employment with the Affiliated Employers or death, as the case may be. If a Supplemental Plan Participant whose employment has terminated returns to the employ of an Affiliated Employer, any benefits remaining to be paid to such Supplemental Plan Participant shall be suspended during the period of reemployment. Upon his or her subsequent termination of employment, the Supplemental Plan Participant's memorandum account shall be payable in accordance with the rules set forth in Section 3.2 above.

3.5. Benefits Unfunded. This Plan shall not be construed to create a trust of any kind or a fiduciary relationship between any Affiliated Employer and a Supplemental Plan Participant. Neither Supplemental Plan Participants nor their beneficiaries, nor any other person, shall have any rights against any Affiliated Employer or its assets in respect of any benefits hereunder, other than rights as general creditors. Nothing in this Section 3.5, however, shall preclude an Affiliated Employer from establishing and funding a trust for the purpose of paying benefits hereunder, if such trust's assets are subject to the claims of the Affiliated Employer's general creditors in the event of bankruptcy or insolvency.

3.6. Designation of Beneficiary. A Supplemental Plan Participant may designate, in writing, one or more beneficiaries under this Supplemental Plan, who may be the same as or different than those named under the CRSP to receive benefits, if any, payable upon the Supplemental Plan Participant's death; provided, that in the case of a Supplemental Plan Participant who is married at time of death, the Supplemental Plan Participant's surviving spouse shall be treated as the sole Beneficiary unless he or she has consented (in accordance with

procedures similar to those in the CRSP relating to spousal consent) to the designation of one or more other Beneficiaries. In the absence of any beneficiary so designated, benefits payable following death shall be paid to the Supplemental Plan Participant's surviving spouse, if any; if none, to such person or persons (including the decedent's estate) as are designated to receive any benefits remaining to be paid under the CRSP; or if none of the foregoing, to such person or persons as shall be designated by the Committee.

SECTION 4

Certain Forfeitures

4.1. Termination for Cause. Notwithstanding anything to the contrary in this Plan, benefits payable hereunder shall be forfeited by the Supplemental Plan Participant if the Supplemental Plan Participant's termination of employment was requested by an Affiliated Employer and the termination was determined by the Committee to be for "cause." For purposes of this Plan, "cause" shall mean any action or failure to act by the Supplemental Plan Participant which the Committee in its sole discretion determines to have constituted negligence or misconduct in the performance of the Supplemental Plan Participant's duty to his or her Affiliated Employer. Notwithstanding the foregoing provisions of this Section 4.1, in respect of any termination of a Supplemental Plan Participant's employment requested by an Affiliated Employer within the three-year period immediately following a Change in Control, "cause" shall mean only (i) the willful and continued failure by the Supplemental Plan Participant to substantially perform his or her duties with his or her Affiliated Employer, after a written demand for substantial performance is delivered to the Supplemental Plan Participant by the Affiliated Employer which demand specifies the manner in which the Affiliated Employer believes that the Supplemental Plan Participant has not substantially performed the Supplemental Plan Participant's duties, or (ii) the willful engaging by the Supplemental Plan Participant in conduct which is demonstrably and materially injurious to the Affiliated Employer, monetarily or otherwise. For purposes of clauses (i) and (ii) of the preceding sentence, no act, or failure to act, on the Supplemental Plan Participant's part shall be deemed "willful" unless done, or omitted to be done, by the Supplemental Plan Participant not in good faith and without reasonable belief that the Supplemental Plan Participant's act or failure to act was in the best interest of the Affiliated Employer.

4.2. Other Terminations of Employment. In the event of a Supplemental Plan Participant's termination of employment other than by reason of death, Retirement or Total and Permanent Disability, that portion of his or her Memorandum Account balance that is not payable under Section 3.2(a) shall be promptly forfeited. If such Supplemental Plan Participant is

later reemployed by an Affiliated Employer under circumstances entitling him or her to a restoration of all or a portion of his or her account balance under the CRSP, the Committee shall make an appropriate corresponding restorative adjustment to his or her memorandum account hereunder.

SECTION 5

Administration

5.1. Duties of Committee. This Plan shall be administered by the Committee in accordance with its terms and purposes. The Committee shall determine, in accordance with Section 3 hereunder, the amount and manner of payment of the benefits due to or on behalf of each Supplemental Plan Participant from this Plan and shall cause them to be paid by the Corporation accordingly. The Committee may delegate its powers, duties and responsibilities to one or more individuals (including in the Committee's discretion employees of one or more Affiliated Employers) or one or more committees of such individuals.

5.2. Finality of Decision. The decisions made by and the actions taken by the Committee in the administration of this Plan shall be final and conclusive with respect to all persons, and neither the Committee nor individual members thereof, nor its or their delegates hereunder, shall be subject to individual liability with respect to this Plan.

5.3. Benefit Claims; Appeal and Review.

(a) If any person believes that he or she is being denied any rights or benefits under this Plan, such person may file a claim in writing with the Committee or its designee. If any such claim is denied the Committee or its designee will notify such person of its decision in writing. Such notification shall be written in a manner calculated to be understood by such person and will contain (i) specific reasons for denial, (ii) specific reference to pertinent plan provisions, (iii) a description of any additional material or information necessary for such person to perfect such claim and an explanation of why such material or information is necessary, and (iv) information as to the steps to be taken if the person wishes to submit a request for review. Such notification of will be given within 90 days after the claim is received by the Committee or its designee (or within 180 days, if special circumstances require an extension of time for processing the claim, and if written notice of such extension and circumstances is given to such person within the initial 90-day period). If such notification is not given within

such period, the claim will be considered denied as of the last day of such period and such person may request a review of his or her claim by the Committee.

(b) Within 60 days after the date on which a person receives a written notice of a denied claim (or, if applicable, within 60 days after the date on which such denial is considered to have occurred) such person (or his or her duly authorized representative) may (i) file a written request with the Committee for a review of his or her denied claim and of pertinent documents and (ii) submit written issues and comments to the Committee. The Committee will notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain specific reasons for the decision as well as specific references to pertinent Plan provisions. The decision on review will be made within 60 days after- the request for review is received by the Committee (or within 120 days, if special circumstances require an extension of time for processing the request, such as an election by the Committee to hold a hearing, and if written notice of such extension and circumstances is given to such person within the initial 60-day period). If the decision on review is not made within such period, the claim will be considered denied.

SECTION 6

Amendment and Termination

6.1. Amendment and Termination. While the Corporation intends to maintain this Plan in conjunction with the CRSP for as long as it deems necessary, the Board of Directors reserves the right to amend and/or terminate it at any time for whatever reasons it may deem appropriate; provided, that no such amendment shall reduce the balance of any Supplemental Plan Participant's Memorandum Account as of the Valuation Date next preceding the date of such amendment unless the Participant consents to such reduction.

Amendments affecting the accrual of benefits hereunder in respect of Supplemental Plan Participants who are subject to the short-swing profit provisions of Section 16 of the Securities Exchange Act of 1934, as amended, may be made no more frequently than once every six (6) months. Notwithstanding any other provision hereunder, during the three-year period immediately following a Change in Control, this Plan may not be terminated, altered or amended in a way that would decrease future accrual of, eligibility for, or entitlement to, benefits hereunder. This Section 6.1 may not be altered or amended during that same three-year period in any way except with the prior written consent of all of the then Supplemental Plan Participants.

SECTION 7

Miscellaneous

7.1. No Employment Rights. Nothing contained in this Plan shall be construed as a contract of employment between any Affiliated Employer and a Supplemental Plan Participant, or as giving any Supplemental Plan Participant the right to be continued in the employment of an Affiliated Employer, or as a limitation of the right of an Affiliated Employer to discharge any Supplemental Plan Participant, with or without cause.

7.2. Assignment. Subject to the provisions of this Plan relating to payment of benefits upon the death of a Supplemental Plan Participant, the benefits payable under this Plan may not be assigned, alienated, transferred, pledged, or encumbered.

7.3. Withholding, Etc. Benefits payable under this Plan shall be subject to all applicable federal, state or other tax withholding requirements. To the extent any amount credited hereunder to a Supplemental Plan Participant's account is treated as "wages" for FICA/Medicare or FUTA tax purposes on a current basis (or when vested), rather than when distributed, all as determined by the Committee, then the Committee shall require that the Supplemental Plan Participant either (i) timely pay such taxes in cash by separate check to his or her Affiliated Employer, or (ii) make other arrangements satisfactory to such Employer (e.g., additional withholding from other wage payments) for the payment of such taxes. To the extent a Supplemental Plan Participant fails to pay or provide for such taxes as required, the Committee may suspend the Supplemental Plan Participant's participation in the Plan or reduce amounts credited or to be credited hereunder.

7.4. Distribution of Taxable Amounts. Anything in the Plan to the contrary notwithstanding, in the event any Supplemental Plan Participant or Beneficiary is determined to be subject to federal income tax on any amount credited to the Participant's Memorandum Account prior to the time payment is otherwise due hereunder, the entire amount determined to be so taxable shall be paid from the Participant's Memorandum Account to such Participant or Beneficiary. Any amount to the credit of a Participant's Account shall be determined to be

subject to federal income tax upon the earlier of:

(a) determination by the Internal Revenue Service addressed to the Participant or Beneficiary which is not appealed; or

(b) a final determination by the United States Tax Court or any other Federal Court affirming any such determination by the Internal Revenue Service that amounts credited to a Participant's Account are subject to federal income tax.

7.5. No Guarantee of Benefits. Nothing contained in the Plan shall constitute a guarantee by the Corporation, Affiliated Employer, the Committee, or any other person or entity that the assets of the Corporation of Affiliated Employers will be sufficient to pay any benefits hereunder. No Supplemental Plan Participant shall have any right to receive a benefit payment under the Plan except in accordance with the terms of the Plan.

The Corporation, Affiliated Employers, and Committee do not in any way guarantee any Supplemental Plan Participant's Memorandum Account against loss or depreciation, whether caused by poor performance of an earnings measure or by any other event or occurrence. In no event shall the employees, officers, directors, or stockholders of the Corporation of Affiliated Employers be liable to any individual or entity on account of any claim arising by reason of the Plan provisions or any instrument or instruments implementing its provisions, or for the failure of any Participant, Beneficiary or other individual or entity to be entitled to any particular tax consequences with respect to the Plan or any credit or payment hereunder.

7.6. Incapacity of Recipient. If any person entitled to a benefit payment under the Plan is deemed by the Administrator to be incapable of personally receiving and giving a valid receipt for such payment, then, unless and until claim therefor shall have been made by a duly appointed guardian or other legal representative of such person, the Committee may provide for such payment or any part thereof to be made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Corporation and Affiliated Employers and the Plan therefor.

7.7. Limitations on Liability. Notwithstanding any of the preceding provisions of

the Plan, neither the Corporation nor Affiliated Employers, nor any individual acting as employee or agent of the foregoing, nor the Committee shall be liable to any Supplemental Plan Participant or other person for any claim, loss, liability or expense incurred in connection with the Plan.

7.8. Provisions to Facilitate Plan Operations. If it is impossible or difficult to ascertain the person to receive any benefit under the Plan, the Committee may, in its discretion and subject to applicable law, direct payment to the person it deems appropriate consistent with the Plan's purposes; or retain such amounts in the Plan for payment to a court pending judicial determination of the rights thereto. Any payment under this Section 7.8 shall be a complete discharge of any liability for the making of such payment under the provisions of the Plan.

7.9. Correction of Payment Mistakes. Any mistake in the payment of a Supplemental Plan Participant's benefits under the Plan may be corrected by the Committee when the mistake is discovered. The mistake may be corrected in any reasonable manner authorized by the Committee (e.g., adjustment in the amount of future benefit payments, repayment to the Plan of an overpayment, or catch-up payment to a Participant for an underpayment). In appropriate circumstances (e.g., where a mistake is not timely discovered), the Committee may waive the making of any correction. A Supplemental Plan Participant or Beneficiary receiving an overpayment by mistake shall repay the overpayment if requested to do so by the Committee.

7.10. Schedules. The Committee may by Schedule modify the benefits available hereunder to one or more specified individuals. The provisions of each such Schedule shall, with respect to the individual or individuals thereby affected, be deemed a part of the Plan and shall be incorporated herein.

7.11. Law Applicable. This Plan shall be construed in accordance with the laws of the Commonwealth of Massachusetts.

IN WITNESS WHEREOF, this instrument is executed this 11th day of December, 2002.

CABOT CORPORATION

By: /s/ Robby D. Sisco

APPENDIX A

This Appendix applies to Supplemental Plan Participants whose Annuity Starting Dates are prior to January 1, 2002. Distributions with respect to Supplemental Plan Participants whose Annuity Starting Dates are on or after January 1, 2002, shall be governed by Section 3.2 of the Plan.

Section 1. Amount, Form and Timing of Benefit Payments.

(a) In the event of a Supplemental Plan Participant's termination of employment with the Affiliated Employers (other than by reason of Retirement, or becoming a Disabled Participant, or death), his or her vested balance under the Plan shall commence to be paid as soon as practicable on or after the Participant's Annuity Starting Date in the form of 120 monthly installments, each installment calculated by dividing the unpaid vested balance, valued as of the preceding Valuation Date, by the number of installments remaining to be paid; provided, however, that, the Committee in its discretion may accelerate payment of all or any portion of the account if it determines such acceleration to be in the interests of the Corporation. For purposes of this paragraph, the vested balance of a Supplemental Plan Participant shall be the product of (A) the balance of his or her Memorandum Account determined under Section 3.1 of the Plan, times (B) the percentage representing the vested interest of such Supplemental Plan Participant in his or her CRSP Account as determined under the vesting rules applicable to a Supplemental Plan Participant's Matching Contribution Account, Company Contributions Account, and ESOP Allocation Account under the CRSP.

(b) In the event of a Supplemental Plan Participant becomes a Disabled Participant or Retires, the balance of his or her Memorandum Account determined under Section 3.1 of the Plan shall be distributed at the same time and in the same, manner as the Supplemental Plan Participant's benefits under the CRSP, subject to the following special rules:

(i) If the balance of the Supplemental Plan Participant's

Memorandum Account at Retirement or termination of employment totals less than $50,000, the Committee may distribute the accounts in a lump sum (or on some other accelerated basis) notwithstanding the Supplemental Plan Participant's election under the CRSP.

(ii) If the Supplemental Plan Participant elects a distribution of a single-life or joint and survivor annuity under Section 9.3(a) (iv) of the CRISP (as such Section appeared prior to the 2000 Restatement of the CRISP), the Committee's discretion as described above to distribute the Memorandum Accounts hereunder on an accelerated basis shall apply regardless of the size of the balance of the Supplemental Plan Participant's Memorandum Account hereunder.

(iii) If the Supplemental Plan Participant elects a lump sum payment of his or her CRSP benefit, that election shall be effective with respect to his or her Plan benefit hereunder only with the approval of the Committee. If the Committee does not approve a lump sum payment election, the Supplemental Plan Participant's Memorandum Account hereunder shall be distributed in 120 monthly installments as described at Section (1)(a) above or on such accelerated basis as the Committee may determine.

(iv) If the Supplemental Plan Participant's Memorandum Account is to be distributed in installments, the amount of each installment shall be calculated by dividing the unpaid balance, valued as of the preceding Valuation Date, by the number of installments remaining to be paid. Any distribution hereunder that is to be made over the life of the Supplemental Plan Participant or the lives of the Supplemental Plan Participant and his or her Beneficiary shall be based on such reasonable actuarial assumptions as the Committee may determine (which may be different than those applied under the Corporation's qualified plans or those used by commercial insurance companies)

(c) In the event of a Supplemental Plan Participant's termination of

employment with the Affiliated Employers by reason of death, the balance of his or her Memorandum Account determined under Section 3.1 of the Plan shall be paid in a single sum to the Supplemental Plan Participant's Beneficiary as soon as practicable after the receipt by the Supplemental Plan Participant's Affiliated Employer of notice of the Supplemental Plan Participant's death.

(d) If a Supplemental Plan Participant described in paragraph (a) or (b) dies prior to the complete distribution of his or her vested benefit, the remaining installments shall be paid to his or her Beneficiary; provided, that upon application by such Beneficiary showing financial hardship or other adequate cause as determined by the Committee in its sole discretion, the Committee may cause the remaining balance in the decedent's memorandum account to be paid in a lump sum to the Beneficiary in complete satisfaction of any remaining benefit obligation to such Beneficiary hereunder.

(e) If the Supplemental Plan Participant elects to roll over his or her vested CRSP benefit to the Corporation's Cash Balance Plan, the vested balance of his or her Memorandum Account hereunder shall be treated as having been transferred to the Corporation's nonqualified plan maintained as a supplement to the Corporation's Cash Balance Plan, and paid in accordance with the terms of that supplemental plan.

(f) All amounts payable hereunder shall be paid in cash only.

SCHEDULE X

Effective May 13, 1994, the Board of Directors deemed it advisable to provide certain additional benefits to one or more Supplemental ESOP Participants. Pursuant to such action of the Board, and in accordance with Section 7.10 of the Plan, the foregoing terms of this Supplemental Retirement Incentive Savings Plan are modified as follows:

1. "Schedule X Participant" shall mean Kennett F. Burnes.

2. Amount of Benefits. The following shall be substituted for Section 3.1(b(ii) of the Plan for the Schedule X Participant:

"(b)(ii) As soon as practicable after the last business day of each Plan Quarter, the Committee shall also accrue to each Supplemental Plan Participant's Memorandum Account an amount calculated as follows:

(A). Determine the amount (if any) that would have been contributed to the Supplemental Plan Participant's ESOP Allocation Account by his or her Affiliated Employer under Sections 7.5 of the CRSP for such Plan Quarter had the limitations of Sections 401(a) (17) and 415 of the Code and the corresponding limitations under the CRSP not applied, and had such contributions and allocations under the CRSP been based on Compensation increased (but only if Section 2.1(a) of the Plan is satisfied) by deferrals (if any) under the Corporation's nonqualified Deferred Compensation Plan.

(B). Multiple the result in subsection (A) above by two (2).

(C). Reduce the result in subsection (B) above by the amount (if any) which is actually contributed and allocated to the Supplemental Plan Participant's ESOP Allocation Account under Section 7.5 of the CRSP for such Plan Quarter."

EXHIBIT 10(l)
EXECUTION COPY

FISCAL AGENCY AGREEMENT

AMONG

CABOT FINANCE B.V.
AS ISSUER

AND

CABOT CORPORATION
AS GUARANTOR

AND

U.S. BANK TRUST
NATIONAL ASSOCIATION
AS FISCAL AGENT

5.25% NOTES DUE SEPTEMBER 1, 2013

Dated as of September 24, 2003

TABLE OF CONTENTS

FISCAL AGENCY AGREEMENT dated as of September 24, 2003 (the "Agreement"), among CABOT FINANCE B.V., a private company with limited liability organized under the laws of the Netherlands (the "Company"), CABOT CORPORATION, a Delaware corporation (the "Guarantor"), and U.S. BANK TRUST NATIONAL ASSOCIATION, a national banking association, as fiscal agent (the "Fiscal Agent").

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Company's Securities:

ARTICLE ONE

DEFINITIONS

Section 1.01. Definitions.

"Additional Securities" means 5.25% Notes due September 1, 2013 of the Company issued under this Agreement after the Issuance Date in accordance with Sections 2.02 and 2.15 hereof, and having identical terms and conditions to the Securities.

"Affiliate" means any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Guarantor.

"Agent" means any Registrar or Paying Agent. See Section 2.03.

"Agreement" means this Fiscal Agency Agreement as amended or supplemented from time to time.

"Applicable Procedures" means, with respect to any transfer or exchange of or for beneficial interests in any Global Security, the rules and procedures of the Depositary, Euroclear and Clearstream that apply to such transfer or exchange.

"Board of Directors" means the Management Board of the Company or any committee of the Management Board duly authorized to act for it hereunder.

"Board Resolution" means a resolution of the Board of Directors, which may be evidenced by a certificate of the Secretary or an Assistant Secretary of the Company stating that such resolution has been duly adopted by the Board of Directors and in is full force and effect.

"Company" means the party named as such in this Agreement until a successor replaces it pursuant to this Agreement and thereafter means the successor.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Depositary" shall mean, with respect to the Securities issuable or issued in whole or in part in the form of one or more Global Securities, the person designated as Depositary by the Company, which Depositary shall be a clearing agency registered under the Exchange Act; and if

at any time there is more than one such person, "Depositary" as used with respect to the Securities shall mean the Depositary.

"Distribution Compliance Period" shall mean, the period that begins on the closing of any offering of Securities (including any Additional Securities) and ends 40 days later.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fiscal Agent" means the party named as such in this Agreement until a successor replaces it pursuant to this Agreement and thereafter means the successor.

"Global Security" or "Global Securities" means a Security or Securities, as the case may be, in the form prescribed in Section 2.01 of this Agreement evidencing all or part of the Securities, issued to the Depositary or its nominee, and registered in the name of such Depositary or nominee.

"guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any indebtedness of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term "guarantee" will not include endorsements for collection or deposit in the ordinary course of business. The term "guarantee" used as a verb has a corresponding meaning.

"Guarantee" means the guarantee of payment of the Securities by the Guarantor pursuant to the terms of this Agreement.

"Guarantor" means the party named as such in this Agreement until a successor replaces it pursuant to this Agreement and thereafter means the successor.

"Holder" or "Securityholder" or "Holder of Securities" or "Noteholder" means a person in whose name a Security is registered on the Registrar's books.

"Indirect Participant" means a Person who holds a beneficial interest in a Global Security through a Participant.

"Institutional Accredited Investor" means an institution that is an "accredited investor" as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act, that is not also a Qualified Institutional Buyer.

"Issuance Date" means September 24, 2003.

"Officer" means the Chairman of the Board of Directors, the President, any Vice President, the Treasurer, the Secretary or the Controller of the Company.

"Officers' Certificate" means a certificate signed by two Officers or by an Officer and an Assistant Treasurer, Assistant Secretary or Assistant Controller of the Company.

"Opinion of Counsel" means a written opinion from legal counsel who may be an employee of or counsel to the Company, or who may be other counsel reasonably satisfactory to the Fiscal Agent.

"Participant" means, with respect to the Depositary, Euroclear or Clearstream, a Person who has an account with the Depositary, Euroclear or Clearstream, respectively (and, with respect to DTC, shall include Euroclear and Clearstream).

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Place of Payment" means, when used with respect to Securities, the place or places where the principal of, interest, if any, or Additional Amounts, if any, on the Securities are payable.

"Qualified Institutional Buyer" means a "qualified institutional buyer" as defined in Rule 144A.

"Responsible Officer" means any officer in the Corporate Trust Division of the Fiscal Agent or any other officer of the Fiscal Agent assigned by the Fiscal Agent to administer its corporate trust matters.

"Rule 144" means Rule 144 promulgated under the Securities Act.

"Rule 144A" means Rule 144A promulgated under the Securities Act.

"Rule 903" means Rule 903 promulgated under the Securities Act.

"Rule 904" means Rule 904 promulgated the Securities Act.

"SEC" means the Securities and Exchange Commission.

"Securities" means the 5.25% Notes due September 1, 2013 of the Company (including, without limitation, any Additional Securities) issued under this Agreement.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Securities Custodian" means the Fiscal Agent, as custodian with respect to the Securities in global form, or any successor entity thereto.

"U.S. Government Obligations" means direct obligations of the United States for the payment of which the full faith and credit of the United States is pledged.

Section 1.02. Other Definitions.

TERM	DEFINED IN SECTION
"Additional Amounts"	4.02
"Additional Taxing Jurisdiction"	4.02
"Adjusted Treasury Rate"	3.06
"Attributable Debt"	4.01
"Bankruptcy Law"	6.01
"Cash Equivalents"	8.04
"Change in Tax Law"	3.07
"Comparable Treasury Issue"	3.06
"Comparable Treasury Price"	3.06
"Consolidated Net Tangible Assets"	4.01
"Covenant Defeasance"	8.03
"Custodian"	6.01
"Debt"	4.01
"Definitive Securities"	2.01
"Directive"	4.02
"Discharge"	8.05
"DTC"	2.01
"DTC Participants"	2.01
"Exempted Debt"	4.01
"Existing Lien"	4.03
"Event of Default"	6.01
"IAI Global Security"	2.01
"Independent Investment Banker"	3.06
"Legal Defeasance"	8.02
"Legal Holiday"	12.06
"Lien"	4.01
"Long-Term Debt"	4.01
"Notice of Default"	6.01
"Obligations"	11.01
"Outstanding Securities"	3.02
"144A Global Security"	2.01
"Paying Agent"	2.03
"Payor"	4.02
"Principal Property"	4.01
"Private Placement Legend"	2.06
"Reference Treasury Dealer"	3.06
"Reference Treasury Dealer Quotations"	3.06
"Register"	2.03
"Registrar"	2.03
"Regulation S Global Security"	2.01
"Relevant Taxing Jurisdiction"	4.02
"Remaining Life"	3.06
"Restricted Property"	4.01

TERM	DEFINED IN SECTION
"Restricted Subsidiary"	4.01
"Sale-Leaseback Transaction"	4.01
"Subsidiary"	4.01
"Tax Redemption Date"	3.07
"Taxes"	4.02
"United States"	4.01

All other terms used in this Agreement that are defined by SEC rule have the meanings assigned to them.

Section 1.03. Rules of Construction.

Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term, not otherwise defined, has the meaning assigned to it in accordance with generally accepted accounting principles;

(3) "or" is not exclusive; and

(4) words in the singular include the plural, and in the plural include the singular.

ARTICLE TWO

THE SECURITIES

Section 2.01. Form and Dating.

(a) General Form of Securities. The Securities and the Fiscal Agent's certificate of authentication shall be substantially in the form of Exhibit A hereto, which Exhibit is part of this Agreement. The Securities may have notations, legends or endorsements required by law, stock exchange rule or usage. Each Security shall be dated the date of its authentication. The Securities shall be in minimum denominations of $1,000 and integral multiples thereof, except that Securities sold to Institutional Accredited Investors shall be in minimum denominations of $100,000 and integral multiples of $1,000 in excess thereof. The terms and provisions contained in the Securities shall constitute, and are hereby expressly made, a part of this Agreement and the Company, the Guarantor and the Fiscal Agent, by their execution and delivery of this Agreement, expressly agree to such terms and provisions and to be bound thereby.

Securities offered and sold to Qualified Institutional Buyers in reliance on Rule 144A under the Securities Act will initially be issued only in the form of one or more global Securities in definitive, fully registered form without interest coupons (each a "144A Global Security"). 144A Global Securities shall be substantially in the form of Exhibit A attached hereto (including the text and schedule called for by footnote 1 thereto).

Securities offered and sold to a limited number of Institutional Accredited Investors will initially be issued only in the form of one or more global Securities in definitive, fully registered form without interest coupons (each "IAI Global Security"). IAI Global Securities shall be substantially in the form of Exhibit A attached hereto (including the text and schedule called for by footnote 1 thereto).

Securities offered and sold outside the United States in reliance on Regulation S under the Securities Act will initially be issued only in the form of one or more global Securities in definitive, fully registered form without interest coupons (each a "Regulation S Global Security"; collectively with 144A Global Securities and IAI Global Securities, the "Global Securities"). Regulation S Global Securities shall be substantially in the form of Exhibit A attached hereto (including the text and schedule called for by footnote 1 thereto). Except as provided in Section 2.06(c) hereof, owners of beneficial interests in Global Securities will not be entitled to receive certificated Securities ("Definitive Securities"). Any Definitive Securities issued pursuant to Section 2.06(c) hereof shall be substantially in the form of Exhibit A attached hereto (including the text and schedule called for by footnote 1 thereto).

(b) Form of Global Securities.

(i) Each Global Security (A) shall represent such portion of the outstanding Securities as shall be specified therein, (B) shall provide that it shall represent the aggregate amount of outstanding Securities from time to time endorsed thereon and that the aggregate amount of outstanding Securities represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges and redemptions, (C) shall be registered in the name of the Depositary or its nominee, duly executed by the Company and authenticated by the Fiscal Agent as provided herein, for credit to the respective accounts of the Holders (or such accounts as they may direct) at the Depositary, (D) shall be delivered by the Fiscal Agent or its Agent to the Depositary or a Securities Custodian pursuant to the Depositary's instructions and (E) shall bear the applicable legends required by Section 2.06(d) hereof.

(ii) Members of, or participants in, the Depositary ("DTC Participants") shall have no rights under this Agreement with respect to any Global Security held on their behalf by the Depositary, and the Depositary may be treated by the Company, the Fiscal Agent, and any agent of the Company or the Fiscal Agent as the absolute owner of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Fiscal Agent, or any agent of the Company or the Fiscal Agent from giving effect to any written certification, proxy or other authorization furnished to the Depositary or impair, as between the Depositary and its agent members, the operation of customary practices governing the exercise of the rights of a Holder of any Security.

Any endorsement of a Global Security to reflect the amount of any increase or decrease in the amount of outstanding Securities represented thereby shall be made by the Fiscal

Agent or the Securities Custodian, at the direction of the Fiscal Agent, in accordance with instructions given by the Holder thereof as required by Section 2.06 hereof.

(c) Form of Definitive Securities. Subject to the provisions of Section 2.06 hereof, Definitive Securities may be produced in any manner determined by the Officers of the Company executing such Securities, as evidenced by their execution of such Securities. The Fiscal Agent must register Definitive Securities so issued in the name of, and cause the same to be delivered to, such Person (or its nominee).

(d) Provisions Applicable to Forms of Securities. The Securities may also have such additional provisions, omissions, variations or substitutions as are not inconsistent with the provisions of this Agreement, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with this Agreement, any applicable law or with any rules made pursuant thereto or with the rules of any securities exchange or governmental agency or as may be determined consistently herewith by the Officer of the Company executing such Securities, as conclusively evidenced by their execution of such Securities. All Securities shall be otherwise substantially identical except as provided herein.

Subject to the provisions of this Article 2, a registered Holder in a Global Security may grant proxies and otherwise authorize any Person to take any action that a Holder is entitled to take under this Agreement or the Securities.

Section 2.02. Execution and Authentication.

An Officer shall sign the Securities for the Company by manual or facsimile signature. The Company's seal may be reproduced on the Securities and may be in facsimile form.

If an Officer whose signature is on a Security no longer holds that office at the time a Security is authenticated, the Security shall nevertheless be valid.

A Security shall not be valid or obligatory for any purpose or entitled to the benefits of this Agreement until authenticated by the manual signature of the Fiscal Agent or its authenticating agent. The signature shall be conclusive evidence that the Security has been authenticated under this Agreement.

The Fiscal Agent shall authenticate Securities for original issue up to an initial maximum aggregate principal amount of $175,000,000 on the Issuance Date. Any Additional Securities issued by the Company in accordance with Section 2.15 hereof shall be authenticated by the Fiscal Agent on the date of their issuance in an aggregate principal amount specified in a Board Resolution and an Officers' Certificate provided pursuant to Section 2.15.

The Fiscal Agent may appoint an authenticating agent reasonably acceptable to the Company to authenticate Securities. An authenticating agent may authenticate Securities whenever the Fiscal Agent may do so. Each reference in this Agreement to authentication by the Fiscal Agent includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Company or an Affiliate of the Company.

Section 2.03. Fiscal Agent, Registrar and Paying Agent.

The Company hereby appoints U.S. Bank Trust National Association, at its principal office in New York, New York, as the Fiscal Agent hereunder and U.S. Bank Trust National Association hereby accepts such appointment. The Fiscal Agent shall have the powers and authority granted to and conferred upon it in the Securities and hereby and such further powers and authority to act on behalf of the Company as may be mutually agreed upon by the Company and the Fiscal Agent, and the Fiscal Agent shall keep a copy of this Agreement available for inspection during normal business hours at its principal office in New York, New York.

The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange ("Registrar") and an office or agency where Securities may be presented for payment ("Paying Agent"). The Registrar shall keep a register ("Register") of the Securities and of their transfer and exchange. The Company may also from time to time appoint one or more co-registrars and one or more additional paying agents. The term "Registrar" includes any co-registrar and the term "Paying Agent" includes any additional paying agent. The Company may change any Paying Agent or Registrar upon notice to the Holders. The Company shall notify the Fiscal Agent in writing of the name and address of any Agent not a party to this Agreement. If the Company fails to appoint or maintain another entity as Registrar or Paying Agent, the Fiscal Agent shall act, subject to the penultimate paragraph of this Section 2.03, as such. The Company or any of its Subsidiaries may act as Paying Agent or Registrar; provided, however, that none of the Company, its Subsidiaries or the Affiliates of the foregoing shall act as Paying Agent or Registrar if a Default or Event of Default has occurred and is continuing. Upon the implementation of the Directive (as defined below in Section 4.02), the Company or the Fiscal Agent (upon the request and at the expense of the Company) shall maintain a Paying Agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to the Directive.

The Company initially appoints the Fiscal Agent to act as the Registrar and Paying Agent and to act as Securities Custodian with respect to the Global Securities.

All of the terms and provisions with respect to such powers and authority contained in the Securities are subject to and governed by the terms and provisions hereof.

The Fiscal Agent may resign as Registrar or Paying Agent upon 30 days prior written notice to the Company.

The Company initially appoints DTC to act as Depositary with respect to the Global Securities.

Section 2.04. Paying Agent to Hold Money in Trust.

The Company shall require each Paying Agent other than the Fiscal Agent to agree in writing that the Paying Agent will hold in trust for the benefit of Holders or the Fiscal Agent all money and Cash Equivalents held by the Paying Agent for the payment of principal of, or premium, if any, or interest on, the Securities (whether such money and Cash Equivalents have been distributed to the Paying Agent by the Company or the Guarantor), and shall notify

the Fiscal Agent of any default by the Company or the Guarantor in making any such payment. While any such default continues, the Fiscal Agent may require a Paying Agent to pay all money and Cash Equivalents held by it to the Fiscal Agent. The Company at any time may require a Paying Agent to pay all money and Cash Equivalents held by it to the Fiscal Agent. Upon payment of all such money and Cash Equivalents over to the Fiscal Agent, the Paying Agent (if other than the Company or a Subsidiary) shall have no further liability for the money and Cash Equivalents. If the Company or a Subsidiary acts as Paying Agent, it shall segregate and hold in a separate trust fund for the benefit of the Holders all money and Cash Equivalents held by it as Paying Agent. Upon any bankruptcy or reorganization proceedings relating to the Company, the Fiscal Agent shall serve as Paying Agent for the Securities.

Section 2.05. Holder Lists.

The Fiscal Agent shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of all Holders. If the Fiscal Agent is not the Registrar, the Company shall furnish to the Fiscal Agent at least seven business days before each interest payment date, and at such other times as the Fiscal Agent may request in writing, a list in such form and as of such date as the Fiscal Agent may reasonably require of the names and addresses of the Holders of Securities.

Section 2.06. Transfer and Exchange.

(a) Transfer and Exchange of Global Securities. A Global Security may not be transferred as a whole except by the Depositary to a nominee of the Depositary, by a nominee of the Depositary to the Depositary or to another nominee of the Depositary, or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary. Global Securities may be exchanged or replaced, in whole or in part, as provided in this Section 2.06 and Section 2.07 hereof. Every Security authenticated and delivered in exchange for, or in lieu of, a Global Security or any portion thereof, pursuant to this Section 2.06 or Section 2.07 or 2.10 hereof, shall be authenticated and delivered in the form of, and shall be, a Global Security. A Global Security may not be exchanged for another Security other than as provided in this Section 2.06(a) and Section 2.06(c) hereof, however, beneficial interests in a Global Security may be transferred and exchanged as provided in Section 2.06(b) hereof.

(b) Transfer and Exchange of Beneficial Interests in the Global Securities. The transfer and exchange of beneficial interests in the Global Securities shall be effected through the Depositary, in accordance with the provisions of this Agreement and the Applicable Procedures. Beneficial interests in the Global Securities shall be subject to restrictions on transfer comparable to those set forth herein to the extent required by the Securities Act. Transfers of beneficial interests in the Global Securities also shall require compliance with either subparagraph (i) or (ii) below, as applicable, as well as one or more of the other following subparagraphs, as applicable:

(i) Transfer of Beneficial Interests in the Same Global Security. Beneficial interests in any Global Security may be transferred to Persons who take delivery thereof in the form of a beneficial interest in the same Global Security in accordance with the transfer restrictions set forth in the Private

Placement Legend. No written orders or instructions shall be required to be delivered to the Registrar to effect the transfers described in this Section 2.06(b).

(ii) All Other Transfers and Exchanges of Beneficial Interests in Global Securities. In connection with all transfers and exchanges of beneficial interests that are not subject to Section 2.06(b)(i), the transferor of such beneficial interest must deliver to the Registrar (A) a written order from a Participant or an Indirect Participant given to the Depositary in accordance with the Applicable Procedures directing the Depositary to credit or cause to be credited a beneficial interest in another Global Security in an amount equal to the beneficial interest to be transferred or exchanged and (B) instructions given in accordance with the Applicable Procedures containing information regarding the Participant account to be credited with such increase. In addition, the Registrar must receive the following:

(A) if the transferee will take delivery in the form of a beneficial interest in the 144A Global Security, then the transferor must deliver a certificate in the form of Exhibit B hereto, including the certifications in item (1) thereof;

(B) if the transferee will take delivery in the form of a beneficial interest in the Regulation S Global Security, then the transferor must deliver a certificate in the form of Exhibit B hereto, including the certifications in item (2) thereof; and

(C) if the transferee will take delivery in the form of a beneficial interest in the IAI Global Security, then the transferor must deliver a certificate in the form of Exhibit B hereto, including the certifications and certificates and Opinion of Counsel required by item (3) thereof, if applicable.

Provided that, after any Distribution Compliance Period, the Registrar need not receive such certificate in respect of a transfer of a beneficial interest in the Regulation S Global Security. Upon satisfaction of all of the requirements for transfer or exchange of beneficial interests in Global Securities contained in this Agreement and the Securities or otherwise applicable under the Securities Act, the Fiscal Agent shall adjust the principal amount of the relevant Global Security(s) pursuant to Section 2.06(e) hereof.

(c) Exchange for Definitive Securities.

(i) Except as provided below, owners of beneficial interests in Global Securities will not be entitled to receive Definitive Securities. Definitive Securities shall be transferred to all beneficial owners in exchange for their beneficial interests in a Global Security if (A) DTC notifies the

Company that it is unwilling or unable to continue as depositary for such Global Security or DTC ceases to be a clearing agency registered under the Exchange Act, at a time when DTC is required to be so registered in order to act as depositary, and in each case a successor depositary is not appointed by the Company within 90 days of such notice, (B) the Company executes and delivers to the Fiscal Agent and Registrar an Officers' Certificate stating that such Global Security shall be so exchangeable; provided that in no event shall the Regulation S Global Security be exchanged by the Company for Definitive Securities prior to the expiration of the Distribution Compliance Period or (C) an Event of Default has occurred and is continuing and the Registrar has received a request from DTC.

(ii) In connection with the transfer of an entire Global Security to beneficial owners pursuant to this Section 2.06(c), such Global Security shall be deemed to be surrendered to the Fiscal Agent for cancellation, and the Company shall execute, and the Fiscal Agent shall authenticate and deliver, to each beneficial owner identified by DTC in exchange for its beneficial interest in such Global Security, an equal aggregate principal amount of Definitive Securities of authorized denominations. Any Definitive Security delivered in exchange for an interest in a Global Security pursuant to this Section 2.06(c) shall bear the Private Placement Legend.

(d) Legends. The following legends shall appear on the face of all Securities issued under this Agreement unless specifically stated otherwise in the applicable provisions of this Agreement.

(i) Private Placement Legend.

(A) Each Security (and all Securities issued in exchange therefor or substitution thereof) shall bear the legend in substantially the following form (the "Private Placement Legend").

"THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR OTHER SECURITIES LAWS. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING ITS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (C) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) OF REGULATION

D UNDER THE SECURITIES ACT) (AN "IAI"), (2) AGREES THAT IT WILL NOT PRIOR TO (X) THE DATE THAT IS TWO YEARS (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144(k) UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF (OR OF ANY PREDECESSOR OF THIS NOTE) OR THE LAST DAY ON WHICH CABOT FINANCE B.V. OR ANY AFFILIATE OF CABOT FINANCE B.V. WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF THIS NOTE) AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE "RESALE RESTRICTION TERMINATION DATE"), OFFER, SELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO CABOT CORPORATION OR CABOT FINANCE B.V., (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A INSIDE THE UNITED STATES, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT , (E) TO AN IAI THAT, PRIOR TO SUCH TRANSFER, FURNISHES TO THE FISCAL AGENT A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS RELATING TO THE REGISTRATION OF TRANSFER OF THIS NOTE (THE FORM OF WHICH LETTER CAN BE OBTAINED FROM THE FISCAL AGENT) OR (F) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT CABOT CORPORATION, CABOT FINANCE B.V., THE FISCAL AGENT AND THE REGISTRAR SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSES (E) or (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATION OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS NOTE IS COMPLETED AND DELIVERED BY THIS TRANSFEROR TO THE FISCAL AGENT. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT."

(ii) Global Security Legend. Each Global Security shall bear a legend in substantially the following form:

"Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Company or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is

requested by an authorized representative of DTC (and any payment is made to Cede & Co or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein."

"THIS GLOBAL NOTE IS HELD BY THE DEPOSITARY (AS DEFINED IN THE FISCAL AGENCY AGREEMENT GOVERNING THIS NOTE) OR ITS NOMINEE IN CUSTODY FOR THE BENEFIT OF THE BENEFICIAL OWNERS HEREOF, AND IS NOT TRANSFERABLE TO ANY PERSON UNDER ANY CIRCUMSTANCES EXCEPT THAT (I) THE FISCAL AGENT MAY MAKE SUCH NOTATIONS HEREON AS MAY BE REQUIRED PURSUANT TO SECTION 2.06(b)(ii) AND SECTION 2.06(e) OF THE FISCAL AGENCY AGREEMENT, (II) THIS GLOBAL NOTE MAY BE EXCHANGED IN WHOLE BUT NOT IN PART PURSUANT TO SECTION 2.06(a) OF THE FISCAL AGENCY AGREEMENT, (III) THIS GLOBAL NOTE MAY BE DELIVERED TO THE FISCAL AGENT FOR CANCELLATION PURSUANT TO SECTION 2.11 OF THE FISCAL AGENCY AGREEMENT AND (IV) THIS GLOBAL NOTE MAY BE TRANSFERRED TO A SUCCESSOR DEPOSITARY WITH THE PRIOR WRITTEN CONSENT OF THE COMPANY."

(e) Cancellation and/or Adjustment of Global Securities. At such time as all beneficial interests in a particular Global Security have been exchanged for Definitive Securities or a particular Global Security has been redeemed, repurchased or canceled in whole and not in part, each such Global Security shall be returned to or retained and canceled by the Fiscal Agent in accordance with Section 2.11 hereof. At any time prior to such cancellation, if any beneficial interest in a Global Security is exchanged for or transferred to a Person who will take delivery thereof in the form of a beneficial interest in another Global Security or exchanged for Definitive Securities pursuant to Section 2.06(c) hereof, the principal amount of Securities represented by such Global Security shall be reduced accordingly and an endorsement shall be made on such Global Security by the Fiscal Agent or by the Depositary at the direction of the Fiscal Agent to reflect such reduction; and if the beneficial interest is being exchanged for or transferred to a Person who will take delivery thereof in the form of a beneficial interest in another Global Security, such other Global Security shall be increased accordingly and an endorsement shall be made on such Global Security by the Fiscal Agent or by the Depositary at the direction of the Fiscal Agent to reflect such increase.

(f) General Provisions Relating to Transfers and Exchanges.

(i) To permit registrations of transfers and exchanges, the Company shall execute and the Fiscal Agent shall authenticate Global Securities and Definitive Securities upon the Company's order or at the Registrar's request.

(ii) No service charge shall be made to a Holder for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than any such transfer taxes or similar

governmental charge payable upon exchange or transfer pursuant to Sections 2.06 or 9.04 hereof).

(iii) The Registrar shall not be required to register the transfer of or exchange any Security selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

(iv) All Securities issued upon any registration of transfer or exchange pursuant to the terms of this Agreement shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Agreement, as the Securities surrendered upon such registration of transfer or exchange.

(v) The Company shall not be required (A) to issue, to register the transfer of or to exchange any Securities during a period beginning at the opening of business 15 days before the day of any selection of Securities for redemption under Section 3.02 hereof and ending at the close of business on the day of selection or (B) to register the transfer of or to exchange any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

(vi) Prior to due presentment for the registration of a transfer of any Security, the Fiscal Agent, any Agent and the Company may deem and treat the Person in whose name any Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and interest on such Securities and for all other purposes, and none of the Fiscal Agent, any Agent or the Company shall be affected by notice to the contrary.

(vii) The Fiscal Agent shall authenticate Securities in accordance with the provisions of Section 2.02 hereof.

(viii) All certifications, certificates and Opinions of Counsel required to be submitted to the Registrar pursuant to this Section 2.06 to effect a registration of transfer or exchange may be submitted by facsimile.

(ix) The Fiscal Agent shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Agreement or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among Participants or beneficial owners of interests in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Agreement, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

Section 2.07. Replacement Securities.

If any mutilated Security is surrendered to the Fiscal Agent, or the Company and the Fiscal Agent receive evidence to their satisfaction of the destruction, loss or theft of any Security, the Company shall, upon the written request of the Holder thereof, issue and the Fiscal Agent, upon the written order of the Company signed by two Officers of the Company, shall authenticate a replacement Security if the Fiscal Agent's requirements are met. If required by the Fiscal Agent or the Company, an indemnity bond must be supplied by such Holder that is sufficient in the judgment of the Fiscal Agent and the Company to protect the Company, the Fiscal Agent, any Agent and any authenticating agent from any loss that any of them may suffer if a Security is replaced. The Company may charge such Holder for its expenses in replacing a Security.

Every replacement Security is an additional obligation of the Company and shall be entitled to all of the benefits of this Agreement equally and proportionately with all other Securities duly issued hereunder.

The provisions of this Section 2.07 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

Section 2.08. Outstanding Securities.

The Securities outstanding at any time (the "Outstanding Securities") are all the Securities authenticated by the Fiscal Agent except for those cancelled by it (or its agent), those delivered to it (or its agent) for cancellation, those reductions in the beneficial interest in a Global Security effected by the Fiscal Agent in accordance with the provisions hereof, and those described in this Section 2.08 as not outstanding. Except as set forth in Section 2.09 hereof, a Security does not cease to be outstanding because the Company or an Affiliate of the Company holds the Security.

If a Security is replaced pursuant to Section 2.07 hereof, it ceases to be outstanding unless the Fiscal Agent receives proof satisfactory to it that the replaced Security (other than a mutilated Security surrendered for replacement) is held by a "protected purchaser" (as such term is defined in Section 8-303 of the Uniform Commercial Code as in effect in the State of New York).

If the principal amount of any Security is considered paid under Section 4.02 hereof, it ceases to be outstanding and interest on it ceases to accrue.

If the Paying Agent (other than the Company, a Subsidiary or an Affiliate of any thereof) holds, on a redemption date or maturity date, money or Cash Equivalents sufficient to pay all of the principal of, premium (if any) and interest on Securities payable on that date, then on and after that date such Securities shall be deemed to be no longer outstanding and shall cease to accrue interest.

Section 2.09. Treasury Securities.

In determining whether the Holders of the required principal amount of Securities have concurred in any direction, waiver or consent, Securities owned by the Company, or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company, shall be considered as though not outstanding and shall be disregarded, except that for the purposes of determining whether the Fiscal Agent shall be protected in relying on any such direction, waiver or consent, only Securities that a Responsible Officer of the Fiscal Agent has actual knowledge are so owned shall be so disregarded.

Section 2.10. Temporary Securities.

In lieu of formal printed Definitive Securities, or until such Definitive Securities are ready for delivery, the Company may prepare and the Fiscal Agent shall authenticate temporary Securities upon a written order of the Company signed by two Officers of the Company. Temporary Securities shall be substantially in the form of Definitive Securities but may have variations that the Company considers appropriate for temporary Securities and as shall be reasonably acceptable to the Fiscal Agent. At the Company's election, the Company may prepare and the Fiscal Agent shall authenticate Definitive Securities in exchange for temporary Securities.

Unless and until any such exchange, Holders of temporary Securities shall be entitled to all of the benefits of this Agreement.

Section 2.11. Cancellation.

The Company at any time may deliver Securities to the Fiscal Agent or its agent for cancellation. The Registrar and Paying Agent shall forward to the Fiscal Agent any Securities surrendered to them for registration of transfer, exchange or payment. The Fiscal Agent (or its agent) and no one else shall cancel all Securities surrendered for registration of transfer, exchange, payment, replacement or cancellation and shall destroy cancelled Securities (subject to the record retention requirement of the Exchange Act). Certification of the destruction of all cancelled Securities shall be delivered to the Company, upon written request, from time to time. The Company may not issue new Securities to replace Securities that it has paid or that have been delivered to the Fiscal Agent (or its agent) for cancellation. If the Company acquires any of the Securities, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Securities unless and until the same are surrendered to the Fiscal Agent (or its agent) for cancellation pursuant to this Section 2.11.

Section 2.12. Defaulted Interest.

If the Company defaults in a payment of interest on the Securities, it shall pay the defaulted interest in any lawful manner plus, to the extent lawful, interest payable on the defaulted interest, to the Persons who are Holders on a subsequent special record date, in each case at the rate provided in the Securities. The Company shall notify the Fiscal Agent in writing of the amount of defaulted interest proposed to be paid on each Security and the date of the proposed payment. The Company shall fix or cause to be fixed each such special record date and payment date; provided that no such special record date shall be less than 10 days prior to the

related payment date for such defaulted interest. At least 15 days before the special record date, the Company (or, upon the written request of the Company, the Fiscal Agent in the name and at the expense of the Company) shall mail or cause to be mailed to Holders a notice that states the special record date, the related payment date and the amount of such defaulted interest to be paid.

Section 2.13. Persons Deemed Owners.

Prior to due presentment for the registration of a transfer of any Security, the Fiscal Agent, any Agent, the Company and any agent of the foregoing shall deem and treat the Person in whose name any Security is registered as the absolute owner of such Security for all purposes (including the purpose of receiving payment of principal of and interest on such Securities; provided that defaulted interest shall be paid as set forth in Section 2.12), and none of the Fiscal Agent, any Agent, the Company or any agent of the foregoing shall be affected by notice to the contrary.

Section 2.14. CUSIP Numbers.

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Company will print CUSIP numbers on the Securities, and the Fiscal Agent may use CUSIP numbers in notices of redemption and purchase as a convenience to Holders; provided, however, that any such notices may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of redemption or purchase and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption or purchase shall not be affected by any defect or omission in such numbers.

Section 2.15. Issuance of Additional Securities.

The Company shall be entitled to issue Additional Securities under this Agreement at any time. Additional Securities shall have identical terms as the Securities, other than with respect to the date of issuance and issue price. The Securities and any Additional Securities shall be treated as a single class for all purposes under this Agreement.

With respect to any issuance of Additional Securities, the Company shall deliver to the Fiscal Agent a Board Resolution and an Officers' Certificate, and, if the Company elects, a supplement or amendment to this Agreement, which shall together provide the following information:

(1) the aggregate principal amount of Additional Securities to be authenticated and delivered pursuant to this Agreement;

(2) the issue price and the issue date of such Additional Securities; and

(3) whether such Additional Securities shall be transfer restricted Securities.

Section 2.16. Legal Holidays.

A "Legal Holiday" is a Saturday, a Sunday or a day on which banking institutions in a jurisdiction in which an action is required hereunder are not required to be open. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

ARTICLE THREE

REDEMPTION

Section 3.01. Notice to Fiscal Agent of Election to Redeem.

The election of the Company pursuant to Section 3.06 or Section 3.07 hereof to redeem any Securities shall be evidenced by a Board Resolution. In case of any redemption at the election of the Company of all or less than all of the Securities, the Company, shall, at least 60 days prior to the date fixed for redemption by the Company (unless a shorter notice shall be satisfactory to the Fiscal Agent), notify the Fiscal Agent in writing of such date and of the principal amount of Securities of such series to be redeemed. Any such notice to the Fiscal Agent may be cancelled and rescinded by the Company at any time prior to the mailing of such notice to any Holder pursuant to Section 3.03 or Section 3.07. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Agreement, the Company shall furnish the Fiscal Agent with an Officers' Certificate evidencing compliance with such restriction.

Section 3.02. Selection of Securities to be Redeemed.

In an optional redemption pursuant to Section 3.06, if less than all the Securities are to be redeemed, the particular Securities to be redeemed shall be selected, not more than 60 days prior to the applicable date fixed for redemption, by the Fiscal Agent, from the Outstanding Securities of such series not previously called for redemption, by such method as the Fiscal Agent shall deem fair and appropriate and which may provide for the selection for redemption of portions of the principal amount of Securities of a denomination larger than the minimum authorized denomination for the Securities.

The Fiscal Agent shall promptly notify the Company in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Agreement, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

The Fiscal Agent may select for redemption portions of the principal amount of the Securities that have denominations larger than $1,000. Securities and portions of them it selects shall be in amounts of $1,000 or integral multiples of $1,000.

Section 3.03. Notice of Redemption.

Notice of redemption to the Holders of Securities to be redeemed as a whole or in part at the option of the Company pursuant to Section 3.06 or Section 3.07 shall be given by mailing notice of such redemption by first-class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption to such Holders of Securities at their last addresses as they shall appear on the Register. Any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the Holder receives the notice. Failure to give notice by mail, or any defect in the notice, to the Holder of any Security of a series designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Security.

The notice of redemption to each such Holder shall specify the CUSIP number (if any) and the principal amount of each Security held by such Holder to be redeemed, the date fixed for redemption, the redemption price, the name of the Paying Agent, Place or Places of Payment, that payment will be made upon presentation and surrender of such Securities, that interest accrued to the date fixed for redemption will be paid as specified in such notice and that on and after said date interest thereon or on the portions thereof to be redeemed will cease to accrue. In case any Security is to be redeemed in part only, the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of such Security, a new Security or Securities of such series, in principal amount equal to the unredeemed portion thereof, will be issued.

The notice of redemption of Securities to be redeemed shall be given by the Company or, at the Company's timely request, by the Fiscal Agent in the name and at the expense of the Company.

At least one business day prior to the redemption date specified in the notice of redemption given as provided in this Section, the Company will deposit with the Fiscal Agent or with one or more paying agents (or, if the Company is acting as Paying Agent, set aside, segregate and hold in trust as provided in Section 2.04) an amount of money or Cash Equivalents, or combination thereof, sufficient to redeem on the redemption date all the Securities so called for redemption at the appropriate redemption price, together with accrued interest and Additional Amounts payable under Section 4.02(b), if any, to the date fixed for redemption. Promptly following the date fixed for redemption, the Paying Agent shall return to the Company any amounts of money and Cash Equivalents so deposited which are not required to redeem the Securities called for redemption.

Section 3.04. Payment of Securities Called for Redemption.

If notice of redemption has been given as above provided, the Securities or portions of Securities specified in such notice shall become due and payable on the date and at the place stated in such notice at the applicable redemption price, together with interest accrued to the date fixed for redemption, and on and after said date (unless the Company shall default in the payment of such Securities at the redemption price, together with interest, if any, accrued to said date) any interest on the Securities or portions of Securities so called for redemption shall cease to accrue and such Securities shall cease from and after the date fixed for redemption to be

entitled to any benefit or security under this Agreement, and the Holders thereof shall have no right in respect of such Securities except the right to receive the redemption price thereof and unpaid interest to the date fixed for redemption. On presentation and surrender of such Securities at a Place of Payment specified in said notice, said Securities or the specified portions thereof shall be paid and redeemed by the Company at the applicable redemption price, together with any interest (including Additional Amounts payable under Section 4.02(b)) accrued thereon to the date fixed for redemption; provided that any semiannual payment of interest becoming due on the date fixed for redemption shall be payable to the Holders of such Securities registered as such in the Register on the relevant record date.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid or duly provided for, bear interest from the date fixed for redemption at the rate of interest borne by the Security.

Upon presentation of any Security redeemed in part only, the Company shall execute and the Fiscal Agent shall authenticate and deliver to or on the order of the Holder thereof, at the expense of the Company, a new Security or Securities of such series, of authorized denominations, in principal amount equal to the unredeemed portion of the Security so presented, and having endorsed thereon a Guarantee or Guarantees executed by the Guarantor.

Section 3.05. Exclusion of Certain Securities from Eligibility for Selection for Redemption.

In the case of an optional redemption pursuant to Section 3.06 hereof, Securities shall be excluded from eligibility for selection for redemption if they are identified by registration and certificate number or other distinguishing symbol in a written statement signed by an authorized officer of the Company and delivered to the Fiscal Agent at least 40 days prior to the last date on which notice of redemption may be given as being owned of record and beneficially by, and not pledged or hypothecated by either (a) the Company or the Guarantor or (b) an entity specifically identified in such written statement as directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or the Guarantor.

Section 3.06. Optional Redemption.

The Securities shall be subject to redemption at the option of the Company, in whole or in part, at any time prior to maturity at the Company's option, at a redemption price equal to the greater of: (i) 100% of the principal amount of the Securities to be redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest (including Additional Amounts payable under Section 4.02(b)) on the Securities to be redeemed (not including any payments of interest accrued as of the date fixed for redemption) discounted to such redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate (as defined below), plus 20 basis points, as calculated by an Independent Investment Banker (as described below), plus, in each case, accrued and unpaid interest (including Additional Amounts payable under Section 4.02(b)) on the Securities to be redeemed to the date fixed for redemption.

For purposes of this Section 3.06, the following terms shall have the meanings indicated:

The term "Adjusted Treasury Rate" means with respect to any redemption date:

(a) the yield, under the heading that represents the average for the immediately preceding week appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities, adjusted to constant maturity under the caption "Treasury Constant Maturities" for the maturity corresponding to the Comparable Treasury Issue (as defined below). If no maturity is within three months before or after the Remaining Life (as defined below), yields for the two published maturities most closely corresponding to the Comparable Treasury Issue will be determined and the Adjusted Treasury Rate will be interpolated or extrapolated from those yields on a straight line basis, routing to the nearest month; or

(b) if the statistical release described in the previous paragraph (or any successor release) is not published during the week preceding the calculation date or does not contain the relevant yields, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (as defined below) for that redemption date.

The Adjusted Treasury Rate will be calculated on the third business day preceding the redemption date.

The term "Comparable Treasury Issue" means the U.S. Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining terms of the Securities to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Securities to be redeemed (the "Remaining Life").

The term "Comparable Treasury Price" means (1) the average of five Reference Treasury Dealer Quotations (as defined below) for the redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Independent Investment Banker obtains fewer than five Reference Treasury Dealer Quotations, the average of all such quotations.

The term "Independent Investment Banker" means Lehman Brothers Inc. or its successors as selected by it or, at the Company's option in lieu of Lehman Brothers Inc. or if Lehman Brothers Inc. is unwilling or unable to serve as Independent Investment Banker, an independent investment and banking institution of international standing appointed by the Company.

The term "Reference Treasury Dealer" means:

(a) Lehman Brothers Inc. or its successors, unless any of them ceases to be a primary U.S. government securities dealer in New York City, in which case the Company shall substitute another primary U.S. government securities dealer in New York City, and

(b) up to four other primary U.S. government securities dealers in New York City selected by the Company.

The term "Reference Treasury Dealer Quotations" means with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker at 5:00 p.m., New York City time, on the third business day preceding the redemption date.

Section 3.07. Optional Redemption Due to Changes in Tax Treatment.

The Company may redeem the Securities in whole, but not in part, at any time upon giving not less than 30 or more than 60 days' notice to the Holders of the Securities (which notice will be irrevocable) at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed for redemption (a "Tax Redemption Date") (in the case of Definitive Securities, subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), and Additional Amounts, if any, then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise, if the Company determines that, as a result of:

(1) any change in, or amendment to, the law or treaties (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction (as defined below in Section 4.02(b)) affecting taxation; or

(2) any change in position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction)(each of the foregoing in clauses (1) and (2), a "Change in Tax Law"),

the Company, with respect to the Securities, or the Guarantor, with respect to the Guarantee, as the case may be, is, or on the next interest payment date in respect of the Securities would be, required to pay more than de minimis Additional Amounts pursuant to Section 4.02(b), and such obligation cannot be avoided by taking reasonable measures available to it. In the case of the Company or the Guarantor, the Change in Tax Law must become effective on or after the Issuance Date. In the case of a successor entity of the Company or the Guarantor, the Change in Tax Law must become effective after the date that such successor entity first makes payment on the Securities. Notwithstanding the foregoing, no such notice of redemption will be given (a) earlier than 90 days prior to the earliest date on which the Payor (as defined below in Section 4.02(b)) would be obliged to make such payment or withholding if a payment in respect of the Securities or the Guarantee issued by it were then due and (b) unless at the time such notice is given, such obligation to pay such Additional Amounts remains in effect. Prior to the mailing of any notice of redemption of Securities pursuant to the foregoing, the Company shall deliver to the Fiscal Agent (a) an Officers' Certificate stating that the Company is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to its right so to redeem have been satisfied and (b) an opinion of an independent tax counsel reasonably satisfactory to the Fiscal Agent to the effect that the circumstances referred to in this Section 3.07 exist.

ARTICLE FOUR

COVENANTS

Section 4.01. Certain Definitions.

The following capitalized terms used in this Agreement shall have the meanings ascribed to them below.

"Attributable Debt" means, as of the date of determination, the present value of rent due under a lease for the remaining primary term of the lease. Rent shall be discounted to present value from the due date of each installment to the date of determination at the actual interest factor included in the rent or, if the interest factor cannot readily be determined, at 12% per annum. Rent is the lesser of (1) rent for the remaining primary term of the lease assuming it is not earlier terminated, or (2) rent from the date of determination until the first permitted termination date under the lease plus the termination payment then due, if any. The remaining primary term of a lease includes any period for which the lease has been extended. Rent does not include (1) amounts payable for maintenance, repairs, insurance, taxes, assessments, water rates, and similar charges, or (2) contingent rent, such as that based on sales. Rent may be reduced by rent, discounted in the manner provided above, that any sublessee must pay from the date of determination for all or part of the same property. An obligation to pay rent shall be counted only once even if more than one entity is responsible for the obligation.

"Consolidated Net Tangible Assets" means total assets appearing on the most recently prepared consolidated balance sheet of the Guarantor and its consolidated Subsidiaries at the end of a fiscal quarter of the Guarantor, prepared in accordance with generally accepted accounting principles in the United States, less (1) total current liabilities (excluding notes and loans payable, current maturities of obligations under capital leases and current maturities of long-term debt) and (2) goodwill, patents and patent rights, trademarks, trade names, copyrights, debt discount and expense and other like intangibles.

"Debt" means any debt for money borrowed or any guarantee of such debt. A Debt obligation shall be counted only once even if more than one entity is responsible for the obligation.

"Exempted Debt" means the total of the following incurred after the effective date of this Agreement (1) the outstanding principal amount of Debt of the Guarantor and its Restricted Subsidiaries secured by any Lien on Principal Property other than a Lien permitted by paragraphs (1) through (8) of Section 4.03; plus (2) the outstanding Attributable Debt arising from Sale-Leaseback Transactions of the Guarantor and its Restricted Subsidiaries other than Attributable Debt arising from a Sale-Leaseback Transaction permitted by paragraphs (1) through (4) of Section 4.04.

"Lien" means any mortgage, pledge, security interest or lien.

"Long-Term Debt" means Debt that by its terms matures on a date more than 12 months after the date of determination or Debt that the obligor may extend or renew without the obligee's consent to a date more than 12 months after the date of determination.

"Principal Property" means (1) any real property, manufacturing plant, processing plant, warehouse or office building owned or leased by the Guarantor or a Restricted Subsidiary which has a gross book value, excluding depreciation, in excess of 2% of Consolidated Net Tangible Assets or (2) any other property designated as such by the board of directors of the Guarantor. The definition does not include: (1) any plant, warehouse, building or other property, or any portion thereof, that, in the opinion of the board of directors of the Guarantor, is at any time not of material importance to the total business conducted by the Guarantor and its consolidated Subsidiaries taken as a whole; or (2) any plant, warehouse, building or other property acquired by the Guarantor or a Restricted Subsidiary after the date of this Agreement which is financed by obligations of any State, political subdivision of any State, or the District of Columbia issued pursuant to agreements that satisfy the provisions of Section 142(a) or Section 144(a) of the Internal Revenue Code of 1986, or any successor to any such provisions.

"Restricted Property" means any Principal Property, any Debt of a Restricted Subsidiary or any shares of stock of a Restricted Subsidiary, in each case now owned or thereafter acquired by the Guarantor or a Restricted Subsidiary.

"Restricted Subsidiary" means (1) Cabot Finance B.V.; (2) any Subsidiary substantially all of the assets of which are located in the United States (excluding territories or possessions) and which owns a Principal Property; provided, however, that the term Restricted Subsidiary shall not include any Subsidiary under this clause (2) that is principally engaged in the business of (i) financing, (ii) owning, buying, selling, leasing, dealing in or developing real property, or (iii) exporting goods or merchandise from or importing goods or merchandise into the United States and (3) any Subsidiary which is designated as a Restricted Subsidiary by the board of directors of the Guarantor subsequent to the date of this Agreement.

"Sale-Leaseback Transaction" means an arrangement pursuant to which the Guarantor or a Restricted Subsidiary transfers Principal Property to a third person and leases it back from such person.

"Subsidiary" means a direct or indirect subsidiary of the Guarantor.

"United States" means the United States of America including its territories and possessions.

Section 4.02. Payment of Securities.

(a) The Company shall pay the principal of, and interest and premium, if any, on the Securities on the date and in the manner provided in the Securities and this Agreement. An installment of principal or interest shall be considered paid on the date it is due if the Fiscal Agent or Paying Agent holds on that date money irrevocably designated for and sufficient to pay the installment. At the Company's option, it may pay any interest on any Securities by mailing checks by first class mail to the Holders of such Securities at their address as shown on the Registrar's books; provided that all payments with respect to Global Securities and Definitive Securities the Holders of which have given wire transfer instructions to the Company will be required to be made by wire transfer of same day funds to the accounts in the United States specified by the Holders thereof. The Company shall pay interest on overdue principal and

premium, if any, at the rate or rates borne by the Securities; it shall, to the extent lawful, pay interest on overdue installments of interest at the same rate or rates.

(b) The Company hereby further agrees that all payments made by the Company, the Guarantor or any successor entity of the Company or the Guarantor (each a "Payor") on the Securities or the Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of:

(i) The Netherlands or any political subdivision or governmental authority thereof or therein having power to tax;

(ii) any jurisdiction from or through which payment on the Securities or the Guarantee is made, or any political subdivision or governmental authority thereof or therein having the power to tax; or

(iii) any other jurisdiction in which a Payor is organized or otherwise considered to be a resident for tax purposes, or any political subdivision or governmental authority thereof or therein having the power to tax (each of clause (1), (2) and (3), a "Relevant Taxing Jurisdiction"),

will at any time be required from any payments made with respect to the Securities, including payments of principal, redemption price, interest or premium the Payor will pay (together with such payments) such additional amounts (the "Additional Amounts") as may be necessary in order that the net amounts received in respect of such payments by the Holders of the Securities or the Fiscal Agent, as the case may be, after such withholding or deduction (including any such deduction or withholding from such Additional Amounts), equal the amounts which would have been received in respect of such payments on the Securities in the absence of such withholding or deduction; provided, however, that no such Additional Amounts will be payable with respect to:

(1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant Holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant Holder, if the relevant Holder is an estate, nominee, trust or corporation) and the Relevant Taxing Jurisdiction (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, the Relevant Taxing Jurisdiction) other than by the mere ownership or holding of such Security or enforcement of rights thereunder or under a Guarantee or the receipt of payments in respect thereof;

(2) any Taxes that would not have been so imposed or would have been imposed at a reduced rate if the Holder of the Security had made a declaration of non-residence or any other claim or filing for exemption or reduction to which it is entitled (provided that (x) such declaration of nonresidence or other claim or filing for exemption

or reduction is required by the applicable law of the Relevant Taxing Jurisdiction or pursuant to a tax treaty as a precondition to exemption from the requirement to deduct or withhold such Taxes or to deduct or withhold at a reduced rate and (y) at least 30 days prior to the first payment date with respect to which such declaration of non-residence or other claim or filing for exemption or reduction is required under the applicable law of the Relevant Taxing Jurisdiction, the relevant Holder at that time has been notified by the Payor or any other person through whom payment may be made that a declaration of nonresidence or other claim or filing for exemption or reduction is required to be made);

(3) any Security presented for payment (where presentation is required) more than 30 days after the relevant payment is first made available for payment to the Holder (except to the extent that the Holder would have been entitled to Additional Amounts had the Security been presented during such 30 day period);

(4) any Taxes that are payable otherwise than by withholding from a payment of the principal of, premium, if any, or interest on the Securities or under the Guarantee;

(5) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

(6) any Taxes imposed on a payment to an individual and required to be made pursuant to the European Union Directive (the "Directive") on the taxation of savings which was adopted by the ECOFIN Council of the European union (the Council of EU finance and economic ministers) on June 3, 2003 or any law implementing or complying with, or introduced in order to conform to, the Directive;

(7) any Taxes imposed in connection with a Security presented for payment by or on behalf of a Holder or beneficial owner who would have been able to avoid such Tax by presenting the relevant Security to another Paying Agent in a member state of the European Union; or

(8) any combination of the above.

Such Additional Amounts will also not be payable where, had the beneficial owner of the Security been the Holder of the Security, it would not have been entitled to payment of Additional Amounts by reason of any of clauses (1) to (8) inclusive above.

The Payor will (i) make any required withholding or deduction and (ii) remit the full amount deducted or withheld to the Relevant Taxing Jurisdiction in accordance with applicable law. The Payor will use all reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes and will provide such certified copies to each Holder. The Payor will attach to each certified copy a certificate stating (x) that the amount of withholding Taxes evidenced by the certified copy was paid in connection with payments in respect of the principal amount of Securities then outstanding and (y) the amount of such withholding Taxes paid per $1,000 principal amount of Securities. Copies of such documentation will be available for inspection during ordinary business hours at the office of the Fiscal Agent by the Holders of the Securities

upon request and will be made available at the offices of the Fiscal Agent located in New York, New York.

At least 30 days prior to each date on which any payment under or with respect to the Securities or the Guarantee is due and payable (unless such obligation to pay Additional Amounts arises shortly before or after the 30th day prior to such date, in which case it shall be promptly thereafter), if the Payor will be obligated to pay Additional Amounts with respect to such payment, the Payor will deliver to the Fiscal Agent an Officers' Certificate stating the fact that such Additional Amounts will be payable, the amounts so payable and will set forth such other information necessary to enable the Fiscal Agent to pay such Additional Amounts to Holders of Securities on the payment date. Each such Officers' Certificate shall be relied upon until receipt of a further Officers' Certificate addressing such matters. If the Payor conducts business in any jurisdiction (an "Additional Taxing Jurisdiction") other than a Relevant Taxing Jurisdiction and, as a result, is required by the law of such Additional Taxing Jurisdiction to deduct or withhold any amount on account of taxes imposed by such Additional Taxing Jurisdiction from payments under the Securities or the Guarantee, as the case may be, which would not have been required to be so deducted or withheld but for such conduct of business in such Additional Taxing Jurisdiction, the Additional Amounts provision described above shall be considered to apply to such Holders as if references in such provision to "Taxes" included taxes imposed by way of deduction or withholding by any such Additional Taxing Jurisdiction (or any political subdivision thereof or taxing authority therein). Wherever in this Agreement, the Securities, or the Guarantee there is mentioned, in any context:

(1) the payment of principal;

(2) purchase prices in connection with a purchase of Securities;

(3) interest; or

(4) any other amount payable on or with respect to any of the Securities or the Guarantee,

such reference will be deemed to include payment of Additional Amounts as described in this Section 4.02 to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

(a) The Payor will pay any present or future stamp, court or documentary taxes, or any other excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery or registration of any Securities or any other document or instrument referred to therein (other than a transfer of the Securities), or the receipt of any payments with respect to the Securities or the Guarantee, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside The Netherlands or any jurisdiction in which a Paying Agent is located, other than those resulting from, or required to be paid in connection with, the enforcement of the Securities, the Guarantee or any other such document or instrument following the occurrence of any Event of Default with respect to the Securities. The foregoing obligations in this Section 4.02 will survive any termination, defeasance or discharge of this

Agreement and will apply mutatis mutandis to any jurisdiction in which any successor to a Payor is organized or any political subdivision or taxing authority or agency thereof or therein.

Section 4.03. Limitation on Liens.

The Guarantor shall not, and it shall not permit any Restricted Subsidiary to, incur a Lien on Restricted Property to secure a Debt without making effective provision to secure the Securities equally and ratably with such Debt, unless:

(1) the Lien is on such property at the time the corporation becomes a Restricted Subsidiary; the Lien may not extend to any other Principal Property owned by the Guarantor or a Restricted Subsidiary;

(2) the Lien is on such property at the time the Guarantor or a Restricted Subsidiary acquires or leases such property; the Lien may not extend to any other Principal Property owned by the Guarantor or a Restricted Subsidiary;

(3) the Lien secures Debt incurred to finance all or some of the purchase price or cost of construction or improvement of property of the Guarantor or a Restricted Subsidiary;

(4) the Lien secures a Debt of a Restricted Subsidiary owing to the Guarantor or another wholly-owned Restricted Subsidiary;

(5) the Lien is on property of a corporation at the time the corporation merges into or consolidates with the Guarantor or a Restricted Subsidiary; the Lien may not extend to any other Principal Property owned by the Guarantor or a Restricted Subsidiary;

(6) the Lien is on property of a person at the time the person transfers or leases all or substantially all of its assets to the Guarantor or a Restricted Subsidiary; the Lien may not extend to any other Principal Property owned by the Guarantor or a Restricted Subsidiary;

(7) the Lien is in favor of a government or governmental entity and secures (i) payment pursuant to a contract or statute; or (ii) Debt incurred to finance all or some of the purchase price or cost of construction of the property subject to such Lien; or

(8) the Lien extends, renews, refunds or replaces in whole or in part a Lien ("Existing Lien") permitted by any of clauses (1) through (7). The Lien may not extend beyond (i) the property subject to the Existing Lien; and (ii) improvements and construction on such property. The Debt secured by the Lien may not exceed the Debt secured at the time by the Existing Lien unless the Existing Lien or a predecessor was incurred under clause (4).

Notwithstanding the provisions of this Section 4.03, the Guarantor or any Restricted Subsidiary may, without equally and ratably securing the Securities, grant Liens to secure Debt which would otherwise be subject to restriction by this Section 4.03 if, at the time of such

granting and after giving effect to any Debt so secured, Exempted Debt does not exceed 10% of Consolidated Net Tangible Assets.

Section 4.04. Limitation on Sale and Leaseback.

The Guarantor shall not, and it shall not permit any Restricted Subsidiary to, enter into a Sale-Leaseback Transaction unless:

(1) the lease has a term including renewal rights of three years or less;

(2) the lease is between the Guarantor and a Restricted Subsidiary or between Restricted Subsidiaries;

(3) the Guarantor or the Restricted Subsidiary on the date such Sale-Leaseback Transaction is to close could create a Lien on the Principal Property involved in the Sale-Leaseback Transaction to secure Debt under clause (3) or (7) of Section 4.03; or

(4) the Guarantor or the Restricted Subsidiary receiving the proceeds from such Sale-Leaseback Transaction, within 180 days after it is consummated, applies, or commits to apply, an amount equal to the greater of the fair market value of the property, at the time of such Transaction, as determined by the board of directors of the Guarantor, or the proceeds to:

(i) the acquisition of Restricted Property, including but not limited to, the acquisition, construction, development or improvement of property or equipment which is or upon completion of such acquisition, construction, development or improvement will be, Principal Property or a part of Principal Property; or

(ii) the redemption of Securities pursuant to, and at the redemption price referred to in, this Agreement and applicable at the date of redemption, or if permitted by the terms thereof, the retirement or redemption of Long-Term Debt of the Guarantor or any of its Restricted Subsidiaries. However, the Guarantor or its Restricted Subsidiary may not receive credit for: (x) the retirement of Long-Term Debt at maturity or the redemption of other Long-Term Debt pursuant to any mandatory redemption provision, or (y) the retirement or redemption of any Long-Term Debt that is either subordinated to or junior in right of payment to the Securities, or owed by the Guarantor to any of its Restricted Subsidiaries.

Notwithstanding the provisions of this Section 4.04, the Guarantor or any Restricted Subsidiary may enter into a Sale-Leaseback Transaction if, at the time of entering into the Transaction and after giving effect to it, Exempted Debt does not exceed 10% of Consolidated Net Tangible Assets.

Section 4.05. Limitation on Sale or Transfer of Restricted Property.

The Guarantor shall not, and it shall not permit any Restricted Subsidiary to, sell or transfer title to any Restricted Property to a Subsidiary that is not a Restricted Subsidiary unless it applies, or commits to apply, an amount equal to the fair market value of such Restricted

Property at the time of such sale or transfer, as determined by the board of directors of the Guarantor, within 18 months after the effective date of the transaction, to:

(1) the acquisition of Restricted Property, including but not limited to the acquisition, construction, development or improvement of Principal Property; or

(2) if permitted by the terms of the Securities, the redemption of the Securities pursuant to, and at the redemption price referred to in, this Agreement and applicable at the time of redemption, or the retirement of other Long-Term Debt of the Guarantor or any of its Restricted Subsidiaries. However, no credit may be received for: (A) the retirement of other Long-Term Debt at maturity or the redemption of the Securities or other Long-Term Debt pursuant to any mandatory redemption provision; or (B) the retirement or redemption of any Long-Term Debt that is either subordinated to or junior in right of payment to the Securities, or owed by the Guarantor to a Restricted Subsidiary.

Section 4.06. No Lien Created.

This Agreement and the Securities do not create a Lien, charge or encumbrance on any property of the Company, the Guarantor or any Subsidiary, except as may be required pursuant to Section 4.03 or to the extent as may otherwise be expressly provided for in an amendment or supplement to this Agreement pursuant to Section 5.02.

Section 4.07. Compliance Certificate.

The Company shall deliver to the Fiscal Agent within 120 days after the end of each fiscal year of the Company an Officers' Certificate stating whether or not the signers know of any Default by the Company in performing its covenants and obligations hereunder that occurred during the fiscal year and is continuing. If they do know of such a Default, the Certificate shall describe the nature and status of the Default. The Certificate need not comply with Section 11.03.

Section 4.08. SEC Reports.

Whether or not the Guarantor is required to do so by the rules and regulations of the SEC, the Guarantor will furnish to the Fiscal Agent and the Holders of the Securities, and, to the extent permitted, file with the SEC, (i) all quarterly and annual financial information that would be required to be contained in a filing with the SEC on Forms 10-Q and 10-K if the Guarantor were required to file such reports, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, with respect to the annual information only, a report thereon by the Guarantor's certified independent accountants, and (ii) all reports that would be required to be filed with the SEC on Form 8-K if the Guarantor were required to file such reports, in each case within the time period specified in the rules and regulations of the SEC. In addition, for so long as any of the Securities remain outstanding, the Guarantor has agreed to make available to any Holder of the Securities or prospective purchaser of the Securities, at their request, the information required by Rule 144A(d)(4) under the Securities Act if, at the time of such request the Guarantor is not subject to the reporting requirements under Section 13 or 15(d) of the Exchange Act.

ARTICLE FIVE

SUCCESSOR COMPANY OR GUARANTOR

Section 5.01. When the Company or the Guarantor May Merge, etc.

Neither the Company nor the Guarantor may consolidate with or merge into, or transfer all or substantially all of its assets to, one person or entity unless:

(1) the person or entity assumes by supplement or amendment to this Agreement all the obligations of the Company or the Guarantor, as applicable, under the Securities, this Agreement and the Guarantee;

(2) immediately after giving effect to the transaction, no Default would occur and be continuing; and

(3) the entity formed by or surviving such transaction, in the case of a consolidation or merger, and the transferee, in the case of a transfer, is an entity organized (a) under the laws of the Netherlands, in the case of any such transaction with the Company, or (b) under the laws of the United States of America or any State thereof, in the case of any such transaction with the Guarantor or (c) under the laws of another jurisdiction, provided that in the case of any such transaction pursuant to this clause (c), the Company delivers to the Fiscal Agent an Officers' Certificate and an opinion of independent tax counsel reasonably satisfactory to the Fiscal Agent to the effect that that such merger, consolidation or transfer will not result in any adverse tax consequences under the laws of the United States or The Netherlands with respect to the Holders of the Securities.

Thereafter all such obligations of the predecessor corporation shall terminate.

Section 5.02. When Securities Must Be Secured.

If upon any such consolidation, merger or transfer permitted pursuant to Section 5.01 any Principal Property would become subject to an attaching Lien that secures Debt, then before such consolidation, merger or transfer occurs, the Company or Guarantor by supplement or amendment to this Agreement shall secure the Securities by a direct Lien on all such Principal Property. The direct Lien shall to the extent permitted by applicable law have priority over the attaching Lien and over all other Liens on such Principal Property except the Liens already on it. The direct Lien may equally and ratably secure the Securities and any other obligation of the Guarantor or a Subsidiary entitled to such security. The direct Lien may not secure an obligation of the Guarantor or such a Subsidiary that is subordinated to the Securities. However, the Company or the Guarantor need not comply with this Section 5.02 if:

(1) the attaching Lien is permitted under any of clauses (1) through (8) of Section 4.03; or

(2) the Guarantor or a Restricted Subsidiary under the last paragraph of Section 4.03 could create a Lien on the Principal Property to secure Debt at least equal in amount to that secured by the attaching Lien.

ARTICLE SIX

DEFAULTS AND REMEDIES

Section 6.01. Events of Default.

An "Event of Default" occurs with respect to the Securities if:

(1) the Company defaults in the payment of interest on any Security when the same becomes due and payable and such Default continues for a period of 30 days;

(2) the Company defaults in the payment of the principal of, or premium, if any, on, any Security when the same becomes due and payable at maturity, upon redemption or otherwise;

(3) the Company or the Guarantor fails to comply with any of its other agreements in the Securities or this Agreement (other than those referred to in (1) or (2) above) and the default continues for the period and after the notice specified below in the last paragraph of this Section 6.01;

(4) the Company or the Guarantor pursuant to or within the meaning of any Bankruptcy Law:

(a) commences a voluntary case;

(b) consents to the entry of any order for relief from claims against it in an involuntary case;

(c) consents to the appointment of a Custodian of it or for all or substantially all of its property; or

(d) makes a general assignment for the benefit of its creditors;

(5) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(a) is for relief against the Company or the Guarantor in an involuntary case;

(b) appoints a Custodian of the Company or the Guarantor or for all or substantially all of its property; or

(c) orders the liquidation of the Company or the Guarantor;

and the order or decree remains unstayed and in effect for 90 days; or

(6) the Guarantee ceases to be in full force and effect during its term or the Guarantor denies or disaffirms in writing its obligations under the terms of this Agreement or the Guarantee, in each case, other than any such cessation, denial or disaffirmation in connection with the termination of the Guarantee pursuant to Section 10.01.

The term "Bankruptcy Law" means Title 11, U.S. Code or any similar Federal or State law for the relief of debtors. The term "Custodian" means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

A Default with respect to the Securities under clause (3) is not an Event of Default until the Fiscal Agent notifies the Company or the Holders of at least 25% in principal amount of the outstanding Securities notify the Fiscal Agent and the Company of the Default and the Company does not cure the Default within 90 days after receipt of the notice. The notice must specify the Default, demand that it be remedied and state that the notice is a "Notice of Default."

Section 6.02. Acceleration.

If an Event of Default with respect to Securities occurs and is continuing, the Fiscal Agent by notice to the Company, or the Holders of at least 25% in principal amount of outstanding Securities by notice to the Company and the Fiscal Agent, may declare that the principal of and accrued interest on the Securities shall be due and payable immediately. Upon such declaration, such principal (or specified amount) and accrued interest shall be due and payable immediately. The Holders of a majority in principal amount of the outstanding Securities by notice to the Company and the Fiscal Agent may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of principal, interest or premium, if any, that has become due solely because of the acceleration.

Section 6.03. Other Remedies.

If an Event of Default with respect to Securities occurs and is continuing, the Fiscal Agent may pursue any available remedy by proceeding at law or in equity to collect the payment of principal of, interest or premium, if any, on, the Securities or to enforce the performance of any provision of the Securities or this Agreement.

The Fiscal Agent may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Fiscal Agent or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

Section 6.04. Waiver of Past Defaults.

Subject to Section 9.02, the Holders of a majority in principal amount of the outstanding Securities on behalf of the Holders of the outstanding Securities by notice to the Fiscal Agent may waive an existing past Default or Event of Default and its consequences but such waiver

shall not extend to any future Event of Default. When a Default or Event of Default is waived by the Holders of Securities, it is cured and stops continuing.

Section 6.05. Control by Majority.

The Holders of a majority in principal amount of the outstanding Securities may direct the time, method and place of (1) conducting any proceeding for any remedy available to the Fiscal Agent; or (2) exercising any trust or power conferred on the Fiscal Agent with respect to the Securities. However, the Fiscal Agent may refuse to follow any direction that conflicts with law or this Agreement, or, subject to Section 7.01, that the Fiscal Agent determines would be unduly prejudicial to the rights of other Securityholders or that would involve the Fiscal Agent in personal liability. The Fiscal Agent may require indemnity satisfactory to it from the Holders requesting the Fiscal Agent to enforce this Agreement or the Securities before doing so.

Section 6.06. Limitation on Suits.

A Securityholder may pursue a remedy with respect to this Agreement or the Securities only if:

(1) the Holder gives to the Fiscal Agent written notice of a continuing Event of Default;

(2) the Holders of at least 25% in principal amount of the outstanding Securities make a written request to the Fiscal Agent to pursue the remedy;

(3) such Holder or Holders offer to the Fiscal Agent indemnity satisfactory to the Fiscal Agent against any loss, liability or expense;

(4) the Fiscal Agent does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) during such 60-day period the Holders of a majority in principal amount of the outstanding Securities do not give the Fiscal Agent a direction inconsistent with the request.

A Holder of Securities may not use any provision of this Agreement to prejudice the rights of another Holder of any Securities or to obtain a preference or priority over another Holder of any Securities.

Section 6.07. Rights of Holders to Receive Payment.

Notwithstanding any other provision of this Agreement, the right of any Holder of a Security to receive payment of principal of, interest and premium, if any, on the Security, on or after the respective due dates expressed in the Security, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of the Holder.

Section 6.08. Collection Suit by Fiscal Agent.

If an Event of Default specified in Section 6.01(1) or (2) occurs and is continuing, the Fiscal Agent may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount of principal, interest and any premium remaining unpaid on the Securities.

Section 6.09. Fiscal Agent May File Proofs of Claim.

The Fiscal Agent may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Fiscal Agent and the Holders of Securities allowed in any judicial proceedings relative to the Company, its creditors or its property.

Section 6.10. Priorities.

If the Fiscal Agent collects any money or Cash Equivalents pursuant to this Article, it shall pay out the money or Cash Equivalents in the following order:

FIRST: to the Fiscal Agent and any predecessor fiscal agent of it for amounts due under Section 7.05;

SECOND: to Holders of Securities for amounts due and unpaid on the Securities for principal, interest and premium, if any, ratably without preference or priority of any kind, according to the amounts due and payable on the Securities for principal, interest and premium, if any, respectively; and

THIRD: to the Company.

The Fiscal Agent may fix a record date and payment date for any payment to Securityholders pursuant to this Section 6.10.

Section 6.11. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Agreement or in any suit against the Fiscal Agent for any action taken or omitted by it as Fiscal Agent, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Fiscal Agent, a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in principal amount of the Securities.

Section 6.12. Notice to Holders by Fiscal Agent.

The Fiscal Agent shall, within 90 days after the occurrence of a Default known to it, give Holders of the Securities notice of Default; however, the Fiscal Agent may withhold from Holders of the Securities notice of any continuing Default (except a Default in the payment of

principal, interest or premium, if any) if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of Holders of the Securities.

ARTICLE SEVEN

FISCAL AGENT

Section 7.01. Duties of Fiscal Agent.

The Fiscal Agent accepts its obligations herein set forth upon the terms and conditions hereof, including the following, to all of which the Company and the Guarantor agree and to all of which the rights of Holders of Securities are subject:

(1) In acting under this Agreement and in connection with the Securities, the Fiscal Agent is acting solely as an agent of the Company and does not assume any responsibility for the correctness of the recitals in the Securities (except for the correctness of the statement of the Fiscal Agent in its certificate of authentication thereon) or any obligation or relationship of agency, for or with any of the owners or Holders of the Securities.

(2) The Fiscal Agent may consult with its counsel at the Company's expense, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by them hereunder in good faith and without negligence and in accordance with such opinion.

(3) The Fiscal Agent shall (except as ordered by a court of competent jurisdiction or as required by any applicable law), notwithstanding any notice to the contrary, be entitled to treat the Holder of any Security as the owner thereof as set forth in Section 2.13, shall not be liable for so doing and shall be indemnified and held harmless by the Company against any loss, liability, claim, demand or expense arising from or based upon it so doing.

(4) Except as may otherwise be agreed, the Fiscal Agent shall not be under any liability for interest on monies at any time received by it pursuant to any of the provisions of this Agreement or of the Securities.

(5) The duties and obligations of the Fiscal Agent shall be determined solely by the express provisions of this Agreement and the Securities and the Fiscal Agent shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Agreement and the Securities, and no implied covenants or obligations shall be read into this Agreement or the Securities against the Fiscal Agent.

Section 7.02. Rights of Fiscal Agent.

(1) The Fiscal Agent shall be protected and shall incur no liability for or in respect of any action taken or thing suffered by it in reliance upon any Security, notice, direction, consent, certificate, affidavit, statement, or other document to the extent that such communication conforms to the provisions set forth herein, believed by it, in good faith and without negligence, to be genuine and to have been passed or signed by the proper parties.

(2) Before the Fiscal Agent acts or refrains from acting, it may require an Officers' Certificate or any Opinion of Counsel. The Fiscal Agent shall not be liable for any action it takes or omits to take in good faith in reliance on the Certificate or Opinion.

(3) The Fiscal Agent may act through agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(4) The Fiscal Agent shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers.

Section 7.03. Individual Rights of Fiscal Agent.

The Fiscal Agent in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company, the Guarantor or Affiliates with the same rights it would have if it were not Fiscal Agent. Any Agent may do the same with like rights.

Section 7.04. Fiscal Agent's Disclaimer.

The Fiscal Agent makes no representation as to the validity or adequacy of this Agreement or the Securities, it shall not be accountable for the Company's use of the proceeds from the Securities, and it shall not be responsible for any statement in the Securities other than its certificate of authentication.

Section 7.05. Compensation and Indemnity.

The Company shall pay to the Fiscal Agent, from time to time, reasonable compensation for its services under this Agreement. The Company shall reimburse the Fiscal Agent upon request for all reasonable out-of-pocket expenses incurred by it in the performance of its duties under this Agreement. Such expenses shall include the reasonable compensation and expenses of the Fiscal Agent's agents and counsel.

Except as provided below in this paragraph, the Company shall indemnify the Fiscal Agent, any predecessor fiscal agent of it and each director, officer, employee and agent of the Fiscal Agent or predecessor fiscal agent against any loss, liability, cost, claim, action, demand or expense (including reasonable fees and expenses of legal counsel) incurred by it in connection with its appointment, or the performance of its duties hereunder, including all reasonable costs and expenses in defending itself against any claim or liability in connection with the exercise or performance of any of its powers and duties under this Agreement, or performance of any other

duties pursuant to the terms and conditions hereof, except such as may result from the gross negligence, bad faith or willful misconduct of any such Person. The Fiscal Agent shall notify the Company promptly of any claim for which it may seek indemnity but failure to do so shall not relieve the Company of its obligations under this Section 7.05. The Company need not pay for any settlement made by the Fiscal Agent without the Company's consent, which consent shall not be unreasonably withheld. The Company need not reimburse any expense or indemnify against any loss or liability incurred by either the Fiscal Agent or any predecessor fiscal agent of it through its own gross negligence, bad faith or willful misconduct. In respect of the Company's payment obligations in this Section 7.05, the Fiscal Agent shall have a senior claim to which the Securities are hereby made subordinate on all money or property held or collected by the Fiscal Agent as such and not in its individual capacity, except for money or property held in trust for the benefit of the Holders to pay the principal of an interest and premium, if any, on particular Securities. Notwithstanding anything contained in this Agreement to the contrary, the indemnity agreement set forth in this paragraph shall survive the termination of this Agreement and the resignation or removal of the Fiscal Agent.

Section 7.06. Replacement of Fiscal Agent.

The Fiscal Agent may resign upon 30 days' written notice to the Company. The Holders of a majority in principal amount of the outstanding Securities may remove the Fiscal Agent by notifying the removed Fiscal Agent and the Company. Those Holders may appoint a successor Fiscal Agent with the Company's consent. The Company may remove the Fiscal Agent without prior notice if:

(1) the Fiscal Agent is adjudged a bankrupt or an insolvent;

(2) a receiver or public officer takes charge of the Fiscal Agent or its property; or

(3) the Fiscal Agent becomes incapable of acting.

If the Fiscal Agent resigns or is removed or if a vacancy exists in the office of Fiscal Agent for any reason, the Company shall promptly appoint a successor Fiscal Agent. Within one year after the successor Fiscal Agent takes office, the Holders of a majority in principal amount of the Securities may appoint a successor Fiscal Agent to replace the successor Fiscal Agent appointed by the Company.

If a successor Fiscal Agent does not take office within 60 days after the retiring Fiscal Agent resigns or is removed, the retiring Fiscal Agent, the Company or the Holders of a majority in principal amount of the Securities may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent.

A successor Fiscal Agent shall deliver a written acceptance of its appointment to the retiring Fiscal Agent and to the Company. Immediately after that, the retiring Fiscal Agent shall transfer all property held by it as Fiscal Agent to the successor Fiscal Agent, the resignation or removal of the retiring Fiscal Agent shall become effective, and the successor Fiscal Agent shall have all the rights, powers and duties of the Fiscal Agent under this Agreement. A successor Fiscal Agent shall mail notice of its succession to each Holder of Securities for which it acts as Fiscal Agent.

If at the time a successor to the Fiscal Agent succeeds to the trusts created by this Agreement any of the Securities shall have been authenticated but not delivered, the successor to the Fiscal Agent may adopt the certificate of authentication of any predecessor fiscal agent and deliver the Securities so authenticated. If at that time any of the Securities shall not have been authenticated, any successor to the Fiscal Agent may authenticate the Securities either in the name of any predecessor fiscal agent hereunder or in the name of the successor fiscal agent. In all such cases the certificate of authentication shall have the same force and effect which the provisions of the Securities or this Agreement provided that certificates of authentication of the Fiscal Agent shall have, except that the right to adopt the certificate of authentication of any predecessor Fiscal Agent or to authenticate the Securities in the name of any predecessor Fiscal Agent shall apply only to its successor or successors by merger, conversion or consolidation.

Section 7.07. Successor Fiscal Agent by Merger, etc.

If the Fiscal Agent consolidates, merges or converts into, or transfers all or substantially all of its corporate trust assets to, another corporation, the successor corporation shall be the successor Fiscal Agent, without any further act.

ARTICLE EIGHT

DEFEASANCE AND DISCHARGE

Section 8.01. Option to Effect Legal Defeasance or Covenant Defeasance.

The Company may, at the option of its Board of Directors evidenced by a Board Resolution set forth in an Officers' Certificate, at any time, elect to have either Section 8.02 or 8.03 hereof be applied to all outstanding Securities upon compliance with the conditions set forth below in this Article 8.

Section 8.02. Legal Defeasance.

Upon the Company's exercise under Section 8.01 hereof of the option applicable to this Section 8.02, and subject to the satisfaction of the conditions set forth in Section 8.04 hereof, the Company shall be deemed to have been discharged from its obligations with respect to all outstanding Securities and this Agreement and the Guarantor shall be deemed to have been discharged from its obligations with respect to this Agreement, subject to the satisfaction of the conditions set forth in Section 8.04 hereof, on the date the conditions set forth below are satisfied (hereinafter, "Legal Defeasance"). For this purpose, Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the outstanding Securities, which shall thereafter be deemed to be "outstanding" only for the purposes of Section 8.06 hereof and the other Sections of this Agreement referred to in (a) and (b) below, and to have satisfied all its other obligations under such Securities and this Agreement (and the Fiscal Agent, on demand of and at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following provisions which shall survive until otherwise terminated or discharged pursuant to this Agreement: (a) the rights of Holders of outstanding Securities to receive solely from the trust fund described in Section 8.06 hereof, and as more fully set forth in such Section, payments in respect of the principal of, and premium, if

any, and interest on, such Securities when such payments are due, (b) the Company's obligations with respect to such Securities under Article 2 hereof, (c) the rights, powers, trusts, duties and immunities of the Fiscal Agent hereunder and the Company's and the Guarantor's obligations in connection therewith and (d) this Article 8. Subject to compliance with this Article 8, the Company may exercise its option under this Section 8.02 notwithstanding the prior exercise of its option under Section 8.03 hereof.

Section 8.03. Covenant Defeasance.

Upon the Company's exercise under Section 8.01 hereof of the option applicable to this Section 8.03, and subject to the satisfaction of the conditions set forth in Section 8.04 hereof, the Company and the Guarantor shall be released from their obligations under the covenants contained in Sections 4.03, 4.04, 4.05, 4.06, and 4.07 and Articles 5 and 10 on and after the date the conditions set forth below are satisfied (hereinafter, "Covenant Defeasance"), and the Securities shall thereafter be deemed not "outstanding" for the purposes of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "outstanding" for all other purposes hereunder (it being understood that such Securities shall not be deemed outstanding for accounting purposes). For this purpose, Covenant Defeasance means that, with respect to the outstanding Securities, the Company or the Guarantor may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 6.01 hereof, but, except as specified above, the remainder of this Agreement and such Securities shall be unaffected thereby. In addition, upon the Company's exercise under Section 8.01 hereof of the option applicable to this Section 8.03 hereof, subject to the satisfaction of the conditions set forth in Section 8.04 hereof, Sections 6.01(3) through 6.01(6) hereof shall not constitute Events of Default.

Section 8.04. Conditions to Legal or Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance, the Company must irrevocably deposit, or caused to be deposited, with the Fiscal Agent (or another fiscal agent satisfying the requirements of this Agreement), in trust for such purpose, (1) money in an amount, (2) U.S. Government Obligations that through the payment of principal and interest in accordance with their terms will provide money in an amount ("Cash Equivalents"), or (3) a combination thereof, sufficient in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Fiscal Agent, to pay the principal of, premium, if any, and interest on, the outstanding Securities at maturity or upon redemption, together with all other amounts payable by the Company under this Agreement. Such Legal Defeasance or Covenant Defeasance will become effective 91 days after such deposit if and only if:

(i) no Default or Event of Default with respect to the Securities has occurred and is continuing immediately prior to the time of such deposit;

(ii) no Default or Event of Default shall have occurred at any time in the period ending on the 91st day after the date of such deposit and shall be continuing on such 91st day;

(iii) such defeasance does not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or the Guarantor is a party or by which it is bound (and, in furtherance of such condition, no Default or Event of Default shall result under this Agreement due to the incurrence of indebtedness to fund such deposit and the entering into of customary documentation in connection therewith, even though such documentation may contain provisions that would otherwise give rise to a Default or Event of Default); and

(iv) the Company has delivered to the Fiscal Agent (A)(1) in the case of Legal Defeasance, an Opinion of Counsel to the effect that (x) there has been published by the Internal Revenue Service a ruling or (y) since the date of this Agreement, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders of the Securities will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred, or (2) in the case of Covenant Defeasance, an Opinion of Counsel to the effect that the Holders of the Securities will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred; and (B) an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to such Legal Defeasance or Covenant Defeasance have been complied with.

Section 8.05. Discharge.

If (i) the Company shall deliver to the Fiscal Agent for cancellation all Securities theretofore authenticated and delivered (other than any Securities which shall have been destroyed, lost or stolen and in lieu of or in substitution for which other Securities shall have been authenticated and delivered) and not theretofore cancelled, or (ii) all Securities not theretofore surrendered or delivered to the Fiscal Agent for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Fiscal Agent, and the Company shall irrevocably deposit with the Fiscal Agent, as trust funds solely for the benefit of the Holders for that purpose, an amount sufficient to pay at maturity or upon redemption all of the Securities (other than any Securities which shall have been destroyed, lost or stolen and in lieu of or in substitution for which other Securities shall have been authenticated and delivered) not theretofore surrendered or delivered to the Fiscal Agent for cancellation, including principal, premium, if any, and interest due or to become due to such date of maturity or redemption date, as the case may be, then this Agreement shall cease to be of further force or effect (except as to

rights of registration of transfer or exchange of the Securities provided in this Agreement) and, at the written request of the Company, accompanied by an Officers' Certificate and Opinion of Counsel, each stating that all conditions precedent provided for herein relating to the satisfaction and discharge of this Agreement have been complied with, and upon payment of the costs, charges and expenses incurred or to be incurred by the Fiscal Agent in relation thereto or in carrying out the provisions of this Agreement, the Fiscal Agent shall satisfy and discharge this Agreement ("Discharge"); provided that the Company's or the Guarantor's obligations with respect to the payment of principal, premium, if any, and interest will not terminate until the same shall apply the moneys so deposited to the payment to the Holders of Securities of all sums due and to become due thereon.

Section 8.06. Deposited Money and Government Securities to be Held in Trust; Other Miscellaneous Provisions.

Subject to Section 8.07 hereof, all money and Cash Equivalents (including the proceeds thereof) deposited with the Fiscal Agent (or other qualifying fiscal agent, collectively for purposes of this Section 8.06, the "Fiscal Agent") pursuant to Section 8.02 or 8.03 hereof in respect of the outstanding Securities shall be held in trust and applied by the Fiscal Agent, in accordance with the provisions of such Securities and this Agreement, to the payment, either directly or through the Paying Agent as the Fiscal Agent may determine, to the Holders of such Securities of all sums due and to become due thereon in respect of principal, premium, if any, and interest but such money and Cash Equivalents need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Fiscal Agent against any tax, fee or other charge imposed on or assessed against the money or Cash Equivalents deposited pursuant to this Section 8.06 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of the outstanding Securities.

Anything in this Article 8 to the contrary notwithstanding, the Fiscal Agent shall deliver or pay to the Company from time to time upon the request of the Company any money or Cash Equivalents held by it as provided in this Section 8.06 which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Fiscal Agent (which may be the opinion delivered under Section 8.04 hereof), are in excess of the amount thereof that would then be required to be deposited to effect an equivalent Legal Defeasance, Covenant Defeasance or Discharge.

Section 8.07. Repayment to Company.

Any money and Cash Equivalents deposited with the Fiscal Agent or any Paying Agent, or then held by the Company or any of its Subsidiaries or Affiliates, in trust for the payment of the principal of, or premium, if any, or interest on, any Security and remaining unclaimed for two years after such principal, premium, if any, or interest has become due and payable shall be paid to the Company on its request or (if then held by the Company or any of its Subsidiaries or Affiliates) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof,

and all liability of the Fiscal Agent or such Paying Agent with respect to such trust money and Cash Equivalents, and all liability of the Company or any of its Subsidiaries or Affiliates as fiscal agent thereof, shall thereupon cease; provided, however, that the Fiscal Agent or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in the New York Times, The Wall Street Journal (national edition) and such foreign publication as may be required by applicable law, notice that such money and Cash Equivalents remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money and Cash Equivalents then remaining will be repaid to the Company.

Section 8.08. Reinstatement.

If the Fiscal Agent or Paying Agent is unable to apply any United States dollars or Cash Equivalents in accordance with Section 8.02, 8.03 or 8.05 hereof, as the case may be, by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Agreement and the Securities, and the Guarantor's obligations under this Agreement, shall be revived and reinstated as though no deposit had occurred pursuant to Section 8.02, 8.03 or 8.05 hereof until such time as the Fiscal Agent or Paying Agent is permitted to apply all such assets in accordance with Section 8.02, 8.03 or 8.05 hereof, as the case may be; provided, however, that, if the Company makes any payment of principal of, or premium, if any, or interest on, any Security following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive such payment from the money and Cash Equivalents held by the Fiscal Agent or Paying Agent.

ARTICLE NINE

AMENDMENTS, SUPPLEMENTS AND WAIVERS

Section 9.01. Without Consent of Holders.

The Company, The Guarantor and the Fiscal Agent may amend or supplement this Agreement or the Securities without notice to or consent of any Securityholder:

(1) to cure any ambiguity, omission, defect or inconsistency or to make other formal changes;

(2) to comply with Article Four or Five;

(3) to provide for uncertificated Securities in addition to or in place of certificated Securities;

(4) to add to the covenants of the Company or to add any additional Events of Default for the benefit of all the Securities;

(5) to add to or change any of the provisions of this Agreement to such extent as shall be necessary to permit or facilitate the issuance of Securities in (i) bearer form, registrable or not registrable as to principal, and/or (ii) coupon form, registrable or not registrable as to principal, and to provide for exchangeability of such Securities with Securities issued hereunder in fully registered form;

(6) to add to or change any provisions of this Agreement as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Fiscal Agent;

(7) to issue Additional Securities pursuant to Section 2.15; or

(8) to make any change that does not adversely affect the rights of any Securityholder;

but none of such changes shall adversely affect the rights of any Securityholder.

Section 9.02. With Consent of Holders.

The Company, the Guarantor and the Fiscal Agent may amend this Agreement or the Securities with the written consent of the Holders of at least a majority in principal amount of the outstanding Securities affected by such supplement or amendment. The Holders of a majority in principal amount of the outstanding Securities may waive compliance by the Company or the Guarantor in a particular instance with any provision of this Agreement or the Securities without notice to any Holder of Securities. Without the consent of each Securityholder affected, however, an amendment, supplement or waiver, including a waiver pursuant to Section 6.04, may not:

(1) reduce the principal amount of Securities whose Holders must consent to an amendment, supplement or waiver pursuant to this Section 9.02;

(2) reduce the rate of or change the time for payment of interest on any Security;

(3) reduce the principal of or change the fixed maturity of any Security;

(4) waive a default in the payment of the principal of or premium, if any, or interest on any Security;

(5) make any Security payable in money other than that stated in the Security; or

(6) release the Guarantor from any of its obligations under the Guarantee or this Agreement, except in accordance with the terms of this Agreement; or

It shall not be necessary for the consent of the Holders under this Section to approve the particular form of any proposed supplement, but it shall be sufficient if such consent approves the substance thereof.

Section 9.03. Revocation and Effect of Consents.

A consent to an amendment, supplement or waiver by a Holder of a Security is a continuing consent, irrevocable for a period of nine months from the date given or, if earlier, until the amendment, supplement or waiver becomes effective, both as to the Holder giving such consent and as to every subsequent Holder of a Security or a portion of a Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent is not made on each Security. An amendment, supplement or waiver becomes effective in accordance with its terms and thereafter binds every Securityholder.

Section 9.04. Notation on or Exchange of Securities.

If an amendment, supplement or waiver changes the term of a Security, the Fiscal Agent may require the Holder of the Security to deliver it to the Fiscal Agent. The Fiscal Agent may place an appropriate notation on the Security about an amendment, supplement or waiver and return it to the Holder. Alternatively, the Company in exchange for Securities may issue and the Fiscal Agent shall authenticate new Securities that reflect an amendment, supplement or waiver.

Section 9.05. Fiscal Agent to Sign Amendments, etc.

The Fiscal Agent need not sign any supplement or amendment to this Agreement that adversely affects its rights. In signing such amendment, supplement or waiver, the Fiscal Agent shall be entitled to receive, and (subject to Section 7.02) shall be fully protected in relying upon an Officers' Certificate and Opinion of Counsel stating that such amendment, supplement or waiver is authorized or permitted by the Agreement.

ARTICLE TEN

GUARANTEE

Section 10.01. Guarantee. The Guarantor hereby fully, unconditionally and irrevocably guarantees, to each Holder of the Securities and the Fiscal Agent the full and punctual payment when due, whether at maturity, by acceleration, by redemption or otherwise in accordance with the terms of this Agreement, of the principal of, premium, if any, and interest on the Securities and all other obligations of the Company under this Agreement (all the foregoing being hereinafter collectively called the "Obligations"). The Guarantor further agrees (to the extent permitted by law) that without notice or further assent from it, it will remain bound under this Article 10 notwithstanding any renewal of or extension of the time for payment or performance of any Obligation.

To the extent not prohibited by law, the Guarantor waives presentation to, demand of payment from and protest to the Company of any of the Obligations and also waives notice of protest for nonpayment. The Guarantor waives notice of any default under the Securities or the Obligations. In addition, to the extent not prohibited by law the obligations of the Guarantor under this Article 10 shall not be affected by (a) the failure of any Holder to assert any claim or demand or to enforce any right or remedy against the Company or any other person under this Agreement, the Securities or any other agreement or otherwise; (b) any renewal of or extension of the time for payment or performance of any thereof; (c) any rescission, waiver, amendment or

modification of any of the terms or provisions of this Agreement, the Securities or any other agreement; (d) the release of any security held by any Holder or the Fiscal Agent for the Obligations or any of them; (e) any change in the ownership of the Company or (f) any other act or thing or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of the Guarantor or would otherwise operate as a discharge of the Guarantor as a matter of law or equity.

The Guarantor further agrees that the Guarantee herein constitutes a guarantee of payment when due (and not a guarantee of collection) and waives any right to require that any resort be had by any Holder to any security held for payment of the Obligations.

To the extent not prohibited by law, the obligations of the Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason (other than payment of the Obligations in full), including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense of setoff, counterclaim, recoupment or termination whatsoever or by reason of the invalidity, illegality or unenforceability of the Obligations or otherwise. The Obligations of the Guarantor under this Article 10 shall terminate when all of the Obligations shall have been paid in full, or upon a Legal Defeasance or Covenant Defeasance in accordance with Section 8.02 or Section 8.03, respectively.

The Guarantor further agrees that the Guarantee herein shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal and premium, if any, of or interest on any of the Obligations is rescinded or must otherwise be restored by any Holder upon the bankruptcy or reorganization of the Company or otherwise.

In furtherance of the foregoing and not in limitation of any other right which any Holder has at law or in equity against the Guarantor by virtue hereof, upon the failure of the Company to pay any of the Obligations when and as the same shall become due, whether at maturity, by acceleration, by redemption or otherwise, the Guarantor hereby promises to and will, upon receipt of written demand by the Fiscal Agent, forthwith pay, or cause to be paid, in cash, to the Holders an amount equal to the sum of (i) the unpaid amount of such Obligations then due and owing and (ii) accrued and unpaid interest on such Obligations then due and owing (but only to the extent not prohibited by law).

The Guarantor further agrees that, as between the Guarantor, on the one hand, and the Holders, on the other hand, (x) the maturity of the Obligations guaranteed hereby may be accelerated as provided in this Agreement for the purposes of the Guarantee herein, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the Obligations guaranteed hereby and (y) in the event of any such declaration of acceleration of such Obligations, such Obligations (whether or not due and payable) shall forthwith become due and payable by the Guarantor for the purposes of this Guarantee.

The Guarantor also agrees to pay any and all reasonable costs and expenses (including reasonable attorneys' fees) incurred by the Fiscal Agent or the Holders in enforcing any rights under this Section.

Section 10.02. No Subrogation.

Notwithstanding any payment or payments made by the Guarantor hereunder, the Guarantor shall not be entitled to be subrogated to any of the rights of the Fiscal Agent or any Holder against the Company or any collateral security or guarantee or right of offset held by the Fiscal Agent or any Holder for the payment of the Obligations, nor shall the Guarantor seek or be entitled to seek any contribution or reimbursement from the Company in respect of payments made by the Guarantor hereunder, until all amounts owing to the Fiscal Agent and the Holders by the Company on account of the Obligations are paid in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all of the Obligations shall not have been paid in full, such amount shall be held by the Guarantor in trust for the Fiscal Agent and the Holders, segregated from other funds of the Guarantor, and shall, forthwith upon receipt by the Guarantor, be turned over to the Fiscal Agent in the exact form received by the Guarantor (duly indorsed by the Guarantor to the Fiscal Agent, if required), to be applied against the Obligations.

Section 10.03. Assumption by the Guarantor.

The Guarantor or a Subsidiary may, with the consent of the Company but without the consent of any Holder of a Security, assume all of the rights and obligations of the Company hereunder and under the Securities if, after giving effect to such assumption, no Event of Default shall have occurred and be continuing. Upon such an assumption, the Guarantor, the Company and the Fiscal Agent shall execute an amendment to the Agreement evidencing the Guarantor's or such Subsidiary's assumption of all such rights and obligations of the Company and the Company shall be released from its liabilities hereunder and under such Securities as obligor thereon.

ARTICLE ELEVEN

MISCELLANEOUS

Section 11.01. Notices.

Any notice or communication shall be in writing and delivered in person or mailed by first-class mail to the other's address as follows:

If to the Company:	Cabot Finance B.V. Botlekstraat 2 3197 KA Botlek Rotterdam The Netherlands Attn: General Manager
With a copy to:	Cabot Corporation Two Seaport Lane, Suite 1300 Boston, MA 02210 Attn: General Counsel

If to the Fiscal Agent: U.S. Bank Trust National Association
100 Wall Street, 16th Floor
New York, NY 10005
Attention: Ward A. Spooner

The Company, the Guarantor or the Fiscal Agent by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Holder of a Security shall be mailed by first class mail to his or her address shown on the register kept by the Registrar. Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders.

If a notice or communication is mailed in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it.

In case, by reason of the suspension of regular mail service, or by reason of any other cause, it shall be impossible to mail any notice as required by this Agreement, then such method of notification as shall be made with the approval of the Fiscal Agent shall constitute a sufficient mailing of such notice.

Section 11.02. Certificate and Opinion as to Conditions Precedent.

Upon any request or application by the Company to the Fiscal Agent to take any action under this Agreement, the Company shall furnish to the Fiscal Agent:

(1) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Agreement relating to the proposed action have been complied with; and

(2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Section 11.03. Statements Required in Certificate or Opinion.

Each Certificate or Opinion with respect to compliance with a condition or covenant provided for in this Agreement shall include:

(1) a statement that the person making such Certificate or Opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such Certificate or Opinion are based;

(3) a statement that, in the opinion of such person, he or she has made such examination or investigation as is necessary to enable him or her to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

Section 11.04. Rules by Fiscal Agent, Paying Agent, Registrar.

The Fiscal Agent may make reasonable rules for action by or a meeting of Securityholders. The Registrar or Paying Agent may make reasonable rules and set reasonable requirements for its functions.

Section 11.05. Governing Law.

The laws of the State of New York shall govern this Agreement, the Securities and the Guarantee.

Section 11.06. No Recourse Against Others.

All liability described in the Securities of any director, officer, employee or stockholder, as such, of the Company and the Guarantor is waived and released.

Section 11.07. Successors.

All agreements of the Company in this Agreement and the Securities shall bind its successor. All agreements of the Guarantor in this Agreement and the Guarantee shall bind its successor. All agreements of the Fiscal Agent in this Agreement shall bind its successor.

Section 11.08. Execution in Counterparts.

The parties may sign this Agreement in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same agreement.

SIGNATURES

CABOT FINANCE B.V.

By /s/ John A. Shaw
Name: John A. Shaw
Title: Managing Director

CABOT CORPORATION

By /s/ John A. Shaw
Name: John A. Shaw
Title: Executive Vice President and Chief Financial Officer

U.S. BANK TRUST NATIONAL ASSOCIATION

By /s/ An Authorized Officer
Authorized Officer

EXHIBIT A

[FORM OF SECURITY]

EXHIBIT B

[FORM OF CERTIFICATE OF TRANSFER]

EXHIBIT C

[FORM OF CERTIFICATE FROM ACQUIRING
INSTITUTIONAL ACCREDITED INVESTOR]

EXHIBIT 10(m)

[CABOT LOGO]

August 25, 2003

Mr. William P. Noglows
204 Ocean Avenue
Marblehead, MA 01945

Dear Bill:

As we have discussed, your employment with Cabot Corporation (the "Company") has terminated, effective as of August 8, 2003 (the "Separation Date"). The purpose of this letter is to confirm the agreement between you and the Company concerning your severance arrangements, as follows:

1. FINAL SALARY AND VACATION PAY. On or before August 21, 2003, the Company will provide you with a lump sum payment equal to four weeks of vacation days you had earned but not used. You acknowledge that, upon receiving said vacation pay, you have received pay for all work you have performed for the Company during the current payroll period, to the extent not previously paid, as well as pay, at your final base rate of pay, for the vacation days you had earned, but not used, all as of the Separation Date, determined in accordance with Company policy and as reflected on the books of the Company.

2. SEVERANCE BENEFITS. In consideration of your acceptance of this Agreement and subject to your meeting in full your obligations under it, the Company will provide you the following severance pay and benefits:

(a) On or before September 2, 2003, the Company will pay you a single lump-sum amount of $675,000.

(b) If you were enrolled in the Company's medical and dental plans on the Separation Date, you may elect to continue your participation and that of your eligible dependents in those plans for a period of time under the federal law known as "COBRA." If you do so by signing and returning the COBRA election form no later than the effective date of this Agreement, then, until the conclusion of the eighteen month period following the Separation Date or, if earlier, until the date you begin new employment, the Company will contribute to the premium cost of your coverage and that of your eligible dependents under those plans at the same rate (as in effect from time-to-time) that it contributes to the premium cost of coverage of active employees and their eligible dependents. To be eligible for these Company premium contributions, however, you must pay the remainder of the premium cost. You agree to notify

the Company immediately if you begin new employment during the eighteen month period following the Separation Date and to repay promptly any excess contributions made by the Company. After the Company's contributions end, you may continue coverage for the remainder of the COBRA period, if any, by paying the full premium cost plus a small administrative fee. The Company reserves the right to amend, modify, terminate or discontinue the medical and dental coverage or benefits provided to its employees or former employees, or the costs associated therewith, at any time.

3. WITHHOLDING. All payments made by the Company under this Agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law and all other deductions authorized by you. The Company shall report as income to the appropriate taxing authorities all amounts determined by the Company in good faith to require such reporting.

4. ACKNOWLEDGEMENT OF FULL PAYMENT. You acknowledge and agree that the payments provided under paragraph 1 of this Agreement are in complete satisfaction of any and all compensation due to you from the Company, whether for services provided to the Company or otherwise, through the Separation Date and that, except as expressly provided under this Agreement, no further compensation is owed to you.

5. STATUS OF EMPLOYEE BENEFITS, PAID TIME OFF, STOCK AND STOCK OPTIONS, OUTPLACEMENT SERVICES. Except as otherwise expressly provided in paragraph 2(b) of this Agreement, your participation in all employee benefit plans of the Company has ended as of the Separation Date, in accordance with the terms of those plans. You will not continue to earn vacation or other paid time off after the Separation Date. Except as provided below, your rights and obligations with respect to any stock options granted to you by the Company which had vested as of the Separation Date shall be governed by the applicable stock option plan and any agreements or other requirements applicable to those options. Except as provided below, all stock shares and stock options which are unvested as of the Separation Date have been cancelled as of that date and you agree to return, no later than the effective date of this Agreement, the stock and stock option certificates for all stock shares and stock options granted you which were unvested on the Separation Date.

(a) Notwithstanding the foregoing, the Company will accelerate, as soon as reasonably practicable after the effective date of this Agreement, the vesting of the 10,000 outstanding gifted shares of Cabot Corporation common stock and the vesting of the 2,805 outstanding gifted shares of Cabot Microelectronics Corporation common stock, granted to you in each case on May 11, 2000.

(b) Notwithstanding the foregoing, and in accordance with the Company's Equity Incentive Plan Award Program and Award Binder, within thirty days of the execution of this Agreement, the Company will repurchase 50,000 shares of Restricted Stock from you for $7.92 per share, or $396,000.00, the purchase price paid by you relative to the 2002 Long-term Incentive Award. Further, in accordance with the Company's Equity Incentive Plan Award Program and Award Binder, within thirty days of the execution of

this Agreement, the Company will repurchase 50,000 shares of Restricted Stock from you for $10.46 per share, or $523,000.00, the purchase price paid by you relative to the 2001 Long-term Incentive Aware. This amount will be applied against your 2001 Loan of the same principal amount.

(c) During the eighteen month period following the Separation Date, the Company will pay the reasonable costs of executive outplacement services up to $60,000.00, provided that the Company approves the fee structure of that outplacement service provider and that the outplacement service provider itself be approved of by the Company.

(d) During the eighteen month period following the Separation Date, the Company will continue to support the financial planning benefit received by you from AYCO at an amount not less than amounts provided in previous years, as if you were an active employee, in accordance with the Company's program guidelines, as in effect from time to time. The Company reserves the right to amend, modify, terminate or discontinue the financial planning benefit provided by AYCO to its employees or former employees, or the costs associated therewith, at any time.

6. CONFIDENTIALITY AND NON-DISPARAGEMENT.

(a) You agree that you will continue to protect Confidential Information, as defined here, and that you will never, directly or indirectly, use or disclose it. As used in this agreement, "Confidential Information" means any and all information of the Company that is not generally known to others, and includes without limitation commercial and financial information, technical know-how, trade secrets, confidential records, drawings, data, methods, programs, processes, apparatus, and inventions. Confidential Information also includes all information received by the Company from customers or other third parties with any understanding, express or implied, that the information would not be disclosed, and any other information protected from use or disclosure under applicable law.

(b) You agree that you will not disclose this Agreement or any of its terms or provisions, directly or by implication, except to members of your immediate family and to your legal and tax advisors, and then only on condition that they agree not to further disclose this Agreement or any of its terms or provisions to others. Likewise, the Company agrees that it will not disclose this Agreement or any of its terms or provisions, directly or by implication except as required by law or financial disclosure. You also agree that you will not disparage or criticize the Company, its business (including its subsidiaries, affiliates and successors), its management (including without limitation its shareholders, officers or directors) or its products, and that you will not otherwise do or say anything that could disrupt the good morale of Company employees or harm its interests or reputation. The Company agrees not to disparage you in any public statements and will instruct its current officers to not make any disparaging remarks about you to any third-parties outside of the Company.

7. RETURN OF COMPANY DOCUMENTS AND OTHER PROPERTY.

(a) In signing this Agreement, you represent and warrant that, except as provided below, you have returned to the Company any and all non-public documents, materials and information (whether in hardcopy, on electronic media or otherwise) related to Company business (whether present or otherwise) and all keys, access cards, credit cards, computer hardware and software, telephones and telephone-related equipment and all other property of the Company in your possession or control. Further, you represent and warrant that you have not retained any copy of any non-public Company documents, materials or information (whether in hardcopy, on electronic media or otherwise). Recognizing that your employment with the Company has ended, you agree that you will not, for any purpose, attempt to access or use any Company computer or computer network or system, including without limitation its electronic mail system. Further, you acknowledge that you have disclosed to the Company all passwords necessary or desirable to enable the Company to access all information which you have password-protected on any of its computer equipment or on its computer network or system.

(b) Notwithstanding the foregoing, you may retain the laptop computer provided to you by the Company during the course of your employment, provided that the Company permanently erase therefrom any Company information. You may also retain the cellular telephone provided to you by the Company during the course of your employment, and the Company will pay for appropriate and reasonable charges on that telephone for the six month period following the Separation Date, to a maximum of $50.00 per month.

8. EMPLOYEE COOPERATION. You agree to make yourself available and to cooperate with the Company for a total of seven days (40 hours) with respect to all matters arising during or related to your employment, including but not limited to all matters in connection with any governmental investigation, litigation or regulatory or other proceeding which may have already arisen or which may arise following the signing of this Agreement ("Related Matters"). After the expiration of those 40 hours, you agree that you will continue to cooperate and make yourself available with respect to all Related Matters. In exchange for such continued cooperation and availability beyond 40 hours, the Company will pay you at a rate of $300.00 per hour. However, in the event that you are subpoenaed as a witness for a deposition, hearing or trial, the Company will only compensate you for any income lost as a result of the deposition, hearing or trial, including preparation therefor. The Company will reimburse your out-of-pocket expenses incurred in complying with Company requests hereunder, provided such expenses are authorized by the Company in advance.

9. RELEASE OF CLAIMS.

(a) In exchange for the special severance pay and benefits provided to you under this Agreement, to which you would not otherwise be entitled, you, on your own behalf and that of your heirs, executors, administrators, beneficiaries, personal representatives and assigns, agree that this Agreement shall be in complete and final settlement of any and all causes of action, rights or claims, whether known or unknown, that you have had in the past, now have, or might now have, in any way related to, connected with or arising out of your employment or its termination, whether sounding in tort, contract or otherwise, or pursuant to Title VII of the Civil Rights Act, the Americans with Disabilities Act, the Older Workers Benefit Protection Act, the Age Discrimination in Employment Act, the fair employment practices statutes of the state or

states in which you have provided services to the Company or any other federal, state or local law, regulation or other requirement, and you hereby release and forever discharge the Company and its subsidiaries and other affiliates and all of their respective past, present and future directors, shareholders, officers, members, managers, general and limited partners, employees, agents, representatives, successors and assigns, any welfare or retirement plans maintained by Cabot or its subsidiaries, affiliates, or successors, or any of the trustees or administrators thereof, and all others connected with any of the foregoing, both individually and in their official capacities (collectively, the "Releasees"), from any and all such causes of action, rights or claims. You further agree not to assert any such claims against, and covenant not to sue any of the Releasees on any such claims.

Notwithstanding the foregoing, this release does not include and will not preclude: (a) any claim for salary payable through the Separation Date or for accrued, unused vacation time as recorded on the Company's books as of the Separation Date; (b) non-termination related claims under the Massachusetts Workers Compensation Act (M.G.L. c. 152) or any disability insurance policy; (c) any claims for vested benefits payable under any retirement plan; (d) non-termination related claims under the Employee Retirement Income Security Act (29 U.S.C. Section 1001 et seq.); (e) claims, if any, to be asserted only in the form of a shareholder derivative suit which claims are held by a majority of shareholders, provided that you do not initiate such claims and that such claims are in no way related to the termination of your employment; (f) claims under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"); (g) rights, if any, to defense and indemnification from the Company for actions taken by you in the course and scope of your employment with the Company and its subsidiaries and affiliates all in accordance with the By-Laws and/or Certificate of Amendment of Restated Certificate of Incorporation or otherwise provided by applicable common law, which rights will not be unreasonably withheld; (h) claims, actions, or rights arising under or to enforce the terms of this Agreement; or (i) any rights you may have to bring forward or identify issues to any state or federal administrative agency provided that this exclusion does not include any claim by you for money or money damages.

(b) The Company and its subsidiaries and other affiliates hereby release and forever discharge you from any and all causes of action, right or claims, whether sounding in tort or contract, or otherwise, to the extent that the Company has an obligation to indemnify you as a former officer and employee in accordance with Section 14.1 of the By-Laws and/or Article Eighth, paragraph (j) of the Certificate of Amendment of Restated Certificate of Incorporation. The Company is not presently aware of any claims it has against you.

(c) This Agreement, including the release of claims set forth in the paragraph immediately above, creates legally binding obligations and the Company therefore advises you to consult an attorney before signing this Agreement. In signing this Agreement, you give the Company assurance that you have signed it voluntarily and with a full understanding of its terms; that you have had sufficient opportunity, before signing this Agreement, to consider its terms and to consult with an attorney, if you wished to do so, or to consult with any other of those persons to whom reference in made in the first sentence of paragraph 6(b) above; and that, in signing this Agreement, you have not relied on any promises or representations, express or implied, that are not set forth expressly in this Agreement.

10. NON-COMPETITION.

In consideration of the benefits you will receive under this agreement, you agree that some restrictions on your activities after the Separation Date are necessary to protect the goodwill, Confidential Information and other legitimate interests of the Company and its subsidiaries, other affiliates and successors (collectively, the Company's "Affiliates"):

(a) During the eighteen month period following the Separation Date (the "Non-Competition Period"), you shall not, directly or indirectly, whether as owner (other than as a holder of not in excess of one percent (1%) of the outstanding voting shares), partner, investor, consultant, agent, employee, co-venturer or otherwise, compete with the Company or any of its Affiliates or undertake any planning for any business competitive with the business of the Company or any of its Affiliates. For purposes of this Section 10, the business of the Company and its Affiliates is the manufacture and sale of Carbon Black, Fumed Metal Oxides, Fumed Alumina, Tantalum Wire, Tantalum Powder, Aerogels and Ink Jet Colorants.

(b) You further agree that during the Non-Competition Period, you will not solicit for hire or attempt to solicit for hire any employee of the Company or any of its Affiliates or any independent contractor providing services to the Company or any of its Affiliates; or in the case of a customer, encourage or solicit said customer to conduct with any entity or organization any business or activity which said customer conducts or could conduct with the Company or any one of its Affiliates.

11. OWNERSHIP OF INVENTIONS AND ASSIGNMENT OF INTELLECTUAL PROPERTY. All inventions, discoveries and improvements conceived or made by you during your employment with Cabot that (i) relate to the business or activities of Cabot or (ii) were conceived or developed by me during normal working hours or using Cabot's facilities shall belong to Cabot, whether or not reduced to writing or practice during your employment with Cabot. You are assigning to Cabot or its nominee all your rights and interest in any such inventions, discoveries and improvements and agreeing to keep protected the interest of Cabot or its nominee in any such inventions, discoveries and improvements. You are also assigning to Cabot or its nominee, at Cabot's expense, all copyrights and reproduction rights to any material prepared by you during your employment with Cabot that (i) relate to the business or activities of Cabot or (ii) were conceived or developed by you during normal working hours or using Cabot's facilities. If within the eighteen month period following the Separation Date, you disclose to anyone or file a patent application with respect to any invention, discovery or improvement relating to any subject matter with which your work for Cabot was concerned, such invention, discovery or improvement shall be presumed to have been made by you during your employment with Cabot unless you can provide clear and convincing evidence to the contrary.

12. ENFORCEMENT OF COVENANTS. You acknowledge that you have carefully read and considered all the terms and conditions of this Agreement, including the restraints imposed upon you pursuant to Sections 6 and 10 hereof. You agree that these restraints are necessary for the reasonable and proper protection of the Company and its Affiliates and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. The parties further agree that, in the event that any provision of Section 6 or 10 hereof shall be determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, such

provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law.

13. MISCELLANEOUS.

(a) This Agreement constitutes the entire agreement between you and the Company and supersedes all prior and contemporaneous communications, agreements and understandings, whether written or oral, with respect to your employment, its termination and all related matters.

(b) This Agreement may not be modified or amended, and no breach shall be deemed to be waived, unless agreed to in writing by you and the Chief Executive Officer of the Company, the undersigned, or their expressly authorized designees. The captions and headings in this Agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement.

(c) The obligation of the Company to make payments to you or on your behalf under this Agreement is expressly conditioned upon your continued full performance of your obligations under this Agreement.

(d) The Company agrees that in the event future prospective employers contact the Company regarding your employment with the Company, the Company will forward such requests to Robby D. Sisco, Vice President of Human Resources, who, in response to such requests and/or inquiries, will provide a statement in the form attached as Exhibit A, or an oral response in conformance with Exhibit A.

(e) This Agreement is a Massachusetts contract, shall be treated as a contract under seal, and shall be construed and enforced under and governed in all respects by the laws of the Commonwealth of Massachusetts, without regard to the conflict of laws principles thereof.

If the terms of this Agreement are acceptable to you, please sign, date and return it to Karen Connors (at Cabot Corporation, Two Seaport Lane, Suite 1300, Boston, MA 02210-2019), within and not later than twenty-one days of the date you receive it. You should consult with an attorney before deciding whether to accept this offer. You may accept this offer only by signing (with signature notarized) a copy of this letter where indicated below and returning it to Karen Connors (at Cabot Corporation, Two Seaport Lane, Suite 1300, Boston, MA 02210-2019), so that Ms. Connors receives it no later than September 16, 2003; otherwise this offer shall be null and void. You may revoke this Agreement (by sending written notification of revocation to Mr. Bud Grasso at Cabot Corporation, Two Seaport Lane, Suite 1300, Boston, MA 02210-2019) at any time during the seven-day period immediately following the date of your signing. If you do not revoke it, then, at the expiration of that seven-day period, this letter will take effect as a legally-binding agreement between you and the Company on the basis set forth above. In signing this agreement, you acknowledge that you have been afforded an opportunity of not less than twenty-one days to consider its terms and that Cabot has advised you to consult with an attorney.

The enclosed copy of this letter, which you should also sign and date, is for your records.

Sincerely,
CABOT CORPORATION

By: /s/ Robby D. Sisco

Robby D. Sisco
Vice President Human Resources

Accepted and agreed:

Signature: /s/ William P. Noglows

William P. Noglows

Date: August 25, 2003

COMMONWEALTH OF MASSACHUSETTS)
)
COUNTY OF SUFFOLK)

August 25, 2003

Then personally appeared before me the above-named William P. Noglows, who is known to me, and acknowledged the foregoing instrument to be his free act and deed,

/s/ Nancy S. Shilepsky

Notary Public, Commonwealth of Massachusetts
Notary's name (printed): Nancy S. Shilepsky
Notary's commission expires: March 12, 2010

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				
	2003	2002	2001	2000	1999
Earnings:					
Pre-tax income from continuing operations	$ 94	$134	$150	$157	$113
Distributed income of affiliated companies	3	3	11	8	19
Add fixed charges:					
Interest on indebtedness	28	28	32	33	39
Portion of rents representative of the interest factor	4	4	4	4	5
Preferred stock dividend	3	3	3	3	3
Income as adjusted	$132	$172	$200	$205	$179
Fixed charges:					
Interest on indebtedness	$ 28	$ 28	$ 32	$ 33	$ 39
Capitalized interest	--	2	1	--	--
Portion of rents representative of the interest factor	4	4	4	4	5
Preferred stock dividend	3	3	3	3	3
Total fixed charges	$ 35	$ 37	$ 40	$ 40	$ 47
Ratio of earnings to fixed charges	4	5	5	5	4

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EXHIBIT 21

CABOT CORPORATION SIGNIFICANT SUBSIDIARIES AS OF SEPTEMBER 30, 2003

NAME	JURISDICTION
Cabot International Capital Corporation	Delaware
CDE Company	Delaware
Cabot Brasil Industria e Comercio Limitada	Brazil
Cabot Canada Ltd.	Canada
Cabot Carbon Limited	England
Cabot G.B. Limited	England
Cabot UK Holdings Limited	England
Cabot Supermetals K.K.	Japan
Cabot B.V.	The Netherlands

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (File No. 333-64787) and on Forms S-8 (File Nos. 033-28699, 033-52940, 033-53659, 333-03683, 333-06629, 333-19103, 333-19099, 333-82353, 333-96879 and 333-96881) of Cabot Corporation of our report dated November 13, 2003 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Boston, Massachusetts
December 22, 2003

Exhibit 31(i)

I, Kennett F. Burnes, certify that:

1. I have reviewed this annual report on Form 10-K of Cabot Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivablent functions):

a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ KENNETT F. BURNES

Kennett F. Burnes
Chairman of the Board, President
and Chief Executive Officer

Date: December 22, 2003

Exhibit 31(ii)

I, John A. Shaw, certify that:

1. I have reviewed this annual report on Form 10-K of Cabot Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JOHN A. SHAW

John A. Shaw
Executive Vice President and
Chief Financial Officer

Date: December 22, 2003

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Cabot Corporation (the "Company") on Form 10-K for the year ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ KENNETT F. BURNES

Kennett F. Burnes
Chairman of the Board, President and Chief Executive Officer

Date: December 22, 2003

/s/ JOHN A. SHAW

John A. Shaw
Executive Vice President and Chief Financial Officer

Date: December 22, 2003