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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1997

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-5667

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

DELAWARE (State or other jurisdiction of incorporation or organization)	04-2271897 (IRS Employer Identification No.)
75 STATE STREET BOSTON, MASSACHUSETTS (Address of Principal Executive Offices)	02109 (Zip Code)

(617) 345-0100
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
COMMON STOCK, $1.00 PAR VALUE PER SHARE:

68,213,732 SHARES OUTSTANDING AT NOVEMBER 28, 1997	BOSTON STOCK EXCHANGE NEW YORK STOCK EXCHANGE PACIFIC EXCHANGE
PREFERRED STOCK PURCHASE RIGHTS	

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

The aggregate market value of the Registrant's common stock held beneficially or of record by shareholders who are not directors or executive officers of the Registrant at November 28, 1997, was approximately $1,621,706,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Stockholders for fiscal year 1997 are incorporated by reference in Parts I, II, and IV, and portions of the Registrant's definitive Proxy Statement for its 1998 Annual Meeting of Stockholders are incorporated by reference in Part III.

PART I

ITEM 1. BUSINESS

GENERAL

Cabot's business was founded in 1882 and incorporated in the State of Delaware in 1960. The Company has businesses in specialty chemicals and materials and in energy. The Company and its affiliates have manufacturing facilities in the United States and more than 20 other countries.

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

The description of the Company's businesses is as of September 30, 1997, unless otherwise noted. Information regarding the Company's revenues and operating profits by business segment and geographic area appears on pages 23 and 43 of the Company's Annual Report to Stockholders for fiscal year 1997 ("Annual Report") which are incorporated herein by reference.

During the fiscal year ended September 30, 1997, the Company repurchased approximately 3.5 million shares of its common stock, $1.00 par value per share (the "Common Stock"), for the purpose of reducing the total number of shares outstanding as well as offsetting shares issued under the Company's employee incentive compensation programs.

Additional information regarding significant events affecting the Company in its fiscal year ended September 30, 1997, appears in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 21 through 28 of the Annual Report.

SPECIALTY CHEMICALS AND MATERIALS

CARBON BLACK

The Company manufactures and sells carbon black, a fine powder. The Company's carbon black business includes tire blacks, industrial rubber blacks and special blacks. Carbon black is used as a reinforcing agent in tires and in industrial rubber products such as extruded profiles, hoses and molded goods. Non-rubber grades of carbon black, known as special blacks, are used to provide pigmentation, conductivity and ultraviolet protection and for other purposes in many specialty applications such as inks, plastics, cables and coatings. The Company believes that it is the leading manufacturer of carbon black in the world, with an estimated one-quarter of the worldwide production capacity and market share of carbon black. The Company competes in the manufacture of carbon black with three companies having an international presence and with at least 20 other companies in various regional markets in which it operates (see "General," below).

Carbon black plants owned by Cabot or a subsidiary are located in Argentina, Australia, Brazil, Canada, the Czech Republic, England, France (two plants), India, Indonesia (two plants), Italy, Japan, The Netherlands, Spain and the United States (four plants). Affiliates of the Company own carbon black plants in Colombia, Japan (two plants), Malaysia, Mexico, The People's Republic of China and Venezuela. Headquarters for the Company's carbon black business are located in Billerica, Massachusetts, with regional headquarters in Atlanta, Georgia (North America), Sao Paulo, Brazil (South America), Suresnes, France (Europe) and Kuala Lumpur, Malaysia (Pacific Asia). In April 1997, the Company increased its ownership of its Indian carbon black subsidiary from 51% to 60%. Some of the plants listed above are built on leased land (see "Properties," below).

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

Sales are generally made by employees of the Company or its affiliates in the countries where carbon black plants are located. Export sales are generally made through distributors or sales representatives in conjunction with Company employees. Sales are made under various trademarks owned by Cabot, including Cabot(R), Black Pearls(R), Elftex(R), Mogul(R), Monarch(R), Regal(R), Spheron(TM), Sterling(R) and Vulcan(R) (see "General," below).

The Company has developed three new carbon-based products with substantial demand potential. The first new product, sold under the Ecoblack trademark, utilizes a new technology to produce particles consisting of carbon and silica. It can be used to reduce a tire's rolling resistance and thereby improve an automobile's gas mileage. The Company's best estimate, at this time, of the annual revenues to be derived from the Ecoblack product by the year 2000 is $20 million to $80 million.* The Company has recently completed a semi-works plant in Malaysia in connection with its plans to commercially develop and produce elastomer composites, the second new product. The Company began test production of an initial line of elastomer composites in 1997. The Company believes that its new elastomer composites will provide a significant improvement in tire performance. The Company's best estimate, at this time, of the annual revenues to be derived from elastomer composites by the year 2000 is $50 million to $100 million.* The third new product is a tire innerliner carbon black which can reduce the amount of expensive halobutyl polymers in a tire. The innerliner carbon black can both lower the cost of producing tires and improve the tires' performance. The Company's best estimate, at this time, of the annual revenues innerliner carbon black may produce by the year 2000 is $25 million to $40 million.*

FUMED SILICA

The Company manufactures and sells fumed silica and dispersions thereof under various trademarks including Cabot(R), Cab-O-Sil(R) and Cab-O-Sperse(R). Fumed silica is an ultra-fine, high-purity silica produced by a flame process for use as a reinforcing, thickening, thixotropic, suspending or anti-caking agent in a wide variety of products for the automotive industry, construction industry and consumer products industries, including adhesives, cosmetics, inks, silicone rubber, coatings and pharmaceuticals. The headquarters for the Company's fumed silica business are located in Naperville, Illinois and its North American fumed silica manufacturing plant is located in Tuscola, Illinois. Subsidiaries of Cabot lease a manufacturing plant in Wales and own a manufacturing plant in Germany. A plant to manufacture fumed silica is under construction in India by a joint venture which is owned 50% by the Company and 50% by an Indian entity. The Company began construction in the summer of 1997 of a second fumed silica plant in the United States, to be located in Midland, Michigan. Raw materials for the production of fumed silica are various chlorosilane feedstocks. The feedstocks are either purchased or toll converted for owners of the materials. The Company has long-term procurement contracts in place which it believes will enable it to meet the raw material requirements for the production of fumed silica. Sales of fumed silica products are made by Company employees and through distributors and sales representatives. There are five principal producers of fumed silica in the world (see "General," below). The Company believes it is the leading producer and seller of this chemical in the United States and second worldwide.

MICROELECTRONICS MATERIALS

The Company manufactures and sells high-purity polishing materials, made from fumed metal oxides and a variety of chemistries. The polishing materials are used in the manufacture of integrated circuit chips and other electronic devices by the semiconductor industry. These products are sold under various Cabot trademarks including Cab-O-Sperse(R) and Semi-Sperse(R). Sales of polishing materials are made by Company employees and through distributors and sales representatives. Raw materials, a significant portion of which are manufactured by the Company's fumed silica business, are readily available. The Company has a newly constructed dispersion manufacturing facility and laboratory in Aurora, Illinois, as well as a dispersion manufacturing facility in Barry, Wales. The headquarters and technology center for the Company's

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

microelectronics materials business are located in Aurora, Illinois. The Aurora, Illinois facility provides quality control management, operations management, marketing support and customer sales and service for the Company's microelectronics materials business.

PLASTICS

The Company produces black and white thermoplastic concentrates and specialty compounds for sale to plastic resin producers and the plastics processing industry. Sales are made under various Cabot trademarks including Cabelec, Plasadd, Plasblak, Plastech, Plaswite and Rainbow, each of which is either registered or pending in one or more countries. Major applications for these materials include pipe and tubing, packaging and agricultural film, automotive components, cable sheathing and special packaging for use in the electronics industry. Sales are made by Company employees and through sales representatives and distributors primarily in Europe and Asia. This business has manufacturing facilities in Belgium (two plants), England, Hong Kong and Italy, and its headquarters are located in Leuven, Belgium. In Europe, the Company is one of the three leading producers of thermoplastic concentrates. The main raw materials used in this business are carbon black, titanium dioxide, thermoplastic resins and mineral fillers. Raw materials are in general readily available. The Company also operated a small plastics recycling facility in Belgium until it was sold in September 1997.

PERFORMANCE MATERIALS

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

INKJET COLORANTS

The Company's inkjet colorants business, which was formed in 1996, manufactures colorant products for use in inkjet printing applications. The Company's pigment-based colorants are designed to replace traditional pigment dispersions and dyes. These colorants deliver enhanced color, stability, durability, ink formulation flexibility and high print quality. These new products will target various printing markets, including home and office printers, wideformat printers, and commercial and industrial printing applications. The headquarters of this business are located in Billerica, Massachusetts. Raw materials for this business include carbon black, which is obtained from the Company, as well as other products from various sources. All of those materials are in adequate supply. The Company's best estimate, at this time, of the revenues which may be derived from these products in the year 2000 is $15 million to $25 million.*

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

SPECIALTY FLUIDS

The Company is developing cesium brine to be marketed as a drilling fluid for use in high temperature drilling of oil and gas wells. Cesium brine has a high density but, because it has no solid additives, it has a low viscosity permitting it to flow readily; it is resistant to high temperatures and yet it is biodegradable. The headquarters of this business are located in The Woodlands, Texas and, in the fourth quarter of fiscal 1997, the Company completed construction of a manufacturing facility to produce cesium brine near its mine in Manitoba, Canada. The principal raw material used in this business is cesium, which the Company obtains from that mine. The Company has an adequate cesium supply. The Company's best estimate, at this time, of the revenues that may be derived from this product in the year 2000 is $15 million to $35 million.*

GENERAL

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

Many of the Company's specialty chemicals and materials businesses are generally not seasonal in nature, although they experience some decline in sales in the fourth fiscal quarter due to European seasonal plant shutdowns. The Company believes that as of September 30, 1997, approximately $108.1 million of backlog orders for its specialty chemicals and materials businesses were firm, compared to firm backlog orders as of September 30, 1996, of approximately $102.3 million. All of the 1997 backlog orders are expected to be filled during fiscal year 1998.

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

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

Competition in the specialty chemicals and materials businesses is based on price, service, quality, product performance and technical innovation. Competitive conditions also necessitate carrying an inventory of raw materials and finished goods in order to meet customers' needs for prompt delivery of products. Competition in quality, service, product performance and technical innovation is particularly significant for the fumed silica, industrial rubber blacks, special blacks, inkjet colorants, microelectronics materials and tantalum businesses. The Company's competitors in the specialty chemicals and materials businesses, other than the carbon black business, vary by product group.

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

ENERGY

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

LNG SUPPLIES

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

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

THE TRINIDAD LNG PROJECT

A consortium of companies consisting of Amoco Trinidad (LNG) B.V., British Gas Trinidad LNG Limited, Cabot Trinidad LNG Limited ("Cabot Trinidad," a wholly owned subsidiary of Cabot LNG Corporation), NGC Trinidad and Tobago LNG Limited and Repsol International Finance B.V. are shareholders of Atlantic LNG Company of Trinidad and Tobago ("Atlantic LNG"), a corporation formed to construct, own and operate a new LNG liquefaction plant in the Republic of Trinidad and Tobago. The plant is designed to export 385 million cubic feet of natural gas per day in the form of LNG. Cabot Trinidad owns 10% of Atlantic LNG. Cabot LNG Corporation and Enagas, S.A., the largest importer and wholesaler of natural gas in Spain, have entered into contracts with Atlantic LNG under which Cabot LNG Corporation will purchase 60% and Enagas, S.A. will purchase the remaining 40% of the LNG to be produced by Atlantic LNG's new plant.

The plant is currently under construction and is expected to be completed and deliveries of LNG to commence in fiscal year 1999. In June 1997, Atlantic LNG concluded a $600 million limited recourse financing with a consortium of international banks to provide funds for the construction of the new liquefaction plant, for which the Company, as well as the other Atlantic LNG shareholders or their respective affiliates, have issued limited completion guarantees. The plant construction is proceeding on schedule and on budget and the Atlantic LNG shareholders are presently evaluating an expansion of the facility.

OTHER EXPANSION ACTIVITIES

The Company expects to complete the refurbishment of its LNG tanker, now renamed the Matthew, and to bring it into service in early fiscal 1999. The Company expects to use the Matthew to transport LNG supplies from the Trinidad LNG project. Also, in 1997, the Company received approval from the Federal Energy Regulatory Commission to expand its terminal in Everett to vaporize an additional 150 million cubic feet of natural gas per day, an approximate 50% increase in capacity. That expansion is presently under way and is scheduled to be completed in the first quarter of fiscal 1999.

MARKETS

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

Both the natural gas and the electric businesses in the northeast United States are in the process of being deregulated and restructured, thereby making them subject to greater competition. This restructuring may cause significant changes in the Company's LNG customer base, including a shift in the responsibility for gas supplies from the local gas distribution companies to natural gas marketers.

OTHER

As of September 30, 1997, the Company owned 2,990,186 shares of common stock, $5.00 par value per share (approximately 9.5% of the then outstanding shares), of K N Energy, Inc. ("KNE"). The Company has reflected its investment in the common stock of KNE at its fair market value on September 30, 1997.

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

OTHER INFORMATION

EMPLOYEES

As of September 30, 1997, the Company had approximately 4,800 employees. Approximately 487 employees in the United States are covered by collective bargaining agreements. The Company believes that its relations with its employees are satisfactory.

RESEARCH AND DEVELOPMENT

The Company develops new and improved products and processes and greater operating efficiencies through Company-sponsored research and technical service activities including those initiated in response to customer requests. Expenditures by the Company for such activities are shown on page 29 of the Annual Report which is incorporated herein by reference.

SAFETY, HEALTH AND ENVIRONMENT

The Company's operations are subject to various environmental laws and regulations. Over the past several years, the Company has expended considerable sums to add, improve, maintain and operate facilities for environmental protection. Expenditures for equipment or facilities intended solely for environmental protection are estimated to have been approximately $18.5 million in fiscal year 1997 and are expected to be approximately $5.4 million in fiscal year 1998, and approximately $26.8 million in fiscal year 1999. Most of these expenditures for fiscal years 1997 through 1999 are to enable Cabot's United States plants to comply with the new requirements of the Clean Air Act.

The Company has been named as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (the "Superfund law") with respect to several sites (see "Legal Proceedings," below). During the next several years, as remediation of various environmental sites is carried out, the Company expects to spend a significant portion of its $39.7 million environmental reserve for costs associated with such remediation. Additions are made to the reserve based on the Company's continuing analysis of its share of costs likely to be incurred at each site. The sites are primarily associated with divested businesses.

In 1996, the International Agency for Research on Cancer ("IARC") revised its evaluation of carbon black from Group 3 (insufficient evidence to make a determination regarding carcinogenicity) to Group 2B (known animal carcinogen, possible human carcinogen), based solely on results of studies of female rat responses to the inhalation of carbon black. The Company has communicated this change in IARC's evaluation of carbon black to its customers and employees and has made changes to its material safety data sheets and elsewhere, as appropriate. The Company continues to believe that available evidence, taken as a whole, indicates that carbon black is not carcinogenic to humans, and does not present a health hazard when handled in accordance with good housekeeping and safe workplace practices as described in the Company's material safety data sheets.

FORWARD LOOKING INFORMATION

Actual results may differ materially from the results anticipated in the statements included herein due to a variety of factors including market supply and demand conditions, fluctuations in currency exchange rates, cost of raw materials, demand for customers' products and competitors' reactions to market conditions. Timely commercialization of products under development by the Company may be disrupted or delayed by technical difficulties, market acceptance, competitors' new products, as well as difficulties in moving from the experimental stage to the production stage. All estimates of future performance of the Company and its affiliates and subsidiaries are best estimates based on current information.

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

Industry segment financial data are set forth in tables on pages 23 and 43 of the Annual Report and are incorporated herein by reference. A significant portion of the Company's revenues and operating profits is derived from overseas operations. The profitability of the specialty chemicals and materials businesses is affected by fluctuations in the value of the U.S. dollar relative to foreign currencies. The Company's overseas operations do not currently include any energy-related businesses. (See Note N of the Notes to Consolidated Financial Statements for further information relating to sales and profits by geographic area and Management's Discussion and Analysis of Financial Condition and Results of Operations, appearing on page 43 and pages 21 through 28, respectively, in the Annual Report and incorporated herein by reference.) Currency fluctuations and nationalization and expropriation of assets are risks inherent in international operations. The Company has taken steps it deems prudent in its international operations to diversify and otherwise to protect against these risks, including the purchase of forward foreign currency contracts, options, swaps and writing of options to reduce the risk associated with changes in the value of certain foreign currencies compared to the U.S. dollar. (See Note M of the Notes to the Consolidated Financial Statements on page 42 of the Annual Report and incorporated herein by reference.)

ITEM 2. PROPERTIES

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

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

The principal facilities owned by the Company in the United States are: (i) the administrative offices and manufacturing plants of its carbon black operations in Louisiana, Massachusetts, Texas and West Virginia (comprising approximately 9,321,800 square feet); (ii) its research and development facilities in Illinois, Massachusetts and Pennsylvania and its applications development facility in Georgia (collectively comprising approximately 146,900 square feet); (iii) administrative offices and manufacturing plants of its fumed silica, microelectronics materials and performance materials business units in Illinois and Pennsylvania (comprising approximately 601,300 square feet); and (iv) its LNG terminalling and storage facility in Massachusetts (comprising approximately 37,700 square feet). Portions of plants in Louisiana referred to above are constructed on long-term ground leases.

The Company's principal foreign owned facilities are held through subsidiaries and together they comprise approximately 6,511,500 square feet of manufacturing facilities, 39,400 square feet of research and development facilities, and 907,600 square feet of administrative offices. Portions of the owned facilities in Canada, the Czech Republic, France and Spain, and all of the owned facilities in Hong Kong, India, Indonesia, Japan and The Netherlands are located on leased land. On December 18, 1997, a subsidiary of the Company purchased the remaining interest in its fumed silica joint venture in Rheinfelden, Germany. The square footage of the Rheinfelden facility was not available at the time of the filing of this Report and, thus, is not included in the numbers provided in this paragraph.

The principal facilities leased by the Company in the United States are its corporate headquarters in Boston, Massachusetts, and its carbon black administrative offices in Georgia (collectively comprising approximately 104,000 square feet). In addition, the Company leases a warehouse for its performance materials business in Pennsylvania (comprising approximately 21,400 square feet).

The principal facilities leased by subsidiaries in locations outside the United States are administrative offices and manufacturing facilities of the fumed silica and microelectronics materials businesses in Wales, and administrative offices and research and development facilities of the carbon black operations in France and Malaysia (collectively comprising approximately 214,700 square feet). In addition, the Company holds mining rights in Canada.

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

ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant in various lawsuits and environmental proceedings wherein substantial amounts are claimed. The following is a description of the significant proceedings pending as of September 30, 1997, unless otherwise specified.

Environmental Proceedings

In November 1997, Cabot was sued in the District Court of Potter County, Texas by K N Energy, Inc. ("KNE") and various related entities for environmental remediation costs at approximately 45 gas plants and compressor stations located in New Mexico, Oklahoma and Texas. Cabot sold its subsidiaries that owned those properties in two separate transactions in 1989, and, in doing so, undertook certain contractual obligations with respect to environmental conditions at the properties. KNE alleges to be the assignee of those contract rights and, pursuant thereto, has attempted to require Cabot to pay for costs KNE has incurred and will incur in the future to remediate environmental contamination alleged to be on those properties.

In 1994, Cabot and the State of Florida agreed to a settlement of a 1983 state court lawsuit requiring Cabot to pay the State $650,000 in past costs associated with a site in Gainesville, Florida. Cabot also resolved claims of the United States Environmental Protection Agency ("EPA") for the site by paying a fine of $416,000. The site included a parcel of land on which Cabot previously owned and operated a pine tar distillation plant. Cabot has completed the implementation of a soil and groundwater remedy at the site in accordance with requirements of EPA and is currently operating and maintaining the groundwater collection system at the site, monitoring site conditions and negotiating a work plan with EPA concerning the search for and closure of historic water wells on the property. Recent monitoring of the groundwater collection system revealed slightly elevated levels of certain contaminants, and Cabot is evaluating whether further activity is necessary to address this condition. In 1995, Cabot filed a cost recovery suit against other responsible parties at the site seeking reimbursement of their share of Cabot's response costs. Settlements have been reached with several defendants and the action is proceeding against the others.

Beginning in May 1986, the Department of Environmental Protection of the State of New Jersey ("NJDEP") issued directives under the New Jersey Spill Compensation and Control Act to Cabot and other potentially responsible parties ("PRPs") to fund a remedial investigation for the cleanup of a six acre site in Old Bridge Township near Perth Amboy, New Jersey. Cabot and other PRPs contributed funds for a remedial investigation and feasibility study which was conducted by a consultant to the NJDEP. In January 1996, ten companies, including Cabot, entered into an Administrative Consent Order with NJDEP which requires them to perform an additional study of the site and to handle minor remedial work. Most of the minor remedial work required by the 1996 Order is complete, and the companies are preparing to conduct further soil sampling at the site. The companies are also negotiating with NJDEP to contribute costs to an interim groundwater remedy involving the collection of contaminated groundwater at the site and its conveyance to a local sewer authority over a two year period pending a final decision concerning long-term groundwater cleanup. Until additional studies are complete, it will not be possible to identify what remediation, if any, will be required at the site, what the total cost of the remediation will be, or what Cabot's portion of any such costs will be.

In 1986, Cabot sold a manufacturing facility in Reading, Pennsylvania to NGK Metals, Inc. ("NGK"). In doing so, Cabot agreed to share on an equal basis with NGK the costs of certain environmental remediation of the Reading plant site. After the sale, EPA issued an order to NGK requiring it to address soil and groundwater contamination at the site. In 1996 and 1997, NGK's contractor completed the soil remediation component of the work. In August 1997, after completion of the soil cleanup project, the contractor notified NGK that it had incurred substantial additional costs over the base contract for the work and that NGK was responsible for these extra costs. NGK, with support from Cabot, has disputed this claim. The groundwater remediation component of the work is currently being designed.

In 1995, Cabot was named as a third party defendant in a case concerning the Louisiana Oil and Recycling ("LOR") Site in Baton Rouge, Louisiana. The complaint alleges that Cabot's former facility in Arcadia, Louisiana shipped wastes to the site based on a waste manifest dated April 28, 1987. Cabot's Arcadia facility was sold to Haynes International, Inc. in 1986, and Cabot has notified Haynes that it is responsible for Cabot's liability, if any, at the LOR Site.

Cabot is one of approximately 25 parties identified by EPA as PRPs under the Superfund law with respect to the cleanup of Fields Brook (the "Brook"), a tributary of the Ashtabula River in northeast Ohio. From 1963 to 1972, Cabot owned two manufacturing facilities located beside the Brook. Pursuant to an EPA administrative order, 13 companies, including Cabot, are performing the design and other preliminary work relating to remediation of sediment in the Brook and soil in the floodplain and wetlands areas adjacent to the Brook. In 1997, EPA and the companies reached agreement on the remedy for these areas, and the companies' consultants are preparing detailed design documents necessary to implement this remedy. Remedial activities are not expected to occur until at least 1999. EPA's cost recovery claims through the end of 1989 have been settled, and the companies are negotiating an administrative order with EPA and the Natural Resources Trustees to settle remaining EPA past cost claims and natural resource damage claims. The companies, including Cabot, that have paid for work at the site are seeking to recover a share of those costs from other responsible parties.

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

In 1994, Detrex Chemical Industries, Inc. filed third-party complaints against eight companies, including Cabot, in connection with material allegedly sent to the Koski/RES landfill in Ashtabula, Ohio. Cabot and other third-party defendants filed complaints against five additional companies that sent waste to the site. Discovery in the case is nearing completion, and a trial date has been set for July 1998.

In July 1991, EPA instituted litigation against a number of parties, not including Cabot, seeking to recover its costs incurred in connection with an investigation of the Berks Associates Superfund Site in Douglassville, Pennsylvania. Cabot was joined in this litigation as a third-party defendant. The litigation has been stayed pending settlement negotiations. In April 1996, EPA proposed that ten companies, including Cabot, undertake the remaining remediation required at the site and indicated it would be willing to reconsider, to some extent, the remediation technology to be used. An administrative consent order to conduct a Focused Feasibility Study of the practicability of the alternative remedy (materials stabilization and containment in lieu of incineration) was entered into by the companies and EPA in September 1997. Cabot currently is unable to project its total liability at the site, although it believes the total volume of waste that could be attributed to it is a small fraction of the total volume of waste at the site.

In 1994, five plaintiffs filed suit in the U.S. District Court for the Eastern District of Pennsylvania against 24 defendants, including Cabot, under the Superfund law and state law seeking recovery of remediation costs at the Berks Landfill site, which is located in the vicinity of Reading, Pennsylvania. The plaintiffs claim that a beryllium alloy plant formerly owned by Cabot and located in Reading, Pennsylvania sent waste to the Berks Landfill. The plaintiffs claim to have incurred approximately $3 million on investigations and interim remedial measures at the site. In 1997, EPA issued a Record of Decision ("ROD") for the site. The ROD selected as a remedy the repair and maintenance of an existing cap at the landfill, the operation and maintenance of a leachate management system, long-term monitoring of groundwater and implementation of deed restrictions at the site. EPA estimates the 30-year present net worth of these measures at approximately $6 million. In September 1997, EPA issued special notice letters to Cabot and approximately 30 other parties requesting them to enter into negotiations to implement the ROD, and Cabot is participating in those negotiations. A consultant to the PRP group which Cabot joined has reviewed allocation information in the record and attributes to Cabot a small percentage of waste at the site relative to the total volume of waste believed to have been shipped there. It is not possible at this time to determine the amount Cabot will be required to contribute to settle EPA's and the plaintiffs' costs at the site.

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

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

As of September 30, 1997, approximately $39.7 million was accrued for environmental matters by the Company. The amount represents the Company's current best estimate of costs likely to be incurred based on its analysis of the extent of cleanup required, alternative cleanup methods available, abilities of other responsible parties to contribute and its interpretation of laws and regulations applicable to each site.

Other Proceedings

The Company has various other lawsuits, claims and contingent liabilities arising in the ordinary course of its business. In the opinion of the Company, although final disposition of all of its suits and claims may impact the Company's financial statements in a particular period, it should not, in the aggregate, have a material adverse effect on the Company's financial position. (See Note L of the Notes to the Company's Consolidated Financial Statements on pages 41 and 42 of the Annual Report.)

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

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below for each person who was an executive officer of Cabot at the end of the 1997 fiscal year, is information, as of November 28, 1997, 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
William T. Anderson....	42..	Cabot Corporation	
		Controller	September 1997 to present
		Acting Corporate Controller and Assistant Controller	February 1997 to September 1997
		Assistant Controller	July 1995 to February 1997
		Private Eyes Sunglass Corporation	
		Chief Operating Officer	1991 to 1995
		Chief Financial Officer	1990 to 1991
Samuel W. Bodman.......	59..	Cabot Corporation	
		Chairman of the Board	October 1988 to present
		President	February 1991 to February 1995 January 1987 to October 1988
		Chief Executive Officer	February 1988 to present
Kennett F. Burnes......	54	Cabot Corporation	
		President and Chief Operating Officer	February 1995 to present
		Executive Vice President	October 1988 to February 1995
Winfred R. Cates.......	57	Cabot Corporation	
		Senior Vice President	May 1996 to present
		Vice President	May 1990 to May 1996
Robert L. Culver.......	49	Cabot Corporation	
		Executive Vice President and Chief Financial Officer	April 1997 to present
		Northeastern University	
		Senior Vice President and Treasurer	October 1990 to April 1997
Robert Rothberg........	48	Cabot Corporation	
		Vice President and General Counsel	October 1993 to present
		Choate, Hall & Stewart (law firm), Partner	January 1982 to October 1993
Donald R. Young........	40	Cabot Corporation	
		Vice President	September 1993 to present
		General Manager, Carbon Black	October 1996 to present
		Director of Carbon Black Marketing and General Manager of Global Tire Sector	January 1996 to October 1996
		General Manager, Pacific Asia Carbon Black	August 1993 to December 1995
		Director of Cogeneration Projects, Carbon Black	September 1992 to August 1993

PART II

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

Cabot's Common Stock is listed for trading (symbol CBT) on the New York, Boston, and Pacific stock exchanges. As of September 30, 1997, there were approximately 2,130 holders of record of Cabot's Common Stock. The price range in which the stock has traded, as reported on the composite tape, and the quarterly cash dividends for the past two years are shown below, restated to reflect the two-for-one stock split in March 1996.

STOCK PRICE AND DIVIDEND DATA

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

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

ITEM 6. SELECTED FINANCIAL DATA

Cabot Corporation Selected Financial Data:

	YEARS ENDED SEPTEMBER 30				
	1997	1996	1995	1994	1993
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
Financial Highlights					
Net sales and other operating revenues	$1,629,989	$1,856,269	$1,830,393	$1,679,819	$1,614,315
Income before cumulative effect of accounting changes	$ 92,745	$ 194,057	$ 171,932	$ 78,691	$ 37,410
Long-term debt	$ 285,544	$ 321,497	$ 306,443	$ 307,828	$ 459,275
Minority interest	$ 22,780	$ 27,138	$ 7,411	$ --	$ --
Stockholders' equity	$ 727,793	$ 744,931	$ 685,000	$ 562,489	$ 442,273
Total capitalization	$1,036,117	$1,093,566	$ 998,854	$ 870,317	$ 901,548
Total assets	$1,823,589	$1,857,581	$1,654,333	$1,616,757	$1,489,473
Per Share:					
Income before cumulative effect of accounting changes	$ 1.27(a)	$ 2.60	$ 2.17	$ 0.98	$ 0.45(b)
Net income	$ 1.27(a)	$ 2.60	$ 2.17	$ 0.98	$ 0.10(c)
Cash dividends	$ 0.40	$ 0.36	$ 0.30	$ 0.27	$ 0.26
Average shares outstanding--thousands	70,730	73,237	77,452	76,498	74,876

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(a) Includes charges of $0.15 per share for the restructuring of the Company's specialty chemicals and materials businesses. These charges were for asset impairments and severance.

(b) Includes charges of $0.42 per share for the restructuring of the Company's specialty chemicals and materials businesses and favorable energy accrual adjustment of $0.12 per share.

(c) Includes a charge of $0.35 per share for the cumulative effect of required accounting changes.

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

The information required appears in the Annual Report on pages 21 through 28 and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required appears in the Annual Report on pages 29 through 43 and is incorporated herein by reference.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required regarding the executive officers of Cabot is included in Part I in the unnumbered item captioned "Executive Officers of the Registrant." Certain other information required regarding the directors of Cabot is contained in the Registrant's Proxy Statement for the 1998 Annual Meeting of Stockholders ("Proxy Statement") on pages 2 through 6 under the heading "Certain Information Regarding Directors." All of such information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required is contained in the Proxy Statement on pages 10 through 15 under the heading "Executive Compensation." All of such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required is contained in the Proxy Statement on pages 8 and 9 under the heading "Beneficial Stock Ownership of Directors, Nominees, Executive Officers and Persons Owning More than Five Percent of Common Stock." All of such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required is contained in the Proxy Statement on pages 16 and 17 under the heading "Certain Relationships and Related Transactions". All of such information is incorporated herein by reference.

PART IV

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

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

	DESCRIPTION	PAGE
(1)	Consolidated Statements of Income for each of the three fiscal years in the period ended September 30, 1997..............................	29
(2)	Consolidated Balance Sheets at September 30, 1997 and 1996..........	30 to 31
(3)	Consolidated Statements of Cash Flows for each of the three fiscal years in the period ended September 30, 1997........................	32
(4)	Notes to Consolidated Financial Statements..........................	33 to 43
(5)	Statement of Management Responsibility for Financial Reporting and Report of Independent Accountants relating to the Consolidated Financial Statements listed above..................................	44

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

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

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

EXHIBIT NUMBER		DESCRIPTION
3(a)	--	Certificate of Incorporation of Cabot Corporation restated effective October 24, 1983, as amended February 14, 1985, December 3, 1986, February 19, 1987, November 18, 1988, November 24, 1995 and March 12, 1996 (incorporated herein by reference to Exhibit 3(a) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1996, file reference 1-5667, filed with the Commission on December 24, 1996).
3(b)	--	The By-laws of Cabot Corporation as of January 11, 1991 (incorporated herein by reference to Exhibit 3(b) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1991, file reference 1-5667, filed with the Commission on December 27, 1991).
4(a)	--	Rights Agreement, dated as of November 10, 1995, between Cabot Corporation and The First National Bank of Boston as Rights Agent (incorporated herein by reference to Exhibit 1 of Cabot's Registration Statement on Form 8-A, file reference 1-5667, filed with the Commission on November 13, 1995).
4(b)(i)	--	Indenture, dated as of December 1, 1987, between Cabot Corporation and The First National Bank of Boston, Trustee (incorporated herein by reference to Exhibit 4 of Amendment No. 1 to Cabot's Registration Statement on Form S-3, Registration No. 33-18883, filed with the Commission on December 10, 1987).
4(b)(ii)	--	First Supplemental Indenture dated as of June 17, 1992, to Indenture, dated as of December 1, 1987, between Cabot Corporation and The First National Bank of Boston, Trustee (incorporated by reference to Exhibit 4.3 of Cabot's Registration Statement on Form S-3, Registration Statement No. 33-48686, filed with the Commission on June 18, 1992).
4(b)(iii)	--	Second Supplemental Indenture, dated as of January 31, 1997, between Cabot Corporation and State Street Bank and Trust Company, Trustee (incorporated herein by reference to Exhibit 4 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 1996, file reference 1-5667, filed with the Commission on February 14, 1997).

EXHIBIT NUMBER		DESCRIPTION
4(c)(i)+	--	Facility Agreement and Acknowledgment of Indebtedness (The Hongkong and Shanghai Banking Corporation Limited), dated January 10, 1992.
4(c)(ii)+	--	Project Completion Agreement between Cabot, PT. Cabot Chemical and The Hongkong and Shanghai Banking Corporation Limited, dated April 28, 1992.
10(a)	--	Credit Agreement, dated as of January 3, 1997, among Cabot Corporation, the banks listed therein and Morgan Guaranty Trust Company of New York, as Agent (incorporated herein by reference to Exhibit 10 of Cabot's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, file reference 1-5667, filed with the Commission on May 14, 1997).
10(b)(i)*	--	Equity Incentive Plan, as amended (incorporated herein by reference to Exhibit 99 of Cabot's Registration Statement on Form S-8, Registration No. 33-28699, filed with the Commission on May 12, 1989).
10(b)(ii)*	--	1996 Equity Incentive Plan (incorporated herein by reference to Exhibit 28 of Cabot's Registration Statement on Form S-8, Registration No. 333-03683, filed with the Commission on May 14, 1996).
10(c)	--	Note Purchase Agreement between John Hancock Mutual Life Insurance Company, State Street Bank and Trust Company, as trustee for the Cabot Corporation Employee Stock Ownership Plan, and Cabot Corporation, dated as of November 15, 1988 (incorporated by reference to Exhibit 10(c) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1988, file reference 1-5667, filed with the Commission on December 29, 1988).
10(d)(i)*	--	Supplemental Cash Balance Plan (incorporated herein by reference to Exhibit 10(e)(i) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(d)(ii)*	--	Supplemental Employee Stock Ownership Plan (incorporated herein by reference to Exhibit 10(e)(ii) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(d)(iii)*	--	Supplemental Retirement Incentive Savings Plan (incorporated herein by reference to Exhibit 10(e)(iii) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(d)(iv)*	--	Supplemental Employee Benefit Agreement with John G.L. Cabot (incorporated herein by reference to Exhibit 10(f) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1987, file reference 1-5667, filed with the Commission on December 28, 1987).
10(d)(v)*	--	Cabot Corporation Deferred Compensation Plan dated January 1, 1995 (incorporated herein by reference to Exhibit 10(e)(v) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1995, file reference 1-5667, filed with the Commission on December 29, 1995).
10(d)(vi)*	--	Amendment 1997-I to Cabot Corporation Deferred Compensation Plan dated June 30, 1997, filed herewith.
10(e)*	--	Form of severance agreement entered into between Cabot Corporation and various managers (incorporated herein by reference to Exhibit 10(g) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1991, file reference 1-5667, filed with the Commission on December 27, 1991).
10(f)	--	Group Annuity Contract No. GA-6121 between The Prudential Insurance Company of America and State Street Bank and Trust Company, dated June 28, 1991 (incorporated herein by reference to Exhibit 10(h) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1991, file reference 1-5667, filed with the Commission on December 27, 1991).

EXHIBIT NUMBER		DESCRIPTION
10(g)*	--	Non-employee Directors' Stock Compensation Plan (incorporated herein by reference to Exhibit A of Cabot's Proxy Statement for its 1992 Annual Meeting of Stockholders, file reference 1-5667, filed with the Commission on December 27, 1991).
10(h)	--	Agreement for the Sale and Purchase of Liquefied Natural Gas and Transportation Agreement, dated April 13, 1976, between L'Entreprise Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures ("Sonatrach") and Distrigas Corporation, and Amendment No. 3 to said Agreement, dated February 21, 1988 (incorporated herein by reference to Exhibit 10(j) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(i)	--	Agreement for the Sale and Purchase of Liquefied Natural Gas, dated December 11, 1988, between Sonatrading Amsterdam B.V. ("Sonatrading") and Distrigas Corporation and Transportation Agreement, dated December 11, 1988, between Sonatrach and Distrigas Corporation (incorporated herein by reference to Exhibit 10(p) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1989, file reference 1-5667, filed with the Commission on December 28, 1989).
10(j)	--	Mutual Assurances Agreements among Cabot Corporation, Sonatrach, Distrigas Corporation and Sonatrading dated February 21, 1988 and December 11, 1988, respectively (incorporated herein by reference to Exhibit 10.1 of Cabot's Current Report on Form 8-K dated July 17, 1992, file reference 1-5667, filed with the Commission).
10(k)	--	K N Energy, Inc. By-law provision (incorporated herein by reference to Exhibit 10(o)(iv) of Cabot's Annual Report on Form 10-K for the year ended September 30, 1994, file reference 1-5667, filed with the Commission on December 22, 1994).
10(l)(i)	--	Asset Transfer Agreement, dated as of June 13, 1995, among Cabot Safety Corporation, Cabot Canada Ltd., Cabot Safety Limited, Cabot Corporation, Cabot Safety Holdings Corporation and Cabot Safety Acquisition Corporation (incorporated herein by reference to Exhibit 2(a) of Cabot Corporation's Current Report on Form 8-K, dated July 11, 1995, file reference 1-5667, filed with the Commission).
10(l)(ii)	--	Stockholders' Agreement, dated as of July 11, 1995, among Vestar Equity Partners, L.P., Cabot CSC Corporation, Cabot Safety Holdings Corporation, Cabot Corporation and various other parties thereto (incorporated herein by reference to Exhibit 2(b) of Cabot Corporation's Current Report on Form 8-K, dated July 11, 1995, file reference 1-5667, filed with the Commission).
11	--	Statement Re: Computation of Per Share Earnings, filed herewith.
12	--	Statement Re: Computation of Ratios of Earnings to Fixed Charges, filed herewith.
13	--	Pages 21 through 44 of the 1997 Annual Report to Stockholders of Cabot Corporation, a copy of which is furnished for the information of the Securities and Exchange Commission. Portions of the Annual Report not incorporated herein by reference are not deemed "filed" with the Commission.
21	--	List of Significant Subsidiaries, filed herewith.
23	--	Consent of Coopers & Lybrand L.L.P.
24	--	Power of attorney for signing of this Annual Report on Form 10-K, filed herewith.
27	--	Financial Data Schedule, filed herewith.

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

* Management contract or compensatory plan or arrangement.

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

For the purposes of complying with the amendments to the rules governing Form S-8 (effective July 13, 1990) under the Securities Act of 1933, the undersigned Registrant undertakes as follows, which undertaking shall be incorporated by reference into Registrant's Registration Statement on Form S-8 No. 33-28699 (filed May 12, 1989), the Registrant's Registration Statement on Form S-8 No. 33-52940 (filed October 5, 1992), the Registrant's Registration Statement on Form S-8 No. 33-53659 (filed May 16, 1994), the Registrant's Registration Statement on Form S-8 No. 333-03683 (filed May 14, 1996), the Registrant's Registration Statement on Form S-8 No. 333-06629 (filed June 21, 1996), the Registrant's Registration Statement on Form S-8 No. 333-19103 (filed December 31, 1996) and the Registrant's Registration Statement on Form S-8 No. 333-19099 (filed December 31, 1996).

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

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CABOT CORPORATION(Registrant)

By /s/ Samuel W. Bodman

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

Date: December 23, 1997

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

SIGNATURES	TITLE	DATE
/s/ Samuel W. Bodman Samuel W. Bodman	Director, Chairman of the Board and Chief Executive Office (principal executive officer)	December 23, 1997
* Kennett F. Burnes	Director and President	December 23, 1997
/s/ Robert L. Culver Robert L. Culver	Executive Vice President and Chief Financial Officer (principal financial officer)	December 23, 1997
/s/ William T. Anderson William T. Anderson	Controller (principal accounting officer)	December 23, 1997
* Jane C. Bradley	Director	December 23, 1997
* John G.L. Cabot	Director	December 23, 1997
* Arthur L. Goldstein	Director	December 23, 1997
* Robert P. Henderson	Director	December 23, 1997
* Arnold S. Hiatt	Director	December 23, 1997

SIGNATURES	TITLE	DATE
* John H. McArthur	Director	December 23, 1997
* John F. O'Brien	Director	December 23, 1997
* David V. Ragone	Director	December 23, 1997
* Charles P. Siess, Jr.	Director	December 23, 1997
* Morris Tanenbaum	DIrector	December 23, 1997
* Lydia W. Thomas	Director	December 23, 1997
* Mark S. Wrighton	Director	December 23, 1997

*By
/s/ Sarah W. Saunders
- ---
Sarah W. Saunders
as Attorney-in-Fact

EX-10.(d)(vi)

AMENDMENT 1997-I
TO
CABOT CORPORATION
DEFERRED COMPENSATION PLAN

Cabot Corporation, a Delaware corporation (the "Company"), pursuant to Section 9 of the Cabot Corporation Deferred Compensation Plan (the "Plan"), hereby amends the Plan, as follows, effective as of June 1, 1997:

1. Section 1 is amended by inserting the phrase "and non-employee directors" after the word "employees".

2. The following defined terms are added to Section 2 immediately following the definition of "CRISP":

"Director": Any member of the Board other than an employee of any Employer.

"Director Fees": The cash annual retainer fees and meeting fees paid by the Company as compensation for service on the Board or any committee thereof.

3. The definitions of "Eligible Pay", "Moody's Rate" and "Participant" in Section 2 are amended in their entireties to read as follows:

"Eligible Pay": Except as otherwise determined by the Administrator, Eligible Pay shall include (i) in the case of an Eligible Employee: base salary, amounts payable under the Company's short-term incentive program, and sales incentive bonuses; (ii) in the case of a Consultant: the consulting fees payable by the Employer; and (iii) in the case of a Director: Director Fees. The Administrator in its discretion may include other categories of remuneration in, or exclude categories of remuneration from, the definition of "Eligible Pay," either in general or in particular cases; provided, that any such change affecting Director Fees shall also require the approval of the Board.

"Moody's Rate": For any calendar year, the interest rate specified in Moody's Bond Record under the heading of "Moody's Corporate Bond Yield Averages -- Av. Corp.," as published for the month of November preceding the calendar year.

"Participant": A Consultant, Eligible Employee or Director who participates in the Plan.

4. Section 2 is further amended by (i) adding the phrase ", and to Directors" at the end of the definition of "Employer" and (ii) adding the following to the definition of "Earnings Measure":

> In the case of Eligible Pay deferred by a Director, the Earnings Measure applied under Section 4(b) below shall be limited to one of the following: (i) a notional interest rate equal (for each year) to the Moody's Rate for such year, or (ii) deemed investment in (i.e. phantom units of) common stock of the Company. If the Earnings measure is based on the Moody's Rate, all Eligible Pay deferred by a Director during a calendar year shall be credited to the Director's Account as of the first day of such calendar year. If the Earnings Measure is based on common stock of the Company, all Eligible Pay deferred by a Director during a calendar quarter shall be credited to the Director's Account in phantom stock units as of, and based on the closing price for the Company common stock on the New York Stock Exchange on, the last trading day of such quarter, and phantom dividends on such Account (based on the balance of phantom stock units in such Account on the record date for each dividend declared on shares of Company common stock) shall be added to such Account in phantom stock units as of, and based on the closing price for the common stock on the New York Stock Exchange on, the date dividends are actually paid on the common stock.

5. Section 3 is amended by adding thereto a new Section 3(e) to read in its entirety as follows:

> (e) SPECIAL RULES FOR DIRECTORS. The provisions of this Section 3(e) shall apply, in the case of a Director, in lieu of the provisions of Sections 3(a) through (d) above. A Director may defer up to 100% of any Eligible Pay for any calendar year commencing on or after January 1, 1998 by completing and delivering a deferral election in accordance with Section 3(d) above not later than September 15 of the preceding year. A Director who is serving as such on June 1, 1997 may defer up to 100% of any Eligible Pay earned in the third and fourth quarters of calendar year 1997 by completing and delivering a deferral election in accordance with Section 3(d) above not later than June 30, 1997. Any individual who becomes a Director after June 1, 1997 may elect within 30 days after becoming a Director to defer up to 100% of any Eligible Pay earned in the remainder of the calendar year in which such individual becomes a Director (and the following calendar year, if such individual becomes a Director between August 16 and December 31 of any calendar year) by completing and delivering a deferral election in accordance with Section 3(d) above within such 30-day period. A Director's Eligible Pay shall be treated as earned on the date it would be paid if not deferred hereunder. The minimum amount that a Director may defer for any calendar year shall be $2,000.

6. Section 4(b) is amended in its entirety to read as follows:

(b) NOTIONAL EARNINGS. Not less frequently than annually, the Administrator shall adjust each Participant's Account to reflect notional earnings. Notional earnings shall be based on one Earnings Measure selected by the Participant from such Earnings Measures as the Administrator may specify. Subject to Sections 5(e)(iii) and (iv) below, the next sentence and such other rules and regulations as the Administrator may require, the Administrator may, but need not, permit Participants to (i) select an Earnings Measure that will apply to their Accounts from among those specified by the Administrator, and (ii) change such Earnings Measure to another specified Earnings Measure. Notwithstanding any provision of this Plan to the contrary, (i) a Participant may only select one Earnings Measure to apply to his or her entire Account at any one time, and (ii) the effective date of any change in Earnings Measure must be a prospective January 1. The Administrator shall have the absolute discretion at any time to alter or amend the Earnings Measures used in valuing and adjusting Accounts; provided, that the Administrator may not, without the written consent of the affected Participant, alter any Earnings Measure retroactively to the extent that the effect of such alteration would be to reduce the balance of the Participant's Account below what it was immediately prior to such alteration. Nothing herein shall be construed as obligating the Administrator or any Employer to set aside assets or establish a trust or other fund for purposes of the Plan.

7. Section 5(a) is amended by (i) inserting the phrase ", service as a Director" after the word "employment" the first, second and fourth times it appears, (ii) replacing the phrase "termination of employment or termination of the consulting relationship," with the phrase "termination of the Participant's employment, service as a Director or consulting relationship with the Employer" and (iii) deleting the word "equal".

8. Section 5(e) is amended in its entirety to read as follows:

(e) COMPUTATION OF INSTALLMENT PAYMENTS, ETC. If any Account is to be distributed in installments, the amount of each such installment shall be determined applying the following special rules:

(i) If the Earnings Measure in effect for the Account when installments begin is the Moody's Rate, the amount of each installment shall be determined so as to result in equal installments over the installment period, applying the following special rules: (x) the Earnings Measure used to measure notional earnings with respect to the declining Account balance over the course of the installment period shall be a fixed rate equal to the average of the Moody's Rate for the year in which the installment distributions commence and the preceding four calendar years, and (y) notional earnings shall be determined by assuming that the Account is reduced at the beginning of each year in the installment period by the aggregate amount of the installment payments to be made for that year.

(ii) If the Earnings Measure in effect for the Account is not the Moody's Rate, the Account balance of the Participant shall be calculated as of the close of business on the first business day of each month during the installment period, and the monthly installment for that month shall be calculated by dividing this balance by the remaining number of monthly payments due the Participant. By way of example, if the Participant elects 120 monthly installments, the first payment shall be 1/120 of the account balance, calculated as of the first business day of the first month. The following month, the payment shall be 1/119 of the account balance, calculated as of the first business day of the second month.

(iii) If the Earnings Measure in effect for the Account when installments begin is not the Moody's Rate, the Participant, subject to Section 4(b) above, may at any time during the installment period change the Earnings Measure in effect for the Account to the Moody's Rate effective as of the next January 1. The Account balance as of such January 1 shall be paid out in equal installments over the remainder of the installment period, with the amount of the installments determined applying the following special rules: (x) the Earnings Measure used to measure notional earnings with respect to the declining Account balance over the remainder of the installment period shall be a fixed rate equal to the average of the Moody's Rate for the calendar year in which the equal installment distributions commence and the preceding four calendar years, and (y) notional earnings shall be determined by assuming that the Account is reduced at the beginning of each year in the remainder of the installment period by the aggregate amount of the installment payments to be made for that year.

(iv) Notwithstanding any provision of this Plan to the contrary, if the Earnings Measure in effect for an Account when installments begin is the Moody's Rate, or if the Participant changes the Earnings Measure to the Moody's Rate during the course of the installment period in accordance with Section 5(e)(iii) above, the Participant may not subsequently change the Earnings Measure.

In Witness Whereof, the Company has caused this Amendment to be signed by its duly authorized officer this 30th day of June 1997.

CABOT CORPORATION

By: /s/ Karen M. Morrissey

Its: Vice President

EXHIBIT 11

CABOT CORPORATION

Earnings per Common Share for the Year Ended September 30, 1997

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

	Primary	Fully Diluted
Shares of common stock outstanding at October 1, 1996, less treasury stock	71,589	71,589
Plus net weighted shares of treasury stock purchased	(1,714)	(1,714)
Plus common stock equivalents:		
Effect of convertible preferred stock conversion	-	5,981
Effect of equity incentive awards	855	880
Weighted average shares outstanding	70,730	76,736
Income applicable to common shares	$89,487	$89,487
Dividends on preferred stock	-	3,258
Preferred stock conversion compensation shortfall	-	(1,798)
Earnings applicable to common shares	$89,487	$90,947
Earnings per common share	$ 1.27	$ 1.19

EXHIBIT 12

CABOT CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

	Years ended September 30				
	1997	1996	1995	1994	1993
Earnings:					
Pre-tax income from continuing operations	$117,031	$279,834	$256,029	$118,325	$ 67,900
Distributed income of affiliated companies	10,392	11,173	11,699	5,638	5,988
Add fixed charges:					
Interest on indebtedness	43,222	41,718	35,639	41,668	44,043
Portion of rents representative of the interest factor	4,917	4,837	5,515	5,879	4,838
Income as adjusted	$175,562	$337,562	$308,882	$171,510	$122,769
Fixed charges:					
Interest on indebtedness	$ 43,222	$ 41,718	$ 35,639	$ 41,668	$ 44,043
Capitalized interest	_	_	_	_	3,963
Portion of rents representative of the interest factor	4,917	4,837	5,515	5,879	4,838
Total fixed charges	$ 48,139	$ 46,555	$ 41,154	$ 47,547	$ 48,881
Ratio of earnings to fixed charges	3.65	7.25	7.51	3.61	2.51

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

Cabot Corporation is comprised of a Specialty Chemicals and Materials Group and an Energy Group. The Specialty Chemicals and Materials Group consists of the following businesses: carbon black (the largest), fumed silica, plastics, capacitor materials, microelectronics materials, inkjet colorants, and specialty fluids. In 1995, the Company restructured the ownership of its safety and specialty composites business, Cabot Safety Corporation. Cabot now owns approximately 42.5% of the new corporation (now named Aearo Corporation) which is accounted for under the equity method. The Energy Group consists of Cabot LNG Corporation, a wholly owned subsidiary, and its subsidiaries. In 1996, the Company sold TUCO INC. ("TUCO"), a coal fuel services business.

The financial results of the Company in 1997 fell short of management's expectations. Key fundamentals in the Company's specialty chemicals businesses that began to deteriorate in the latter part of 1996 continued to have a negative impact in 1997. As the year progressed, however, the Company's operating environment gradually improved. For example, early in the fiscal year, the Company's carbon black business experienced higher feedstock costs; those costs retreated and remained stable during the second half of the year. In addition, European carbon black demand improved during the year and European carbon black prices, which declined during the first part of the year, stabilized in the third and fourth quarters. There is some prospect of price increases in Europe in 1998* (see page 28). Also, the U.S. electronics industry recovered during the second half of the year. Cabot serves this industry through its capacitor materials and microelectronics materials businesses. Finally, positive year-to-year volume comparisons that developed in the Company's chemical businesses during the third quarter continued during the fourth quarter of 1997.

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

RESULTS OF OPERATIONS

REVENUES

Net sales and other operating revenues for 1997, 1996 and 1995 were $1.6 billion, $1.9 billion and $1.8 billion, respectively. Revenues for 1996 included $278.2 million from the operations of TUCO. Excluding TUCO results from 1996, the Company experienced an increase in revenue during 1997 of $51.9 million, or 3%. The increase is attributable to greater revenues in the Company's LNG business. In 1997, the LNG business reported an increase of $55.9 million, or 39%, in revenue due to higher liquefied natural gas volumes and better pricing.

[Revenues Specialty Chemicals & Materials vs. Energy graph]

The Company's gross margins as a percentage of net sales for 1997, 1996 and 1995 were 30%, 29% and 31%, respectively. Gross margins for 1996 include the operating results of TUCO, which were 5% of TUCO's net sales. Exclusive of TUCO, the gross margin percentage for 1996 was 34%. The decrease in gross margin during 1997 was primarily the result of lower year-to-year selling prices combined with higher feedstock costs in the Company's carbon black business. Overall carbon black selling prices were down 3% during 1997. In addition, feedstock costs during 1997 were on average 4% higher.

The Company's selling, research, technical and administrative expenses for 1997, 1996 and 1995 were $299.2 million, $286.5 million and $293.9 million, respectively. The increase during 1997 of $12.7 million, or 4%, was largely due to the Company's continued focus on developing new products. As part of its long-term strategy for earnings growth, the Company has invested an increasing amount of resources over the past few years in research and marketing for the development of high-value, differentiated new products and entirely new businesses. These investments were largely in the Company's Specialty Chemicals and Materials Group. During 1997, the Company continued to see evidence that several new product and new business initiatives likely will develop over the next several years into commercial enterprises which, as a group, should contribute significantly to the Company's earnings over time (see page 28).

In 1996, selling, research, technical and administrative expenses decreased $7.4 million, or 3%. The 1995 total included expenses associated with Cabot Safety Corporation, which totaled $46.7 million. Excluding that amount from the 1995 figure, selling, research, technical and administrative spending increased $39.3 million, or 16%, during 1996. That increase also resulted from continued investments dedicated to developing new, higher value products and processes. In addition, 1996 figures include selling, research, technical and administrative expenses of the Company's Czech Republic and Indian carbon black operations, which were consolidated at the beginning of 1996.

OPERATING PROFIT

Operating profit for 1997, 1996 and 1995 was $186.9 million, $283.5 million and $299.5 million, respectively. Operating profit before special items for 1997, 1996 and 1995 was $205.1 million, $277.7 million, and $299.5 million, respectively. The Company's operating margins as a percentage of sales, before special items during 1997, 1996 and 1995 were 13%, 15% and 16%, respectively. Special items during 1997 included $18.2 million of severance and asset impairment charges in the Company's Specialty Chemicals and Materials Group. Special items during 1996 included $5.8 million of gains relating to the Company's Energy Group.

[Operating Margins Specialty Chemicals & Materials graph]

Operating profit (excluding special items) decreased $72.6 million during 1997. Operating profit for 1996 included $13.8 million of operating results from TUCO. Excluding the results of TUCO, operating profit in 1997 decreased $58.8 million, or 22%. The effects of lower specialty chemicals selling prices, higher raw material and manufacturing costs, the strengthening of the U.S. dollar, and increased spending on research and development were partially offset by the effect of greater volumes.

OTHER EXPENSES

Interest expense for 1997, 1996 and 1995 was $43.2 million, $41.7 million and $35.6 million, respectively. The increase in interest expense during 1997 was primarily due to higher levels of debt relating to repurchases of Cabot common stock under the Company's stock repurchase program and capital expenditures. The increase in interest expense during 1996 was due to higher levels of short-term debt resulting from the Company's stock repurchase program, increased capital spending and the consolidation of the Company's Czech Republic and Indian carbon black businesses.

Unallocated corporate expenses for 1997, 1996 and 1995 were $26.6 million, $29.2 million and $28.0 million, respectively. The decrease during 1997 was primarily due to lower environmental expenses. The increase during 1996 was largely due to lower interest and dividend income as compared with 1995.

Selected Financial Data by Industry Segment

YEARS ENDED SEPTEMBER 30	1997	1996	1995	1994	1993
DOLLARS IN MILLIONS					
Net Sales and Other Operating Revenues					
Specialty Chemicals and Materials	$1,430.3	$1,434.3	$1,487.8	$1,241.1	$1,191.8
Energy	199.7	422.0	342.6	438.7	422.5
Net sales and other operating revenues	$1,630.0	$1,856.3	$1,830.4	$1,679.8	$1,614.3
Operating Profit					
Specialty Chemicals and Materials(a)	$ 180.3	$ 260.5	$ 286.8	$ 165.9	$ 101.7
Energy(b)	6.6	23.0	12.7	18.4	16.7
Total operating profit	186.9	283.5	299.5	184.3	118.4
Interest expense	43.2	41.7	35.6	41.7	44.0
Unallocated corporate expenses, net(c)	26.6	29.2	28.0	23.4	20.7
Gain on sales of businesses	--	(38.9)	(32.6)	--	--
Gain on sale of equity securities	--	(28.3)	--	--	--
Adjustment of reserves related to divested businesses	--	--	12.5	0.8	(14.2)
Income from continuing operations before income taxes	$ 117.1	$ 279.8	$ 256.0	$ 118.4	$ 67.9
Depreciation and Amortization					
Specialty Chemicals and Materials	$ 107.6	$ 93.8	$ 91.2	$ 83.3	$ 81.5
Energy	2.0	2.9	2.8	2.8	2.8
General corporate	0.3	0.3	0.2	0.2	0.2
Total	$ 109.9	$ 97.0	$ 94.2	$ 86.3	$ 84.5
Fixed Asset Additions					
Specialty Chemicals and Materials	$ 157.4	$ 207.7	$ 130.4	$ 70.7	$ 63.9
Energy	5.4	0.5	0.8	2.9	0.7
General corporate	--	0.9	--	--	0.4
Total	$ 162.8	$ 209.1	$ 131.2	$ 73.6	$ 65.0
Identifiable Assets					
Specialty Chemicals and Materials	$1,442.3	$1,427.7	$1,167.9	$1,172.2	$1,117.4
Energy	88.4	79.7	133.8	127.4	116.1
General corporate(d)	206.8	270.8	253.7	231.0	89.3
Equity in affiliates-Specialty Chemicals and Materials	86.1	79.4	98.9	86.2	103.1
Equity in affiliates-Energy	--	--	--	--	63.6
Total	$1,823.6	$1,857.6	$1,654.3	$1,616.8	$1,489.5

(a) Included in fiscal year 1997 are charges relating to a cost reduction program undertaken in the Specialty Chemicals and Materials Group. These charges are for asset impairments of $10.3 million and severance of $7.9 million. Fiscal year 1993 includes a $47.4 million restructuring charge.

(b) Included in fiscal year 1996 is a gain on settlement of a contractual matter of $2.5 million, and a gain from a reduction in the Company's ownership position in the Trinidad natural gas liquefaction project of $3.3 million.

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

(d) General corporate assets include cash, short-term investments, investments other than equity basis, income taxes receivable, deferred taxes and headquarters' assets.

PROVISION FOR INCOME TAXES

The effective tax rate on income from operations for 1997, 1996 and 1995, was 36%, 35% and 39%, respectively. The tax rate in 1996 reflects the impact of research and experimentation tax credits taken in 1996 relating to prior years. The effective tax rate in 1996 would have been 37% without the impact of those credits. The decrease in the tax rate in 1996 versus 1995 reflects the absorption of the gain on the sale of Cabot Safety Corporation in 1995. A more detailed analysis of income taxes is presented in Note K to the Consolidated Financial Statements.

NET INCOME

Reported net income was $92.7 million ($1.19 per fully diluted common share) in 1997 compared with $194.1 million ($2.42 per fully diluted common share) in 1996 and $171.9 million ($2.02 per fully diluted common share) in 1995. Net income in 1997 includes special charges for asset impairments and severance costs totaling $18.2 million ($0.15 per fully diluted common share). Net income for 1996 included several special items. These items were $5.3 million ($0.06 per fully diluted common share) from research and experimentation tax credits, a $28.3 million ($0.22 per fully diluted common share) gain from the sale of 1.85 million shares of the Company's investment in K N Energy, Inc., a $38.9 million ($0.31 per fully diluted common share) gain from the sale of the Company's coal fuel services business, TUCO, and one-time adjustments totaling $5.8 million ($0.05 per fully diluted common share) in the LNG business. Net income in 1995 included a gain of $32.6 million ($0.17 per fully diluted common share) associated with the ownership restructuring of Cabot Safety Corporation, and a $12.5 million ($0.09 per fully diluted common share) expense due to an adjustment in environmental reserves. Excluding special items, net income would have been $104.4 million ($1.34 per fully diluted common share) in 1997, $142.9 million ($1.78 per fully diluted common share) in 1996, and $165.3 million ($1.94 per fully diluted common share) in 1995.

SPECIALTY CHEMICALS AND MATERIALS

The Specialty Chemicals and Materials Group includes the Company's global specialty chemicals operations. These operations manufacture carbon black, a very fine black powder used as a reinforcing agent in tires and most industrial rubber products, and also widely used as an agent in many specialty applications, such as inks, plastics, cables and coatings; fumed silica, a specialty chemical used as a reinforcing, thickening, thixotropic, suspending or anti-caking agent in many products, such as silicone rubber and polyester resins; thermoplastic concentrates and specialty compounds; tantalum capacitor materials, and other metals and alloys for the semiconductor, aerospace and defense markets; polishing slurries used in chemical mechanical planarization of integrated circuit devices; colorants for the inkjet printing industry; and cesium-based drilling and completion fluids for the oil industry.

In 1997, sales from the Specialty Chemicals and Materials Group were flat with the prior year despite significantly lower year-to-year carbon black selling prices. The effects of a 6% global increase in specialty chemical volumes were more than offset by lower selling prices, primarily in the Company's European and Pacific Asian carbon black markets. Sales growth in the fumed silica and microelectronics materials businesses was partially offset by a decline in sales of plastics and tantalum capacitor materials.

[Specialty Chemicals & Materials Revenues by Geographic Region pie chart]

Excluding sales of the divested safety and specialty composite products business from the 1995 results to form a comparative basis, 1996 sales for the Specialty Chemicals and Materials Group increased 7% from 1995. Improved pricing and the effects of consolidating the operating results of the Czech Republic and Indian carbon black businesses in 1996 were partially offset by 2% lower overall volumes.

[Carbon Black Sales Volumes by Geographic Region pie chart]

The Company has been developing and commercializing new, differentiated products in its chemical businesses. Five-year new products (defined as products that were first sold in commercial quantities within the last five years) accounted for approximately 9% of chemical revenues in 1997, compared with 8% in 1996, and 6% in 1995. The Company continues to vigorously pursue a number of new product and new business opportunities.

Operating profit before special items for the Specialty Chemicals and Materials Group in 1997, 1996 and 1995, totaled $198.5 million, $260.5 million and $286.8 million, respectively. The Company's carbon black operations accounted for most of the year-to-year earnings declines.

In 1997, lower European and Pacific Asian selling prices, higher raw material costs, increased plant start-up costs, and a stronger U.S. dollar more than offset the benefits of greater volumes. The Company's fumed silica and microelectronics materials businesses each produced improved operating profits for 1997 versus 1996. The slowdown in the U.S. electronics industry, which began in 1996, continued to have an impact on the Company's tantalum capacitor materials business. The Company's tantalum business reported lower operating profits in 1997 because improved volumes in the second half of the year did not fully offset depressed first half volumes. The Company spent greater amounts on research and development and marketing costs related to new product, new business and market development initiatives in 1997, which further penalized earnings.

Lower operating profit in the Specialty Chemicals and Materials Group in 1996 was due to increased spending for new business development, the absence of Cabot Safety earnings during 1996 and lower volumes, partially offset by the effect of higher year-to-year prices.

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

Certain market conditions affecting the carbon black business that began to have a negative effect on earnings in the latter part of 1996 continued to have a detrimental impact on earnings in 1997. For example, European carbon black selling prices decreased and feedstock costs rose during the first half of the year. Competitive price pressures caused the Company to meet price decreases in the European market. The combination of higher feedstock costs (in local currency terms) and lower prices caused a substantial decrease in the profitability of the Company's European carbon black business. On average, carbon black prices were down 3% and feedstock costs were up 4% in 1997 from 1996 levels. We have begun to see a positive change in these fundamentals: feedstock costs have remained stable during the second half of the year and European carbon black prices stabilized in the third and fourth quarters of 1997.

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

During 1995, the Company entered into long-term carbon black supply contracts of more than six years with several of its tire customers in North America. The contracts were designed to provide customers with a secure supply of carbon black and reduce the volatility in the Company's carbon black volumes and margins caused, in part, by automobile industry cycles. These contracts, coupled with the Company's long-term strategy of product differentiation, are aimed at building a less cyclical carbon black business and reducing the Company's susceptibility to economic cycles. The Company's experience in the North American carbon black market during 1997 indicates that the contracts are achieving their purpose.

The Company's fumed silica business reported increased revenue in 1997 and 1996 of 15% and 3%, respectively. The increase in 1997 was primarily due to higher volumes along with higher prices and increased sales of new products. Operating profits increased 8% and 9% in 1997 and 1996, respectively, due to higher gross margins, partially offset by increased spending to support a new market segmentation strategy. Operating profit increased in 1995, reflecting modest volume growth, improved product mix and favorable gross margins from better pricing and higher capacity utilization.

The Company's microelectronics materials business reported revenues of $34 million in 1997, compared with approximately $20 million in 1996. In 1997, this business reported positive operating profits for the first time. In 1996, gross margin derived from these revenues was more than offset by spending on research and development and market development initiatives in this business. The Company expects continued significant revenue growth in this business during 1998* (see page 28).

In the plastics business, revenues and operating profits in 1997 were down 6% and 15%, respectively, from 1996. Higher volumes were more than offset by lower selling prices. Severe pricing pressure that began in 1996 continued throughout 1997. Revenues and operating profit in 1996 were down from 1995 by 10% and 42%, respectively. Lower volumes and lower prices caused the decrease in operating profit in 1996 compared with 1995. The Company remains optimistic that business conditions will improve in 1998 and that benefits will be realized from margin improvement and cost savings efforts initiated during the latter part of 1997* (see page 28).

Revenues from the tantalum business increased 4% in 1997 and operating profit decreased 23% from the prior year. Sales volumes, which began to decline during the second half of 1996, continued to decrease significantly during the first part of 1997 due to continued effects of the slowdown in the U.S. electronics market. Volumes increased during the latter part of 1997. Overall volumes for the year, however, decreased 3%, offset by higher overall selling prices. Gross margin was also affected by higher raw material costs. Revenues in 1996 increased 6% from the prior year, and operating profit decreased 19% from 1995. Over the first half of 1996, volumes and prices were significantly higher than in the first six months of 1995. During the second half of 1996, sales volumes decreased significantly due to the slowdown in the U.S. electronics industry and high customer inventory levels.

During 1996, the Company launched a new specialty fluids business unit. The unit develops and markets cesium-based drilling and completion fluids to the oil well drilling and services industry. Construction of a cesium processing plant at a mine owned by a Cabot subsidiary in Manitoba, Canada, was completed during the year and brine fluids are now being produced for the first commercial-scale tests to be conducted in early 1998. Commercial sales of the product are expected to begin in the latter part of 1998* (see page 28).

ENERGY

The Energy Group conducts liquefied natural gas importing, storing, transporting and marketing operations. In prior years, the Energy Group included TUCO INC., a coal fuel services business. The Company sold TUCO, effective September 30, 1996. During 1996, TUCO earned $13.8 million of operating profit, compared with $10.5 million in 1995.

The LNG business reported revenues of $199.7 million in 1997 compared with $143.8 million in 1996. The increase in revenue was due to significantly greater volumes and higher gas prices compared with 1996. The business received 18 LNG cargoes in 1997 compared with 10 cargoes in 1996. Gas volumes sold increased 36% year-to-year. Operating profit increased to $6.6 million during 1997, from $3.3 million during 1996, excluding $5.8 million of special items from 1996. The positive earnings effect of higher volumes and prices was partially offset by higher gas costs.

[Sources and Uses of Cash graph]

In 1996, operating profit, exclusive of special items, increased to $3.3 million from $2.1 million in 1995 due to increased supply of LNG and higher gas prices. The business received 3 cargoes in 1995.

The profitability of the LNG business during the next two years, until its Trinidad LNG supply comes on stream in 1999, depends in large part on its LNG supply from Algeria. To date, the political instability in Algeria has not interrupted the operations of the Company's Algerian LNG supplier.

FINANCIAL CONDITION

CASH FLOW AND LIQUIDITY

Cash generated in 1997 from the Company's operating activities decreased 5% to $144.2 million from $151.9 million in 1996.

Research and technical service spending for 1997, 1996 and 1995 was $82.7 million, $79.6 million, and $59.2 million, respectively. Spending as a percentage of the Specialty Chemicals and Materials Group revenues exceeded 5% in 1997 and 1996, and was 4% in 1995. The Company has been increasing the amount of spending to develop new, differentiated products for its specialty chemicals businesses. The Company anticipates research and development spending to remain near $85 million in 1998* (see page 28).

Capital spending on investments, acquisitions, equity securities and property, plant and equipment for 1997, 1996 and 1995 was $181 million, $269 million, and $145 million, respectively. The major components of the 1997 capital program included expenditures on new carbon black capacity to support the contracts with U.S. tire manufacturers, Clean Air Act compliance, differentiated product manufacturing capabilities, new business expansion and normal plant maintenance. In light of softened demand in certain markets, the Company deferred several capital projects during the year.

The Company expects to increase the rate of capital spending in 1998 from 1997 as it continues to invest in new business opportunities. These expenditures are expected to include portions of the projects mentioned in the preceding paragraph, the Company's share of the Trinidad LNG project, refurbishment of the Company's LNG tanker, capacity expansion in the Company's fumed silica business, additional environmental compliance costs in North America, and further development in the special blacks business and several new business initiatives. Over the next several years the Company also expects to spend a significant portion of its $39.7 million reserve in connection with remediation of various environmental sites* (see page 28). These sites are primarily associated with divested businesses.

[Total Debt to Capital graph]

Effective September 30, 1996, the Company sold its TUCO subsidiary for $77 million. Accordingly, during the first quarter of fiscal year 1997, the Company received $35 million in cash, which included $8 million of working capital adjustments, and $50 million in the form of a debt repayment on the Company's behalf from the buyer.

During 1997, the Company exercised its rights to purchase 642,232 shares of common stock of K N Energy, Inc. for a total cost of $11.3 million. As of September 30, 1997, the Company owned approximately 3 million shares of K N Energy representing approximately 9.5% of K N Energy's outstanding common shares.

On February 6, 1997, the Company issued $90 million of medium-term notes maturing from 2004 to 2011 with a weighted average interest rate of approximately 7.17%. The proceeds from the issuance were used to repay short-term debt. During 1997, the Company increased its borrowings by $85.2 million, including the principal amount of medium-term notes referred to above, and decreased its cash balance by $18.9 million.

During 1997, approximately 3.5 million shares of Cabot common stock were repurchased at a total cost of approximately $84.7 million and are held as treasury stock. During 1996, approximately 3.0 million shares were repurchased for a total cost of approximately $122 million and are held as treasury stock. The Company's common stock repurchase activity, described below under "Common Stock," is expected to continue in 1998* (see page 28).

Primarily due to increased capital spending, share repurchases, higher spending on research and development, and marketing costs for new products, new business and market development initiatives and asset value adjustments due to currency changes during 1997, the ratio of total debt (including short-term debt net of cash) to capital increased to 43% at the end of 1997 from 40% at the end of 1996.

In January 1997, the Company renegotiated its line of credit agreement. The facility was increased to $300 million from $250 million and was extended to January 3, 2002. Management expects cash from operations and present financing arrangements, including the Company's unused line of credit, to be sufficient to meet the Company's cash requirements for the foreseeable future.

COMMON STOCK

On May 9, 1997, the Company's Board of Directors authorized the repurchase of 4 million shares of its common stock. As of September 30, 1997, approximately 3.4 million shares remained available for repurchase under the Board authorization.

During 1997, the Company paid cash dividends of $0.40 per share reflecting a quarterly dividend of $0.10 per share. In November 1997, the Board of Directors approved a $0.10 per share dividend payable in the first quarter of fiscal year 1998.

As of September 30, 1997, the book value per share of Cabot stock increased to $10.47 from $10.41 at September 30, 1996.

NEW ACCOUNTING STANDARDS

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128), which is required to be adopted in fiscal 1998. SFAS 128 simplifies the computation of earnings per share by replacing the presentation of primary earnings per share with a presentation of basic earnings per share. Management does not expect the impact of the new standard to be material.

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

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

*FORWARD LOOKING INFORMATION

Included herein are statements relating to management's projections of future profits, the possible achievement of the Company's financial goals and objectives, and management's expectations for the Company's product development program. Actual results may differ materially from the results anticipated in the statements included herein due to a variety of factors, including market supply and demand conditions, fluctuations in currency exchange rates, cost of raw materials, demand for customers' products and competitors' reactions to market conditions. Timely commercialization of products under development by the Company may be disrupted or delayed by technical difficulties, market acceptance, competitors' new products, as well as difficulties in moving from the experimental stage to the production stage.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED SEPTEMBER 30	1997	1996	1995
DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS			
Revenues:			
Net sales and other operating revenues	$1,629,989	$1,856,269	$1,830,393
Interest and dividend income	6,722	8,933	10,492
Total revenues	1,636,711	1,865,202	1,840,885
Costs and expenses:			
Cost of sales	1,144,383	1,309,992	1,258,964
Selling and administrative expenses	216,514	206,861	234,693
Research and technical service	82,720	79,640	59,184
Interest expense (Note G)	43,222	41,718	35,639
Specialty Chemicals and Materials Group Restructuring (Note B)	18,200	--	--
Gain on sale of equity securities (Note D)	--	(28,323)	--
Gain on sales of businesses (Note B)	--	(38,941)	(32,625)
Other charges, net	14,641	14,421	29,001
Total costs and expenses	1,519,680	1,585,368	1,584,856
Income before income taxes	117,031	279,834	256,029
Provision for income taxes (Note K)	(42,131)	(98,216)	(101,080)
Equity in net income of affiliated companies (Note D)	19,524	18,519	16,670
Minority interest	(1,679)	(6,080)	313
Net income	92,745	194,057	171,932
Dividends on preferred stock, net of tax benefit of $2,083, $2,111 and $1,911	(3,258)	(3,301)	(3,551)
Income applicable to common shares	$ 89,487	$ 190,756	$ 168,381
Weighted average common shares outstanding, in thousands (Notes A and I):			
Primary	70,730	73,237	77,452
Fully diluted	76,736	79,345	83,880
Income per common share (Notes A and I):			
Primary	$ 1.27	$ 2.60	$ 2.17
Fully diluted	$ 1.19	$ 2.42	$ 2.02

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

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30	1997	1996
DOLLARS IN THOUSANDS		
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39,236	$ 58,148
Accounts and notes receivable (net of reserve for doubtful accounts of $5,613 and $5,267)	288,604	363,763
Inventories (Note C)	246,886	260,430
Prepaid expenses	21,268	17,408
Deferred income taxes (Note K)	15,183	10,034
Total current assets	611,177	709,783
Investments:		
Equity (Notes B and D)	86,111	79,372
Other (Notes D and L)	146,562	95,680
Total investments	232,673	175,052
Property, plant and equipment (Note E)	1,759,835	1,712,045
Accumulated depreciation and amortization	(837,526)	(809,053)
Net property, plant and equipment	922,309	902,992
Other assets:		
Intangible assets (net of accumulated amortization of $12,354 and $6,157) (Note B)	39,063	42,735
Deferred income taxes (Note K)	4,257	2,402
Other assets	14,110	24,617
Total other assets	57,430	69,754
Total assets	$1,823,589	$1,857,581

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

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30	1997	1996
DOLLARS IN THOUSANDS		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	$ 200,834	$ 233,779
Current portion of long-term debt (Note G)	114,978	16,175
Accounts payable and accrued liabilities (Note F)	223,954	250,749
U.S. and foreign income taxes	664	26,083
Deferred income taxes (Note K)	953	918
Total current liabilities	541,383	527,704
Long-term debt (Note G)	285,544	321,497
Deferred income taxes (Note K)	99,210	88,320
Other liabilities (Notes H, J and L)	146,879	147,991
Commitments and contingencies (Note L)		
Minority interest	22,780	27,138
Stockholders' equity (Notes D, G, I and J):		
Preferred stock:		
Authorized: 2,000,000 shares of $1 par value		
Series A Junior Participating Preferred Stock		
Issued and outstanding: none		
Series B ESOP Convertible Preferred Stock		
7.75% Cumulative Issued: 75,336 shares		
(aggregate redemption value of $69,440 and $71,193)	75,336	75,336
Less cost of shares of preferred treasury stock	(9,388)	(6,565)
Common stock:		
Authorized: 200,000,000 shares of $1 par value		
Issued: 135,549,936 shares	135,550	135,550
Additional paid-in capital	39,259	23,618
Retained earnings	1,238,202	1,176,708
Less cost of common treasury stock		
(including unearned compensation amounts		
of $18,346 and $16,611)	(723,757)	(650,981)
Deferred employee benefits	(62,520)	(64,283)
Unrealized gain on marketable securities	53,936	29,874
Foreign currency translation adjustments	(18,825)	25,674
Total stockholders' equity	727,793	744,931
Total liabilities and stockholders' equity	$1,823,589	$1,857,581

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30	1997	1996	1995
DOLLARS IN THOUSANDS			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 92,745	$ 194,057	$ 171,932
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	109,931	97,044	94,184
Deferred tax expense (benefit)	(13,202)	3,785	(24,163)
Specialty Chemicals and Materials Group restructuring	18,200	--	--
Gain on sales of equity securities	--	(28,323)	--
Gains on sales of businesses	--	(38,941)	(32,625)
Equity in income of affiliated companies, net of dividends received	(9,131)	(5,619)	(6,292)
Other, net	8,218	8,950	6,694
Changes in assets and liabilities, excluding assets and liabilities of businesses sold:			
Decrease (Increase) in accounts receivable	(28,852)	88	(37,354)
Decrease (Increase) in inventories	2,653	(38,995)	(57,987)
Decrease in accounts payable and accruals	(22,597)	(3,415)	(6,905)
Other, net	(13,777)	(36,693)	74,477
Cash provided by operating activities	144,188	151,938	181,961
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	(162,813)	(209,061)	(131,214)
Proceeds on sales of businesses	35,000	--	169,178
Sales of property, plant and equipment, and investments	1,071	60,449	373
Investments and acquisitions, excluding cash acquired	(7,275)	(59,542)	(13,874)
Purchases of available-for-sale securities	(11,271)	--	--
Cash from consolidation of equity affiliates and other	--	11,229	--
Cash provided (used) by investing activities	(145,288)	(196,925)	24,463
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	90,000	9,786	17,385
Repayments of long-term debt	(21,539)	(40,153)	(157,609)
Net increase in short-term debt	16,739	168,587	25,980
Purchases of treasury stock	(85,845)	(123,544)	(76,251)
Sales and issuances of treasury stock	16,649	28,580	19,658
Cash dividends paid to stockholders	(31,251)	(30,478)	(26,392)
Cash provided (used) by financing activities	(15,247)	12,778	(197,229)
Effect of exchange rate changes on cash	(2,565)	(435)	680
(Decrease) Increase in cash and cash equivalents	(18,912)	(32,644)	9,875
Cash and cash equivalents at beginning of year	58,148	90,792	80,917
Cash and cash equivalents at end of year	$ 39,236	$ 58,148	$ 90,792

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

NOTE A SIGNIFICANT ACCOUNTING POLICIES

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

PRINCIPLES OF CONSOLIDATION

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

CASH AND CASH EQUIVALENTS

Cash equivalents include time deposits and short-term investments with original maturities of three months or less.

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 IN EQUITY SECURITIES

Certain of the Company's other investments are classified as available-for-sale. Accordingly, any unrealized holding gains and losses, net of taxes, are excluded from income and recognized as a separate component of stockholders' equity until realized. Fair value of the securities is determined based on market prices at the balance sheet dates (Notes D and I).

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation is generally calculated on the straight-line method for financial reporting purposes and generally on accelerated methods for tax reporting purposes.

INTANGIBLE ASSETS

Intangible assets are comprised of the cost of business acquisitions in excess of the fair value assigned to the net tangible assets acquired and the costs of technology, licenses and patents purchased in business acquisitions. The excess of cost over the fair value of net assets acquired is amortized on the straight-line basis over either 40 years or an estimated useful life, whichever is shorter. Other intangibles are amortized over their estimated useful lives. Included in other charges is amortization expense for 1997, 1996 and 1995, of $5.0 million, $4.8 million and $6.6 million, respectively.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company considers the impairment of long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Consideration of impairment is based on assessment of an asset's ability to contribute to the profitability of the Company (see Note B).

FOREIGN CURRENCY TRANSLATION

All assets and liabilities of foreign operations are translated into U.S. dollars at year-end exchange rates. Income and expense items are translated at average exchange rates during the year. Foreign currency gains and losses arising from transactions are reflected in net income. Included in other charges for 1997, 1996 and 1995 are foreign exchange gains (losses) of $(6.1) million, $(2.6) million and $1.4 million, respectively. Balance sheet translation gains and losses are reflected as a separate component of stockholders' equity.

REVENUE RECOGNITION

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

FINANCIAL INSTRUMENTS

Forward foreign currency exchange contracts and currency options are used to manage foreign currency exposures. Realized and unrealized gains and losses on these contracts are recorded in net income currently, except gains or losses on contracts designated to hedge a net investment, and currency options, which are designated to hedge future cash flows. These exceptions are recorded as translation adjustments.

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

INCOME TAXES

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

EARNINGS PER SHARE

Primary net income per share is calculated based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year. Common stock equivalents consist of stock options. Fully diluted net income per share further assumes the conversion of the Company's Series B ESOP Convertible Preferred Stock held by the Company's Employee Stock Ownership Plan (Note I).

USE OF ESTIMATES

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

RECLASSIFICATION

Certain amounts in 1996 and 1995 have been reclassified to conform to the 1997 presentation.

NOTE B ACQUISITIONS, DIVESTITURES & RESTRUCTURING

SPECIALTY CHEMICALS AND MATERIALS

During 1997, earnings were reduced by the recognition of special charges totaling $18.2 million primarily related to a cost reduction program in the Specialty Chemicals and Materials Group. These charges are for asset impairments of $10.3 million and severance of $7.9 million. The Company expects the plan to be completed during fiscal 1998.

On February 16, 1996, the Company acquired an 80% controlling interest in an Indonesian carbon black company for approximately $50 million plus the assumption of $9 million of debt. Since the date of acquisition, the results of operations have been included in the Company's Consolidated Statement of Income.

The acquisition was accounted for using the purchase method of accounting. Accordingly, a portion of the purchase price was allocated to the net assets acquired based on their estimated fair values. The balance of the purchase price, $29 million, was recorded as excess of purchase price over fair value of net assets acquired (goodwill), and is being amortized over 30 years on a straight-line basis.

During 1997, 1996 and 1995, the Company paid $8.8 million, $4.3 million and $6.1 million, respectively, of costs accrued in 1993 for employee separation and a facility closing. The Company expects to pay its remaining reserve of $0.4 million during fiscal year 1998.

On July 11, 1995, the Company sold substantially all of the assets of its safety products and specialty composites business to Cabot Safety Holdings Corporation (now known as Aearo Corporation) and its subsidiaries. The transaction was accounted for as a sale, with an aggregate selling price consisting of $169.2 million in cash, 42,500 common shares of Aearo Corporation, representing 42.5% of Aearo's outstanding common stock, and $22.5 million of Aearo's non-voting 12.5% preferred stock. In addition, Aearo Corporation and its subsidiaries assumed approximately $22.2 million of the third party current liabilities relating to the safety business and approximately $4.8 million in debt. The Company recorded a gain on the sale of $32.6 million. The Company's book value in Aearo's common and preferred stock after the transaction was zero dollars. The Company accounts for its investment in Aearo using the equity method.

On December 18, 1997, the Company signed an agreement to acquire the remaining interest in its fumed silica joint venture in Rheinfelden, Germany. The purchase price is approximately $20 million, and the acquisition is effective October 1, 1997.

ENERGY

The Company sold TUCO for $85 million, including working capital adjustments. The Company recorded a gain related to the sale of $38.9 million. Cash proceeds from the sale were received October 4, 1996.

NOTE C INVENTORIES

Inventories were as follows:

SEPTEMBER 30	1997	1996
DOLLARS IN THOUSANDS		
Raw materials	$ 81,142	$ 71,061
Work in process	59,747	72,914
Finished goods	64,114	72,163
Other	41,883	44,292
Total	$246,886	$260,430

Inventories valued under the LIFO method comprised approximately 35% and 33% of 1997 and 1996 total inventory, respectively. At September 30, 1997 and 1996, the estimated current cost of these inventories exceeded their stated valuation determined on the LIFO basis by approximately $32 million and $30 million, respectively.

NOTE D INVESTMENTS

At September 30, 1997 and 1996, investments in net assets of affiliated companies accounted for under the equity method amounted to $86.1 million and $79.4 million, respectively.

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

SEPTEMBER 30	1997	1996
DOLLARS IN THOUSANDS		
CONDENSED INCOME STATEMENT INFORMATION		
Net sales	$632,061	$586,951
Gross margin	234,717	221,060
Net income	35,144	39,685
CONDENSED BALANCE SHEET INFORMATION		
Current assets	$296,610	$282,945
Non-current assets	419,468	432,738
Current liabilities	260,051	255,344
Non-current liabilities	307,814	315,564
Net worth	148,213	144,775

On July 31, 1996, the Company sold 1.85 million shares of its investment in K N Energy, Inc. The Company received cash proceeds of $57.6 million and recorded a gain of $28.3 million related to the sale.

Equity securities classified as available-for-sale have been reflected on the balance sheet at their fair values. During 1997, the Comp any exercised its rights to purchase 642,232 shares of common stock of K N Energy, Inc. for a total cost of $11.3 million. At September 30, 1997 and 1996, unrealized gains of $53.9 million and $29.9 million, which are net of deferred tax liabilities of $33.4 million and $19.1 million, respectively, have been reflected as a separate component of stockholders' equity (Note I).

NOTE E PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment is summarized as follows:

SEPTEMBER 30	1997	1996
DOLLARS IN THOUSANDS		
Land and improvements	$ 50,246	$ 52,442

Buildings	294,201	267,579
Machinery and equipment	1,218,006	1,105,326
Other	55,207	47,089
Construction in progress	142,175	239,609
Total property, plant and equipment	$1,759,835	$1,712,045
Less: accumulated depreciation	837,526	809,053
Net property, plant and equipment	$ 922,309	$ 902,992

NOTE F ACCOUNTS PAYABLE & ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

SEPTEMBER 30	1997	1996
DOLLARS IN THOUSANDS		
Accounts payable	$116,620	$121,274
Accrued employee compensation	21,168	23,263
Other accrued liabilities	86,166	106,212
Total	$223,954	$250,749

NOTE G DEBT

Long-term debt consisted of the following:

SEPTEMBER 30	1997	1996
DOLLARS IN THOUSANDS		
Notes due 1997, 10.25%	$100,000	$100,000
Notes due 2002-2022, 8.07%	105,000	105,000
Notes due 2004-2011, 7.17%	90,000	--
Guarantee of ESOP notes, due 2013, 8.29%	62,520	64,283
Term loan, due 2000, 8.7%	10,101	13,127
Term loan, due 2001, 8.4%	--	12,540
Foreign term loan, due 2001, 5.4%	10,785	15,768
Overseas Private Investment Corporation term loan, due 2002, floating rate 7.5% and 7.5% at September 30, 1997 and 1996, respectively	9,400	11,200
Industrial Revenue Bonds due 1997-2014, 7.75%-14%	1,000	4,000
Other, including foreign term loans	11,716	11,754
	$400,522	$337,672
Less: current portion of long-term debt	(114,978)	(16,175)
Total	$285,544	$321,497

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

In February 1997, the Company issued $90 million of medium term notes. The notes have a weighted average maturity of 11 years and a weighted average interest rate of 7.17%.

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

During 1997, the Company replaced its revolving credit and term loan facility. Under the new credit agreement, the Company may borrow up to $300 million at floating rates. The agreement contains provisions regarding certain indebtedness limitations that would limit the amount available for future borrowings. Commitment fees are paid based on the used and unused portions of the facility. The facility is available through January 3, 2002. No amounts were outstanding under this credit agreement at September 30, 1997.

The aggregate principal amounts of long-term debt due in each of the five fiscal years 1998 through 2002 are $115 million, $13.4 million, $11.9 million, $7.6 million and $27.9 million, respectively.

Based primarily on dealer quotes at September 30, 1997 and 1996, the fair value of long-term borrowings was approximately $428 million and $355 million, respectively.

The weighted average interest rate on short-term borrowing was approximately 7% and 8% as of September 30, 1997 and 1996, respectively.

Cash paid for interest during 1997, 1996 and 1995 totaled $38.8 million, $39.1 million and $38 million, respectively.

On October 20, 1997, the Company issued $50 million of long-term notes. The notes have a weighted average maturity of 30 years and a weighted average interest rate of 7.1%.

NOTE H PENSION PLANS & POSTRETIREMENT BENEFITS

PENSION PLANS

Net periodic pension cost was comprised of the following elements:

YEARS ENDED SEPTEMBER 30	1997	1996	1995

DOLLARS IN THOUSANDS

Current year service cost	$ 7,683	$ 7,841	$ 7,629
Interest accrued on pension obligations	13,986	13,431	12,493
Actual return on plan assets	(28,256)	(18,821)	(25,320)
Net amortization	10,299	2,903	10,606
Net periodic pension cost	$ 3,712	$ 5,354	$ 5,408

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

SEPTEMBER 30	1997	1996
DOLLARS IN THOUSANDS		
Actuarial present value of projected benefit obligations	$195,031	$188,092
Plan assets at fair value (primarily fixed-income and equity securities)	222,381	202,526
Excess of plan assets over projected benefit obligations	27,350	14,434
Unrecognized net gain	(48,851)	(33,207)
Unrecognized prior service cost	6,053	7,656
Unrecognized net asset being amortized over 16 years	(4,896)	(5,612)
Net deferred pension credit (included in other liabilities)	$(20,344)	$(16,729)

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

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

At September 30, 1997 and 1996, the projected benefit obligations included accumulated benefit obligations of $175.6 million and $164.1 million, respectively, of which $167.7 million and $154.6 million were vested in 1997 and 1996, respectively.

The following weighted average rates were used in the calculations:

YEARS ENDED SEPTEMBER 30	1997	1996
Discount rate	7.4%	7.4%
Expected rate of return on plan assets	8.9%	8.9%
Assumed rate of increase in compensation	5.0%	5.0%

POSTRETIREMENT BENEFITS

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

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

YEARS ENDED SEPTEMBER 30	1997	1996	1995
DOLLARS IN THOUSANDS			
Current year service cost	$ 880	$ 848	$ 672
Interest accrued on postretirement benefit obligations	5,584	5,261	5,301
Net amortization	221	185	--
Net periodic postretirement benefit cost	$6,685	$6,294	$5,973

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

YEARS ENDED SEPTEMBER 30	1997	1996
DOLLARS IN THOUSANDS		
Accumulated postretirement benefit obligations:		
Retirees	$ 61,861	$ 58,303
Fully eligible active plan participants	6,324	6,660
Other active plan participants	12,060	14,302
	80,245	79,265
Plan assets at fair value	--	--
Excess of accumulated postretirement benefit obligations over plan assets	(80,245)	(79,265)
Unrecognized net loss (gain)	10,834	10,875
Unrecognized prior service cost	(1,146)	82
Accrued postretirement benefit cost	$(70,557)	$(68,308)

Health care cost trend rate assumptions have a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of September 30, 1997 and 1996 by approximately $8.4 million and $6.9 million, respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years then ended by approximately $775 thousand and $700 thousand, respectively.

The following rates were used in the calculations:

YEARS ENDED SEPTEMBER 30	1997	1996
Discount rate	7.3%	7.3%
Assumed rate of increase in compensation	5.3%	5.3%
Assumed annual rate of increase in health care benefits	5.5%	9.5%
Annual decrease in assumed rate of increase in health care benefits	--	1.0%
Assumed ultimate trend rate	5.5%	5.3%
Assumed ultimate trend rate to be reached in year	1997	2001

NOTE I STOCKHOLDERS' EQUITY

The following table summarizes the changes in stockholders' equity for each of the three years in the period.

YEARS ENDED SEPTEMBER 30	1997	1996	1995
DOLLARS IN THOUSANDS (except per share amounts)			
PREFERRED STOCK			
Beginning of year	$ 75,336	$ 75,336	$ 75,336
End of year	$ 75,336	$ 75,336	$ 75,336
PREFERRED TREASURY STOCK			
Beginning of year	$ (6,565)	$ (4,836)	$ (4,003)
Purchase of treasury stock	(2,823)	(1,729)	(833)
End of year	$ (9,388)	$ (6,565)	$ (4,836)
COMMON STOCK			
Beginning of year	$ 135,550	$ 67,775	$ 67,775
Two-for-one stock split	--	67,775	--
End of year	$ 135,550	$ 135,550	$ 67,775
ADDITIONAL PAID-IN CAPITAL			
Beginning of year	$ 23,618	$ 17,799	$ 3,783
Sale of treasury stock to the Company's savings plans	2,161	2,456	3,576
Issuance of treasury stock under employee compensation plans, including tax benefits of $3,616 and $9,416 in 1997 and 1996, respectively	13,480	21,795	10,440
Two-for-one stock split	--	(18,432)	--
End of year	$ 39,259	$ 23,618	$ 17,799
RETAINED EARNINGS			
Beginning of year	$1,176,708	$1,062,482	$ 916,942
Net income	92,745	194,057	171,932
Common dividends paid ($0.40, $0.36, $0.30 per share), net of tax benefits of $213 and $549 in 1997 and 1996	(27,993)	(25,347)	(22,841)
Preferred dividends paid to ESOP, net of tax benefits	(3,258)	(3,301)	(3,551)
Redemption of preferred stock purchase rights	--	(1,840)	--
Two-for-one stock split	--	(49,343)	--
End of year	$1,238,202	$1,176,708	$1,062,482
COMMON TREASURY STOCK			
Beginning of year	$ (634,370)	$ (528,751)	$ (467,171)
Purchase of treasury stock	(84,704)	(122,390)	(75,857)
Sale of treasury stock to the Company's savings plans	1,490	1,372	4,348
Issuance of treasury stock under employee compensation plans	12,173	15,399	9,929
End of year	$ (705,411)	$ (634,370)	$ (528,751)
UNEARNED COMPENSATION			
Beginning of year	$ (16,611)	$ (10,834)	$ (7,884)
Issuance of treasury stock under employee compensation plans	(10,973)	(11,857)	(8,196)
Amortization	9,238	6,080	5,246
End of year	$ (18,346)	$ (16,611)	$ (10,834)
DEFERRED EMPLOYEE BENEFITS			
Beginning of year	$ (64,283)	$ (65,907)	$ (67,403)
Principal payment by ESOP under guaranteed loan	1,763	1,624	1,496
End of year	$ (62,520)	$ (64,283)	$ (65,907)
UNREALIZED GAIN ON MARKETABLE SECURITIES (NOTE D)			
Beginning of year	$ 29,874	$ 32,023	$ 28,787
Net change in unrealized gain	24,062	(2,149)	3,236
End of year	$ 53,936	$ 29,874	$ 32,023
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS			
Beginning of year	$ 25,674	$ 39,913	$ 16,327
Foreign currency translation adjustments, including tax charge of $123 in 1997 and a tax benefit of $4,325 in 1996	(44,499)	(14,239)	23,586
End of year	$ (18,825)	$ 25,674	$ 39,913

TOTAL STOCKHOLDERS' EQUITY, END OF YEAR	$ 727,793	$ 744,931	$ 685,000

SHARES OF STOCK

SEPTEMBER 30	1997	1996	1995
DOLLARS IN THOUSANDS			
PREFERRED STOCK			
Beginning of year	75,336	75,336	75,336
End of year	75,336	75,336	75,336
PREFERRED TREASURY STOCK			
Beginning of year	5,744	5,036	4,504
Purchased	1,212	708	532
End of year	6,956	5,744	5,036
COMMON STOCK			
Beginning of year	135,550	67,775	67,775
Two-for-one stock split	--	67,775	--
End of year	135,550	135,550	67,775
COMMON TREASURY STOCK			
Beginning of year	63,961	30,393	29,784
Purchased	3,506	2,998	1,549
Issued	(1,399)	(1,489)	(940)
Two-for-one stock split	--	32,059	--
End of year	66,068	63,961	30,393

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

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

During fiscal 1989, the Company placed 75,336 shares of its Seri es B ESOP Convertible Preferred Stock with the Company's Employee Stock Ownership Plan (ESOP) for cash at a price of $1,000 per share. Each share of the Series B ESOP Convertible Preferred Stock is convertible into 87.5 shares of the Company's common stock subject to certain events and anti-dilution adjustment provisions, and carries voting rights on an "as converted" basis. The trustee for the ESOP has the right to cause the Company to redeem shares sufficient to provide for periodic distributions to plan participants. Such shares shall be redeemed at their fair market value, and may be redeemed by the Company for cash, shares of the Company' s common stock, or a combination thereof at the Company's option. Each share is redeemable at the option of the Company at a price of $1,016. The redemption price declines annually until it becomes $1,000 per share on and after November 19, 1998, plus accrued but unpaid dividends to the redemption date.

The issued shares of Series B ESOP Convertible Preferred Stock are entitled to receive preferential and cumulative quarterly dividends, and rank as to dividends and liquidation prior to the Company's Series A Junior Participating Preferred Stock and common stock. At September 30, 1997, 5.98 million shares of the Company's common stock were reserved for conversion of the Series B ESOP Convertible Preferred Stock.

In May 1997, the Board of Directors authorized the Company to purchase up to 4 million shares of the Company's common stock, superseding the previous authorization issued in May 1996. As of September 30, 1997, the Company had purchased approximately 600,000 shares under the new authorization.

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

NOTE J SAVINGS PLAN & INCENTIVE COMPENSATION PLANS

The Company sponsors a profit sharing and savings plan called the Cabo t Retirement Incentive Savings Plan (CRISP). Under the plan, the Company will make matching contributions of at least 75% of a participant's contribution of up to 7.5% of the participant's eligible compensation, subject to limitations required by governmental laws or regulations. Company contributions to the CRISP for 1997, 1996 and 1995 were $4.0 million, $3.5 million and $3.9 million, respectively.

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

In December 1995, the Board of Directors adopted the 1996 Equity Incentive Plan. The 1996 plan was approved by the stockholders of the Company in March 1996. No new awards will be made under the plan adopted in 1988. Awards under the 1996 plan consist of Restricted Stock, which could be purchased at a price equal to 40% of the fair market value on the date of the award or nonqualified stock options at fair market value of Cabot's stock on the date of the award. Variations of these awards were made to international employees in order to try to provide results comparable to U.S. employees. The awards generally vest on the third anniversary date of the award for employees then employed by the Company and the options expire five years from the date of grant.

As of September 30, 1997, the Company has reserved 2.8 million shares of common stock for issuance under the 1996 plan. There were approximately 1.1 million shares available for future grants at September 30, 1997. Compensation expense recognized during 1997, 1996 and 1995 for restricted stock grants was $9.2 million, $6.1 million and $5.2 million, respectively.

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

	Restricted Stock	Weighted Average Exercise Price
Outstanding at September 30, 1994	2,337,708	$11.70
Granted	854,100	10.00
Vested	(623,212)	11.10
Canceled	(490,792)	11.80
Outstanding at September 30, 1995	2,077,804	11.15
Granted	829,450	10.68
Vested	(571,204)	11.39
Canceled	(49,033)	10.92
Outstanding at September 30, 1996	2,287,017	10.93
Granted	864,879	14.33
Vested	(695,862)	10.84
Canceled	(203,034)	10.57
Outstanding at September 30, 1997	2,253,000	$11.87

STOCK-BASED COMPENSATION

During fiscal 1997, the Company was required to adopt SFAS 123 "Accounting for Stock Based Compensation" ("SFAS 123"). SFAS 123 allows companies to measure compensation cost in connection with stock option plans using a fair value-based method, or to continue to use an intrinsic value-based method, which generally does not result in a compensation cost. The Company has decided to continue to use the intrinsic value-based method and accordingly no compensation cost has been recorded for options granted to employees. Had the fair value-based method been adopted consistent with the provisions of SFAS 123, the Company's pro forma net income and pro forma net income per share for the years ended September 30, 1997 and 1996 would not have been materially different.

The following table summarizes the plans' stock option activity from September 30, 1994 through September 30, 1997:

	Stock Options	Weighted Average Exercise Price
Outstanding at September 30, 1994	2,651,766	$ 8.69
Granted	90,300	10.00
Exercised	(355,148)	8.95
Canceled	(37,166)	8.69
Outstanding at September 30, 1995	2,349,752	9.12
Granted	59,700	26.70
Exercised	(680,462)	8.78
Canceled	(28,896)	10.53
Outstanding at September 30, 1996	1,700,094	9.77
Granted	90,600	23.88
Exercised	(299,848)	8.99
Canceled	(33,992)	15.79
Outstanding at September 30, 1997	1,456,854	$10.67

Of the 1,456,854 stock options outstanding as of September 30, 1997, 1,232,337 were exercisable at a weighted average exercise price of $8.39.

Options Outstanding at September 30, 1997

Range of Exercise Price	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life Years
$7.59-$7.94	828,195	$ 7.77	3.67
$8.00-$9.97	224,356	$ 8.73	1.27
$10.47-$12.28	179,823	$10.85	3.22
$20.00-$26.70	224,480	$23.15	4.04

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply to awards prior to 1995 and additional awards in the future are anticipated.

NOTE K INCOME TAXES

Income before income taxes was as follows:

YEARS ENDED SEPTEMBER 30	1997	1996	1995
DOLLARS IN THOUSANDS			
Domestic	$ 30,192	$134,289	$102,980
Foreign	86,839	145,545	153,049
Total	$117,031	$279,834	$256,029

A summary of taxes on income is as follows:

YEARS ENDED SEPTEMBER 30 DOLLARS IN THOUSANDS	1997	1996	1995
U.S. federal and state:			
Current	$ 8,610	$33,247	$ 64,204
Deferred	(9,379)	1,031	(25,794)
Total	$ (769)	$34,278	$ 38,410
Foreign:			
Current	$46,723	$61,184	$ 61,039
Deferred	(3,823)	2,754	1,631
Total	$42,900	$63,938	$ 62,670
Total U.S. and Foreign	$42,131	$98,216	$101,080

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

YEARS ENDED SEPTEMBER 30 DOLLARS IN THOUSANDS	1997	1996	1995
Computed tax expense at the expected statutory rate	$40,961	$97,942	$ 89,720
Foreign income:			
Impact of taxation at different rates, repatriation and other	967	5,817	5,407
Impact of foreign losses for which a current tax benefit is not available	4,196	2,432	529
State taxes, net of federal effect	991	2,718	5,560
Foreign sales corporation	(1,211)	(2,968)	(1,500)
U.S. and State benefits from research and experimentation activities	(1,290)	(5,981)	(350)
Other, net	(2,483)	(1,744)	1,714
Provision for income taxes	$42,131	$98,216	$101,080

Significant components of deferred income taxes were as follows:

YEARS ENDED SEPTEMBER 30 DOLLARS IN THOUSANDS	1997	1996
Deferred tax assets:		
Depreciation and amortization	$ 26,015	$ 24,929
Pension and other benefits	54,057	48,945
Environmental matters	12,604	14,928
Restructuring charges	7,061	4,396
Investments	10,850	10,850
State and local taxes	4,672	5,620
Net operating loss and other tax carryforwards	17,309	13,512
Other	26,425	26,573
Subtotal	158,993	149,753
Valuation allowances	(16,128)	(15,724)
Total deferred tax assets	$142,865	$134,029
Deferred tax liabilities:		
Depreciation and amortization	$ 65,746	$ 64,272
Pension and other benefits	12,977	10,888
Investments	42,776	28,208
Other	102,089	107,463
Total deferred tax liabilities	$223,588	$210,831

The Company increased the valuation allowance in 1997 by $404,000 with respect to certain foreign future tax benefits and net operating losses reflected as deferred tax assets due to the uncertainty of their ultimate realization.

Approximately $56.3 million of net operating losses and other tax carryforwards remain at September 30, 1997, $42.7 million of which expire in the years 1998 through 2004, and $13.6 million of which can be carried forward indefinitely. The benefits of these carryforwards are dependent on taxable income during the carryforward period in those foreign jurisdictions wherein they arose, and, accordingly, a valuation allowance has been provided where management has determined that it is more likely than not that the carryforwards will not be utilized.

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

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

Cash paid for income taxes during 1997, 1996 and 1995 totaled $65.5 million, $109.1 million and $60.3 million, respectively.

NOTE L COMMITMENTS & CONTINGENCIES

LEASE COMMITMENTS

The Company leases certain transportation vehicles, warehouse facilities, office space, machinery and equipment under cancelable and non-cancelable leases, most of which expire within 10 years and may be renewed by the Company. Rent expense under such arrangements for 1997, 1996 and 1995, totaled $14.8 million, $14.5 million and $16.5 million, respectively. Future minimum rental commitments under non-cancelable leases are as follows:

DOLLARS IN THOUSANDS	
1998	$12,012
1999	11,633
2000	10,238
2001	9,296
2002	5,722
2003 and thereafter	17,550
	$66,451

OTHER LONG-TERM COMMITMENTS

During 1997, the Company entered into a contractual arrangement in an effort to recover valuable tantalum ore. The Company is committed to pay approximately $20 million with respect to this project, and expects to pay the majority of this in the first half of 1998.

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

Also during 1995, the Company agreed to participate as a 10% owner in a proposed liquefaction plant in Trinidad, and to purchase approximately 60 percent of the natural gas produced by the plant. Once the plant is operational, it is estimated that it will produce 3.3 trillion cubic feet of natural gas over a period of 20 years. At September 30, 1997, the Company's investment in this project was approximately $7.8 million and is included in other investments on the balance sheet. Natural gas from the project is not expected to be available until fiscal year 1999.

CONTINGENCIES

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

As of September 30, 1997, approximately $39.7 million was accrued for environmental matters, primarily related to divested businesses. The amount represents the Company's current best estimate of its share of costs likely to be incurred based on its analysis of the extent of cleanup required, alternative cleanup methods available, abilities of other responsible parties to contribute and its interpretation of applicable laws and regulations applicable to each site. The Company reviews the adequacy of this reserve as circumstances change at individual sites. Included in other charges for 1996 and 1995 are environmental expenses of $3 million and $17 million, respectively. There were no charges for 1997.

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

NOTE M FINANCIAL INSTRUMENTS & CONCENTRATIONS OF CREDIT RISK

FINANCIAL INSTRUMENTS

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

FOREIGN EXCHANGE

The Company's foreign exchange forward contracts and options do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the assets, liabilities, transactions and cash flows being hedged. The Company had $63.4 million of foreign exchange forward contracts outstanding at September 30, 1997. The fair value of such contracts, which was the replacement value, represented a net unrealized loss of approximately $0.9 million as of September 30, 1997. Forward exchange and option contracts generally have maturities that do not exceed twelve months. See Note A for information on the Company's policy on forward exchange contract and currency option gains and losses.

INTEREST RATE

During 1997, the Company entered into an interest rate swap agreement. Pursuant to the agreement, beginning on August 29, 1997, the Company will pay a floating rate based on a basket of London Interbank Offered Rates ("LIBOR") of various countries on a notional $50 million and receive a floating rate based on the U.S. LIBOR rate as determined at three month intervals through August 29, 2004.

During 1995, the Company entered into an interest rate swap agreement to fix the interest rate on certain borrowings expected to be refinanced in 1997. Pursuant to the agreement, beginning on June 17, 1997, the Company will pay a fixed rate of 7.4% on a notional $100 million and receive a floating rate based on London Interbank Offered Rates ("LIBOR") as determined at six month intervals through December 17, 2007.

CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject the Company to concentrations of credit risk consist principally of trade receivables. International tire manufacturers comprise a significant portion of the Company's carbon black customer base. At September 30, 1997 and 1996, the Company had trade receivables of approximately $62.6 million and $66.2 million, respectively, from international tire manufacturers. Although the Company's exposure to credit risk associated with nonpayment by tire manufacturers is affected by conditions or occurrences within the tire industry, trade receivables from the international tire manufacturers were current at September 30, 1997, and no manufacturer exceeded 5% of the Company's receivables at that date.

NOTE N FINANCIAL INFORMATION BY INDUSTRY SEGMENT & GEOGRAPHIC AREA

Financial information by industry segment for 1993 through 1997, as set forth on page 23, is an integral part of these financial statements. Energy segment sales for 1996 and 1995 include sales to a major customer in the amount of $278 million and $250 million, respectively. Transfers between geographic areas are recorded at cost plus mark-up or at market.

Financial information by geographic area is as follows:

YEARS ENDED SEPTEMBER 30	1997	1996	1995
DOLLARS IN MILLIONS			
SALES			
United States:			
Sales, excluding export sales			
Specialty Chemicals and Materials	$ 566.9	$ 526.6	$ 605.7
Energy	199.7	422.0	342.6
Export sales	93.9	109.7	93.7
Total	860.5	1,058.3	1,042.0
Europe	603.8	638.6	642.9
Other areas	302.1	281.5	249.5
Total	1,766.4	1,978.4	1,934.4
Less: Eliminations	136.4	122.1	104.0
Net sales	$1,630.0	$1,856.3	$1,830.4
OPERATING PROFIT			
United States:			
Specialty Chemicals and Materials	$ 107.3	$ 142.3	$ 155.9
Energy	6.6	23.0	12.7
Europe	67.0	99.2	103.0
Other areas	6.0	19.0	27.9
Total operating profit	186.9	283.5	299.5
Interest expense	43.2	41.7	35.6
Unallocated corporate expenses, net(a)	26.6	29.2	28.0
Gains on sales of businesses	--	(38.9)	(32.6)
Gain on sale of equity securities	--	(28.3)	--
Adjustment of reserves related to divested businesses	--	--	12.5
Income before income taxes	$ 117.1	$ 279.8	$ 256.0
IDENTIFIABLE ASSETS			
United States:			
Specialty Chemicals and Materials	$ 602.6	$ 529.2	$ 426.9
Energy	88.4	79.7	133.8
Europe	434.1	494.8	465.3
Other areas	405.6	403.7	275.7
General corporate(b)	206.8	270.8	253.7
Equity in affiliates--Europe	6.8	9.3	26.9
Equity in affiliates--Other areas	79.3	70.1	72.0
Total	$1,823.6	$1,857.6	$1,654.3

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

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

NOTE O UNAUDITED QUARTERLY FINANCIAL INFORMATION

Unaudited financial results by quarter for the fiscal years ended September 30, 1997 and 1996 are summarized below and should be read in conjunction with Management's Discussion and Analysis of Results of Operations and Financial Condition.

DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	DEC	MARCH	JUNE	SEPT	YEAR

FISCAL 1997					
Net sales	$398.8	$432.0	$398.6	$400.6	$1,630.0
Cost of sales	$279.7	$305.6	$274.2	$284.9	$1,144.4
Net income	$ 25.1	$ 29.4	$ 28.7	$ 9.5(a)	$ 92.7
Income applicable to common shares	$ 24.3	$ 28.6	$ 27.9	$ 8.7	$ 89.5
Income per common share (primary)(c)	$ 0.34	$ 0.40	$ 0.40	$ 0.12	$ 1.27
FISCAL 1996					
Net sales	$443.0	$491.3	$457.3	$464.6	$1,856.3
Cost of sales	$305.1	$345.3	$318.5	$341.0	$1,310.0
Net income	$ 43.4	$ 42.9	$ 35.7	$ 72.0(b)	$ 194.1
Income applicable to common shares	$ 42.5	$ 42.0	$ 35.0	$ 71.2	$ 190.8
Income per common share (primary)(c)	$ 0.57	$ 0.58	$ 0.48	$ 0.98	$ 2.60

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

(b) Includes a $38.9 million gain on the sale of coal transportation business, TUCO, and a $28.3 million gain on the sale of equity securities of K N Energy, Inc.

(c) The November 10, 1995 two-for-one stock split has been reflected in all per share amounts.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

/s/ Robert L. Culver
- -----------------------------------
Robert L. Culver
Chief Financial Officer

/s/ William T. Anderson
- -----------------------------------
William T. Anderson
Chief Accounting Officer

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE DIRECTORS AND STOCKHOLDERS OF CABOT CORPORATION

We have audited the accompanying consolidated balance sheets of Cabot Corporation as of September 30, 1997 and 1996 and the related consolidated statements of income and cash flows for each of the three fiscal years in the period ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cabot Corporation as of September 30, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended September 30, 1997, in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.
- ------------------------------------
Coopers & Lybrand L.L.P.
Boston, Massachusetts
October 23, 1997, except for
the information in Note B,
for which the date is
December 18, 1997.

EXHIBIT 21

CABOT CORPORATION

Significant Subsidiaries

As of September 30, 1997

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

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Cabot Corporation on Form S-3 (File Nos. 33-18883, 33-48686) and on Form S-8 (File Nos. 33-28699, 33-52940, 33-53659, 333-03683, 333-06629, 333-19103 and 333-19099) of our report dated October 23, 1997, except for the information in Note B, for which the date is December 18, 1997, on our audits of the consolidated financial statements of Cabot Corporation as of September 30, 1997 and 1996, and for each of the three fiscal years in the period ended September 30, 1997, which report is included in this Annual Report on Form 10-K.

Coopers & Lybrand L.L.P.

Boston, Massachusetts
December 19, 1997

POWER OF ATTORNEY

We, the undersigned directors and officers of Cabot Corporation, hereby severally constitute and appoint Robert Rothberg, Charles D. Gerlinger and Sarah W. Saunders, and each of them, our true and lawful attorneys with full power to (i) sign for us and in our names in the capacities indicated below Annual Reports on Form 10-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 of Cabot Corporation for the fiscal year ended September 30, 1997, and any and all amendments thereto, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Reports and to any and all amendments to said Reports; and (ii) to file such Reports and amendments with the Securities and Exchange Commission and with applicable stock exchanges on behalf of Cabot Corporation.

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

SIGNATURE	TITLE	DATE
/s/ Samuel W. Bodman Samuel W. Bodman	Director, Chairman and Chief Executive Officer	November 14, 1997
/s/ Kennett F. Burnes Kennett F. Burnes	Director and President	November 14, 1997
/s/ Robert L. Culver Robert L. Culver	Executive Vice President and Chief Financial Officer	November 14, 1997
/s/ William T. Anderson William T. Anderson	Controller	November 14, 1997
/s/ Jane C. Bradley Jane C. Bradley	Director	November 14, 1997
/s/ John G.L. Cabot John G.L. Cabot	Director	November 14, 1997

SIGNATURE	TITLE	DATE
/s/ Arthur L. Goldstein Arthur L. Goldstein	Director	November 14, 1997
/s/ Robert P. Henderson Robert P. Henderson	Director	November 14, 1997
/s/ Arnold S. Hiatt Arnold S. Hiatt	Director	November 14, 1997
/s/ John H. McArthur John H. McArthur	Director	November 14, 1997
/s/ John F. O'Brien John F. O'Brien	Director	November 14, 1997
/s/ David V. Ragone David V. Ragone	Director	November 14, 1997
/s/ Charles P. Siess, Jr. Charles P. Siess, Jr.	Director	November 14, 1997
/s/ Morris Tanenbaum Morris Tanenbaum	Director	November 14, 1997
/s/ Lydia W. Thomas Lydia W. Thomas	Director	November 14, 1997
/s/ Mark W. Wrighton Mark W. Wrighton	Director	November 14, 1997

SEP-30-1997
YEAR
SEP-30-1997
39,236
0
294,217
5,613
246,886
611,177
1,759,835
837,526
1,823,589
541,383
285,544
0
75,336
135,550
516,907
1,823,589
1,629,989
1,636,711
1,144,383
0
115,561
0
43,222
117,031
42,131
92,745
0
0
0
92,745
1.27
1.19