CABOT CORP
Form 10-K
November 29, 2012

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, 2012

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	**04-2271897**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
Two Seaport Lane, Suite 1300 Boston, Massachusetts	**02210**
(Address of Principal Executive Offices)	*(Zip Code)*

(617) 345-0100

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $1.00 par value per share	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of the last business day of the Registrant s most recently completed second fiscal quarter (March 31, 2012), the aggregate market value of the Registrant s common stock held by non-affiliates was $2,685,813,177. As of November 16, 2012, there were 63,472,522 shares of the Registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement for its 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this annual report on Form 10-K.

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Information Relating to Forward-Looking Statements

This annual report on Form 10-K contains forward-looking statements under the Federal securities laws. These forward-looking statements include statements relating to our future business performance and overall prospects; demand for our products; when we expect commissioning of the rubber blacks facility in Xingtai City, Hebei Province, China we are constructing with our joint venture partner to occur; our expectations regarding the life of our pollucite ore reserves; when we expect operations at our lignite mine in Texas to commence; our expectations concerning the receipt of the cash proceeds due to us from the sale of our Supermetals Business; the sufficiency of our cash on hand, cash provided from operations and cash available under our credit facilities to fund our cash requirements; anticipated capital spending, including environmental-related capital expenditures; cash requirements and uses of available cash, including future cash outlays associated with long-term contractual obligations, restructurings, contributions to employee benefit plans, environmental remediation costs and future respirator liabilities; exposure to interest rate and foreign exchange risk; future benefit plan payments we expect to make; our expected tax rate for fiscal 2013; our ability to recover deferred tax assets; and the possible outcome of legal and environmental proceedings. From time to time, we also provide forward-looking statements in other materials we release to the public and in oral statements made by authorized officers.

Forward-looking statements are based on our current expectations, assumptions, estimates and projections about Cabot s businesses and strategies, market trends and conditions, economic conditions and other factors. These statements are not guarantees of future performance and are subject to risks, uncertainties, potentially inaccurate assumptions, and other factors, some of which are beyond our control and difficult to predict. If known or unknown risks materialize, or should underlying assumptions prove inaccurate, our actual results could differ materially from past results and from those expressed in the forward-looking statements. Important factors that could cause our actual results to differ materially from those expressed in our forward-looking statements are described in Item 1A in this report.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Investors are advised, however, to consult any further disclosures we make on related subjects in our 10-Q and 8-K reports filed with the Securities and Exchange Commission (the SEC).

PART I

Item 1. *Business*
General

Cabot is a global specialty chemicals and performance materials company headquartered in Boston, Massachusetts. Our principal products are rubber and specialty grade carbon blacks, fumed metal oxides, inkjet colorants, aerogel, cesium formate drilling fluids and activated carbon. Cabot and its affiliates have manufacturing facilities and operations in the United States and over 20 other countries. Cabot s business was founded in 1882 and incorporated in the State of Delaware in 1960. The terms Cabot , Company , we , and our as used in this report refer to Cabo Corporation and its consolidated subsidiaries.

Our strategy is to deliver earnings growth through leadership in performance materials. We intend to achieve this goal by focusing on margin improvement, capacity expansion and emerging market growth, developing new products and businesses and actively managing our portfolio of businesses. In support of this strategy, during fiscal 2012 we completed the sale of our Supermetals Business to Global Advanced Metals Pty Ltd. for a minimum of approximately $450 million in total consideration. Results of operations for the Supermetals Business prior to the sale and the gain on the sale are reported in discontinued operations. In addition, on July 31, 2012, we completed our acquisition of all of the issued and outstanding shares of Norit N.V. (Norit) from N Beta S.à r.l., an affiliate of Doughty Hanson & Co. Managers Limited and Euroland Investments B.V., for a purchase price of $1.1 billion. The acquired business is organized as a new business segment, Purification Solutions, and results of operations for the business are reported in this segment.

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Our products are generally based on technical expertise and innovation in one or more of our three core competencies: making and handling very fine particles; modifying the surfaces of very fine particles to alter their functionality; and designing particles to impart specific properties to a composite. We focus on creating particles with the composition, morphology, surface functionalities and formulations to support our customers existing and emerging applications.

After the sale of our Supermetals Business and acquisition of Norit, we made changes in the composition of our segments and renamed them with names that are more descriptive of the underlying businesses. With these changes, our four business segments are: Reinforcement Materials (formerly our Core Segment); Performance Materials (formerly our Performance Segment); Advanced Technologies (the combination of our former New Business and Specialty Fluids Segments); and Purification Solutions (the newly acquired Norit business).

The business segments are discussed in more detail later in this section. Financial information about our business segments appears in Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 below (MD&A) and in Note V of the Notes to our Consolidated Financial Statements in Item 8 below (Note V).

For operational purposes, we are also organized into three geographic regions: The Americas; Europe, Middle East and Africa; and Asia Pacific. Financial information about our sales and long-lived assets in certain geographic areas appears in Note V.

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

Reinforcement Materials

Products

Carbon black is a form of elemental carbon that is manufactured in a highly controlled process to produce particles and aggregates of varied structure and surface chemistry, resulting in many different performance characteristics for a wide variety of applications. Rubber grade carbon blacks are used to enhance the physical properties of the systems and applications in which they are incorporated.

Our rubber blacks products are used in tires and industrial products. Rubber blacks have traditionally been used in the tire industry as a rubber reinforcing agent and are also used as a performance additive. In industrial products such as hoses, belts, extruded profiles and molded goods, rubber blacks are used to improve the physical performance of the product.

Sales and Customers

Sales of rubber blacks products are made by Cabot employees and through distributors and sales representatives. Sales to three major tire customers represent a material portion of Reinforcement Materials total net sales and operating revenues. The loss of any of these customers could have a material adverse effect on the Segment.

Under appropriate circumstances, we have entered into supply contracts with certain customers, many of which have durations of at least one year. Many of these contracts provide for sales price adjustments to account for changes in relevant feedstock indices and, in some cases, changes in other relevant costs (such as the cost of natural gas). In fiscal 2012, approximately half of our rubber blacks volume was sold under supply contracts with an initial term of at least one year in effect during the fiscal year. The majority of the volumes sold under these contracts are sold to customers in North America and Western Europe.

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Much of the rubber blacks we sell is used in automotive products and, therefore, our financial results may be affected by the cyclical nature of the automotive industry. However, a large portion of the market for our products is in replacement tires that historically have been less subject to automotive industry cycles.

Competition

We are one of the leading manufacturers of carbon black in the world. We compete in the manufacture of carbon black primarily with two companies with a global presence and a significant number of other companies which have a regional presence. Competition for products within Reinforcement Materials is based on product performance, quality, reliability, service, technical innovation, price, and logistics. We believe our product differentiation, technological leadership, global manufacturing presence, operations and logistics excellence and customer service provide us with a competitive advantage.

Raw Materials

The principal raw material used in the manufacture of carbon black is a portion of the residual heavy oils derived from petroleum refining operations and from the distillation of coal tars and the production of ethylene throughout the world. Natural gas is also used in the production of carbon black. Raw material costs generally are influenced by the availability of various types of carbon black feedstock and natural gas, and related transportation costs. Importantly, movements in the market price for crude oil typically affect carbon black feedstock costs.

Operations

We own, or have a controlling interest in, and operate plants that produce rubber blacks in Argentina, Brazil, Canada, China, Colombia, the Czech Republic, France, Indonesia, Italy, Japan, Malaysia, The Netherlands, and the United States. Our equity affiliates operate carbon black plants in Mexico and Venezuela. The following table shows our ownership interest as of September 30, 2012 in rubber blacks operations in which we own less than 100%:

Location	**Percentage Interest**
Shanghai, China	70% (consolidated subsidiary)
Tianjin, China	70% (consolidated subsidiary)
Xingtai City, China	60% (consolidated subsidiary)
Valasske Mezirici (Valmez), Czech Republic	52% (consolidated subsidiary)
Cilegon and Merak, Indonesia	85% (consolidated subsidiary)
Port Dickson, Malaysia	51% (consolidated subsidiary)
Tampico, Mexico	40% (equity affiliate)
Valencia, Venezuela	49% (equity affiliate)

We continue to expand the manufacturing capacity of Reinforcement Materials, particularly in emerging markets. We increased the capacity at our carbon black plant in Tianjin, China by 150,000 metric tons with the addition of two rubber blacks production units in fiscal 2009, and in fiscal 2012 increased the capacity at our existing facilities in Indonesia, Argentina and multiple sites in Europe by a total of approximately 50,000 metric tons. In addition, we entered into a joint venture with Risun Chemicals Company, Ltd. for the construction and operation of a rubber blacks manufacturing facility in Xingtai City, Hebei Province, China. The facility will produce approximately 130,000 metric tons of carbon black annually, with the potential to expand annual capacity to 300,000 metric tons. We expect commissioning of this facility in calendar year 2013.

We have plans to further expand the capacity at our existing plants in South America, Asia and Europe by a total of approximately 120,000 metric tons. The timing for these future expansions is dependent on a number of factors, including overall economic conditions in those regions.

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As part of our 2009 global restructuring plan, over the course of fiscal 2009 and 2010 we closed our manufacturing operations in Stanlow, U.K., and in Berre, France. In addition, during fiscal 2010 we closed our manufacturing operations in Thane, India.

Performance Materials

Performance Materials is comprised of two businesses that sell the following products: specialty grades of carbon black and thermoplastic concentrates and compounds (our Specialty Carbons and Compounds Business); and fumed silica, fumed alumina and dispersions thereof (our Fumed Metal Oxides Business). In each business, we design, manufacture and sell materials that deliver performance in a broad range of customer applications across the automotive, construction and infrastructure, and electronics and consumer products sectors.

Products

Carbon black is a form of elemental carbon that is manufactured in a highly controlled process to produce particles and aggregates of varied structure and surface chemistry, resulting in many different performance characteristics for a wide variety of applications. Our specialty grades of carbon black are used to impart color, provide rheology control, enhance conductivity and static charge control, provide UV protection, enhance mechanical properties, and provide chemical flexibility through surface treatment. These products are used in a wide variety of applications, such as inks, coatings, cables, pipes, toners and electronics. In addition, we manufacture and source thermoplastic concentrates and compounds (which we refer to as specialty compounds) that are marketed to the plastics industry.

Fumed silica is an ultra-fine, high-purity particle used as a reinforcing, thickening, abrasive, thixotropic, suspending or anti-caking agent in a wide variety of products produced for the automotive, construction, microelectronics, and consumer products industries. These products include adhesives, sealants, cosmetics, inks, toners, silicone rubber, coatings, polishing slurries and pharmaceuticals. Fumed alumina, also an ultra-fine, high-purity particle, is used as an abrasive, absorbent or barrier agent in a variety of products, such as inkjet media, lighting, coatings, cosmetics and polishing slurries.

Sales and Customers

Sales of these products are made by Cabot employees and through distributors and sales representatives. In our Specialty Carbons and Compounds Business, sales are to a broad number of customers. In contrast, sales under long-term contracts (those with an initial term longer than one year) with two customers account for a substantial portion of the revenue of our Fumed Metal Oxides Business.

Competition

We are one of the leading manufacturers of carbon black in the world. We compete in the manufacture of carbon black primarily with two companies with a global presence and a significant number of other companies which have a regional presence. We are also a leading producer of specialty compounds in Europe, the Middle East and Asia. We are a leading producer and seller of fumed silica and compete primarily with three companies with a global presence and numerous other companies which have a regional presence.

Competition for these products is based on product performance, quality, reliability, service, technical innovation and price. We believe our product differentiation, technological leadership, global manufacturing presence, operations excellence and customer service provide us with a competitive advantage.

Raw Materials

The principal raw material used in the manufacture of carbon black is a portion of the residual heavy oils derived from petroleum refining operations and from the distillation of coal tars and the production of

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ethylene throughout the world. Natural gas is also used in the production of carbon black. Raw material costs generally are influenced by the availability of various types of carbon black feedstock and natural gas, and related transportation costs. Importantly, movements in the market price for crude oil typically affect carbon black feedstock costs.

Other than carbon black feedstock, the primary materials used for our specialty compounds are thermoplastic resins and mineral fillers. Raw materials for these compounds are, in general, readily available.

Raw materials for the production of fumed silica are various chlorosilane feedstocks. We purchase feedstocks and for some customers convert their feedstock to product on a fee-basis (so called toll conversion). We also purchase aluminum chloride as feedstock for the production of fumed alumina. We have long-term procurement contracts or arrangements in place for the purchase of fumed silica feedstock, which we believe will enable us to meet our raw material requirements for the foreseeable future. In addition, we buy some raw materials in the spot market to help ensure flexibility and minimize costs.

Operations

We own, or have a controlling interest in, and operate plants that produce specialty grades of carbon black in China, The Netherlands and the United States. Our specialty compounds are produced in facilities that we own, or have a controlling interest in, located in Belgium, China and the UAE. We also own, or have a controlling interest in, manufacturing plants that produce fumed metal oxides in the United States, China, the United Kingdom, and Germany. An equity affiliate operates a fumed metal oxides plant in Mettur Dam, India. The following table shows our ownership interest as of September 30, 2012 in these segment operations in which we own less than 100%:

Location	**Percentage Interest**
Tianjin, China (Specialty Carbons and Compounds Business)	90% (consolidated subsidiary)
Jiangxi Province, China (Fumed Metal Oxides Business)	90% (consolidated subsidiary)
Mettur Dam, India (Fumed Metal Oxides Business)	50% (equity affiliate)

We continue to expand the manufacturing capacity of our Specialty Carbons and Compounds Business in emerging markets. During fiscal 2011, we commissioned a specialty compounds manufacturing plant at our carbon black plant in Tianjin, China. This plant has an annual capacity of approximately 45,000 metric tons that may be expanded to 80,000 metric tons in the future. In addition, in fiscal 2010 we commenced specialty compounds manufacturing in Dubai.

We also continue to expand our fumed silica capacity. During fiscal 2012, we increased the annual capacity at our joint venture s fumed silica manufacturing facility in Jiangxi Province, China to approximately 15,000 metric tons, with the potential to further expand to 20,000 metric tons as demand in Asia grows. In addition, during calendar year 2012 we expanded production capacity by 25% at our fumed silica facility in Barry, Wales.

As part of our 2009 global restructuring plan, over the course of fiscal 2009 and 2010 we closed our specialty compounds manufacturing operations in Dukinfield, U.K. and our carbon black manufacturing operations in Stanlow, U.K. and in Berre, France. In fiscal 2011, we closed our specialty compounds manufacturing facility in Grigno, Italy and in fiscal 2012, we closed our specialty compounds manufacturing facility in Hong Kong and moved production primarily to our new facility in Tianjin, China.

Advanced Technologies

Advanced Technologies is comprised of our Inkjet Colorants, Aerogel, Security Materials, Elastomer Composites and Specialty Fluids Businesses. A discussion of each of these Businesses follows.

Inkjet Colorants Business

Products

We produce and sell aqueous inkjet colorants primarily to the inkjet printing market. Our inkjet colorants are high-quality pigment-based black and other colorant dispersions we manufacture by surface treating specialty grades of carbon black and other pigments. The dispersions are used in aqueous inkjet inks to impart color (optical density or chroma) with improved durability (waterfastness, lightfastness and rub resistance) while maintaining high printhead reliability. Our inkjet colorants are produced for various inkjet printing applications, including small office and home office, corporate office, and commercial printing, as well as for other niche applications that require a high level of dispersibility and colloidal stability.

Sales and Customers

Sales of inkjet colorants are made by Cabot employees to inkjet printer manufacturers and to suppliers of inkjet inks in the inkjet cartridge aftermarket. Many of our commercialized products have been developed through joint research and development initiatives with inkjet printer manufacturers. These initiatives have led to the development of exclusive differentiated products for these inkjet customers.

Competition

Our inkjet colorants are designed to replace traditional pigment dispersions and dyes used in inkjet printing applications. Competitive products for inkjet colorants are organic dyes and other dispersed pigments manufactured and marketed by large chemical companies and small independent producers. Competition is based on product performance, technical innovation, quality, reliability, service and price. We believe our commercial strengths include technical innovation, product performance and service.

Raw Materials

Raw materials for inkjet colorants include carbon black sourced from our carbon black plants, organic pigments and other treating agents available from various sources. We believe that all raw materials to produce inkjet colorants are in adequate supply.

Operations

Our inkjet colorants are manufactured at our facility in Haverhill, Massachusetts. During fiscal 2012, we doubled the capacity of two of our production lines at this facility.

Aerogel Business

Products

Aerogel is a hydrophobic, silica-based particle with a high surface area that is used in a variety of thermal insulation and specialty chemical applications. In the construction industry, the product is used in insulative composite building products and translucent skylight, window, wall and roof systems for insulating eco-daylighting applications. In the oil and gas industry, aerogel is used to insulate subsea pipelines. In the specialty chemicals industry, the product is used to provide matte finishing, insulating and thickening properties for use in a variety of applications. We continue to focus on application and market development activities for use of aerogel in these and other new applications.

Sales and Customers

Sales of aerogel products are made principally by Cabot employees to engineering procurement and installation companies, traditional insulation manufacturers, building and construction materials companies, and specialty chemical and coatings producers and distributors.

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Competition

Although the manufacturing processes used are different, in premium insulation applications, our aerogel products compete principally with aerogel products manufactured by Aspen Aerogel, Inc. and non-aerogel insulation products manufactured by primarily regional companies throughout the world.

Competition is based on product performance, price, quality, reliability and service. We believe our commercial strengths include technical innovation, product performance, quality and service.

Raw Materials

The principal raw materials for the production of aerogel are silica sol and/or sodium silicate, which we believe are in adequate supply.

Operations

We manufacture our aerogel products at our facility in Frankfurt, Germany using a unique and patented manufacturing process.

Security Materials Business

The principal area of commercial focus for the Security Materials Business is in developing covert taggants for a broad range of anti-counterfeiting security applications, including brand security, currency, tax stamps, identification and fuel markers. Covert taggants are invisible, unique markers that are added to products to determine their authenticity through the use of custom detectors or readers. Our taggants are manufactured using a proprietary process, which produces highly uniform materials with unique signatures. Development and manufacturing activities are conducted primarily at our facilities in Albuquerque, New Mexico and Mountain View, California.

Elastomer Composites Business

We have developed elastomer composite products that are compounds of natural latex rubber and carbon black made by a patented liquid phase process. We believe these compounds improve abrasion/wear resistance, reduce fatigue and reduce rolling resistance compared to natural rubber/carbon black compounds made by conventional methods. Our elastomer composite products are targeted for tire, defense, mining, automotive and aerospace applications. We manufacture our elastomer composite products at our facility in Port Dickson, Malaysia.

Specialty Fluids Business

Products

Our Specialty Fluids Business principally produces and markets cesium formate as a drilling and completion fluid for use primarily in high pressure and high temperature oil and gas well construction. Cesium formate products are solids-free, high-density fluids that have a low viscosity, enabling safe and efficient well construction and workover operations. The fluid is resistant to high temperatures, minimizes damage to producing reservoirs and is readily biodegradable in accordance with the testing guidelines set by the Organization for Economic Cooperation and Development. In a majority of applications, cesium formate is blended with other formates or products.

Sales, Rental and Customers

Sales of our cesium formate products are made to oil and gas operating companies directly by Cabot employees and sales representatives and indirectly through oil field service companies. We generally rent cesium formate to our customers for use in drilling operations on a short-term basis. After completion of a job, the customer returns the remaining fluid to Cabot and it is reprocessed for use in subsequent well operations. Any fluid that is lost during use and not returned to Cabot is paid for by the customer. We also make sales of cesium formate outside of a rental process.

A large portion of our fluids have been used for drilling and completion of wells in the North Sea, where we have been supplying cesium formate-based fluids for both reservoir drilling and completion activities on large gas and condensate field projects in the Norwegian Continental Shelf. Although we have expanded the use of our fluids to drilling operations outside of the North Sea, an important portion of our business continues to be with a limited number of customers for drilling and completion operations in that geography.

Competition

Formate fluids, which were introduced to the market in the mid-1990s, are a relatively small but growing part of the drilling and completion fluids market and compete mainly with traditional drilling fluid technologies. Competition in the well fluids business is based on product performance, quality, reliability, service, technical innovation, price, and proximity of inventory to customers drilling operations. We believe our commercial strengths include our unique product offerings and their performance, and our customer service.

Raw Materials

The principal raw material used in this business is pollucite (cesium ore), which we obtain primarily from our mine in Manitoba, Canada. We own a substantial portion of the world s known pollucite reserves, ensuring us an adequate supply of our principal raw material. Considering our current production rates, our current estimate of reserve levels in the mine and inventory on hand, we expect our supply to last at least 10 years. The process of estimating mineral reserves is inherently uncertain and requires making subjective engineering, geological, geophysical and economic assumptions. Accordingly, there is likely to be variability in the estimated reserve life of the ore body over time.

Most jobs for which cesium formate is used require a large volume of the product. Accordingly, the Specialty Fluids Business maintains a large inventory of fluid.

Operations

We have a mine and a cesium formate manufacturing facility in Manitoba, Canada, as well as fluid blending and reclamation facilities in Aberdeen, Scotland and in Bergen and Kristiansund, Norway. In addition, we warehouse fluid at various locations around the world to support existing and potential operations.

Purification Solutions

Products

Activated carbon is a porous material consisting mainly of elemental carbon treated with heat, steam and/or chemicals to create high internal porosity, resulting in a large internal surface area that resembles a sponge. It is generally produced in two forms, powdered and granular, and is manufactured in different sizes, shapes and levels of purity for a wide variety of applications. Activated carbon is used to remove contaminants from liquids and gases using a process called adsorption, whereby the interconnected pores of activated carbon trap contaminants.

Our activated carbon products are used for the purification of water, air, food and beverages, pharmaceuticals and other liquids and gases. In gas and air applications, one of the uses of activated carbon is for the removal of mercury in flue gas streams. In addition, our products are used as a catalyst or catalyst carrier; as a chemical carrier in slow release applications (such as delayed release pharmaceuticals); as either a colorant or a decolorizing agent in the production of products for food and beverage applications; and in the gold mining industry. Used activated carbon can be reactivated for further use by removing the

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contaminants from the pores. The most common applications in which our reactivated carbon is used are water treatment, food and beverage purification and gas and air purification. In addition to our activated carbon production and reactivation, we also provide activated carbon solutions through on-site equipment and services, including delivery systems for activated carbon injection in coal-fired utilities, mobile water filter units and carbon reactivation services.

Sales and Customers

Sales of activated carbon are made by Cabot employees and through distributors and sales representatives to a broad range of customers, including coal-fired utilities, food and beverage processors, water treatment plants, pharmaceutical companies and catalyst producers. Some of our sales of activated carbon are made under annual contracts or longer-term agreements, particularly in mercury removal applications.

Competition

We are one of the leading manufacturers of activated carbon and providers of activated carbon equipment and services in the world. We compete in the manufacture of activated carbon primarily with six companies with a global presence and numerous other companies which have a regional or local presence.

Competition for activated carbon and activated carbon equipment and services is based on quality, performance, price and supply-chain stability. We believe our product differentiation, technological leadership, quality, product and application diversity, cost-effective access to raw materials, and scalable manufacturing capabilities provide us with a competitive advantage.

Raw Materials

The principal raw materials we use in the manufacture of activated carbon are various forms of coal, including lignite, wood and other carbonaceous materials, all of which we believe we have in adequate supply. Our raw material supply contracts are typically for a duration of two to five years. We are also developing a lignite mine close to our Marshall, Texas facility, which we expect will begin operations in 2014.

Operations

We own, or have a controlling interest in, and operate plants that produce activated carbon in the United States, the United Kingdom, The Netherlands and Italy. Our equity affiliates operate activated carbon plants in Canada and Mexico. The following table shows our ownership interest as of September 30, 2012 in these segment operations in which we own less than 100%:

Location	Percentage Interest
Bienfait, Saskatchewan, Canada	50% (contractual joint venture)
Atitalaquia, Hidalgo, Mexico	49% (equity affiliate)

Since the beginning of 2008, our global production capacity has increased by approximately 28%. Two new production lines were added at our largest facility in Marshall, Texas to meet rising demand for mercury removal solutions, increasing that plant s capacity by approximately 74% since 2009. In addition, our Canadian joint venture began operations in 2010. We have the potential to add additional capacity at these facilities as needed to meet market demand.

Patents and Trademarks

We own and are a licensee of various patents, which expire at different times, covering many of our products as well as processes and product uses. Although the products made and sold under these patents and licenses are important to Cabot, the loss of any particular patent or license would not materially affect our business, taken as a whole. We sell our products under a variety of trademarks, the loss of any one of which would not materially affect our business, taken as a whole.

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Seasonality

Our businesses are generally not seasonal in nature, although we may experience some regional seasonal declines during holiday periods and some weather-related seasonality in Purification Solutions.

Backlog

We do not consider backlog to be a significant indicator of the level of future sales activity. In general, we do not manufacture our products against a backlog of orders. Production and inventory levels are based on the level of incoming orders as well as projections of future demand. Therefore, we believe that backlog information is not material to understanding our overall business and is not a reliable indicator of our ability to achieve any particular level of revenue or financial performance.

Employees

As of September 30, 2012, we had 4,826 employees. Some of our employees in the United States and abroad are covered by collective bargaining or similar agreements. We believe that our relations with our employees are generally satisfactory.

Research and Development

Cabot develops new and improved products and higher efficiency processes through Company-sponsored research and technical service activities, including those initiated in response to customer requests. Our expenditures for such activities generally are spread among our businesses and are shown in the consolidated statements of operations. Further discussion of our research and technical expenses incurred in each of our last three fiscal years appears in MD&A in Item 7 below.

Safety, Health and Environment (SH&E)

Cabot has been named as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (the Superfund law) and comparable state statutes with respect to several sites primarily associated with our divested businesses. (See Legal Proceedings below.) During the next several years, as remediation of various environmental sites is carried out, we expect to spend against our $7 million environmental reserve for costs associated with such remediation. Adjustments are made to the reserve based on our continuing analysis of our share of costs likely to be incurred at each site. Inherent uncertainties exist in these estimates due to unknown conditions at the various sites, changing governmental regulations and legal standards regarding liability, and changing technologies for handling site investigation and remediation. While the reserve represents our best estimate of the costs we expect to incur, the actual costs to investigate and remediate these sites may exceed the amounts accrued in the environmental reserve. While it is always possible that an unusual event may occur with respect to a given site and have a material adverse effect on our results of operations in a particular period, we do not believe that the costs relating to these sites, in the aggregate, are likely to have a material adverse effect on our financial position. Furthermore, it is possible that we may also incur future costs relating to environmental liabilities not currently known to us or as to which it is currently not possible to make an estimate.

Our ongoing operations are subject to extensive federal, state, local, and foreign laws, regulations, rules, and ordinances relating to safety, health, and environmental matters (SH&E Requirements). These SH&E Requirements include requirements to obtain and comply with various environmental-related permits for constructing any new facilities and operating all of our existing facilities. We have expended and will continue to expend considerable sums to construct, maintain, operate, and improve facilities for safety, health and environmental protection and to comply with SH&E Requirements. We spent approximately $23 million in environmental-related capital expenditures at existing facilities in fiscal 2012 and anticipate spending approximately $24 million for such matters in fiscal 2013.

In recognition of the importance of compliance with SH&E Requirements to Cabot, our Board of Directors has a Safety, Health, and Environmental Affairs Committee. The Committee, which is comprised of independent directors, meets at least three times a year and provides oversight and guidance to Cabot s safety, health and environmental management programs. In particular, the Committee reviews Cabot s environmental reserve, safety, health and environmental risk assessment and management processes, environmental and safety audit reports, performance metrics, performance as benchmarked against industry peer groups, assessed fines or penalties, site security and safety issues, health and environmental training initiatives, and the SH&E budget. The Committee also consults with our outside and internal advisors regarding management of Cabot s safety, health and environmental programs.

The International Agency for Research on Cancer (IARC) classifies carbon black as a Group 2B substance (known animal carcinogen, possible human carcinogen). We have communicated IARC s classification of carbon black to our customers and employees and have included that information in our material safety data sheets and elsewhere, as appropriate. We continue to believe that the 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 our material safety data sheets.

The California Office of Environmental Health Hazard Assessment (OEHHA) published a notice adding carbon black (airborne, unbound particles of respirable size) to the California Safe Drinking Water and Toxic Enforcement Act, commonly referred to as Proposition 65, in 2003. Proposition 65 requires businesses to warn individuals before they knowingly or intentionally expose them to chemicals subject to its requirements, and it prohibits businesses from knowingly discharging or releasing the chemicals into water or onto land where they could contaminate drinking water. We worked with the International Carbon Black Association, as well as various customers and carbon black user groups, to ensure our compliance with the requirements associated with the Proposition 65 listing of carbon black, which became effective in February 2004. OEHHA is reportedly considering certain changes that may result in removing the airborne, unbound particles of respirable size qualifying language from its listing of carbon black. If this change is adopted by OEHHA, it would result in increased labeling and other requirements for our customers under Proposition 65.

REACH (Registration, Evaluation and Authorization of Chemicals), the European Union (EU) regulatory framework for chemicals developed by the European Commission (EC), applies to all chemical substances produced or imported into the EU in quantities greater than one metric ton a year. Manufacturers or importers of these chemical substances are required to submit specified health, safety, risk and use information about the substance to the European Chemical Agency. We completed the registrations under REACH for some monomers for our specialty compounds in 2011, for carbon black, activated carbon and fumed silica in 2010 and for cesium formate in 2009. We are working to complete other substance dossiers for the 2013 registration deadline. We are also working with the manufacturers and importers of our raw materials, including our feedstocks, to ensure their registration prior to the applicable deadlines. In addition, the EC has adopted a harmonized definition of nanomaterial to be used in the EU to identify materials for which special provisions may apply, such as risk assessment and ingredient labeling. The EC definition is broad and would apply to many of our existing products, including carbon black, fumed silica and alumina.

Environmental agencies worldwide are increasingly implementing regulations and other requirements resulting in more restrictive air emission limits globally, particularly as they relate to nitrogen oxide and sulphur dioxide emissions. In addition, global efforts to reduce greenhouse gas emissions impact the carbon black and activated carbon industries as carbon dioxide is emitted in those manufacturing processes. The EU Emissions Trading Scheme applies to a number of our carbon black and activated carbon facilities. We generally expect to purchase emission credits where necessary to respond to allocation shortfalls. There are

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also ongoing discussions in other regions and countries, including the U.S., Canada, China, and Brazil, regarding greenhouse gas emission reduction programs, but those programs have not yet been fully defined and their impact on us cannot be estimated at this time. Finally, Cabot s U.S. carbon black and activated carbon facilities continued to report their greenhouse gas emissions under the U.S. Environmental Protection Agency s rule for the Mandatory Reporting of Greenhouse Gases in calendar year 2012.

A number of organizations and regulatory agencies have become increasingly focused on the issue of water scarcity and water quality, particularly in certain geographic regions. We are engaged in various activities to promote water conservation and wastewater recycling. The costs associated with these activities are not expected to have a material adverse effect on our operations.

Various U.S. agencies and international bodies have adopted security requirements applicable to certain manufacturing and industrial facilities and marine port locations. These security-related requirements involve the preparation of security assessments and security plans in some cases, and in other cases the registration of certain facilities with specified governmental authorities. We closely monitor all security-related regulatory developments and believe we are in compliance with all existing requirements. Compliance with such requirements is not expected to have a material adverse effect on our operations.

Foreign and Domestic Operations and Export Sales

A significant portion of our revenues and operating profits is derived from overseas operations. The profitability of our segments is affected by fluctuations in the value of the U.S. dollar relative to foreign currencies. (See MD&A and the Geographic Information portion of Note V for further information relating to sales and long-lived assets by geographic area.) Currency fluctuations, nationalization and expropriation of assets are risks inherent in international operations. We have taken steps we deem prudent in our international operations to diversify and otherwise to protect against these risks, including the use of foreign currency financial instruments to reduce the risk associated with changes in the value of certain foreign currencies compared to the U.S. dollar. (See the risk management discussion contained in Quantitative and Qualitative Disclosures About Market Risk in Item 7A below and Note L of the Notes to the Company s Consolidated Financial Statements).

Item 1A. ***Risk Factors***

In addition to factors described elsewhere in this report, the following are important factors that could cause our actual results to differ materially from those expressed in our forward-looking statements. The risks described below are not the only risks we face. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations and financial results.

Negative or uncertain worldwide or regional economic conditions may adversely impact our business.

Our operations and performance are affected by worldwide and regional economic conditions. Continuing concerns over the worldwide economic outlook and the sovereign debt crisis in Europe have contributed to diminished expectations for global economic growth. Continued uncertainty or a deterioration in the economic conditions affecting the businesses to which, or geographic areas in which, we sell products could reduce demand for our products, and we may experience pricing pressure on products and services, which could decrease our revenues and have an adverse effect on our financial condition and cash flows. In addition, during periods of economic uncertainty, our customers may temporarily pursue inventory reduction measures that exceed declines in the actual underlying demand. Our businesses are sensitive to industry capacity utilization, particularly in Reinforcement Materials. As a result, pricing tends to fluctuate when capacity utilization changes occur, which could affect our financial performance.

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Plant capacity expansions may be delayed and/or not achieve the expected benefits.

Our ability to complete capacity expansions as planned may be delayed or interrupted by the need to obtain environmental and other regulatory approvals, availability of labor and materials, unforeseen hazards such as weather conditions, and other risks customarily associated with construction projects. In addition, our ability to expand capacity in emerging regions depends in part on economic and political conditions in these regions and, in some cases, on our ability to establish operations, construct additional manufacturing capacity or form strategic business alliances. Moreover, the cost of expanding capacity in Reinforcement Materials, Specialty Carbons and Compounds, Fumed Metal Oxides, Purification Solutions, and Inkjet Colorants could have a negative impact on the financial performance of these businesses until capacity utilization is sufficient to absorb the incremental costs associated with the expansion.

As a chemical manufacturing company, our operations have the potential to cause environmental or other damage as well as personal injury.

The operation of a chemical manufacturing business as well as the sale and distribution of chemical products involve safety, health and environmental risks. For example, the production and/or processing of carbon black, fumed metal oxides, aerogel, activated carbon and other chemicals involve the handling, transportation, manufacture or use of certain substances or components that may be considered toxic or hazardous within the meaning of applicable federal, state, local and foreign laws, regulations, rules and ordinances relating to safety, health and environmental matters. The transportation of chemical products and other activities associated with our manufacturing processes have the potential to cause environmental or other damage as well as injury or death to employees or third parties. We could incur significant expenditures in connection with such operational risks.

Our operations are subject to extensive safety, health and environmental requirements, which could increase our costs and/or reduce our profit.

Our ongoing operations are subject to extensive federal, state, local and foreign laws, regulations, rules and ordinances relating to safety, health and environmental matters, many of which provide for substantial monetary fines and criminal sanctions for violations. These requirements include requirements to obtain and comply with various environmental-related permits for constructing any new facilities and operating all of our existing facilities. The enactment of new environmental laws and regulations and/or the more aggressive interpretation of existing requirements could require us to incur significant costs for compliance or capital improvements or limit our current or planned operations, any of which could have a material adverse effect on our earnings or cash flow. See Item 3 Legal Proceedings Environmental Proceedings.

We may not realize the expected benefits from our acquisition of Norit.

With our acquisition of Norit, we have entered into a new area of the specialty chemicals business and there may be factors that affect this business with which we are not as familiar compared with our other existing businesses. We may not be successful retaining key customers and suppliers or key technical or other employees of the former Norit business, including those with knowledge of the activated carbon industry and activated carbon manufacturing processes. This integration requires significant attention from our management. The diversion of our management s attention away from our other businesses and any difficulties encountered in the integration process, including those related to the integration of information technology and other systems, could adversely affect our results of operations. In addition, the strategic growth plan for the mercury removal products and services portion of this business relies significantly upon the enforcement of restrictive environmental laws and regulations, particularly those that would require industrial facilities to reduce the quantity of air pollutants they release. Because of the uncertainty associated with the regulatory process, we are unable to predict with certainty when and how these new standards will affect demand for our activated carbon products.

Any failure to realize benefits from acquisitions, alliances or joint ventures could adversely affect future financial results.

As part of our strategies for growth and improved profitability, we have made and may continue to make acquisitions and investments and enter into joint ventures. The success of acquisitions of new technologies, companies and products, or arrangements with third parties is not always predictable and we may not be successful in realizing our objectives as anticipated. We may not be able to integrate any acquired businesses successfully into our existing businesses, make such businesses profitable, or realize anticipated cost savings or synergies, if any, from these acquisitions, which could adversely affect our business.

An interruption in our operations as a result of fence-line arrangements could disrupt our manufacturing operations and adversely affect our financial results.

At certain of our facilities we have fence-line arrangements with adjacent third party manufacturing operations (fence-line partners), who provide raw materials for our manufacturing operations and/or take by-products generated from our operations. Accordingly, any unplanned disruptions or curtailments in a fence-line partner s production facilities that impacts their ability to supply us with raw materials or to take our manufacturing by-products could disrupt our manufacturing operations or cause us to incur increased operating costs to mitigate such disruption.

Volatility in the price of energy and raw materials could decrease our margins.

Our manufacturing processes consume significant amounts of energy and raw materials, the costs of which are subject to worldwide supply and demand as well as other factors beyond our control. Dramatic increases in such costs or decreases in the availability of raw materials at acceptable costs could have an adverse effect on our results of operations. For example, movements in the market price for crude oil typically affect carbon black feedstock costs. Significant movements in the market price for crude oil tend to create volatility in our carbon black feedstock costs, which can affect our working capital and results of operations. Certain of our carbon black supply contracts contain provisions that adjust prices to account for changes in a relevant feedstock price index. We attempt to offset the effects of increases in raw material costs through selling price increases in our non-contract sales, productivity improvements and cost reduction efforts. Success in offsetting increased raw material costs with price increases is largely influenced by competitive and economic conditions and could vary significantly depending on the segment served. Such increases may not be accepted by our customers, may not be sufficient to compensate for increased raw material and energy costs or may decrease demand for our products and our volume of sales. If we are not able to fully offset the effects of increased raw material or energy costs, it could have a significant impact on our financial results.

We are exposed to political or country risk inherent in doing business in some countries.

Sales outside of the U.S. constituted a majority of our revenues in fiscal 2012. Although much of our international business is currently in regions where the political and economic risk levels and established legal systems are similar to those in the United States, we also conduct business in countries that have less stable legal systems and financial markets, and potentially more corrupt business environments than the U.S. Our operations in some countries may be subject to the following risks: changes in the rate of economic growth; unsettled political or economic conditions; possible expropriation or other governmental actions; corruption by government officials and other third parties; social unrest, war, terrorist activities or other armed conflict; confiscatory taxation or other adverse tax policies; deprivation of contract rights; trade regulations affecting production, pricing and marketing of products; reduced protection of intellectual property rights; restrictions on the repatriation of income or capital; exchange controls; inflation; currency fluctuations and devaluation; the effect of global health, safety and environmental matters on economic conditions and market opportunities; and changes in financial policy and availability of credit. We have an equity method investment in Venezuela, a country that has established rigid controls over the ability of foreign companies to repatriate cash. Such exchange controls could potentially impact our ability, in both the short and long term, to recover both the cost of our investment and earnings from that investment.

We depend on a group of key customers for a significant portion of our sales. A significant adverse change in a customer relationship or in a customer s performance or financial position could harm our business and financial condition.

Our success in strengthening relationships and growing business with our largest customers and retaining their business over extended time periods could affect our future results. We have a group of key customers across our businesses that together represent a significant portion of our total net sales and operating revenues. The loss of any of our important customers, or a reduction in volumes sold to them because of a work stoppage or other disruption, could adversely affect our results of operations until such business is replaced or the disruption ends. Any deterioration in the financial condition of any of our customers or the industries they serve that impairs our customers ability to make payments to us also could increase our uncollectible receivables and could affect our future results and financial condition.

Our failure to successfully develop new products and technologies that address our customers changing requirements or competitive challenges may have a negative effect on our business results.

The end markets into which we sell our products are subject to periodic technological change, ongoing product improvements and changes in customer requirements. Increased competition from existing or newly developed products offered by our competitors or companies whose products offer a similar functionality as our products may negatively affect demand for our products. We work to identify, develop and market innovative products on a timely basis to meet our customers changing requirements and competitive challenges. If we fail to develop new products or keep pace with technological developments, our sales may be negatively impacted and our business results could be adversely affected.

Fluctuations in foreign currency exchange and interest rates could affect our financial results.

We earn revenues, pay expenses, own assets and incur liabilities in countries using currencies other than the U.S. dollar. In fiscal 2012, we derived a majority of our revenues from sales outside the United States. Because our consolidated financial statements are presented in U.S. dollars, we must translate revenues, income and expenses, as well as assets and liabilities, into U.S. dollars at exchange rates in effect during or at the end of each reporting period. Therefore, increases or decreases in the value of the U.S. dollar against other currencies in countries where we operate will affect our results of operations and the value of balance sheet items denominated in foreign currencies. Due to the geographic diversity of our operations, weaknesses in some currencies might be offset by strengths in others over time. In addition, we are exposed to adverse changes in interest rates. We manage both these risks through normal operating and financing activities and, when deemed appropriate, through the use of derivative instruments as well as foreign currency debt. We cannot be certain, however, that we will be successful in reducing the risks inherent in exposures to foreign currency and interest rate fluctuations.

There are also instances where we have direct current exposures to foreign currency movements because settlement back into a different currency is intended. These situations can have a direct impact on our cash flows.

The money we spend developing new businesses and technologies may not result in a proportional increase in our revenues or profits.

We cannot be certain that the costs we incur investing in new businesses and technologies will result in a proportional increase in revenues or profits. In addition, the timely commercialization of products that we are developing may be disrupted or delayed by manufacturing or other technical difficulties, market acceptance or insufficient market size to support a new product, competitors new products, and difficulties in moving from the experimental stage to the production stage. These disruptions or delays could affect our future business results.

Our tax rate is dependent upon a number of factors, a change in any of which could impact our future tax rates and net income.

Our future tax rates may be adversely affected by a number of factors, including the enactment of tax legislation currently being considered in the U.S.; other changes in tax laws or the interpretation of such tax laws; changes in the estimated realization of our net deferred tax assets; the jurisdictions in which profits are determined to be earned and taxed; the repatriation of non-U.S. earnings for which we have not previously provided for U.S. income and non-U.S. withholding taxes; adjustments to estimated taxes upon finalization of various tax returns; increases in expenses that are not deductible for tax purposes, including impairment of goodwill in connection with acquisitions; changes in available tax credits; and the resolution of issues arising from tax audits with various tax authorities. Losses for which no tax benefits can be recorded could materially impact our tax rate and its volatility from one quarter to another. Any significant change in our jurisdictional earnings mix or in the tax laws in those jurisdictions could impact our future tax rates and net income in those periods.

Regulations requiring a reduction of greenhouse gas emissions will likely impact our carbon black and activated carbon operations.

Global efforts to reduce greenhouse gas emissions impact the carbon black and activated carbon industries as carbon dioxide is emitted in those manufacturing processes. The European Commission s Emissions Trading Scheme applies to a number of our carbon black and activated carbon facilities, and we generally expect to purchase emission credits where necessary to respond to allocation shortfalls. However, there can be no assurance that we will be able to purchase emissions credits if our carbon black or activated carbon operations generate more CO_2 than our allocations permit or that the cost of such credits will be acceptable to us. There are also ongoing discussions in other regions and countries, including the U.S., Canada, China and Brazil, regarding greenhouse gas emission reduction programs, but those programs have not yet been defined and their potential impact on our manufacturing operations or financial results cannot be estimated at this time.

Litigation or legal proceedings could expose us to significant liabilities and thus negatively affect our financial results.

As more fully described in Item 3 Legal Proceedings , we are a party to or the subject of lawsuits, claims, and proceedings, including those involving environmental, and health and safety matters as well as product liability and personal injury claims relating to asbestosis, silicosis, and coal worker s pneumoconiosis, and exposure to various chemicals. We are also a potentially responsible party in various environmental proceedings and remediation matters wherein substantial amounts are at issue. Adverse rulings, judgments or settlements in pending or future litigation (including liabilities associated with respirator claims) or in connection with environmental remediation activities could cause our results to differ materially from those expressed or forecasted in any forward-looking statements.

Our restructuring activities and cost saving initiatives may not achieve the results we anticipate.

We have undertaken and will continue to undertake cost reduction initiatives and organizational restructurings to improve operating efficiencies, optimize our asset base and generate cost savings. We cannot be certain that we will be able to complete these initiatives as planned or that the estimated operating efficiencies or cost savings from such activities will be fully realized or maintained over time. In addition, when we close manufacturing facilities, we may not be successful in migrating our customers from those closed facilities to our other facilities.

The reduction or elimination of tariffs placed on U.S. and European imports of Chinese or other foreign activated carbon could have a material adverse effect on Purification Solutions.

Purification Solutions faces pressure and competition in its U.S. and European markets from imports of activated carbon products that are sold at unfairly low prices. In some end-markets, low-priced imports have become accepted as viable alternatives to our products because they are frequently sold at less than fair value in the market. If the amounts and acceptance of these low-priced imports increase, especially if they are sold at less than fair value, our sales of those products could decline, which could have an adverse effect on the earnings of Purification Solutions. In addition, sales of these low-priced imports may make it more difficult for Purification Solutions to pass through raw material cost increases to its customers. U.S. and European regulatory agencies have enacted antidumping duties to limit these activities. However, the antidumping duties in the U.S. could be reduced or eliminated in the future, and the antidumping duties in the European Union may or may not be renewed beyond 2013. If these antidumping duties are reduced or eliminated, the volume of low-priced activated carbon imports in the U.S and the European Union could increase and, therefore, reduce demand or pricing for our products and services.

The continued protection of our patents, trade secrets and other proprietary intellectual property rights are important to our success.

Our patents, trade secrets and other intellectual property rights are important to our success and competitive position. We own various patents and other intellectual property rights in the U.S. and other countries covering many of our products, as well as processes and product uses. Where we believe patent protection is not appropriate or obtainable, we rely on trade secret laws and practices to protect our proprietary technology and processes, such as physical security, limited dissemination and access and confidentiality agreements with our employees, customers, consultants, business partners, potential licensees and others to protect our trade secrets and other proprietary information. However, trade secrets can be difficult to protect and the protective measures we have put in place may not prevent disclosure or unauthorized use of our proprietary information or provide an adequate remedy in the event of misappropriation or other violations of our proprietary rights. In addition, we are a licensee of various patents and intellectual property rights belonging to others in the U.S. and other countries. Because the laws and enforcement mechanisms of some countries may not allow us to protect our proprietary rights to the same extent as we are able to in the U.S., the strength of our intellectual property rights will vary from country to country.

Irrespective of our proprietary intellectual property rights, we may be subject to claims that our products, processes or product uses infringe the intellectual property rights of others. These claims, even if they are without merit, could be expensive and time consuming to defend and if we were to lose such claims, we could be enjoined from selling our products or using our processes and/or be subject to damages, or be required to enter into licensing agreements requiring royalty payments and/or use restrictions. Licensing agreements may not be available to us, and if available, may not be available on acceptable terms.

We may be required to impair or write off certain assets if our assumptions about future sales and profitability prove incorrect.

In analyzing the value of our inventory, property, plant and equipment, investments and intangible assets, we have made assumptions about future sales (pricing and volume), costs and cash generation. These assumptions are based on management s best estimates and if the actual results differ significantly from these assumptions, we may not be able to realize the value of the assets recorded as of September 30, 2012, which could lead to an impairment or write-off of certain of these assets in the future.

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On occasion we enter into derivative contracts with financial counterparties. The effectiveness of these contracts is dependent on the ability of these financial counterparties to perform their obligations and their nonperformance could harm our financial condition.

We have entered into interest rate swap contracts and foreign currency derivatives as part of our financial strategy. The effectiveness of our hedging programs using these instruments is dependent, in part, upon the counterparties to these contracts honoring their financial obligations. If any of our counterparties are unable to perform their obligations in the future, we could be exposed to increased earnings and cash flow volatility due to an instrument s failure to hedge a financial risk.

We may be subject to information technology systems failures, network disruptions and breaches of data security.

Information technology systems failures, including risks associated with upgrading our systems, network disruptions and breaches of data security could disrupt our operations by impeding our processing of transactions, our ability to protect customer or company information and our financial reporting. Our computer systems, including our back-up systems, could be damaged or interrupted by power outages, computer and telecommunications failures, computer viruses, internal or external security breaches, events such as fires, earthquakes, floods, tornadoes and hurricanes, and/or errors by our employees. Although we have taken steps to address these concerns by implementing sophisticated network security and internal control measures and back-up systems at multiple sites, there can be no assurance that a system failure or data security breach will not have a material adverse effect on our financial condition and results of operations.

Natural disasters could affect our operations and financial results.

We operate facilities in areas of the world that are exposed to natural hazards, such as floods, windstorms and earthquakes. Such events could disrupt our supply of raw materials or otherwise affect production, transportation and delivery of our products or affect demand for our products.

Item 1B. ***Unresolved Staff Comments***

None.

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Item 2. ***Properties***

Cabot s corporate headquarters are in leased office space in Boston, Massachusetts. We also own or lease office, manufacturing, storage, distribution, marketing and research and development facilities in the United States and in foreign countries. The locations of our principal manufacturing and/or administrative facilities are set forth in the table below. Unless otherwise indicated, all the properties are owned.

Location by Region	Reinforcement Materials	Performance Materials	Advanced Technologies	Purification Solutions
Americas Region				
Mountain View, CA*			X	
Alpharetta, GA*(1)	X	X	X	X
Tuscola, IL		X		
Canal, LA	X	X		
Ville Platte, LA	X			
Billerica, MA	X	X	X	X
Haverhill, MA			X	
Midland, MI		X		
Albuquerque, NM (2 plants)*			X	
Pryor, OK				X
Marshall, TX				X
Pampa, TX	X	X		
Campana, Argentina	X			
Maua, Brazil	X	X		
Sao Paulo, Brazil*(1)	X	X	X	X
Cartagena, Colombia	X			
Lac du Bonnet, Manitoba**			X	
Sarnia, Ontario	X	X		

(1) Regional shared service center

* Leased premises

** Building(s) owned by Cabot on leased land

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Location by Region	Reinforcement Materials	Performance Materials	Advanced Technologies	Purification Solutions
EMEA Region				
Loncin, Belgium		X		
Leuven, Belgium*(1)	X	X	X	X
Pepinster, Belgium		X		
Valasske Mezirici (Valmez), Czech Republic**	X			
Port Jerome, France**	X			
Frankfurt, Germany*			X	
Rheinfelden, Germany		X		
Ravenna, Italy (2 plants)	X			X
Bergen, Norway*			X	
Kristiansund, Norway*			X	
Aberdeen, Scotland*			X	
Schaffhausen, Switzerland*	X	X	X	X
Botlek, The Netherlands**	X	X		
Amersfoort, The Netherlands*				X
Klazienaveen, The Netherlands				X
Zaandam, The Netherlands				X
Dubai, United Arab Emirates*		X		
Glasgow, United Kingdom				X
Purton, United Kingdom				X
Barry, Wales**		X		
Asia Pacific Region				
Jiangxi Province, China**		X		
Tianjin, China**	X	X		
Shanghai, China*(1)	X	X	X	X
Shanghai, China** (plant)	X			
Xingtai City, China**	X			
Mumbai, India*	X	X		
Cilegon, Indonesia**	X			
Jakarta, Indonesia*	X	X		
Merak, Indonesia	X			
Chiba, Japan	X			
Shimonoseki, Japan**	X			
Tokyo, Japan*	X	X	X	X
Port Dickson, Malaysia** (2 plants)	X		X	

(1) Regional shared service center
* Leased premises
** Building(s) owned by Cabot on leased land

We conduct research and development for our various businesses primarily at facilities in Billerica, MA; Albuquerque, NM; Amersfoort, The Netherlands; Marshall, TX; Mountain View, CA; Pampa, TX; Pepinster, Belgium; Frankfurt and Rheinfelden, Germany; Port Dickson, Malaysia.

Our existing manufacturing plants, together with announced capacity expansion plans, will generally have sufficient production capacity to meet current requirements and expected near-term growth. These plants are generally well maintained, in good operating condition and suitable and adequate for their intended use. Our administrative offices and other facilities are generally suitable and adequate for their intended purposes.

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Item 3. *Legal Proceedings*

Cabot is a party in various lawsuits and environmental proceedings wherein substantial amounts are claimed. The following is a description of the significant proceedings pending on September 30, 2012, unless otherwise specified.

Environmental Proceedings

In June 2009, Cabot received an information request from the United States Environmental Protection Agency (EPA) regarding Cabot s carbon black manufacturing facility in Pampa, Texas. The information request relates to the Pampa facility s compliance with certain regulatory and permitting requirements under the Clean Air Act, including the New Source Review (NSR) construction permitting requirements. EPA has indicated that this information request is part of an EPA national initiative focused on the U.S. carbon black manufacturing sector. Cabot responded to EPA s information request in August 2009 and is in discussions with EPA. Based upon those discussions, it is anticipated that Cabot will invest significant funds for capital improvements to install technology controls at certain U.S. facilities over a number of years, and pay a civil penalty to EPA to resolve the matter, which penalty has been reserved for in our financial statements. It is expected that other carbon black manufacturers will also be required to install technology controls at their U.S. facilities in connection with this initiative and are also likely to pay a civil penalty.

In an unrelated EPA matter, in June 2012, the activated carbon facility in Marshall, Texas that Cabot acquired in its acquisition of Norit received an information request from EPA. That request focuses on historic compliance with Clean Air Act permitting and regulatory requirements, including NSR requirements. Cabot is in the process of responding to that request. It is unknown at this time what prompted this request for information and how this matter will be resolved.

Cabot is one of fourteen companies, collectively the Ashtabula River Cooperating Group II (ARCG II), which participated in the remediation of the Ashtabula River in Ohio. Our liability at this site is associated with the former Cabot Titania business, which operated two manufacturing facilities in Ashtabula in the 1960s and early 1970s. In addition to the dredging and environmental restoration of the Ashtabula River, which was completed in 2009, the ARCG II also concluded a settlement with the Ashtabula River Natural Resource Trustees for alleged natural resource damages to the river. The Consent Decree memorializing this settlement was formally approved by the court in July 2012.

In 1986, Cabot sold a beryllium manufacturing facility in Reading, Pennsylvania to NGK Metals, Inc. (NGK). In doing so, we agreed to share with NGK the costs of certain environmental remediation of the Reading plant site. After the sale, the EPA issued an order to NGK pursuant to the Resource Conservation and Recovery Act (RCRA) requiring NGK to address soil and groundwater contamination at the site. Soil remediation at the site has been completed and the groundwater remediation activities are ongoing pursuant to the RCRA order. We are contributing to the costs of the groundwater remediation activities pursuant to the cost-sharing agreement with NGK. Cabot and NGK are also pursuing various legal claims against the United States for cost recovery and participation in future remediation activities based on the United States previous involvement at the site and contractual arrangements, beginning in World War II and continuing thereafter.

Cabot continues to perform certain sampling and remediation activities at a former pine tar manufacturing site in Gainesville, Florida that Cabot sold in the 1960s. Those activities are pursuant to a formal Record of Decision and 1991 Consent Decree with EPA. Cabot installed a groundwater treatment system at the site in the early 1990s, and that system is still in operation. Cabot has also been requested by EPA and other stakeholders to carry out various other additional work at the site. Cabot continues to work cooperatively with EPA, the Florida Department of Environmental Protection and the local authorities on this matter.

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As of September 30, 2012, we had a $7 million reserve on both a discounted and undiscounted basis for environmental remediation costs at various sites. The operation and maintenance component of this reserve was $3 million on both a discounted and undiscounted basis. The $7 million reserve represents our current best estimate of costs likely to be incurred for remediation based on our analysis of the extent of cleanup required, alternative cleanup methods available, abilities of other responsible parties to contribute and our interpretation of laws and regulations applicable to each of our sites.

Other Proceedings

Respirator Liabilities

We have exposure in connection with a safety respiratory products business that a subsidiary acquired from American Optical Corporation (AO) in an April 1990 asset purchase transaction. The subsidiary manufactured respirators under the AO brand and disposed of that business in July 1995. In connection with its acquisition of the business, the subsidiary agreed, in certain circumstances, to assume a portion of AO s liabilities, including costs of legal fees together with amounts paid in settlements and judgments, allocable to AO respiratory products used prior to the 1990 purchase by the Cabot subsidiary. In exchange for the subsidiary s assumption of certain of AO s respirator liabilities, AO agreed to provide to the subsidiary the benefits of: (i) AO s insurance coverage for the period prior to the 1990 acquisition and (ii) a former owner s indemnity of AO holding it harmless from any liability allocable to AO respiratory products used prior to May 1982.

Generally, these respirator liabilities involve claims for personal injury, including asbestosis, silicosis and coal worker s pneumoconiosis, allegedly resulting from the use of respirators that are claimed to have been negligently designed or labeled. Neither Cabot, nor its past or present subsidiaries, at any time manufactured asbestos or asbestos-containing products. At no time did this respiratory product line represent a significant portion of the respirator market.

The subsidiary transferred the business to Aearo Corporation (Aearo) in July 1995. Cabot agreed to have the subsidiary retain certain liabilities associated with exposure to asbestos and silica while using respirators prior to the 1995 transaction so long as Aearo paid, and continues to pay, Cabot an annual fee of $400,000. Aearo can discontinue payment of the fee at any time, in which case it will assume the responsibility for and indemnify Cabot against those liabilities which Cabot s subsidiary had agreed to retain. We anticipate that we will continue to receive payment of the $400,000 fee from Aearo and thereby retain these liabilities for the foreseeable future. We have no liability in connection with any products manufactured by Aearo after 1995.

In addition to Cabot s subsidiary and as described above, other parties are responsible for significant portions of the costs of respirator liabilities, leaving Cabot s subsidiary with a portion of the liability in only some of the pending cases. These parties include Aearo, AO, AO s insurers, and another former owner and its insurers (collectively, with the Company s subsidiary, the Payor Group).

As of both September 30, 2012 and 2011, there were approximately 42,000 claimants in pending cases asserting claims against AO in connection with respiratory products. Cabot has contributed to the Payor Group s defense and settlement costs with respect to a percentage of pending claims depending on several factors, including the period of alleged product use. In order to quantify our estimated share of liability for pending and future respirator liability claims, we have engaged, through counsel, the assistance of Hamilton, Rabinovitz & Alschuler, Inc. (HR&A), a leading consulting firm in the field of tort liability valuation. The methodology used by HR&A addresses the complexities surrounding our potential liability by making assumptions about future claimants with respect to periods of asbestos, silica and coal mine dust exposure and respirator use. Using those and other assumptions, HR&A estimates the number of future asbestos, silica and coal mine dust claims that will be filed and the related costs that would be incurred in resolving both currently pending and future claims. On this basis, HR&A then estimates the net present value of the share of these liabilities that reflect our period of direct manufacture and our contractual obligations. Based on the HR&A estimates, we have recorded on a discounted basis a $13 million reserve ($17 million on an undiscounted basis) to cover our estimated share of liability for pending and future respirator claims. We made payments related to our respirator liability of $2 million in fiscal 2012, $5 million in fiscal 2011 and $2 million in fiscal 2010.

Our current estimate of the cost of our share of existing and future respirator liability claims is based on facts and circumstances existing at this time. Developments that could affect our estimate include, but are not limited to, (i) significant changes in the number of future claims, (ii) changes in the rate of dismissals without payment of pending silica and non-malignant asbestos claims, (iii) significant changes in the average cost of resolving claims, (iv) significant changes in the legal costs of defending these claims, (v) changes in the nature of claims received, (vi) changes in the law and procedure applicable to these claims, (vii) the financial viability of members of the Payor Group, (viii) a change in the availability of AO s insurance coverage or the indemnity provided by AO s former owner, (ix) changes in the allocation of costs among the Payor Group, and (x) a determination that the assumptions used to estimate our share of liability are inaccurate. We cannot determine the impact of these potential developments on our current estimate of our share of liability for these existing and future claims. Accordingly, the actual amount of these liabilities for existing and future claims could be different than the reserved amount. Further, if the timing of our actual payments made for respirator claims differs significantly from our estimated payment schedule, and we determine that we can no longer reasonably predict the timing of such payments, we could then be required to record the reserve amount on an undiscounted basis on our Consolidated Balance Sheets, causing an immediate impact to earnings.

Other Matters

We have various other lawsuits, claims and contingent liabilities arising in the ordinary course of our business. These include a number of claims asserting premises liability for asbestos exposure and claims in respect of our divested businesses. In our opinion, although final disposition of some or all of these other suits and claims may impact our financial statements in a particular period, they should not, in the aggregate, have a material adverse effect on our financial position.

Item 4. ***Mine Safety Disclosures***

Not applicable.

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Executive Officers of the Registrant

Set forth below is certain information about Cabot s executive officers. Ages are as of November 29, 2012.

Patrick M. Prevost, age 57, is President and Chief Executive Officer and a member of Cabot s Board of Directors, positions he has held since joining Cabot in January 2008. Prior to joining Cabot, since October 2005, Mr. Prevost served as President, Performance Chemicals, of BASF AG, an international chemical company. Prior to that, he was responsible for BASF Corporation s Chemicals and Plastics business in North America. Prior to joining BASF in 2003, he held senior management positions at BP and Amoco.

Eduardo E. Cordeiro, age 45, is Executive Vice President and Chief Financial Officer. Mr. Cordeiro joined Cabot in 1998 as Manager of Corporate Planning and served in that position until January 2000. Mr. Cordeiro was Director of Finance and Investor Relations from January 2000 to March 2002, Corporate Controller from March 2002 to July 2003, General Manager of the Fumed Metal Oxides Business from July 2003 to January 2005, General Manager of the Supermetals Business from January 2005 to May 2008, and responsible for Corporate Strategy from May 2008 until February 2009, when he became Cabot s Chief Financial Officer. Mr. Cordeiro also co-managed Cabot Superior MicroPowders from November 2004 to May 2008. Mr. Cordeiro was appointed Vice President in March 2003 and Executive Vice President in March 2009.

David A. Miller, age 53, is Executive Vice President and President of Reinforcement Materials and of the Americas region. Prior to joining Cabot in September 2009, Mr. Miller held a variety of management positions in BP s chemical business in North America, Europe and Asia, including as President, Aromatics Asia, Europe and Middle East from January 2007 to July 2009, President, Global Purified Terephthalic Acid from October 2005 to January 2007, and Senior Vice President, Olefins and Derivatives China & Asia Operations (Innovene division) from January 2004 to October 2005.

Brian A. Berube, age 50, is Senior Vice President and General Counsel. Mr. Berube joined Cabot in 1994 as an attorney in Cabot s law department and became Deputy General Counsel in June 2001. Mr. Berube was appointed Vice President in March 2002 and Senior Vice President in March 2012. Mr. Berube has been General Counsel since March 2003.

Sean D. Keohane, age 45, is Senior Vice President and President of Performance Materials. Mr. Keohane joined Cabot in August 2002 as Global Marketing Director. Mr. Keohane was General Manager of the Specialty Carbons and Compounds Business from October 2003 until May 2008, when he was named General Manager of Performance Materials. He was appointed Vice President in March 2005, and Senior Vice President in March 2012. Before joining Cabot, Mr. Keohane worked for Pratt & Whitney, a division of United Technologies, in a variety of leadership positions.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Cabot s common stock is listed for trading (symbol CBT) on the New York Stock Exchange. As of November 16, 2012, there were 954 holders of record of Cabot s common stock. The tables below show the high and low sales price for Cabot s common stock for each of the fiscal quarters ended December 31, March 31, June 30, and September 30 and the quarterly cash dividend paid on Cabot s common stock for the past two fiscal years.

Stock Price and Dividend Data

	Quarters Ended			
	December 31	**March 31**	**June 30**	**September 30**
Fiscal 2012				
Cash dividends per share	$ 0.18	$ 0.18	$ 0.20	$ 0.20
Price range of common stock:				
High	$ 34.35	$ 43.76	$ 44.97	$ 41.75
Low	$ 22.45	$ 31.70	$ 35.11	$ 33.90
Fiscal 2011				
Cash dividends per share	$ 0.18	$ 0.18	$ 0.18	$ 0.18
Price range of common stock:				
High	$ 38.89	$ 47.11	$ 48.77	$ 43.42
Low	$ 32.19	$ 38.03	$ 36.92	$ 23.75

Issuer Purchases of Equity Securities

The table below sets forth information regarding Cabot s purchases of its equity securities during the quarter ended September 30, 2012:

Period	Total Number of Shares Purchased[(1)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(1)]	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs[(1)]
July 1, 2012 July 31, 2012	768	$ 39.60		1,636,906
August 1, 2012 August 31, 2012		$		1,636,906
September 1, 2012 September 30, 2012		$		1,636,906
Total	768			

(1) On May 11, 2007, we publicly announced that the Board of Directors authorized us to repurchase five million shares of our common stock on the open market or in privately negotiated transactions. On September 14, 2007, the Board of Directors increased the share repurchase authorization to 10 million shares (the 2007 Authorization). This authorization does not have a set expiration date. In the fourth quarter of 2012 we did not repurchase shares under this authorization.

In addition to the 2007 Authorization, in certain circumstances the Board has authorized us to repurchase shares of restricted stock purchased by recipients of certain long-term incentive awards after such shares vest to satisfy tax withholding obligations and associated loan repayment liabilities. The shares are repurchased from employees at fair market value. During the fourth quarter of fiscal 2012, we repurchased 768 shares from employees under this authorization.

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Item 6. ***Selected Financial Data***

On July 31, 2012, Cabot completed the purchase of Norit NV. The operating results and ratios presented below for fiscal 2012 include two months of results of Norit NV. The September 30, 2012 balance sheet items presented below include those of Norit N.V.

On January 20, 2012, the Company completed the sale of its Supermetals Business. The results of its operations for all periods presented are reflected as discontinued operations in the Consolidated Statements of Operations.

	Years Ended September 30				
	2012	2011	2010	2009	2008
	(Dollars in millions, except per share amounts and ratios)				
Consolidated Net Income (Loss)					
Net sales and other operating revenues	$ 3,300	$ 3,102	$ 2,716	$ 2,108	$ 3,001
Gross profit	648	558	510	217	459
Selling and administrative expenses	285	249	241	205	238
Research and technical expenses	73	66	65	66	68
Income (loss) from operations[1]	290	243	204	(54)	153
Net interest expense and other charges[2]	(45)	(40)	(38)	(45)	(52)
Income (loss) from continuing operations	245	203	166	(99)	101
(Provision) benefit for income taxes[3]	(55)	(6)	(30)	21	(10)
Equity in earnings of affiliated companies	11	8	7	5	8
Income (loss) from discontinued operations, net of tax	205	53	26	(2)	7
Net income (loss)	406	258	169	(75)	106
Net income attributable to noncontrolling interests, net of tax	18	22	15	2	20
Net income (loss) attributable to Cabot Corporation	$ 388	$ 236	$ 154	$ (77)	$ 86
Common Share Data					
Diluted net income (loss) attributable to Cabot Corporation:					
Income (loss) from continuing operations	$ 2.83	$ 2.77	$ 1.94	$ (1.21)	$ 1.21
Income (loss) from discontinued operations	3.16	0.80	0.41	(0.04)	0.11
Net income (loss) attributable to Cabot Corporation	$ 5.99	$ 3.57	$ 2.35	$ (1.25)	$ 1.32
Dividends	$ 0.76	$ 0.72	$ 0.72	$ 0.72	$ 0.72
Closing prices	$ 36.57	$ 24.78	$ 32.57	$ 23.11	$ 31.78
Weighted-average diluted shares outstanding millions[4]	64.2	65.4	64.3	62.8	62.8
Shares outstanding at year end millions	63.3	63.9	65.4	65.3	65.3
Consolidated Financial Position					
Current assets	$ 1,443	$ 1,555	$ 1,438	$ 1,200	$ 1,408
Net property, plant, and equipment	1,552	1,036	937	972	1,035
Other assets	1,404	550	511	504	415
Total assets	$ 4,399	$ 3,141	$ 2,886	$ 2,676	$ 2,858
Current liabilities	$ 919	$ 656	$ 539	$ 477	$ 601
Long-term debt	1,172	556	600	623	586
Other long-term liabilities	369	313	330	339	312
Cabot Corporation stockholders equity	1,813	1,487	1,302	1,134	1,249

Noncontrolling interests	126	129	115	103	110
Total liabilities and stockholders equity	$ 4,399	$ 3,141	$ 2,886	$ 2,676	$ 2,858
Working capital(5)	$ 524	$ 899	$ 899	$ 723	$ 807
Selected Financial Ratios					
Adjusted return on invested capital(6)	12%	16%	14%	2%	8%
Net debt to capitalization ratio(7)	40%	20%	16%	22%	30%

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(1) Income (loss) from operations includes certain items as presented in the table below:

	Years Ended September 30				
	2012	2011	2010	2009	2008
			(Dollars in millions)		
Global restructuring activities	$ (17)	$ (18)	$ (46)	$ (87)	$ (5)
Environmental and legal reserves	(4)	(1)	(3)		(3)
Reserve for respirator claims	(4)		(2)		2
Acquisition related charges	(26)				
Long-lived asset impairment			(2)		
Debt issuance costs					(2)
Write-down of impaired investments				(1)	
Executive transition costs				(4)	(4)
Certain items, pre-tax	$ (51)	$ (19)	$ (53)	$ (92)	$ (12)

(2) Net interest expense and other charges for fiscal 2012, 2011, 2009 and 2008 include foreign currency losses of $2 million, $6 million, $15 million and $14 million, respectively. Net interest expense and other charges for fiscal 2010 includes foreign currency gains of less than $1 million.

(3) The Company s tax rate for fiscal 2012 was a provision of 22% which includes net discrete tax benefits of $8 million from the release of a valuation allowance and $3 million from settlements and miscellaneous tax items. The Company s tax rate for fiscal 2011 was a provision of 3% which includes net tax benefits of $24 million from the repatriation of high taxed income, $10 million from the settlements of various tax audits, $2 million from the renewal of the U.S. research and experimentation (R&E) credit and $2 million for investment incentive tax credits recognized in China. The Company s tax rate for fiscal 2010 was a provision of 18% which includes net tax benefits of $15 million from the settlements of various tax audits and $2 million for investment incentive tax credits. The Company s tax rate for fiscal 2009 was a benefit of 21%, which includes $12 million of net tax benefits resulting from settlements of various tax audits and tax credits during the year. The Company s tax rate for fiscal 2008 was a provision of 10%, which includes approximately $11 million of net tax benefits resulting from settlements of various tax audits and tax credits during the year.

(4) The weighted-average diluted shares outstanding for fiscal 2009 exclude approximately 4 million shares as those shares would have had an antidilutive effect due to the Company s net loss position.

(5) Working capital is total current assets less total current liabilities.

(6) Adjusted return on invested capital (Adjusted ROIC) is a non-GAAP financial measure that management believes is useful to investors as a measure of performance and the effectiveness of our use of capital. We use Adjusted ROIC as one measure to monitor and evaluate performance. ROIC is not a measure of financial performance under GAAP and may not be defined and calculated by other companies in the same manner. Adjusted ROIC, which excludes items that management considers to be unusual and not representative of the Company s segment results, is calculated as follows.

Numerator (four quarter rolling):

Net income (loss) attributable to Cabot Corporation

Less the after-tax impact of:

Noncontrolling interest in net income

Interest expense

Interest income

Certain items

Denominator:

Previous four quarter average invested capital calculated as follows:

Total Cabot Corporation stockholders equity

Plus: Noncontrolling interests equity

Long-term debt

Current portion of long-term debt

Notes payable to banks

Less: Cash and cash equivalents

Less the four quarter rolling impact of after tax certain items.

(7) Net debt to capitalization ratio is calculated by dividing total debt (the sum of short-term and long-term debt less cash and cash equivalents) by total capitalization (the sum of Total stockholder s equity plus total debt).

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***
Critical Accounting Policies

The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent assets and liabilities. We consider an accounting estimate to be critical to the financial statements if (i) the estimate is complex in nature or requires a high degree of judgment and (ii) different estimates and assumptions were used, the results could have a material impact on the consolidated financial statements. On an ongoing basis, we evaluate our estimates and application of our policies. We base our estimates on historical experience, current conditions and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The policies that we believe are critical to the preparation of the Consolidated Financial Statements are presented below.

Revenue Recognition and Accounts and Notes Receivable

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured. We generally are able to ensure that products meet customer specifications prior to shipment. If we are unable to determine that the product has met the specified objective criteria prior to shipment or if title has not transferred because of shipping terms, the revenue is considered unearned and is deferred until the revenue recognition criteria are met.

Shipping and handling charges related to sales transactions are recorded as sales revenue when billed to customers or included in the sales price.

The following table shows the relative size of the revenue recognized in each of our reportable segments.

	Years ended September 30		
	2012	**2011**	**2010**
Reinforcement Materials	63%	65%	63%
Performance Materials	28%	29%	30%
Advanced Technologies	7%	6%	7%
Purification Solutions[(1)]	2%	N/A	N/A

(1) Consists of two months of revenues for Norit, which we acquired on July 31, 2012.

We derive the substantial majority of revenues from the sale of products in Reinforcement Materials and Performance Materials. Revenue from these products is typically recognized when the product is shipped and title and risk of loss have passed to the customer. We offer certain customers cash discounts and volume rebates as sales incentives. The discounts and volume rebates are recorded as a reduction in sales at the time revenue is recognized and are estimated based on historical experience and contractual obligations. We periodically review the assumptions underlying the estimates of discounts and volume rebates and adjust revenues accordingly.

Revenue in Advanced Technologies, excluding the Specialty Fluids Business, is typically recognized when the product is shipped and title and risk of loss have passed to the customer. Depending on the nature of the contract with the customer, a portion of the revenue may be recognized using proportional performance.

A significant portion of the revenue in the Specialty Fluids Business, included in Advanced Technologies, arises from the rental of cesium formate. This revenue is recognized throughout the rental period based on the contracted rental terms. Customers are also billed and revenue is recognized, typically at the end of the job, for cesium formate product that is not returned. We also generate revenues from cesium formate sold outside of a rental process and revenue is recognized upon delivery of the fluid.

Revenue in Purification Solutions is typically recognized when the product is shipped and title and risk of loss have passed to the customer. For major activated carbon injection systems projects, revenue is recognized using the percentage-of-completion method.

We maintain allowances for doubtful accounts based on an assessment of the collectibility of specific customer accounts, the aging of accounts receivable and other economic information on both a historical and prospective basis. Customer account balances are charged against the allowance when it is probable the receivable will not be recovered. Changes in the allowance during fiscal 2012, 2011 and 2010 were not material. There is no off-balance sheet credit exposure related to customer receivable balances.

Inventory Valuation

The cost of all carbon black inventories in the U.S. is determined using the last-in, first-out (LIFO) method. Total U.S. inventories utilizing this cost flow assumption was $26 million at September 30, 2012 and $32 million at September 30, 2011. These inventories represent 5% and 8% of total worldwide inventories at the respective year-ends. Had we used the first-in, first-out (FIFO) method instead of the LIFO method for such inventories, the value of those inventories would have been $52 million and $53 million higher as of September 30, 2012 and 2011, respectively. The cost of Specialty Fluids inventories is determined using the average cost method. The cost of other U.S. and all non-U.S. inventories is determined using the FIFO method. In periods of rapidly rising or declining raw material costs, the inventory method we employ can have a significant impact on our profitability. Under our current LIFO method, when raw material costs are rising, our most recent higher priced purchases are the first to be charged to cost of sales. If, however, we were using a FIFO method, our purchases from earlier periods, which were at lower prices, would instead be the first charged to cost of sales. The opposite result could occur during a period of rapid decline in raw material costs.

At certain times, we may decrease inventory levels to the point where layers of inventory recorded under the LIFO method that were purchased in preceding years are liquidated. The inventory in these layers may be valued at an amount that is different than our current costs. If there is a liquidation of an inventory layer, there may be an impact to our cost of sales and net income for that period. If the liquidated inventory is at a cost lower than our current cost, there would be a reduction in our cost of sales and an increase to our net income during the period. Conversely, if the liquidated inventory is at a cost higher than our current cost, there will be an increase in our cost of sales and a reduction to our net income during the period.

During fiscal 2012, inventory quantities carried on a LIFO basis were reduced, leading to liquidations of LIFO inventory quantities. These LIFO layer liquidations resulted in a decrease of cost of goods sold of $1 million and an increase in consolidated net income of $1 million ($0.01 per diluted common share) for fiscal 2012. No such reductions occurred in either fiscal 2011 or 2010.

We review inventory for both potential obsolescence and potential loss of value periodically. In this review, we make assumptions about the future demand for and market value of the inventory and based on these assumptions estimate the amount of any obsolete, unmarketable or slow moving inventory. We write down the value of our inventories by an amount equal to the difference between the cost of inventory and the estimated market value. Historically, such write-downs have not been significant. If actual market conditions are less favorable than those projected by management at the time of the assessment, however, additional inventory write-downs may be required, which could reduce our gross profit and our earnings.

Stock-based Compensation

We have issued restricted stock, restricted stock units, and stock options under our equity compensation plans. The fair value of restricted stock and restricted stock units is the closing price of our stock on the day of the grant. The fair value is recognized as expense over the service period, which generally represents the vesting period. The vesting of certain restricted stock units is dependent on certain performance-based criteria. We evaluate the likelihood of achievement of such performance objectives each quarter and record stock-based compensation based on this assessment. There are no other significant estimates involved in recording compensation costs for restricted stock units with the exception of estimates we make around the probability of forfeitures. Changes in the forfeiture assumptions could impact our earnings but would not impact our cash flows.

We use the Black-Scholes option pricing model to calculate the fair value of stock options issued under our equity compensation plans. In determining the fair value of stock options, we make a variety of assumptions and estimates, including discount rates, volatility measures, expected dividends and expected option lives. Changes to such assumptions and estimates can result in different fair values and could therefore impact our earnings. Such changes would not impact our cash flows.

Goodwill and Long-Lived Assets

Goodwill is comprised of the purchase price of business acquisitions in excess of the fair value assigned to the net tangible and identifiable intangible assets acquired. We use assumptions and estimates in determining the fair value of assets acquired and liabilities assumed in a business combination. The determination of the fair value of intangible assets requires the use of significant judgment with regard to (i) assumptions used in the determination of fair value; and (ii) determination of their useful lives. We estimate the fair value of identifiable acquisition-related intangible assets principally based on projections of cash flows that will arise from these assets. The projected cash flows are discounted to determine the present value of the assets at the date of acquisition. We review definite-lived intangible assets for impairment when indication of potential impairment exists, such as a significant reduction in cash flows associated with the assets. Actual cash flows arising from a particular intangible asset could vary from projected cash flows which could imply different carrying values from those established at the date of acquisition and which could result in impairment of such asset. We evaluate indefinite-lived intangible assets for impairment annually and when events occur or circumstances change that may reduce the fair value of the asset below its carrying amount.

Goodwill is not amortized but is reviewed for impairment annually, or when events or changes in the business environment indicate that the carrying value of the reporting unit may exceed its fair value. During fiscal 2012, we adopted the authoritative guidance that simplifies how entities test goodwill for impairment and permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value amount and as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Alternatively, we may elect to proceed directly to the two-step goodwill impairment test. If an initial qualitative assessment identifies that it is more likely than not that the carrying value of a reporting unit exceeds its estimated fair value, additional quantitative evaluation is performed under the two-step impairment test. If based on the quantitative evaluation the fair value of the reporting unit is less than its carrying amount, we perform an analysis of the fair value of all assets and liabilities of the reporting unit. If the implied fair value of the reporting unit s goodwill is determined to be less than its carrying amount, an impairment is recognized for the difference.

We primarily utilize a discounted cash flow method to calculate the fair value of our reporting units. The assumptions used to estimate the discounted cash flows are based on our best estimates of future growth rates, operating cash flows, capital expenditures, discount rates and market conditions over an estimate of the remaining operating period at the reporting unit level. The discount rate is based on the weighted average cost of capital that is determined by evaluating the risk free rate of return, cost of debt, and expected equity premiums.

As of September 30, 2012, our goodwill balance is allocated among four reportable segments: Purification Solutions, $439 million, Reinforcement Materials, $28 million, Performance Materials, $11 million, and Advanced Technologies, $2 million. The goodwill allocated to Purification Solutions is based on preliminary estimates of the fair value of assets acquired and liabilities assumed from the acquisition of Norit on July 31, 2012 as the Company is continuing to obtain information to complete its valuation of these accounts and the associated tax accounting. We performed our annual impairment assessment as of March 31, 2012 and determined that there was no impairment. During fiscal 2012, we changed our annual goodwill impairment testing date from March 31 to May 31. We performed an impairment assessment as of May 31, 2012 and consistent with the March 31, 2012 assessment, concluded that there was no impairment. See Note G of the Consolidated Financial Statements for further information. There has been no goodwill impairment charge during any of the periods presented in these consolidated financial statements.

Our long-lived assets primarily include property, plant and equipment, long-term investments, assets held for rent and sale and intangible assets. We review the carrying values of long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be recoverable. Such circumstances would include, but are not limited to, a significant decrease in the market price of the long-lived asset, a significant adverse change in the way the asset is being used, a decline in the physical condition of the asset or a history of operating or cash flow losses associated with the use of the asset. In the recent past, impairments have generally been recognized when we determine that we will restructure certain operations.

To test for impairment of assets we generally use a probability-weighted estimate of the future undiscounted net cash flows of the assets or asset grouping over the remaining life of the asset to determine if the asset is recoverable. If we determine that the asset is not recoverable, we determine if there is a potential impairment loss by calculating the fair value of the asset using a probability-weighted discounted estimate of future cash flows. The discount rate is based on the weighted average cost of capital that is determined by evaluating the risk free rate of return, cost of debt, and expected equity premiums. To the extent the carrying value exceeds the fair value of the asset or asset group, an impairment loss is recognized in the statement of operations in that period.

Financial Instruments

Our financial instruments consist primarily of cash and cash equivalents, accounts and notes receivables, investments, notes receivable from the sale of a business, accounts payable and accrued liabilities, short-term and long-term debt, and derivative instruments. The carrying values of our financial instruments approximate fair value with the exception of our long-term debt that has not been designated as part of a fair value hedge. The non-hedged long-term debt is recorded at amortized cost. The fair values of our financial instruments are based on quoted market prices, if such prices are available. In situations where quoted market prices are not available, we rely on valuation models to derive fair value. For interest rate swaps and cross currency swaps, we use standard models with market-based inputs. The significant inputs to these models are interest rate curves for discounting future cash flows. In determining the fair value of the commodity derivatives, the significant inputs to valuation models are quoted market prices of similar instruments in active markets. Such valuation takes into account the ability of the financial counterparty to perform.

We use derivative financial instruments primarily for purposes of hedging exposures to fluctuations in interest rates and foreign currency exchange rates, which exist as part of our on-going business operations. We do not enter into derivative contracts for speculative purposes, nor do we hold or issue any financial instruments for trading purposes. All derivatives are recognized on our Consolidated Balance Sheets at fair value. Where we have a legal right to offset derivative settlements under a master netting agreement with a counterparty, derivatives with that counterparty are presented on a net basis. The changes in the fair value of derivatives are recorded in either earnings or accumulated other comprehensive income, depending on whether or not the instrument is designated as part of a hedge transaction and, if designated as part of a hedge transaction, the type of hedge transaction. The gains or losses on derivative instruments reported in accumulated other comprehensive income are reclassified to earnings in the period in which earnings are affected by the underlying hedged item. The ineffective portion of all hedges is recognized in earnings during the period in which the ineffectiveness occurs.

In accordance with our risk management strategy, we may enter into certain derivative instruments that may not be designated as hedges for accounting purposes. Although these derivatives are not designated as hedges, we believe that such instruments are closely correlated with the underlying exposure, thus managing the associated risk. We record in earnings the gains or losses from changes in the fair value of derivative instruments that are not designated as hedges. Cash movements associated with these instruments are presented in the Consolidated Statements of Cash Flows as Cash Flows from Operating Activities because the derivatives are designed to mitigate risk to our cash flow from operations.

Assets and liabilities measured at fair value, including assets that are part of our defined benefit pension plans, are classified in the fair value hierarchy based on the inputs used for valuation. Assets that are actively traded on an exchange with a quoted price are classified as Level 1. Assets and liabilities that are valued based on quoted prices for similar assets or liabilities in active markets, or standard pricing models using observable inputs are classified as Level 2. As of September 30, 2012, we have no assets or liabilities carried at fair value that are valued using unobservable inputs and, therefore, no assets or liabilities that are classified as Level 3. The sensitivity of fair value estimates is immaterial relative to the assets and liabilities measured at fair value, as well as to our total equity, as of September 30, 2012.

Pensions and Other Postretirement Benefits

We maintain both defined benefit and defined contribution plans for our employees. In addition, we provide certain postretirement health care and life insurance benefits for our retired employees. Plan obligations and annual expense calculations are based on a number of key assumptions. The assumptions, which are specific for each of our U.S. and foreign plans, are related to both the assets we hold to fund our plans (where applicable) and the characteristics of the benefits that will ultimately be provided to our employees. The most significant assumptions relative to our plan assets include the anticipated rates of return on these assets. Assumptions relative to our pension obligations are more varied; they include estimated discount rates, rates of compensation increases for employees, mortality, employee turnover and other related demographic data. Projected health care and life insurance obligations also rely on the above mentioned demographic assumptions and assumptions surrounding health care cost trends. Actual results that differ from the assumptions are generally accumulated and amortized over future periods and could therefore affect the recognized expense and recorded obligation in such future periods. However, cash flow requirements may be different from the amounts of expense that are recorded in the consolidated financial statements. In fiscal 2012, we incurred curtailment and settlement gains and losses in the U.S. and foreign employee benefit plans as a result of the sale of the Supermetals Business and the freezing of two defined benefit plans in foreign affiliates.

Self-Insurance Reserves

We are partially self-insured for certain third-party liabilities globally, as well as workers compensation and employee medical benefits in the United States. The third-party and workers compensation liabilities are managed through a wholly-owned insurance captive and the related liabilities are included in the consolidated financial statements. The employee medical obligations are managed by a third-party provider and the related liabilities are included in the consolidated financial statements. To limit our potential liabilities for these risks in the U.S., however, we purchase insurance from third-parties that provides individual and aggregate stop loss protection. The aggregate self-insured liability in fiscal 2012 for combined U.S. third party liabilities and U.S. workers compensation is $5 million, and the retention for medical costs in the United States is at most $200,000 per person per annum. We have accrued amounts equal to the actuarially determined future liabilities. We determine the actuarial assumptions in collaboration with third-party actuaries, based on historical information along with certain assumptions about future events. Changes in assumptions for such matters as legal actions, medical costs and changes in actual experience could cause these estimates to change and impact our earnings and cash flows.

Asset Retirement Obligations

We account for asset retirement obligations by estimating incremental costs for special handling, removal and disposal costs of materials that may or will give rise to conditional asset retirement obligations

(AROs) and then discount the expected costs back to the current year using a credit adjusted risk-free rate. ARO liabilities and costs are recognized when the timing and/or settlement can be reasonably estimated. If it is unclear when, or if, an ARO will be triggered, we use probability weightings for possible timing scenarios to determine the amounts that should be recognized in our financial statements.

The estimation of AROs is subject to a number of inherent uncertainties including: (a) the timing of when any ARO may be incurred, (b) the ability to accurately identify and reasonably estimate the costs of all materials that may require special handling or treatment, (c) the ability to assess the relative probability of different scenarios that could give rise to an ARO, and (d) other factors outside our control, including changes in regulations, costs and interest rates.

AROs have not been recognized for certain of our facilities because either the present value of the obligation cannot be reasonably estimated due to an indeterminable facility life or we do not have a legal obligation associated with the retirement of those facilities. In most circumstances where AROs have been recorded, the anticipated cash outflows will likely take place far into the future. Accordingly, actual costs and the timing of such costs may vary significantly from our estimates, which may, in turn, impact our earnings. In general, however, when such estimates change, the impact is spread over future years and thus the impact on any individual year is unlikely to be material.

Litigation and Contingencies

We are involved in litigation in the ordinary course of business, including personal injury and environmental litigation. After consultation with counsel, as appropriate, we accrue a liability for litigation when it is probable that a liability has been incurred and the amount can be reasonably estimated. The estimated reserves are recorded based on our best estimate of the liability associated with such matters or the low end of the estimated range of liability if we are unable to identify a better estimate within that range. Our best estimate is determined through the evaluation of various information, including claims, settlement offers, demands by government agencies, estimates performed by independent third parties, identification of other responsible parties and an assessment of their ability to contribute, and our prior experience. Litigation is highly uncertain and there is always the possibility of an unusual result in any particular case that may reduce our earnings and cash flows.

The most significant reserves that we have established are for environmental remediation and respirator litigation claims. The amount accrued for environmental matters reflects our assumptions about remediation requirements at the contaminated sites, the nature of the remedies, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number and financial viability of other potentially responsible parties. A portion of the reserve for environmental matters is recognized on a discounted basis, which requires the use of an estimated discount rate and estimates of future cash flows associated with the liability. These liabilities can be affected by the availability of new information, changes in the assumptions on which the accruals are based, unanticipated government enforcement action or changes in applicable government laws and regulations, which could result in higher or lower costs.

Our current estimate of the cost of our share of existing and future respirator liability claims is based on facts and circumstances existing at this time and the amount accrued is recognized on a discounted basis. Developments that could affect our estimate include, but are not limited to, (i) significant changes in the number of future claims, (ii) changes in the rate of dismissals without payment of pending silica and non-malignant asbestos claims, (iii) significant changes in the average cost of resolving claims, (iv) significant changes in the legal costs of defending these claims, (v) changes in the nature of claims received, (vi) changes in the law and procedure applicable to these claims, (vii) the financial viability of other parties which contribute to the settlement of respirator claims, (viii) a change in the availability of insurance coverage maintained by the entity from which we acquired the safety respirators products business or the indemnity provided by its former owner, (ix) changes in the allocation of costs among the various parties paying legal and settlement costs, and (x) a determination that the assumptions used to estimate our share of liability are inaccurate. We cannot determine the impact of these potential developments on our current estimate of our share of liability for these existing and future claims. Accordingly, the actual amount of these liabilities for existing and future claims could be different than the reserved amount. Further, if the timing of our actual payments made for respirator claims differs significantly from our estimated payment schedule, and we determine that we can no longer reasonably predict the timing of such payments, we could then be required to record the reserve amount on an undiscounted basis on our Consolidated Balance Sheets, causing an immediate impact to earnings.

Income Taxes

Our business operations are global in nature, and we are subject to taxes in numerous jurisdictions. Tax laws and tax rates vary substantially in these jurisdictions and are subject to change based on the political and economic climate in those countries. We file our tax returns in accordance with our interpretations of each jurisdiction s tax laws.

Significant judgment is required in determining our worldwide provision for income taxes and recording the related tax assets and liabilities. In the ordinary course of our business, there are operational decisions, transactions, facts and circumstances, and calculations which make the ultimate tax determination uncertain. Furthermore, our tax positions are periodically subject to challenge by taxing authorities throughout the world. We have recorded reserves for taxes and associated interest and penalties that may become payable in future years as a result of audits by tax authorities. Any significant impact as a result of changes in underlying facts, law, tax rates, tax audit, or review could lead to adjustments to our income tax expense, our effective tax rate, and/or our cash flow.

We record benefits for uncertain tax positions based on an assessment of whether the position is more likely than not to be sustained by the taxing authorities. If this threshold is not met, no tax benefit of the uncertain tax position is recognized. If the threshold is met, the tax benefit that is recognized is the largest amount that is greater than 50% likely of being realized upon ultimate settlement. This analysis presumes the taxing authorities full knowledge of the positions taken and all relevant facts, but does not consider the time value of money. We also accrue for interest and penalties on these uncertain tax positions and include such charges in the income tax provision in the Consolidated Statements of Operations.

Additionally, we have established valuation allowances against a variety of deferred tax assets, including net operating loss carry-forwards, foreign tax credits, and other income tax credits. Valuation allowances take into consideration our ability to use these deferred tax assets and reduce the value of such items to the amount that is deemed more likely than not to be recoverable. Our ability to utilize these deferred tax assets is dependent on achieving our forecast of future taxable operating income over an extended period of time. We review our forecast in relation to actual results and expected trends on a quarterly basis. Failure to achieve our operating income targets may change our assessment regarding the recoverability of our net deferred tax assets and such change could result in a valuation allowance being recorded against some or all of our net deferred tax assets. An increase in a valuation allowance would result in additional income tax expense, while a release of valuation allowances in periods when these tax attributes become realizable would reduce our income tax expense.

Highly Inflationary Environments

We monitor the currencies of countries in which we operate in order to determine if the country should be considered a highly inflationary environment. If and when a currency is determined to be highly inflationary (cumulative inflation of approximately 100 percent or more over a 3-year period), the functional currency of the affected operation would be changed to our reporting currency, the U.S. dollar. Due to cumulative inflation in Venezuela over a three-year period exceeding 100% as of January 1, 2010, the functional currency of our Venezuelan operating entity has changed to the U.S. dollar.

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Restructuring Activities

Our consolidated financial statements detail specific charges relating to restructuring activities as well as the actual spending that has occurred against the resulting accruals. Our restructuring charges are estimates based on our preliminary assessments of (i) severance and other employee benefits to be granted to employees, which are based on known benefit formulas and identified job grades, (ii) costs to vacate certain facilities and (iii) asset impairments. Because these accruals are estimates, they are subject to change as a result of subsequent information that may come to our attention while executing the restructuring plans. These changes in estimates would then be reflected in our consolidated financial statements.

Significant Accounting Policies

We have other significant accounting policies that are discussed in Note A of the Notes to our Consolidated Financial Statements in Item 8 below. Certain of these policies include the use of estimates, but do not meet the definition of critical because they generally do not require estimates or judgments that are as difficult or subjective to measure. However, these policies are important to an understanding of the consolidated financial statements.

Results of Operations

Definition of Terms and Non-GAAP Financial Measures

When discussing our results of operations, we use several terms as described below.

The term product mix refers to the various types and grades, or mix, of products sold in a particular business or segment during the period, and the positive or negative impact of that mix on the revenue or profitability of the business or segment.

The discussion under the heading Provision for income taxes includes a discussion of our operating tax rate . In calculating our operating tax rate, we exclude discrete tax items, which are unusual or infrequent items, and the impact of certain items on both operating income and the tax provision.

The term LIFO includes two factors: (i) the impact of current inventory costs being recognized immediately in cost of goods sold (COGS) under a last-in first-out method, compared to the older costs that would have been included in COGS under a first-in first-out method (COGS impact); and (ii) the impact of reductions in inventory quantities, causing historical inventory costs to flow through COGS (liquidation impact).

Total Segment EBIT is a non-GAAP performance measure, and should not be considered an alternative for Income from continuing operations before taxes, the most directly comparable GAAP financial measure. In calculating Total Segment EBIT, we make certain adjustments such as excluding certain items, meaning items that management does not consider representative of our fundamental segment results. Segment EBIT includes Equity in net income of affiliated companies, net of tax, the full operating results of a contractual joint venture in Purification Solutions, royalties paid by equity affiliates and Net income attributable to noncontrolling interests, net of tax, but exclude Interest expense, foreign currency transaction gains and losses, interest income, dividend income, unearned revenue, the effects of LIFO accounting for inventory, and unallocated general and corporate costs. Our Chief Operating Decision Maker uses Segment EBIT to evaluate the operating results of each segment and to allocate resources to the segments. We believe that this non-GAAP measure provides useful supplemental information for our investors as it is an important indicator of the Company s operational strength and performance. Investors should consider the limitations associated with this non-GAAP measure, including the potential lack of comparability of this measure from one company to another. A reconciliation of Total Segment EBIT to Income from continuing operations before income taxes and equity in net earnings of affiliate companies is provided in Note V.

After the sale of our Supermetals Business and acquisition of Norit, we made changes in the composition of our segments and renamed them with names that are more descriptive of the underlying businesses. With these changes, our four business segments are: Reinforcement Materials (formerly our Core Segment); Performance Materials (formerly our Performance Segment); Advanced Technologies (the combination of our former New Business and Specialty Fluids Segments); and Purification Solutions (the newly acquired Norit business). Cabot is also organized for operational purposes into three geographic regions: the Americas; Europe, Middle East and Africa; and Asia Pacific. Discussions of all periods reflect these structures.

Our analysis of financial condition and operating results should be read with our Consolidated Financial Statements and accompanying notes. Unless a calendar year is specified, all references to years in this discussion are to our fiscal years ended September 30.

Drivers of Demand and Key Factors Affecting Profitability

Drivers of demand and key factors affecting our profitability differ by Segment. In Reinforcement Materials, demand is influenced on a long term basis primarily by: i) the number of vehicle miles driven globally; ii) the number of original equipment and replacement tires produced; and iii) the number of automotive builds. Over the past several years, operating results have been driven by a number of factors, including: i) increases or decreases in sales volumes; ii) changes in raw material costs and our ability to obtain sales price increases for our products commensurate with increases in raw material costs; iii) changes in pricing and product mix; iv) global and regional capacity utilization; v) fixed cost savings achieved through restructuring and other cost saving activities; vi) the growth of our volumes and market position in emerging economies; and vii) capacity management and technology investments, including the impact of energy utilization and yield improvement technologies at our manufacturing facilities.

In Performance Materials, longer term demand is driven primarily by the construction and infrastructure, automotive, electronics and consumer products industries. In recent years, operating results in Performance Materials have been driven by: i) our volume growth in emerging markets; ii) our ability to deliver differentiated products that drive enhanced performance in customers applications; iii) our ability to obtain value pricing for this differentiation; and iv) the cost of new capacity.

In Advanced Technologies, drivers of demand are specific to the various businesses. In the Inkjet Colorants Business, demand has been driven by a relative increase of printer platforms using our pigments at both new and existing customers and the broader adoption of inkjet technology in office and commercial printing applications. Demand in the Aerogel Business has been driven by the adoption of aerogel products for oil and gas, daylighting, insulation for building and construction and specialty chemical applications. In the Security Materials Business, demand has been driven principally by the number of security taggant applications incorporating our unique and proprietary particles. In the Elastomer Composites Business, demand has been driven by the penetration of our unique compound of natural rubber and carbon black made in a patented liquid phase into applications for the tire, mining and defense industries. In our Specialty Fluids Business, demand for cesium formate is primarily driven by the level of drilling activity for high pressure oil and gas wells and by the petroleum industry s acceptance of our product as a drilling and completion fluid for this application. Operating results in Advanced Technologies have been influenced by: i) our ability to improve the pace of revenue generation; ii) our ability to select the highest value opportunities and work with lead users in the appropriate markets; iii) our ability to appropriately size the overall cost platform for the opportunities; iv) the timing of milestone payments in our Elastomer Composites Business; and v) the size, type and duration of drilling jobs in our Specialty Fluids Business.

In Purification Solutions, longer term demand is driven primarily by the demand for purification solutions for water, gas and air, pharmaceuticals, food and beverages, catalysts and other chemical applications. Operating results in Purification Solutions have been influenced by i) changes in pricing and product mix; ii) industry capacity utilization; iii) the amount of coal-based power generation utilized in the U.S.; and iv) growth of volume in the various applications previously noted.

Overview of Results for Fiscal 2012

During fiscal 2012, profitability increased compared to fiscal 2011 driven by higher unit margins that resulted from price increases and a favorable product mix. This improvement was partially offset by lower volumes and higher fixed costs due mainly to the startup of additional capacity and higher spending to support growth.

In fiscal 2012, we purchased all of the issued and outstanding shares of Norit N.V. (Norit) for a purchase price of $1.1 billion. The transaction was completed on July 31, 2012. Our results for the twelve month period ended September 30, 2012 includes two months of results of Norit, which are reported as Purification Solutions.

In addition, during fiscal 2012, we completed the sale of our Supermetals Business and received initial cash payments related to the sale of $204 million. Approximately $250 million of additional cash consideration is scheduled to be received by the end of the second quarter of fiscal 2014. Income from discontinued operations, net of tax of $205 million in fiscal 2012 includes the $191 million gain on the sale of the Supermetals Business. Operating results from the Supermetals Business are included in Income (loss) from discontinued operations, net of tax, for all periods presented on the Consolidated Statements of Operations.

Fiscal 2012 compared to Fiscal 2011 and Fiscal 2011 compared to Fiscal 2010 Consolidated

Net Sales and Gross Profit

	Years ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Net sales and other operating revenues	$ 3,300	$ 3,102	$ 2,716
Gross profit	$ 648	$ 558	$ 510

The $198 million increase in net sales from fiscal 2011 to fiscal 2012 was driven primarily by higher prices and a favorable product mix (combined $270 million) and the addition of two months of Purification Solutions sales (approximately $61 million) partially offset by lower volumes ($71 million) and the unfavorable effect of foreign currency translation ($56 million). The $386 million increase in net sales from fiscal 2010 to fiscal 2011 was due primarily to higher selling prices and a favorable product mix ($301 million) and the favorable effect of foreign currency translation ($97 million) partially offset by lower volumes ($8 million).

Gross profit increased by $90 million in fiscal 2012 when compared to fiscal 2011 and by $48 million in fiscal 2011 when compared to fiscal 2010. The increases in both periods were primarily due to higher unit margins driven by the implementation of strategic value pricing and product mix initiatives and benefits from the investments in energy centers and yield technology that more than offset higher raw material costs.

Selling and Administrative Expenses

	Years Ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Selling and administrative expenses	$ 285	$ 249	$ 241

Selling and administrative expenses increased by $36 million in fiscal 2012 when compared to fiscal 2011. The comparative increase is principally due to higher professional fees and other costs related to the acquisition and integration of Norit ($17 million), the inclusion of two months of Purification Solutions operating results ($5 million), additional environmental and legal reserves, including for respirator claims ($7 million) and spending to support growth across our businesses. Selling and administrative expenses increased by $8 million in fiscal 2011 when compared to fiscal 2010. The comparative increase is principally due to increased business and business development activity levels that were partially offset by lower restructuring related expenses.

Research and Technical Expenses

	Years Ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Research and technical expenses	$ 73	$ 66	$ 65

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Research and technical expenses increased $7 million in fiscal 2012 when compared to fiscal 2011 due to fees for a new technology licensing agreement ($3 million), the inclusion of two months of Purification Solutions operating results ($1 million) and higher spending to support business initiatives. Research and technical expenses were $1 million higher in fiscal 2011 when compared to fiscal 2010 as we maintained our investment in new product and process development opportunities across the businesses.

Interest and Dividend income

	Years Ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Interest and dividend income	$ 4	$ 2	$ 2

Interest and dividend income was $4 million in fiscal 2012 and $2 million in both fiscal 2011 and 2010. Interest and dividend income was $2 million higher in fiscal 2012 when compared to fiscal 2011 primarily due to interest income related to the notes receivable for the sale of the Supermetals Business.

Interest Expense

	Years Ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Interest expense	$ 46	$ 39	$ 40

Interest expense increased $7 million in fiscal 2012 as compared to fiscal 2011 due to a higher debt balance as a result of the financing for the Norit acquisition. Interest expense decreased by $1 million in fiscal 2011 when compared to fiscal 2010 driven by lower average debt levels in fiscal 2011 as compared to fiscal 2010.

Other Expense

	Years Ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Other expense	$ 3	$ 3	$

Other expense balances are driven by foreign currency movements, including gains or losses on foreign currency transactions and the remeasurement of our foreign currency denominated debt and related derivatives. Other expense in fiscal 2012 is consistent with fiscal 2011. The $3 million increase in expense from fiscal 2010 to fiscal 2011 was principally driven by an unfavorable comparison of foreign currency movements.

Provision for Income Taxes

	Years Ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Provision for income taxes	$ 55	$ 6	$ 30
Effective tax rate	22%	3%	18%
Operating tax rate	25%	22%	25%

The provision for income taxes was $55 million for fiscal 2012, resulting in an effective tax rate of 22%. This amount included net discrete tax benefits of $8 million from the release of a Cabot state tax valuation allowance as a result of the Norit acquisition and $3 million from settlements and miscellaneous tax items. The operating tax rate for fiscal 2012 was approximately 25%.

The provision for income taxes was $6 million for fiscal 2011, resulting in an effective tax rate of 3%. This amount included discrete tax benefits of $38 million comprised of: i) $24 million related to the repatriation of high tax income in response to changes in U.S. tax legislation; ii) $10 million from audit settlements; iii) $2 million from the recognition of investment tax credits in China; and iv) $2 million from the renewal of the U.S. research and experimentation (R&E) credit. The operating tax rate for fiscal 2011 was 22%.

The provision for income taxes was $30 million for fiscal 2010, resulting in an effective tax rate of 18%. This amount included discrete tax benefits of $15 million related to the settlement of various tax audits and $2 million for investment incentive credits earned, partially offset by a $1 million charge for miscellaneous adjustments. The operating tax rate for fiscal 2010 was 25%.

Our anticipated operating tax rate for fiscal 2013 is 25% to 26%. The IRS has not yet commenced the audit of our 2007 and later tax years and certain Cabot subsidiaries are under audit in a number of jurisdictions outside of the U.S. It is possible that some of these audits will be resolved in fiscal 2013 and could impact our anticipated effective tax rate. We have filed our tax returns in accordance with the tax laws in each jurisdiction and maintain tax reserves for uncertain tax positions.

Equity in Earnings of Affiliates and Noncontrolling Interest in Net Income, net of tax

	Years Ended September 30		
	2012	**2011**	**2010**
		(Dollars in millions)	
Equity in earnings of affiliated companies, net of tax	$ 11	$ 8	$ 7
Net income attributable to noncontrolling interests, net of tax	$ 18	$ 22	$ 15

Equity in earnings of affiliated companies, net of tax, for fiscal 2012 increased $3 million from fiscal 2011 as earnings of our affiliate in Mexico improved. Equity in earnings of affiliated companies, net of tax, increased by $1 million in fiscal 2011 when compared to fiscal 2010 due primarily to an improvement in profitability at our equity affiliates in Mexico and Venezuela.

For fiscal 2012, net income attributable to noncontrolling interests decreased $4 million as compared to fiscal 2011. The decrease was due to a decrease in profitability of our joint ventures in Malaysia, China and Indonesia. For fiscal 2011, the $7 million increase in net income attributable to noncontrolling interests, net of tax, is due to the improved profitability of our joint ventures in China, the Czech Republic and Malaysia.

Income from Discontinued Operations, net of tax

During fiscal 2011, we entered into an agreement to sell our Supermetals Business and accordingly for all periods we have classified income from the Supermetals Business as Income from discontinued operations, net of tax. The sale of the Supermetals Business was completed during the second quarter of fiscal 2012. Income from discontinued operations, net of tax, increased $152 million in fiscal 2012 when compared to fiscal 2011 driven by the gain on the sale of the Supermetals Business.

Net Income Attributable to Cabot Corporation

In fiscal 2012, we reported net income of $388 million ($5.99 per diluted common share). This is compared to net income of $236 million ($3.57 per diluted common share) in fiscal 2011 and net income of $154 million ($2.35 per diluted common share) in fiscal 2010.

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Fiscal 2012 compared to Fiscal 2011 and Fiscal 2011 compared to Fiscal 2010 By Business Segment

Total Segment EBIT, certain items, other unallocated items and income from continuing operations before taxes for fiscal 2012, 2011 and 2010 are set forth in the table below. The details of certain items and other unallocated items are shown below and in Note V of our Consolidated Financial Statements.

	Years Ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Total Segment EBIT	$ 409	$ 354	$ 314
Certain items	(51)	(19)	(53)
Other unallocated items	(113)	(132)	(95)
Income from continuing operations before income taxes	$ 245	$ 203	$ 166

In fiscal 2012, total Segment EBIT increased by $55 million when compared to fiscal 2011. The increase was principally driven by higher unit margins ($94 million) driven by the implementation of strategic value pricing and product mix initiatives and benefits from the investments in energy centers and yield technology that more than offset higher raw material costs, the inclusion of two months of Purification Solutions operating results ($5 million), and the favorable effect of foreign currency translation ($11 million). The results were partially offset by lower volumes ($8 million) in Reinforcement Materials and higher fixed costs from the startup of new capacity and spending to support our growth initiatives ($51 million combined).

In fiscal 2011, total Segment EBIT increased by $40 million when compared to fiscal 2010. The increase was principally driven by higher unit margins ($101 million) from increased prices, a favorable product mix and the benefits from investments in energy centers and yield technology that more than offset higher raw material costs. Higher fixed manufacturing costs ($44 million) from higher maintenance and other plant operating costs, lower volumes ($9 million) in Reinforcement Materials and the Specialty Fluids Business, and an increase in selling and administrative costs ($9 million) primarily related to increased headcount to support business activities in Performance Materials and Advanced Technologies partially offset this improvement.

Certain Items:

Details of the certain items for fiscal 2012, 2011, and 2010 are as follows:

	Years Ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Global restructuring activities	$ (17)	$ (18)	$ (46)
Environmental and legal reserves	(4)	(1)	(3)
Reserve for respirator claims	(4)		(2)
Acquisition related charges	(26)		
Long-lived asset impairment			(2)
Certain items, pre-tax	(51)	(19)	(53)
Tax-related certain items			
Tax impact of certain items	$ 9	$ 3	$ 7
Tax impact of certain foreign exchange losses	1		
Tax impact of non-deductible interest expense	(2)		
Discrete tax items	11	39	16
Total tax-related certain items	19	42	23
Total certain items after tax	$ (32)	$ 23	$ (30)

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Acquisition related charges include legal and professional fees, the incremental value of inventory as a result of purchase accounting adjustments, and other expenses related to the completion of the acquisition and the integration of Norit, which is described in Note C of the Consolidated Financial Statements. Details of restructuring activities are included in Note P of the Consolidated Financial Statements. Tax certain items include discrete tax items, which are unusual and infrequent, the tax impact of certain foreign exchange losses, and the tax impact of non-deductible interest expense.

Other Unallocated Items:

	Years Ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Interest expense	$ (46)	$ (39)	$ (40)
Equity in net income of affiliated companies	(11)	(8)	(7)
Unallocated corporate costs	(56)	(53)	(48)
General unallocated (expense) income		(32)	
Total other unallocated items	$ (113)	$ (132)	$ (95)

Other unallocated items include Interest expense, Equity in net income of affiliated companies, Unallocated corporate costs, and General unallocated (expense) income. The balances of unallocated corporate costs are primarily comprised of expenditures related to managing a public company that are not allocated to the segments and corporate business development costs related to new technology efforts. The balances of General unallocated (expense) income primarily include foreign currency transaction gains (losses), interest income, dividend income, the elimination of profit related to unearned revenue, and the COGS impact of LIFO accounting.

In fiscal 2012, costs from total other unallocated items decreased by $19 million when compared to fiscal 2011. The decrease was primarily driven by a $32 million decrease in General unallocated income (expense) due to i) the COGS impact of LIFO accounting from changes in carbon black raw material costs that resulted in a favorable comparison ($18 million); ii) the favorable comparison of foreign exchange currency transactions ($4 million); iii) the absence in fiscal 2012 of certain corporate pension and currency charges that occurred in fiscal 2011 ($2 million); and (iv) the impact of a change in the net worth tax in Colombia in fiscal 2011 that did not repeat in fiscal 2012 ($3 million). These decreases were partially offset by an increase in Unallocated corporate costs driven by fees for a new technology licensing agreement ($3 million).

In fiscal 2011, costs from total other unallocated items increased by $37 million when compared to the same period of fiscal 2010. The increase was driven by charges associated with: i) the COGS impact of LIFO accounting ($16 million) due to rising carbon black raw material costs in fiscal 2011; ii) the unfavorable comparative of foreign currency transactions ($7 million); and iii) the unfavorable impact of a change in the net worth tax in Colombia ($3 million). In addition, there were higher costs commensurate with an increase in business activity levels and higher spending for corporate business development activities.

Reinforcement Materials

Sales and EBIT for Reinforcement Materials for fiscal 2012, 2011 and 2010 are as follows:

	Years Ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Reinforcement Materials Sales	$ 2,019	$ 1,952	$ 1,660
Reinforcement Materials EBIT	$ 227	$ 183	$ 139

In fiscal 2012, sales in Reinforcement Materials increased by $67 million when compared to fiscal 2011. The increase was principally driven by higher prices and a favorable product mix (combined $225 million), partially offset by 6% lower volumes ($123 million) and the unfavorable impact of foreign currency translation ($35 million). In fiscal 2011, sales in Reinforcement Materials increased by $292 million when compared to fiscal 2010. The increase was principally driven by higher prices and a favorable product mix ($252 million) and the favorable effect of foreign currency translation ($73 million). Global volumes decreased by 2% in fiscal 2011 relative to fiscal 2010 driven by the closure of our carbon black facility in India. Excluding the impact of the closure of the India facility, global volumes were consistent with the prior year.

In fiscal 2012, Reinforcement Materials EBIT increased by $44 million when compared to fiscal 2011 driven principally by higher unit margins ($91 million), with higher pricing and a favorable product mix more than offsetting higher raw material costs, and the favorable impact of foreign currency translation ($10 million). The impact of higher unit margins more than offset lower volumes ($39 million) and the effect of higher fixed manufacturing costs ($17 million). In fiscal 2011, Reinforcement Materials EBIT increased by $44 million when compared to fiscal 2010. The increase was principally driven by higher unit margins ($79 million) from higher pricing, a favorable product mix and benefits from investments in energy centers and yield technology that more than offset higher raw material costs. Higher fixed manufacturing costs ($23 million) from higher maintenance and other plant operating costs and lower volumes ($11 million) partially offset these positive factors.

Performance Materials

Sales and EBIT for Performance Materials for fiscal 2012, 2011 and 2010 are as follows:

	Years Ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Specialty Carbons and Compounds Sales	$ 664	$ 626	$ 531
Fumed Metal Oxides Sales	250	254	252
Segment Sales	$ 914	$ 880	$ 783
Segment EBIT	$ 128	$ 140	$ 125

In fiscal 2012, sales in Performance Materials increased $34 million when compared to fiscal 2011 due to higher prices and a favorable product mix (combined $34 million), and the impact of higher volumes ($23 million), partially offset by the unfavorable impact of foreign currency translation ($22 million). During fiscal 2012, volumes in Specialty Carbons and Compounds increased by 3% and volumes in Fumed Metal Oxides increased by 2%. In fiscal 2011, sales for Performance Materials increased by $97 million when compared to fiscal 2010. The increase was principally driven by higher prices and a favorable product mix ($53 million), higher volumes ($22 million), and the positive impact of foreign currency translation ($21 million). During fiscal 2011, volumes in Specialty Carbons and Compounds increased by 5% due to availability of new capacity to serve higher demand for our specialty compounds products. Volumes in fiscal 2011 in Fumed Metal Oxides decreased by 2% due to our strategic value pricing initiative, which resulted in lower volumes sold.

In fiscal 2012, EBIT in Performance Materials was $12 million lower when compared to fiscal 2011 driven by higher fixed manufacturing costs from new capacity and higher segment management costs ($23 million combined). This decrease was partially offset by higher volumes ($10 million) and improved unit margins ($2 million) from higher pricing and a favorable product mix that more than offset higher raw material costs. EBIT in Performance Materials increased by $15 million in fiscal 2011 when compared to fiscal 2010. The increase was principally driven by higher unit margins ($22 million) from higher pricing and a favorable product mix that more than offset the impact of higher raw materials costs and higher volumes ($6 million). Higher fixed manufacturing costs ($14 million) associated with the start-up of new capacity and higher maintenance and other plant operating costs partially offset these positive factors.

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Advanced Technologies

Sales and EBIT for Advanced Technologies for fiscal 2012, 2011 and 2010 are as follows:

	Years Ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Inkjet Colorants	$ 66	$ 65	$ 57
Aerogel	18	24	24
Security Materials	9	11	7
Elastomer Composites	23	17	17
Specialty Fluids	94	69	81
Segment Sales	$ 210	$ 186	$ 186
Segment EBIT	$ 49	$ 31	$ 50

Sales in Advanced Technologies increased by $24 million in fiscal 2012 when compared to fiscal 2011. The increase is primarily due to higher volumes and higher pricing in the Specialty Fluids Business. Sales in Advanced Technologies were consistent in fiscal 2011 when compared to fiscal 2010, with revenue increases in the Inkjet Colorants and Security Materials Businesses offset by lower revenue in the Specialty Fluids Business. Revenue increases were driven by higher volumes in the Inkjet Colorants Business and sales of security taggants and incremental revenue resulting from the acquisition of Oxonica Materials Inc. in the Security Materials Business. The decrease in Specialty Fluids revenue was principally due to a less favorable mix of business, including jobs that were smaller and shorter in duration.

EBIT in Advanced Technologies increased by $18 million in fiscal 2012 when compared to fiscal 2011. The increase was driven by higher volumes ($21 million) in the Specialty Fluids, Inkjet Colorants and Elastomer Composites Businesses partially offset by lower volumes in the Aerogel Business. Higher fixed manufacturing costs in the Elastomer Composites Business and from new capacity in the Inkjet Colorants Business ($4 million) partially offset the higher volumes. EBIT in Advanced Technologies for fiscal 2011 declined by $19 million when compared to fiscal 2010. The decline was driven by a less favorable mix of business, including jobs that were smaller and shorter in duration in our Specialty Fluids Business and the timing of payments associated with certain milestones in our Elastomer Composites Business.

Purification Solutions

Sales and EBIT for Purification Solutions for fiscal 2012, 2011 and 2010 are as follows:

	Years Ended September 30		
	2012	2011	2010
	(Dollars in millions)		
Segment Sales	$ 61	$ N/A	$ N/A
Segment EBIT	$ 5	$ N/A	$ N/A

In fiscal 2012, we purchased all of the issued and outstanding shares of Norit N.V. (Norit) for a purchase price of $1.1 billion. The transaction was completed on July 31, 2012. Our results for the twelve month period ended September 30, 2012 include two months of results of Norit.

Cash Flows and Liquidity

Overview

Our liquidity position, as measured by cash and cash equivalents plus borrowing availability, decreased by $127 million during fiscal 2012. The decrease was attributable to our decreased cash position and an increase in borrowings under our committed borrowing facilities resulting from the acquisition of Norit. At September 30, 2012, we had cash and cash equivalents of $120 million, and current availability under our revolving credit agreement of approximately $560 million.

In July 2012, we entered into several financing arrangements to finance, in part, our acquisition of Norit. Specifically, we issued $250 million of senior notes with a coupon rate of 2.55% maturing in January 2018 and $350 million of senior notes with a coupon rate of 3.70% maturing in July 2022 (referred to collectively as the Notes). Interest on the Notes is payable on January 15 and July 15 of each year, beginning on January 15, 2013. In addition, we exercised the expansion option under our revolving credit agreement, increasing to $750 million the aggregate commitments available thereunder. The proceeds from the Notes were used to pay the purchase price for the acquisition, and the balance of the purchase price was paid with borrowings under the credit agreement and cash on hand. The credit agreement contains affirmative, negative and financial covenants and events of default customary for financings of this type. The financial covenants in the credit agreement include interest coverage, debt-to-EBITDA and subsidiary debt to total capitalization ratios. As of September 30, 2012, we were in compliance with all applicable covenants.

We anticipate sufficient liquidity from (i) cash on hand; (ii) cash flows from operating activities; and (iii) cash available from our credit agreement to meet our operational and capital investment needs and financial obligations for the foreseeable future. Our liquidity derived from cash flows from operations is, to a large degree, predicated on our ability to collect our receivables in a timely manner, the cost of our raw materials, and our ability to manage inventory levels.

We generally manage our cash and debt on a global basis to provide for working capital requirements as needed by region or site. Cash and debt are generally denominated in the local currency of the subsidiary holding the assets or liabilities, except where there are operational cash flow reasons to hold non-functional currency or debt. As of September 30, 2012 our USD equivalent holdings by region were: Asia Pacific $33 million, Europe $48 million, and the Americas $39 million, which included $6 million in the U.S.

Discontinued Operations

Our Consolidated Statements of Cash Flows have been presented to include discontinued operations with continuing operations. Therefore, unless noted otherwise, the following discussion of our cash flows and liquidity position include both continuing and discontinued operations.

In January 2012, we completed the sale of our Supermetals Business, which we classified as discontinued operations beginning in the fourth quarter of fiscal 2011 when we entered into the sale and purchase agreement for its sale. A detailed discussion of the transaction and the consideration we received appears in Note D in the Consolidated Financial Statements. In connection with the sale, we received $175 million on the closing date and notes for additional minimum consideration totaling approximately $277 million payable at various dates through the second quarter of fiscal 2014. In fiscal 2012, we received $23 million payable under the notes and an additional $6 million as a post-closing purchase price adjustment.

The following discussion of the changes in our cash balance refers to the various sections of our Consolidated Statements of Cash Flows.

Cash Flows from Operating Activities

Cash generated by operating activities, which consists of net income adjusted for the various non-cash items included in income, changes in working capital and changes in certain other balance sheet accounts, totaled $415 million in fiscal 2012. Operating activities provided $195 million and $249 million in fiscal 2011 and 2010, respectively.

Cash generated from operating activities in fiscal 2012 was driven primarily by net income of $406 million plus $156 million of depreciation and amortization and a decrease in working capital of $76 million (Inventories plus Accounts and notes receivable, less Accounts payable and accrued liabilities). Our fiscal 2012 working capital decrease when compared to fiscal 2011 was primarily driven by higher Accounts payable and accrued liabilities ($100 million) partially offset by higher Inventories ($30 million).

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Cash generated from operating activities in fiscal 2011 was driven primarily by net income of $258 million plus $144 million of depreciation and amortization and $19 million of non-cash compensation, partially offset by a net increase in working capital of $167 million (Inventories plus Accounts and notes receivable, less Accounts payable and accrued liabilities). Our working capital increase in fiscal 2011 was driven principally by higher pricing and raw material costs when compared to fiscal 2010 and is comprised of higher accounts receivable ($111 million) and inventories ($79 million), offset by an increase in accounts payable and accrued liabilities ($23 million). Despite increased revenue, operating cash flows decreased in fiscal 2011 as a result of the corresponding growth of inventories, accounts receivable, and accounts payable.

Cash generated from operating activities in fiscal 2010 was driven primarily by net income of $169 million plus $143 million of depreciation and amortization and $27 million of non-cash compensation, partially offset by a net increase in working capital of $76 million. Our working capital increase in fiscal 2010 was driven principally by higher sales volumes when compared to fiscal 2009 and is comprised of higher accounts receivable ($116 million) and inventories ($7 million), offset by an increase in accounts payable and accrued liabilities ($47 million).

In addition to the working capital movements noted above, the following other elements of operations have had a bearing on operating cash flows:

Restructurings As of September 30, 2012, we had $5 million of total restructuring costs in accrued expenses in the consolidated balance sheet related to our global restructuring activities. We made cash payments of $14 million during fiscal 2012 related to these restructuring plans. We expect to make cash payments related to these restructuring activities of approximately $7 million in fiscal 2013 and less than $1 million thereafter (which includes the $5 million already accrued in the consolidated balance sheet as of September 30, 2012).

Environmental Reserves and Litigation Matters We have recorded a $7 million reserve on both a discounted and undiscounted basis as of September 30, 2012 for environmental remediation costs at various sites. These sites are primarily associated with businesses divested in prior years. We anticipate that the expenditures at these sites will be made over a number of years, and will not be concentrated in any one year. Additionally, as of September 30, 2012 we have recorded a $13 million reserve on a discounted basis ($17 million on an undiscounted basis) for respirator claims. These expenditures will also be incurred over several years. We also have other litigation costs arising in the ordinary course of business.

The following table represents the estimated future undiscounted payments related to our environmental and respirator reserves.

	Future Payments by Fiscal Year (Dollars in millions)						
	2013	2014	2015	2016	2017	Thereafter	Total
Environmental	$ 3	$ 1	$ 1	$ 1	$	$ 1	$ 7
Litigation respirator	2	2	2	2	1	8	17
Total	$ 5	$ 3	$ 3	$ 3	$ 1	$ 9	$ 24

Operating Activities Other

Venezuela

We own 49% of an operating affiliate in Venezuela, which is accounted for as an equity affiliate, through our wholly owned subsidiaries that carry the investment and receive its dividends. As of September 30, 2012 these subsidiaries carried the operating affiliate investment of $25 million, and held 21 million bolivars ($5 million) in cash.

The Venezuelan bolivar may only be exchanged for foreign currencies through certain Venezuelan government controlled channels. The channels available are the Venezuelan central bank (CADIVI) and

Venezuelan government and government-backed bond offerings. The bond offerings use a bidding process, where companies and individuals requiring U.S. dollars place a request for a fixed sum, and CADIVI then allocates out the pool of U.S. dollars in that issuance.

An inability to convert the operating affiliate s earnings into U.S. dollars would be considered an indicator of impairment, requiring a full impairment analysis of our investment. Therefore, we closely monitor our ability to convert our bolivar holdings into U.S. dollars, as we still intend to convert substantially all bolivars held by our Venezuelan subsidiaries to U.S. dollars as soon as practical.

Any future change in the CADIVI official rate or opening of additional parallel markets could lead us to use a different exchange rate and result in gains or losses on our bolivar-denominated assets held by our subsidiaries.

Employee Benefit Plans

As of September 30, 2012 we had a consolidated pension and postretirement benefit obligation, net of the fair value of plan assets, of $194 million, comprised of $112 million for pension benefit plan liabilities and $82 million for postretirement benefit plan liabilities.

The $112 million of unfunded pension benefit plan liabilities is derived as follows:

	U.S.	Foreign	Total
		(Dollars in millions)	
Fair Value of Plan Assets	$ 149	$ 356	$ 505
Benefit Obligation	(195)	(422)	(617)
Unfunded Status	$ (46)	$ (66)	$ (112)

In fiscal 2012, we made cash contributions totaling approximately $10 million to our foreign pension benefit plans and $7 million to our U.S. pension plan. For fiscal 2013, we expect to make cash contributions of less than $1 million to our U.S. pension plan and approximately $12 million to our foreign pension plans.

The $82 million of unfunded postretirement benefit plan liabilities is comprised of $64 million for our U.S. and $18 million for our foreign postretirement benefit plans. These postretirement benefit plans provide certain health care and life insurance benefits for retired employees. Typical of such plans, our postretirement plans are unfunded and, therefore, have no plan assets. We fund these plans as claims or insurance premiums come due. In fiscal 2012, we paid postretirement benefits of $5 million under our U.S. postretirement plans and less than $1 million under our foreign postretirement plans. For fiscal 2013, we expect to make benefit payments of approximately $6 million under our U.S. postretirement plans and $1 million under our foreign postretirement plans.

Cash Flows from Investing Activities

Cash flows from investing activities were primarily driven by cash paid for the acquisition of Norit ($1.1 billion) and capital expenditures ($281 million). Partially offsetting these decreases were proceeds from the sale of our Supermetals Business and payments on notes relating to the sale (totaling $204 million). Net cash used in investing activities totaled $1.2 billion.

Capital expenditures totaled $281 million, $230 million and $108 million in fiscal 2012, 2011 and 2010, respectively. In each of these years, expenditures were primarily related to expansion of our manufacturing footprint in the Asia Pacific region, replacement capital projects for our operating facilities, investments in energy recovery technology, and capital spending required for process technology and product differentiation projects. In addition, in fiscal 2010, capital expenditures included funds for the completion of our specialty compounds facility in Dubai.

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Cash used in investing activities for fiscal 2011 includes approximately $6 million of additions to property, plant and equipment in the Supermetals Business.

Capital expenditures for fiscal 2013 are expected to be between $250 million and $300 million. Our planned capital spending program for fiscal 2013 is primarily for capacity expansions, higher spending for ongoing sustaining and replacement capital as well as investments in energy related projects.

Cash Flows from Financing Activities

Financing activities provided $606 million of cash in fiscal 2012 compared to a use of $72 million of cash in fiscal 2011 and $57 million in fiscal 2010. In fiscal 2012, our overall debt balance increased by $693 million primarily relating to financing our acquisition of Norit. The cash provided by this financing was partially offset by cash used to purchase shares of our common stock on the open market of $36 million and to make dividend payments to our stockholders of $49 million. In fiscal 2011 and fiscal 2010, financing cash flows were primarily driven by changes in debt levels and dividend payments. In addition, in fiscal 2011 we repurchased approximately 1.6 million shares of our common stock on the open market for $59 million.

The Supermetals Business did not have significant Cash Flows from Financing Activities in fiscal 2012 or fiscal 2011.

Debt

The following table provides a summary of our outstanding long-term debt.

	September 30	
	2012	2011
	(Dollars in millions)	
Variable rate debt	$ 200	$ 15
Interest rate swaps fixed to variable[1]	2	58
Total variable rate debt	202	73
Fixed rate debt, net of discount	1,143	585
Interest rate swaps fixed to variable[1]	(2)	(58)
Total fixed rate debt	1,141	527
Unamortized bond discounts	(2)	(2)
Capital leases	16	15
Total debt	1,357	613
Less current portion of long-term debt	(185)	(57)
Total long-term debt	$ 1,172	$ 556

(1) The face value of debt swapped from fixed rate to variable rate using interest rate swaps is presented above in order to view our effective fixed and variable debt balances.

In fiscal 2012, our net debt balance increased by $693 million, primarily to finance the purchase of Norit. In fiscal 2011, net proceeds from certain short term financing arrangements totaled $56 million, offset by long-term debt repayments of $21 million. In fiscal 2010, because of our strong operating cash flows and the proceeds obtained in fiscal 2009 from the issuance of the 5% Notes due in 2016, we had little movement in financing cash flows apart from our on-going dividend payments to our shareholders. We had $560 million of availability under our credit agreement as of September 30, 2012.

Our long-term total debt, of which $185 million is current, matures at various times as presented in the Contractual Obligations table. The increase in the current portion of long-term debt from fiscal 2011 to fiscal 2012 is due principally to amounts which were classified as long-term in fiscal 2011, which are due

within twelve months of the end of fiscal 2012. The weighted-average interest rate on our fixed rate long-term debt was 4.31%, including the effects of the interest rate swaps. The weighted-average interest rate on variable interest rate long-term debt was 1% as of September 30, 2012, including the effects of the interest rate swaps.

At September 30, 2012, we have provided standby letters of credit and bank guarantees totaling $20 million, which expire through fiscal 2014.

Share repurchases

During fiscal 2012, we repurchased approximately 1.1 million shares of our common stock on the open market for an aggregate purchase price of $36 million. As of September 30, 2012, we had approximately 1.6 million shares available for repurchase under the Board of Directors share repurchase authorization.

Dividend payments

In fiscal 2012, we paid cash dividends on our common stock of $0.76 per share. In each of fiscal 2011 and 2010, we paid cash dividends on our common stock of $0.72 per share. These cash dividend payments totaled $49 million in fiscal 2012 and $47 million in each of fiscal 2011 and 2010.

Off-balance sheet arrangements

We had no material transactions that meet the definition of an off-balance sheet arrangement.

Contractual Obligations

The following table sets forth our long-term contractual obligations, excluding those attributable to our discontinued operations, which are described in greater detail in Note T in the Consolidated Financial Statements. Variable interest is based on the variable debt outstanding and prevailing variable interest rates as of September 30, 2012, and the table includes the impact of our interest rate swaps that change fixed rates to floating rates.

	Payments Due by Fiscal Year (Dollars in millions)						
	2013	**2014**	**2015**	**2016**	**2017**	**Thereafter**	**Total**
Contractual Obligations[1]							
Purchase commitments	$ 452	$ 318	$ 297	$ 235	$ 208	$ 2,888	$ 4,398
Long-term debt[2]	182	17		189	300	653	1,341
Capital lease obligations	1	1	1	1	1	11	16
Fixed interest on long-term debt	48	39	38	38	23	76	262
Variable interest on long-term debt	4	4	3	2			13
Operating leases	22	17	14	10	5	27	95
Total	$ 709	$ 396	$ 353	$ 475	$ 537	$ 3,655	$ 6,125

(1) We are unable to estimate the timing of potential future payments related to our accrual for uncertain tax positions in the amount of $39 million at September 30, 2012.

(2) Payment of long-term debt excludes settlements of cross currency swaps.

Purchase commitments

We have entered into long-term, volume-based purchase agreements primarily for the purchase of raw materials and natural gas with various key suppliers in Reinforcement Materials, Performance Materials, and Purification Solutions. Under certain of these agreements the quantity of material being purchased is fixed, but the price we pay changes as market prices change. For purposes of the table above, current purchase prices have been used to quantify total commitments.

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Capital Leases

We have capital lease obligations primarily for certain equipment and buildings. These obligations are payable over the next 28 years.

Operating Leases

We have operating leases primarily comprised of leases for transportation vehicles, warehouse facilities, office space, and machinery and equipment.

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

We are exposed to changes in interest rates and foreign currency exchange rates because we finance certain operations through long- and short-term borrowings and denominate our transactions in a variety of foreign currencies. Changes in these rates may have an impact on future cash flows and earnings. We manage these risks through normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments.

We have policies governing our use of derivative instruments, and we do not enter into financial instruments for trading or speculative purposes.

By using derivative instruments, we are subject to credit and market risk. The derivative instruments are booked to our balance sheet at fair market value and reflect the asset or (liability) position as of September 30, 2012. If a counterparty fails to fulfill its performance obligations under a derivative contract, our exposure will equal the fair value of the derivative. Generally, when the fair value of a derivative contract is positive, the counterparty owes Cabot, thus creating a payment risk for Cabot. We minimize counterparty credit (or repayment) risk by entering into these transactions with major financial institutions of investment grade credit rating. As of September 30, 2012, the counterparties that we have executed derivatives with were rated between A- and AA-, inclusive, by Standard and Poor s. Our exposure to market risk is not hedged in a manner that completely eliminates the effects of changing market conditions on earnings or cash flow.

Interest Rate Risk

As of September 30, 2012, we had long-term debt, including the current portion, totaling $1,357 million, which has both variable and fixed interest rate components. We have entered into interest rate swaps as a hedge to a portion of our underlying debt instruments to effectively change the characteristics of the interest rate without changing the debt instrument. For fixed rate debt, interest rate changes affect the fair value, but do not impact earnings or cash flows. Conversely, for floating rate debt, interest rate changes generally do not affect the fair value, but do impact future earnings and cash flows, assuming other factors are held constant. As most of our long-term debt was issued at fixed rates, we use interest rate swaps as a means to achieve a different fixed-to-floating interest rate mix.

The table below summarizes the principal terms of our interest rate swap transaction, including the notional amount of the swap, the interest rate payment we receive from and pay to our swap counterparty, the term of the transaction, and its fair value at September 30, 2012.

Description	Notional Amount	Receive	Pay	Fiscal Year Entered into	Maturity (Fiscal Year)	Fair Market Value at September 30, 2012 Asset/ (Liability) (USD)
Interest Rate Swaps Fixed to Variable	USD 35 million	5.25% Fixed	U.S.-6 month LIBOR + 0.62%	2003	2013	2 million

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Foreign Currency Risk

Our international operations are subject to certain risks, including currency exchange rate fluctuations and government actions. Currently, we have issued debt denominated in U.S. dollars and then entered into cross currency swaps that exchange our dollar principal and interest payments into a currency where we expect long-term, stable cash receipts. The following table summarizes the principal terms of our long-term foreign currency swap transactions, including the notional amount of the swap, the interest rate payment we receive from and pay to our swap counterparty, the term of the transaction and its fair market value at September 30, 2012.

Description	Net Notional Amount	Receive	Pay	Fiscal Year Entered Into	Maturity Year	Fair Market Value at September 30, 2012 (USD)
Cross Currency Swaps	USD 140 million swapped to EUR 124 million	5.25% Fixed	5.43% Fixed	2003	2013	(22 million)
	USD 35 million swapped to EUR 31 million	US-6 month LIBOR	EUR-6 month LIBOR	2003	2013	(5 million)

Foreign currency exposures also relate to assets and liabilities denominated in foreign currencies other than the functional currency of a given subsidiary as well as the risk that currency fluctuations could affect the dollar value of future cash flows generated in foreign currencies. Accordingly, we use short-term forward contracts to minimize the exposure to foreign currency risk. At September 30, 2012, we had $109 million in net notional foreign currency contracts, which were denominated in the Australian dollar, British pound sterling, Canadian dollar, Chinese renminbi, Euro, and Japanese yen. These forwards had a fair value of ($1 million) as of September 30, 2012. Of the $109 million in net notional foreign currency contracts, $3 million related to contracts denominated in Japanese Yen which were designated as a cash flow hedge. These hedge contracts had a fair value of less than $1 million at September 30, 2012.

In certain situations where we have a long-term commitment denominated in a foreign currency we may enter into appropriate financial instruments in accordance with our risk management policy to hedge future cash flow exposures.

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

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CABOT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended September 30		
	2012	2011	2010
	(In millions, except per share amounts)		
Net sales and other operating revenues	$ 3,300	$ 3,102	$ 2,716
Cost of sales	2,652	2,544	2,206
Gross profit	648	558	510
Selling and administrative expenses	285	249	241
Research and technical expenses	73	66	65
Income from operations	290	243	204
Interest and dividend income	4	2	2
Interest expense	(46)	(39)	(40)
Other expense	(3)	(3)	
Income from continuing operations before income taxes and equity in earnings of affiliated companies	245	203	166
Provision for income taxes	(55)	(6)	(30)
Equity in earnings of affiliated companies, net of tax of $5, $5 and $4	11	8	7
Income from continuing operations	201	205	143
Income from discontinued operations, net of tax of $116, $29 and $16	205	53	26
Net income	406	258	169
Net income attributable to noncontrolling interests, net of tax of $7, $4 and $3	18	22	15
Net income attributable to Cabot Corporation	$ 388	$ 236	$ 154
Weighted-average common shares outstanding, in millions:			
Basic	63.4	64.6	63.8
Diluted	64.2	65.4	64.3
Income per common share:			
Basic:			
Income from continuing operations attributable to Cabot Corporation	$ 2.87	$ 2.80	$ 1.96
Income from discontinued operations	3.20	0.82	0.41
Net income attributable to Cabot Corporation	$ 6.07	$ 3.62	$ 2.37
Diluted:			
Income from continuing operations attributable to Cabot Corporation	$ 2.83	$ 2.77	$ 1.94
Income from discontinued operations	3.16	0.80	0.41
Net income attributable to Cabot Corporation	$ 5.99	$ 3.57	$ 2.35
Dividends per common share	$ 0.76	$ 0.72	$ 0.72

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

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CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30 2012	2011
	(In millions, except share and per share amounts)	
Current assets:		
Cash and cash equivalents	$ 120	$ 286
Accounts and notes receivable, net of reserve for doubtful accounts of $5 and $4	687	659
Inventories	533	393
Prepaid expenses and other current assets	71	76
Deferred income taxes	32	35
Current assets held for sale		106
Total current assets	1,443	1,555
Property, plant and equipment	3,511	2,967
Accumulated depreciation and amortization	(1,959)	(1,931)
Net property, plant and equipment	1,552	1,036
Goodwill	480	40
Equity affiliates	115	60
Intangible assets, net	330	3
Assets held for rent	46	46
Notes receivable from sale of business	242	
Deferred income taxes	94	261
Other assets	97	101
Noncurrent assets held for sale		39
Total assets	$ 4,399	$ 3,141

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

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CABOT CORPORATION

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS EQUITY

	September 30 2012	2011
	(In millions, except share and per share amounts)	
Current liabilities:		
Notes payable to banks	$ 62	$ 86
Accounts payable and accrued liabilities	606	461
Income taxes payable	59	34
Deferred income taxes	7	6
Current portion of long-term debt	185	57
Current liabilities held for sale		12
Total current liabilities	919	656
Long-term debt	1,172	556
Deferred income taxes	55	8
Other liabilities	314	299
Noncurrent liabilities held for sale		6
Commitments and contingencies (Note T)		
Stockholders equity:		
Preferred stock:		
Authorized: 2,000,000 shares of $1 par value		
Issued and Outstanding: None and none		
Common stock:		
Authorized: 200,000,000 shares of $1 par value		
Issued: 63,600,928 and 63,894,443 shares		
Outstanding: 63,347,362 and 63,860,777 shares	64	64
Less cost of 253,565 and 33,666 shares of common treasury stock	(8)	(1)
Additional paid-in capital	20	18
Retained earnings	1,653	1,314
Deferred employee benefits	(8)	(14)
Accumulated other comprehensive income	92	106
Total Cabot Corporation stockholders equity	1,813	1,487
Noncontrolling interests	126	129
Total stockholders equity	1,939	1,616
Total liabilities and stockholders equity	$ 4,399	$ 3,141

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

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CABOT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30		
	2012	2011	2010
	(In millions)		
Cash Flows from Operating Activities:			
Net income	$ 406	$ 258	$ 169
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	156	144	143
Deferred tax provision	(6)	(25)	(2)
Gain on sale of business, net of tax	(191)		
Impairment charges			2
Loss on disposal of property, plant and equipment	1	2	6
Equity in earnings of affiliated companies	(11)	(8)	(7)
Non-cash compensation	18	19	27
Other non-cash (income) charges, net	3	(3)	(5)
Changes in assets and liabilities:			
Accounts and notes receivable	6	(111)	(116)
Inventories	(30)	(79)	(7)
Prepaid expenses and other current assets	26	(17)	(18)
Accounts payable and accrued liabilities	100	23	47
Income taxes payable	(13)	1	7
Other liabilities	(38)	(12)	(7)
Cash dividends received from equity affiliates	6	4	6
Other	(18)	(1)	4
Cash provided by operating activities	415	195	249
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	(281)	(230)	(108)
Proceeds from sale of business	181		
Receipts from notes receivable from sale of business	23		
Investment in equity affiliate		(2)	
Acquisition of business, net of cash acquired	(1,104)		(5)
Proceeds from sales of property, plant and equipment	2	6	6
(Increase) decrease in assets held for rent	(1)	(6)	2
Settlement of derivatives			(7)
Cash used in investing activities	(1,180)	(232)	(112)
Cash Flows from Financing Activities:			
Borrowings under financing arrangements	84	71	37
Repayments under financing arrangements	(88)	(45)	(31)
Proceeds from long-term debt, net of issuance costs	911		
Repayments of long-term debt	(172)	(21)	(6)
(Decrease) increase in notes payable to banks, net	(42)	30	(8)
Proceeds from cash contributions received from noncontrolling stockholders	4		
Purchases of common stock	(36)	(59)	(5)
Proceeds from sales of common stock	10	11	9
Cash dividends paid to noncontrolling interests	(16)	(12)	(6)
Cash dividends paid to common stockholders	(49)	(47)	(47)
Cash provided by (used in) financing activities	606	(72)	(57)

Effect of exchange rate changes on cash	(7)	8	3
(Decrease) increase in cash and cash equivalents	(166)	(101)	83
Cash and cash equivalents at beginning of year	286	387	304
Cash and cash equivalents at end of year	$ 120	$ 286	$ 387
Income taxes paid	$ 73	$ 64	$ 43
Interest paid	39	34	28
Non-cash additions to property, plant and equipment	4	14	

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

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CABOT CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

Years Ended September 30

(In millions, except shares in thousands)

2010	Common Stock, Net of Treasury Stock									
	Shares	Cost	Additional Paid-in Capital	Retained Earnings	Deferred Employee Benefits	Accumulated Other Comprehensive Income	Total Cabot Corporation Stockholders Equity	Non-controlling Interests	Total Stockholders Equity	Comprehensive Income
Balance at September 30, 2009	65,309	$ 63	$ 18	$ 1,018	$ (25)	$ 60	$ 1,134	$ 103	$ 1,237	
Net income attributable to Cabot Corporation				154						$ 154
Foreign currency translation adjustment, net of tax of $4						43				43
Change in employee benefit plans, net of tax of $6						(15)				(15)
Total other comprehensive income										$ 28
Comprehensive income attributable to Cabot Corporation							182			$ 182
Net income attributable to noncontrolling interests, net of tax of $3								15		15
Noncontrolling interests foreign currency translation adjustment								2		2
Comprehensive income attributable to noncontrolling interests										$ 17
Comprehensive income									199	$ 199
Contribution from noncontrolling interests								1	1	
Noncontrolling interest dividends								(6)	(6)	
Cash dividends paid to common stockholders				(47)			(47)		(47)	
Issuance of stock under employee compensation plans, net of forfeitures	283	1	8				9		9	
Amortization of share-based compensation			18				18		18	
Purchase and retirement of common and treasury stock	(222)	(1)	(4)				(5)		(5)	
Principal payment by Employee Stock Ownership Plan under guaranteed loan					5		5		5	
Notes receivable for restricted stock-payments			6				6		6	
Balance at September 30, 2010	65,370	$ 63	$ 46	$ 1,125	$ (20)	$ 88	$ 1,302	$ 115	$ 1,417	

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CABOT CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

Years Ended September 30

(In millions, except shares in thousands)

	Common Stock, Net of Treasury Stock		Additional		Deferred	Accumulated Other	Total Cabot Corporation	Non-	Total	
2011	**Shares**	**Cost**	**Paid-in Capital**	**Retained Earnings**	**Employee Benefits**	**Comprehensive Income**	**Stockholders Equity**	**controlling Interests**	**Stockholders Equity**	**Comprehensive Income**
Balance at September 30, 2010	65,370	$ 63	$ 46	$ 1,125	$ (20)	$ 88	$ 1,302	$ 115	$ 1,417	
Net income attributable to Cabot Corporation				236						$ 236
Foreign currency translation adjustment, net of tax of $3						19				19
Change in unrealized loss on investments and derivative instruments, net of tax of $ -						(1)				(1)
Total other comprehensive income										$ 18
Comprehensive income attributable to Cabot Corporation							254			$ 254
Net income attributable to noncontrolling interests, net of tax of $4								22		22
Noncontrolling interests foreign currency translation adjustment								3		3
Comprehensive income attributable to noncontrolling interests										$ 25
Comprehensive income										