

CABOT CORP  
Form 10-Q  
May 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-5667

Cabot Corporation

(Exact name of registrant as specified in its charter)

Delaware 04-2271897  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

Two Seaport Lane

Boston, Massachusetts 02210-2019  
(Address of principal executive offices) (Zip Code)

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

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

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  No

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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if 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

Indicate the number of shares outstanding of each of the issuer’s classes of Common Stock, as of the latest practicable date.

As of May 4, 2016 the Company had 62,398,860 shares of Common Stock, par value \$1.00 per share, outstanding.

CABOT CORPORATION

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## Part I. Financial Information

Item 1. Financial Statements  
CABOT CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

## UNAUDITED

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
	(In millions, except per share amounts)			
Net sales and other operating revenues	\$568	\$694	\$1,171	\$1,506
Cost of sales	418	555	922	1,210
Gross profit	150	139	249	296
Selling and administrative expenses	62	71	133	149
Research and technical expenses	11	14	27	29
Income from operations	77	54	89	118
Interest and dividend income	2	1	3	2
Interest expense	(14 )	(14 )	(27 )	(27 )
Other expense	(3 )	(2 )	(11 )	(3 )
Income from continuing operations	62	39	54	90
Provision for income taxes	(11 )	(14 )	(6 )	(17 )
Equity in earnings of affiliated companies, net of tax	1	2	1	3
Net income	52	27	49	76
Net income attributable to noncontrolling interests,				
net of tax	4	1	8	5
Net income attributable to Cabot Corporation	48	26	41	71
Weighted-average common shares outstanding:				
Basic	62.4	63.6	62.4	63.9
Diluted	62.8	64.1	62.9	64.4
Income per common share:				
Basic:				
Net income attributable to Cabot Corporation	\$0.76	\$0.41	\$0.65	\$1.11
Diluted:				
Net income attributable to Cabot Corporation	\$0.76	\$0.41	\$0.65	\$1.10
Dividends per common share	\$0.22	\$0.22	\$0.44	\$0.44

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



## CABOT CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

## UNAUDITED

	Three Months Ended March 31, 2016 2015		Six Months Ended March 31, 2016 2015	
	(In millions)			
Net income	\$52	\$27	\$49	\$76
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment (net of tax benefit of \$-, \$-, \$- and \$1)	65	(131)	18	(234)
Pension and other postretirement benefit liability adjustments				
Pension and other postretirement benefit liability adjustments arising during the period (net of tax provision of \$-, \$-, \$- and \$6)	—	—	(1)	21
Amortization of net loss and prior service credit included in net periodic pension cost (net of tax benefit of \$1, \$-, \$1, and \$-)	1	1	1	1
Other comprehensive income (loss)	66	(130)	18	(212)
Comprehensive income (loss)	118	(103)	67	(136)
Net income attributable to noncontrolling interests	4	1	8	5
Noncontrolling interests foreign currency translation adjustment, net of tax	1	(1)	(2)	(3)
Comprehensive income attributable to noncontrolling interests, net of tax	5	—	6	2
Comprehensive income (loss) attributable to Cabot Corporation	\$113	\$(103)	\$61	\$(138)

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

## CABOT CORPORATION

## CONSOLIDATED BALANCE SHEETS

## ASSETS

## UNAUDITED

	March 31, 2016	September 30, 2015
	(In millions)	
Current assets:		
Cash and cash equivalents	\$ 178	\$ 77
Accounts and notes receivable, net of reserve for doubtful accounts of \$8 and \$7	407	477
Inventories:		
Raw materials	58	69
Work in process	3	1
Finished goods	245	287
Other	38	40
Total inventories	344	397
Prepaid expenses and other current assets	55	54
Deferred income taxes	44	43
Total current assets	1,028	1,048
Property, plant and equipment, net	1,318	1,383
Goodwill	155	154
Equity affiliates	57	57
Intangible assets, net	149	153
Assets held for rent	94	86
Deferred income taxes	156	152
Other assets	41	42
Total assets	\$2,998	\$ 3,075

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

## CABOT CORPORATION

## CONSOLIDATED BALANCE SHEETS

## LIABILITIES AND STOCKHOLDERS' EQUITY

## UNAUDITED

	March 31, 2016	September 30, 2015
	(In millions, except share and per share amounts)	
Current liabilities:		
Notes payable	\$ 7	\$ 22
Accounts payable and accrued liabilities	336	389
Income taxes payable	10	28
Deferred income taxes	1	1
Current portion of long-term debt	301	1
Total current liabilities	655	441
Long-term debt	669	970
Deferred income taxes	61	59
Other liabilities	233	240
Redeemable preferred stock	27	27
Commitments and contingencies (Note G)		
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: 62,590,343 and 62,704,966 shares		
Outstanding: 62,348,401 and 62,458,396 shares	63	63
Less cost of 241,942 and 246,570 shares of common treasury stock	(8 )	(8 )
Additional paid-in capital	—	—
Retained earnings	1,483	1,478
Accumulated other comprehensive loss	(279 )	(299 )
Total Cabot Corporation stockholders' equity	1,259	1,234
Noncontrolling interests	94	104
Total stockholders' equity	1,353	1,338
Total liabilities and stockholders' equity	\$ 2,998	\$ 3,075

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





## CABOT CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## UNAUDITED

	Six Months Ended March 31,	
	2016	2015
<b>Cash Flows from Operating Activities:</b>		
Net income	\$49	\$76
<b>Adjustments to reconcile net income to cash provided by operating activities:</b>		
Depreciation and amortization	82	92
Long-lived asset impairment charge (Note J)	23	—
Deferred tax benefit	(3 )	(2 )
Employee benefit plan settlement	—	18
Equity in net income of affiliated companies	(1 )	(3 )
Non-cash compensation	6	6
Other non-cash expense (income)	3	(4 )
<b>Changes in assets and liabilities:</b>		
Accounts and notes receivable	71	71
Inventories	49	55
Prepaid expenses and other current assets	(3 )	—
Accounts payable and accrued liabilities	(52 )	(85 )
Income taxes payable	(19 )	(13 )
Other liabilities	(22 )	(18 )
Cash dividends received from equity affiliates	5	7
Other	—	5
Cash provided by operating activities	\$188	\$205
<b>Cash Flows from Investing Activities:</b>		
Additions to property, plant and equipment	(52 )	(70 )
Proceeds from the sale of land	16	—
Change in assets held for rent	(5 )	(7 )
Cash used in investing activities	\$(41 )	\$(77 )
<b>Cash Flows from Financing Activities:</b>		
Repayments under financing arrangements	(3 )	(3 )
Decrease in notes payable, net	—	(1 )
(Repayments of) proceeds from issuance of commercial paper, net	(11 )	94
Repayments of long-term debt	(1 )	(32 )
Purchases of common stock	(19 )	(61 )
Proceeds from sales of common stock	4	5
Cash dividends paid to noncontrolling interests	(3 )	(11 )
Cash dividends paid to common stockholders	(28 )	(28 )
Cash used in financing activities	\$(61 )	\$(37 )

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Effects of exchange rate changes on cash	15	(64)
Increase in cash and cash equivalents	101	27
Cash and cash equivalents at beginning of period	77	67
Cash and cash equivalents at end of period	\$178	\$94

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

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CABOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

UNAUDITED

A. Basis of Presentation

The consolidated financial statements include the accounts of Cabot Corporation (“Cabot” or the “Company”) and its wholly owned subsidiaries and majority-owned and controlled U.S. and non-U.S. subsidiaries. Additionally, Cabot considers consolidation of entities over which control is achieved through means other than voting rights. Intercompany transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q and consequently do not include all disclosures required by Form 10-K. Additional information may be obtained by referring to Cabot’s Annual Report on Form 10-K for the fiscal year ended September 30, 2015 (“2015 10-K”).

The financial information submitted herewith is unaudited and reflects all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results for the interim periods ended March 31, 2016 and 2015. All such adjustments are of a normal recurring nature. The results for interim periods are not necessarily indicative of the results to be expected for the fiscal year.

B. Significant Accounting Policies

Revenue Recognition and Accounts Receivable

Cabot recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Cabot generally is able to ensure that products meet customer specifications prior to shipment. If the Company is unable to determine that the product has met the specified objective criteria prior to shipment or if title has not transferred because of sales 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. Taxes collected on sales to customers are excluded from revenues.

The following table shows the relative size of the revenue recognized in each of the Company’s reportable segments.

	Three Months Ended March 31, 2016		Six Months Ended March 31, 2015	
Reinforcement Materials	48 %	53 %	49 %	56 %
Performance Chemicals	39 %	35 %	38 %	32 %
Purification Solutions	12 %	11 %	12 %	10 %
Specialty Fluids	1 %	1 %	1 %	2 %

Cabot derives the substantial majority of its revenues from the sale of products in Reinforcement Materials, Performance Chemicals, and Purification Solutions. Revenue from these products is typically recognized when the product is shipped and title and risk of loss have passed to the customer. The Company offers certain of its 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. Cabot periodically reviews the assumptions underlying its estimates of discounts and volume rebates and adjusts its revenues accordingly.

For major activated carbon injection systems projects in Purification Solutions, revenue is recognized using the percentage-of-completion method.

Revenue in Specialty Fluids arises primarily 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. The Company also generates revenues from cesium formate sold outside of a rental process and revenue is recognized upon delivery of the fluid.

Cabot maintains allowances for doubtful accounts based on an assessment of the collectability 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. There were no material changes in the allowance for any of the years presented. There is no material off-balance sheet credit exposure related to customer receivable balances.

#### Intangible Assets and Goodwill Impairment

The Company records tangible and intangible assets acquired and liabilities assumed in business combinations under the acquisition method of accounting. Amounts paid for an acquisition are allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. 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. Goodwill is not amortized, but is reviewed for impairment annually as of May 31, or when events or changes in the business environment indicate that the carrying value of the reporting unit may exceed its fair value. A reporting unit, for the purpose of the impairment test, is at or below the operating segment level, and constitutes a business for which discrete financial information is available and regularly reviewed by segment management. The reporting units with goodwill balances are Reinforcement Materials, Purification Solutions, and Fumed Metal Oxides. The separate businesses included within Performance Chemicals are considered separate reporting units. As such, the goodwill balance relative to Performance Chemicals is recorded in the Fumed Metal Oxides reporting unit.

For the purpose of the goodwill impairment test, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. 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, an additional quantitative evaluation is performed under the two-step impairment test. Alternatively, the Company may elect to proceed directly to the quantitative goodwill impairment test. If based on the quantitative evaluation the fair value of the reporting unit is less than its carrying amount, the Company performs 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. The fair value of a reporting unit is based on discounted estimated future cash flows. The fair value is also benchmarked against a market approach using the guideline public companies method. The assumptions used to estimate fair value include management's best estimates of future growth rates, operating cash flows, capital expenditures and discount rates over an estimate of the remaining operating period at the reporting unit level. Should the fair value of any of the Company's reporting units decline below its carrying amount because of reduced operating performance, market declines, changes in the discount rate, or other conditions, charges for impairment may be necessary. Based on the Company's most recent annual goodwill impairment test performed as of May 31, 2015, the fair values of the Reinforcement Materials and Fumed Metal Oxides reporting units were substantially in excess of their carrying values. The fair value of the Purification Solutions reporting unit was less than its carrying amount and an impairment was recorded in the third fiscal quarter of 2015. Due to the impairment recorded as of June 30, 2015, the fair value of the Purification Solutions reporting unit was insignificantly higher than its carrying value as of the last impairment date. No events have occurred subsequent to the last impairment evaluation that would suggest that it is more likely than not that the carrying values of any of our reporting units exceeded their fair value. Nonetheless, the future growth in the Purification Solutions segment is highly dependent on achieving the expected volumes and margins in the activated carbon based mercury removal business. These volumes and margins are highly dependent on demand for mercury removal products and the Company's successful realization of its anticipated share of volumes in this business. The

expected demand for mercury removal products significantly depends on: (1) environmental laws and regulations, particularly those that require U.S. based coal-fired electric utilities to reduce the quantity of air pollutants they release, including mercury, to comply with the Mercury and Air Toxics Standards (“MATS”) issued by the U.S. Environmental Protection Agency (“EPA”) continuing to be in effect and enforced and (2) other factors, such as the volume of activated carbon used in coal-fired energy units for the removal of pollutants and the utilization of these units for electricity generation.

The Company uses 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 assumptions used in the valuation model. The Company estimates 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 fair value of the assets at the dates of acquisition.

Definite-lived intangible assets, which are comprised of trademarks, customer relationships and developed technologies, are amortized over their estimated useful lives and are reviewed for impairment when indication of potential impairment exists, such as a significant reduction in cash flows associated with the assets. The Company recognized an impairment on intangible assets associated with the Purification Solutions business in the third fiscal quarter of 2015 and no events have been subsequently identified that would require an additional impairment evaluation.

#### Long-lived Assets Impairment

The Company's long-lived assets primarily include property, plant and equipment, intangible assets, long-term investments and assets held for rent. The carrying values of long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be recoverable.

To test for impairment of assets, the Company generally uses a probability-weighted estimate of the future undiscounted net cash flows of the assets over their remaining lives to determine if the value of the asset is recoverable. Long-lived assets are grouped with other assets and liabilities at the lowest level for which independent identifiable cash flows are determinable.

An asset impairment is recognized when the carrying value of the asset is not recoverable based on the analysis described above, in which case the asset is written down to its fair value. If the asset does not have a readily determinable market value, a discounted cash flow model may be used to determine the fair value of the asset. In circumstances when an asset does not have separate identifiable cash flows, an impairment charge is recorded when the Company no longer intends to use the asset.

#### Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives. The depreciable lives for buildings, machinery and equipment, and other fixed assets are twenty to twenty-five years, ten to twenty-five years, and three to twenty-five years, respectively. The cost and accumulated depreciation for property, plant and equipment sold, retired, or otherwise disposed of are removed from the Consolidated Balance Sheets and resulting gains or losses are included in earnings in the Consolidated Statements of Operations. Expenditures for repairs and maintenance are charged to expenses as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing plant and equipment, are capitalized and depreciated.

#### Income Tax in Interim Periods

The Company records its tax provision or benefit on an interim basis using an estimated annual effective tax rate. This rate is applied to the current period ordinary income or loss to determine the income tax provision or benefit allocated to the interim period. Losses from jurisdictions for which no benefit can be recognized and the income tax effects of unusual or infrequent items are excluded from the estimated annual effective tax rate and are recognized in the impacted interim period.



Valuation allowances are provided against the future tax benefits that arise from the deferred tax assets in jurisdictions for which no benefit can be recognized. The estimated annual effective tax rate may be significantly impacted by nondeductible expenses and the Company's projected earnings mix by tax jurisdiction. Adjustments to the estimated annual effective income tax rate are recognized in the period when such estimates are revised.

## Inventory Valuation

Inventories are stated at the lower of cost or market. The cost of all carbon black inventories in the U.S. is determined using the last-in, first-out (“LIFO”) method. Had the Company used the first-in, first-out (“FIFO”) method instead of the LIFO method for such inventories, the value of those inventories would have been \$26 million and \$30 million higher as of March 31, 2016 and September 30, 2015, respectively. The cost of Specialty Fluids inventories, which are classified as assets held for rent, is determined using the average cost method. The cost of other U.S. and non-U.S. inventories is determined using the first-in, first-out (“FIFO”) method.

Cabot reviews inventory for both potential obsolescence and potential declines in anticipated selling prices. In this review, the Company makes assumptions about the future demand for and market value of the inventory, and based on these assumptions estimates the amount of any obsolete, unmarketable, slow moving, or overvalued inventory. Cabot writes down the value of these inventories by an amount equal to the difference between the cost of the inventory and its estimated net realizable value.

## Pensions and Other Postretirement Benefits

The Company recognizes the funded status of defined benefit pension and other postretirement benefit plans as an asset or liability. This amount is defined as the difference between the fair value of plan assets and the benefit obligation. The Company is required to recognize as a component of other comprehensive income, net of tax, the actuarial gains/losses and prior service costs/credits that arise but were not previously required to be recognized as components of net periodic benefit cost. Other comprehensive income is adjusted as these amounts are later recognized in income as components of net periodic benefit cost.

## Accumulated Other Comprehensive (Loss) Income

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

## Recent Accounting Pronouncements

In May 2014, the FASB issued a new standard related to the “Revenue from Contracts with Customers” which amends the existing accounting standards for revenue recognition. The standard requires entities to recognize revenue when they transfer promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. This standard is applicable for fiscal years beginning after December 15, 2017 and for interim periods within those years and early adoption is permitted for the fiscal years beginning after December 15, 2016. The Company expects to adopt this standard on October 1, 2018. The Company is currently evaluating the impact the adoption of this standard may have on its consolidated financial statements.

In April 2015, the FASB issued a new standard simplifying the presentation of debt issuance costs by requiring debt issuance costs to be presented as a reduction of the corresponding debt liability. This will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. This standard is applicable for fiscal years beginning after December 15, 2015 and for interim periods within those years and early adoption is permitted. The Company expects to adopt this standard on October 1, 2016. The adoption of this standard is not expected to materially impact the Company’s consolidated financial statements.

In November 2015, the FASB issued a new standard that amends the existing accounting standard for income taxes and simplifies the presentation of deferred income taxes. This will require that deferred income tax assets and liabilities be classified as noncurrent on the balance sheet. This standard is applicable for fiscal years beginning after December 15, 2016 and for interim periods within those years and early adoption is permitted. The Company is evaluating this standard and the timing of its adoption. The adoption of this standard is not expected to materially impact the Company's consolidated financial statements.

In February 2016, the FASB issued a new standard for the accounting of "leases". This new standard requires lessees to recognize assets and liabilities for most leases, but recognize expenses on their income statements in a manner that is similar to the current accounting treatment for leases. The standard is applicable for fiscal years beginning after December 15, 2018 and for interim periods within those years and early adoption is permitted. The Company expects to adopt the standard on October 1, 2019. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In March 2016, the FASB issued a new standard that amends the accounting standard for stock compensation by simplifying several aspects of the accounting for employee share-based payment transactions, including the related accounting for income taxes, forfeitures, and the withholding of shares to satisfy the employer's tax withholding requirements, as well as classification in the statements of cash flows. The new standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those years and early adoption is permitted. The Company is evaluating this standard and the timing of its adoption. The adoption of this standard is not expected to materially impact the Company's consolidated financial statements.

### C. Employee Benefit Plans

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

	Three Months Ended March 31,							
	2016		2015		2016		2015	
	Pension Benefits				Postretirement Benefits			
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	(Dollars in millions)							
Service cost	\$—	\$ 2	\$—	\$ 3	\$—	\$ —	\$—	\$ —
Interest cost	2	2	1	3	—	—	1	—
Expected return on plan assets	(3)	(4 )	(2)	(4 )	—	—	—	—
Amortization of prior service credit	—	—	—	—	(1)	—	—	—
Amortization of actuarial loss	—	1	—	1	—	—	—	—
Settlement and curtailment cost (credit)	—	—	—	—	—	—	—	—
Net periodic (credit) benefit cost	\$(1)	\$ 1	\$(1)	\$ 3	\$(1 )	\$ —	\$(1)	\$ —

	Six Months Ended March 31,							
	2016		2015		2016		2015	
	Pension Benefits				Postretirement Benefits			
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	(Dollars in millions)							
Service cost	\$—	\$ 4	\$—	\$ 5	\$—	\$ —	\$—	\$ —
Interest cost	3	4	3	6	—	—	1	—
Expected return on plan assets	(6)	(7 )	(5)	(8 )	—	—	—	—
Amortization of prior service credit	—	—	—	—	(2)	—	(1)	—
Amortization of actuarial loss	—	2	—	2	—	—	—	—
Settlement and curtailment cost (credit)	—	—	—	18	(1)	—	—	—
Net periodic (credit) benefit cost	\$(3)	\$ 3	\$(2)	\$ 23	\$(3)	\$ —	\$(1)	\$ —

Settlement of employee benefit plan

Effective October 1, 2014, the Company transferred the defined benefit obligations and pension plan assets in one of its foreign defined benefit plans to a multi-employer plan. As a result of the transfer, a pre-tax charge of \$18 million was recorded in the six months ended March 31, 2015 as reflected in Settlement costs in the table above. The pre-tax charge consists of \$27 million released from Accumulated other comprehensive (loss) income (“AOCI”) and \$2 million of employer contributions at the time of the settlement, partially offset by an \$11 million release of the pension liability. The settlement charge was recorded primarily in Cost of sales in the Consolidated Statements of Operations.

## D. Goodwill and Intangible Assets

Cabot had goodwill balances of \$155 million and \$154 million at March 31, 2016 and September 30, 2015, respectively. The carrying amount of goodwill attributable to each reportable segment with goodwill balances and the changes in those balances during the six month period ended March 31, 2016 are as follows:

	Reinforce	Performance	Purification	Total
	Materials	Chemicals	Solutions	
	(Dollars in millions)			
Balance at September 30, 2015	\$55	\$ 9	\$ 90	\$154
Foreign currency impact	—	—	1	1
Balance at March 31, 2016	\$55	\$ 9	\$ 91	\$155

The following table provides information regarding the Company's intangible assets:

	March 31, 2016			September 30, 2015		
	Gross	Net	Intangible	Gross	Net	Intangible
	Carrying	Accumulated	Assets	Carrying	Accumulated	Assets
	(Dollars in millions)					
<b>Intangible assets with finite lives</b>						
Developed technologies	\$49	\$ (2 )	\$ 47	\$48	\$ (1 )	\$ 47
Trademarks	16	(1 )	15	16	—	16
Customer relationships	95	(8 )	87	96	(6 )	90
Total intangible assets	\$160	\$ (11 )	\$ 149	\$160	\$ (7 )	\$ 153

Intangible assets are amortized over their estimated useful lives, which range from fourteen to twenty-five years, with a weighted average amortization period of approximately nineteen years. Amortization expense for the three months ended March 31, 2016 and 2015 was \$2 million and \$4 million, respectively, and is included in Cost of sales and Selling and administrative expenses in the Consolidated Statements of Operations. Amortization expense for the six months ended March 31, 2016 and 2015 was \$4 million and \$8 million, respectively, and is included in Cost of sales and Selling and administrative expenses in the Consolidated Statements of Operations. Total amortization expense is estimated to be approximately \$9 million each year for the next five fiscal years.

## E. Stockholders' Equity

In fiscal 2007, the Board of Directors authorized Cabot to repurchase up to ten million shares of Cabot's common stock in the open market or in privately negotiated transactions. This authorization did not have a set expiration date. During the first six months of fiscal 2015, Cabot repurchased 925,700 shares of its common stock under this authorization.

In January 2015, the Board of Directors authorized Cabot to repurchase up to five million shares of its common stock in the open market or in privately negotiated transactions and cancelled the previous authorization. Cabot has repurchased 1,700,676 shares of its common stock under this authorization. As of March 31, 2016, 3,299,324 shares remain available for repurchase under the current authorization. The Company retired the repurchased shares and recorded the excess of the purchase price over par value to additional paid-in capital until such amount was reduced to zero and then charged the remainder against retained earnings.

During the first six months of both fiscal 2016 and 2015, Cabot paid cash dividends in the aggregate amount of \$0.44 per share of common stock, with a total cost of \$28 million in each period.

## Noncontrolling interest

The following table illustrates the noncontrolling interest activity for the periods presented:

	2016	2015
	(Dollars in millions)	
Balance at September 30	\$104	\$122
Net income attributable to noncontrolling interests	8	5
Noncontrolling interest foreign currency translation adjustment	(2 )	(3 )
Noncontrolling interest dividends declared	(16 )	(13 )
Balance at March 31	\$94	\$111

During the six months ended March 31, 2016, \$16 million of dividends were declared, of which \$3 million were paid in cash. During the six months ended March 31, 2015, \$13 million of dividends were declared, of which \$11 million were paid in cash.

## F. Accumulated Other Comprehensive Loss

Comprehensive income combines net (loss) income and other comprehensive income items, which are reported as components of stockholders' equity in the accompanying Consolidated Balance Sheets.

Changes in each component of AOCI, net of tax, are as follows:

	Currency Translation Adjustments	Unrealized Gains on Investments	Pension and Other Postretirement Benefit Liability Adjustments	Total
	(Dollars in millions)			
Balance at September 30, 2015, attributable to Cabot Corporation	\$ (239)	\$ 2	\$ (62 )	\$ (299)
Other comprehensive income (loss) before reclassifications	(47 )	—	—	(47 )
Amounts reclassified from accumulated other	—	—	(1 )	(1 )



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comprehensive (loss) income				
Net other comprehensive items	(286)	2	(63	) (347)
Less: Noncontrolling interest	(3 )	—	—	(3 )
Balance at December 31, 2015, attributable to Cabot				
Corporation	\$ (283)	\$ 2	\$ (63	) \$ (344)
Other comprehensive income (loss) before reclassifications	65	—	—	65
Amounts reclassified from accumulated other				
comprehensive income (loss)	—	—	1	1
Net other comprehensive items	(218)	2	(62	) (278)
Less: Noncontrolling interest	1	—	—	1
Balance at March 31, 2016, attributable to Cabot				
Corporation	\$ (219)	\$ 2	\$ (62	) \$ (279)

The amounts reclassified out of AOCI and into the Consolidated Statements of Operations in the three months and six months ended March 31, 2016 and 2015 are as follows:

Affected Line Item in the Consolidated Statements of Operations	Three Months Ended March 31, 2016		Six Months Ended March 31, 2015	
	2016	2015	2016	2015
Pension and other postretirement benefit liability adjustment				
Net Periodic Benefit Cost - see Note C for details	\$1	\$ 1	\$2	\$ 2
Amortization of actuarial losses				
Net Periodic Benefit Cost - see Note C for details	(1)	—	(2)	(1 )
Amortization of prior service cost				
Settlement and curtailment (credit) cost				
Net Periodic Benefit Cost - see Note C for details	—	—	(1)	27
Total before tax	—	1	(1)	28
Benefit (provision) for income taxes				
Tax impact	1	—	1	(6 )
Total after tax	\$1	\$ 1	\$—	\$ 22

## G. Commitments and Contingencies

### Purchase Commitments

Cabot has entered into long-term purchase agreements primarily for the purchase of raw materials. Under certain of these agreements the quantity of material being purchased is fixed, but the price paid changes as market prices change. For those commitments, the amounts included in the table below are based on market prices at March 31, 2016.

Payments Due by Fiscal Year	2017	2018	2019	2020	Thereafter	Total
Remaining						

	Fiscal 2016						
	(Dollars in millions)						
Reinforcement Materials	\$100	\$128	\$119	\$116	\$80	\$1,446	\$1,989
Performance Chemicals	28	51	37	32	29	154	331
Purification Solutions	5	7	1	—	—	—	13
Total	\$133	\$186	\$157	\$148	\$109	\$1,600	\$2,333

### Guarantee Agreements

Cabot has provided certain indemnities pursuant to which it may be required to make payments to an indemnified party in connection with certain transactions and agreements. In connection with certain acquisitions and divestitures, Cabot has provided routine indemnities with respect to such matters as environmental, tax, insurance, product and employee liabilities. In connection with various other agreements, including service and supply agreements with customers, Cabot has provided indemnities for certain contingencies and routine warranties. Cabot is unable to estimate the maximum potential liability for these types of indemnities as a maximum obligation is not explicitly stated in most cases and the amounts, if any, are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be reasonably estimated. The duration of the indemnities vary, and in many cases are indefinite. Cabot has not recorded any liability for these indemnities in the consolidated financial statements, except as otherwise disclosed.

### Contingencies

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

## Environmental Matters

As of March 31, 2016 and September 30, 2015, Cabot had \$14 million and \$16 million, respectively, reserved for environmental matters. These environmental matters mainly relate to closed sites. These reserves represent Cabot's best estimates of the probable costs to be incurred at those sites where costs are reasonably estimable based on the Company's analysis of the extent of clean up required, alternative clean-up methods available, abilities of other responsible parties to contribute and its interpretation of laws and regulations applicable to each site. Cash payments related to these environmental matters were \$1 million and less than \$1 million in the first six months of fiscal 2016 and 2015, respectively. Cabot reviews the adequacy of the reserves as circumstances change at individual sites and adjusts the reserves as appropriate. Almost all of Cabot's environmental issues relate to sites that are mature and have been investigated and studied and, in many cases, are subject to agreed upon remediation plans. However, depending on the results of future testing, changes in risk assessment practices, remediation techniques and regulatory requirements, newly discovered conditions, and other factors, it is reasonably possible that the Company could incur additional costs in excess of environmental reserves currently recorded. Management estimates, based on the latest available information, that any such future environmental remediation costs that are reasonably possible to be in excess of amounts already recorded would be immaterial to the Company's consolidated financial statements.

## Other Matters

### Respirator Liabilities

Cabot has exposure in connection with a safety respiratory products business that a subsidiary acquired from American Optical Corporation ("AO") in an April 1990 asset 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. As more fully described in the 2015 10-K, the respirator liabilities generally involve claims for personal injury, including asbestosis, silicosis and coal worker's pneumoconiosis, allegedly resulting from the use of respirators that are alleged to have been negligently designed and/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.

As of March 31, 2016 and September 30, 2015, there were approximately 37,000 and 38,000 claimants, respectively, in pending cases asserting claims against AO in connection with respiratory products. Cabot has a reserve to cover its expected share of liability for existing and future respirator liability claims. At March 31, 2016 and September 30, 2015, the reserve was \$9 million and \$11 million, respectively. Cash payments related to this liability were \$2 million in the first six months of both fiscal 2016 and 2015.

## Other

The Company has various other lawsuits, claims and contingent liabilities arising in the ordinary course of its business and with respect to the Company's divested businesses. In the opinion of the Company, although final disposition of some or all of these other suits and claims may impact the Company's consolidated financial statements in a particular period, they are not expected, in the aggregate, to have a material adverse effect on the Company's consolidated financial statements.

H. Income Tax

Effective Tax Rate

	Three Months Ended March 31, 2016 2015 (Dollars in millions)		Six Months Ended March 31, 2016 2015 (Dollars in millions)	
Provision for income taxes	\$11	\$14	\$6	\$17
Effective tax rate	20%	36%	12%	18%

During the three and six months ended March 31, 2016, the Company recorded tax provisions of \$11 million and \$6 million, resulting in effective tax rates of 20% and 12%, respectively. These amounts included a net discrete tax expense of \$1 million and a net discrete tax benefit of \$5 million, respectively, for the three and six months ended March 31, 2016. During the three and six months ended March 31, 2015, the Company recorded tax provisions of \$14 million and \$17 million, resulting in an effective tax rate of 36% and 18%, respectively. These amounts included a net discrete tax expense of \$4 million and a net discrete tax benefit of \$9 million, respectively, for the three and six months ended March 31, 2015.

#### Uncertainties

Cabot files U.S. federal and state and non-U.S. income tax returns in jurisdictions with varying statutes of limitations. The 2012 through 2015 tax years remain subject to examination by the United States Internal Revenue Service (“IRS”) and various tax years from 2005 through 2015 remain subject to examination by the respective state tax authorities. In significant non-U.S. jurisdictions, various tax years from 2004 through 2015 remain subject to examination by their respective tax authorities. Cabot’s significant non-U.S. jurisdictions include China, France, Germany, Italy, Japan, and the Netherlands.

Certain Cabot subsidiaries are under audit in jurisdictions outside of the U.S. In addition, certain statutes of limitations are scheduled to expire in the near future. It is reasonably possible that a change in the unrecognized tax benefits may also occur within the next twelve months related to the settlement of one or more of these audits, however, an estimated range of the impact on the unrecognized tax benefits cannot be quantified at this time.

During the three and six months ended March 31, 2016, Cabot released uncertain tax positions of \$1 million and \$3 million, respectively, due to the expirations of statutes of limitations in various jurisdictions. During the three and six months ended March 31, 2015, Cabot released uncertain tax positions of \$1 million and \$12 million, respectively, due to the expirations of statutes of limitations in various jurisdictions.

## I. Earnings Per Share

The following tables summarize the components of the basic and diluted earnings per common share computations:

	Three Months Ended March 31, 2016 2015		Six Months Ended March 31, 2016 2015	
(Dollars and shares in millions, except per share amounts)				
<b>Basic EPS:</b>				
Net income attributable to Cabot Corporation	\$48	\$26	\$41	\$71
Less: Dividends and dividend equivalents to				
participating securities	—	—	—	—
Less: Undistributed earnings allocated to				
participating securities <sup>(1)</sup>	—	—	—	—
Earnings allocated to common				
shareholders (numerator)	\$48	\$26	\$41	\$71
Weighted average common shares and				
participating securities outstanding	62.9	64.1	62.9	64.4
Less: Participating securities <sup>(1)</sup>	0.5	0.5	0.5	0.5
Adjusted weighted average common shares				
(denominator)	62.4	63.6	62.4	63.9
<b>Amounts per share - basic:</b>				
Net income attributable to Cabot Corporation	\$0.76	\$0.41	\$0.65	\$1.11
<b>Diluted EPS:</b>				
Earnings allocated to common shareholders	\$48	\$26	\$41	\$71
Plus: Earnings allocated to participating securities	—	—	—	—
Less: Adjusted earnings allocated to participating				
securities <sup>(2)</sup>	—	—	—	—
Earnings allocated to common				
shareholders (numerator)	\$48	\$26	\$41	\$71
Adjusted weighted average common shares				
outstanding	62.4	63.6	62.4	63.9
<b>Effect of dilutive securities:</b>				
Common shares issuable <sup>(3)</sup>	0.4	0.5	0.5	0.5
Adjusted weighted average common shares	62.8	64.1	62.9	64.4

(denominator)				
Amounts per share - diluted:				
Net income attributable to Cabot Corporation	\$0.76	\$0.41	\$0.65	\$1.10

<sup>(1)</sup>Participating securities consist of shares of unvested time-based restricted stock units.



Undistributed earnings are the earnings which remain after dividends declared during the period are assumed to be distributed to the common and participating shareholders. Undistributed earnings are allocated to common and participating shareholders on the same basis as dividend distributions. The calculation of undistributed earnings is as follows:

	Three Months Ended March 31, 2016		Six Months Ended March 31, 2015	
	2016	2015	2016	2015
(Dollars in millions)				
Calculation of undistributed earnings:				
Net income attributable to Cabot Corporation	\$48	\$26	\$41	\$71
Less: Dividends declared on common stock	14	14	28	28
Less: Dividends declared on participating securities	—	—	—	—
Undistributed earnings	\$34	\$12	\$13	\$43
Allocation of undistributed earnings:				
Undistributed earnings allocated to common shareholders				
	\$34	\$12	\$13	\$43
Undistributed earnings allocated to participating shareholders				
	—	—	—	—
Undistributed earnings	\$34	\$12	\$13	\$43

(2) Undistributed earnings are adjusted for the assumed distribution of dividends to the dilutive securities, which are described in (3) below, and then reallocated to participating securities.

(3) Represents incremental shares of common stock from the (i) assumed exercise of stock options issued under Cabot's equity incentive plans; (ii) assumed issuance of shares to employees pursuant to the Company's Deferred Compensation and Supplemental Retirement Plan; and (iii) assumed issuance of shares under outstanding performance-based restricted stock unit awards issued under Cabot's equity incentive plans. For the three and six months ended March 31, 2016, 792,753 and 710,236 incremental shares of common stock, respectively, were not included in the calculation of diluted earnings per share because the inclusion of these shares would have been antidilutive. For the three and six months ended March 31, 2015, 437,647 and 380,981 incremental shares of common stock, respectively, were not included in the calculation of diluted earnings per share because the inclusion of these shares would have been antidilutive.

## J. Restructuring

Cabot's restructuring activities were recorded in the Consolidated Statements of Operations as follows:

	Three Months Ended March 31, 2016 2015		Six Months Ended March 31, 2016 2015	
	(Dollars in millions)			
Cost of sales	\$ (6 )	\$ 1	\$31	\$ 3
Selling and administrative expenses	1	4	8	9
Research and technical expenses	—	—	4	—
Total	\$ (5 )	\$ 5	\$43	\$ 12

Details of all restructuring activities and the related reserves during the three months ended March 31, 2016 are as follows:

	Severance and Employee Benefits		Environmental Remediation	Asset Sales	Asset Depreciation	Asset Accelerated Other	Total
	(Dollars in millions)						
Reserve at December 31, 2015	\$19	\$ 2	\$ —	\$ —	\$ —	\$ 1	\$ 22
Charges (credit)	1	—	(8 )	1	1	1	(5 )
Costs charged against assets	—	—	(1 )	(1 )	—	—	(2 )
Cash (paid) received	(9 )	—	9	—	—	(2 )	(2 )
Reserve at March 31, 2016	\$11	\$ 2	\$ —	\$ —	\$ —	\$ —	\$ 13

Details of all restructuring activities and the related reserves during the six months ended March 31, 2016 are as follows:

	Severance and Employee Benefits		Environmental Remediation	Asset Sales	Asset Depreciation	Asset Accelerated Other	Total
	(Dollars in millions)						
Reserve at September 30, 2015	\$5	\$ 2	\$ —	\$ —	\$ —	\$ 2	\$ 9
Charges (credit)	26	—	(9 )	23	3	3	43
Costs charged against assets	—	—	(7 )	(23 )	—	—	(30 )
Cash (paid) received	(20)	—	16	—	—	(5 )	(9 )
Reserve at March 31, 2016	\$11	\$ 2	\$ —	\$ —	\$ —	\$ —	\$ 13

#### 2016 Plan

On October 20, 2015, in response to challenging macroeconomic conditions, the Company announced its intention to restructure its operations subject to local consultation requirements and processes in certain locations. Cabot's plan has resulted in a reduction of approximately 300 positions across the Company's global locations. These actions are

intended to result in a more competitive cost structure.

The Company has recorded pre-tax charges of approximately \$26 million in the first six months of fiscal 2016 and \$2 million for the three months ended March 31, 2016 related to this plan. The Company expects to record an additional \$2 million through the rest of fiscal 2016 and less than \$1 million thereafter related to these actions. The charges recorded and anticipated are comprised of severance, employee benefits and other transition costs.

Cumulative net cash outlays related to these actions are expected to be approximately \$29 million, comprised of severance, employee benefits and other transition costs. Through March 31, 2016, the Company has made \$18 million in cash payments related to this plan and expects to make \$9 million in cash payments through the remainder of fiscal 2016 and \$2 million thereafter.

As of March 31, 2016, Cabot has \$8 million of accrued restructuring costs in the Consolidated Balance Sheet related to these actions, which is mainly comprised of accrued severance charges.

Additionally, on November 11, 2015, Cabot announced that it had committed to closing its carbon black manufacturing facility in Merak, Indonesia. The decision to close this plant and to consolidate production in Asia using the Company's Cilegon, Indonesia and other Asian and global carbon black production sites to meet regional demand was driven by the financial performance at the Merak facility in the past several years. Manufacturing operations ceased at the end of January 2016 and approximately 50 employees were affected.

The Company has recorded pre-tax charges of approximately \$25 million in the first six months of fiscal 2016 related to this closure, comprised of \$23 million of asset impairments and accelerated depreciation and \$2 million of severance and employee benefits and has recorded approximately \$1 million in the three months ended March 31, 2016 comprised mainly of accelerated depreciation. The asset impairment charges reflect the write-down of the long-lived assets group that is no longer in use to its fair value.

Future anticipated site closure costs for the Merak facility, anticipated to be recorded through the remainder of fiscal 2016, are \$5 million for site remediation and other miscellaneous costs.

Net cash outlays related to this closure are expected to be approximately \$8 million, comprised of \$5 million site remediation costs, \$2 million severance payments, and \$1 million for other charges. Through March 31, 2016 the Company has made \$2 million in cash payments related to this plan, mainly for severance and other miscellaneous charges and expects to pay \$6 million through the remainder of fiscal 2016 mainly for site remediation costs of \$5 million plus severance and other charges totaling \$1 million.

As of March 31, 2016, Cabot has \$1 million of accrued severance costs in the Consolidated Balance Sheet related to the Merak facility closure.

Details of the 2016 restructuring activities, including the Merak facility closure, during the three and six months ended March 31, 2016 are as follows:

	Asset Impairment Severance and Employee Accelerated Benefits	Depreciation	Other	Total
	(Dollars in millions)			
Reserve at September 30, 2015	\$—	\$ —	\$ —	\$—
Charges	25	22	1	48
Costs charged against liabilities / (assets)	1	(22 )	—	(21 )
Cash paid	(10)	—	(1 )	(11 )
Reserve at December 31, 2015	\$16	\$ —	\$ —	\$16
Charges	—	1	2	3
Costs charged against assets / liabilities	—	(1 )	—	(1 )
Cash paid	(7 )	—	(2 )	(9 )
Reserve at March 31, 2016	\$9	\$ —	\$ —	\$9

#### Business Service Center Transition

In January 2014, the Company announced its intention to open a new Europe, Middle East and Africa (“EMEA”) business service center in Riga, Latvia, and to close its Leuven, Belgium site, subject to the Belgian information and consultation process, which was successfully completed in June 2014. These actions were developed following an

extensive evaluation of the Company's business service capabilities in the EMEA region and a determination that the future EMEA business service center will enable the Company to provide the highest quality of service at the most competitive cost.

The actions related to the transition of the business service center have been completed and have resulted in total charges of approximately \$24 million, comprised of \$16 million of severance charges and \$8 million of other transition costs including training costs and redundant salaries. There were no charges related to this plan recorded in the first six months of fiscal 2016 and \$5 million was recorded related to this plan in the first six months of fiscal 2015 comprised of severance charges of \$1 million and \$4 million of other transition costs including training costs and redundant salaries.

Through March 31, 2016, the Company has made \$20 million in cash payments related to this plan, comprised of \$13 million of severance payments and \$7 million of other transition related costs, and expects to make cash payments of approximately \$1 million, comprised mainly of severance, in the remainder of fiscal 2016. The difference between the initial accrual and subsequent cash payments was due to changes in foreign exchange rates.

As of March 31, 2016, Cabot has \$1 million of accrued severance charges in the Consolidated Balance Sheet.

#### Closure of Port Dickson, Malaysia Manufacturing Facility

On April 26, 2013, the Company announced that the Board of its carbon black joint venture, Cabot Malaysia Sdn. Bhd. (“CMSB”), decided to cease production at its Port Dickson, Malaysia facility. The facility ceased production in June 2013. The Company holds a 50.1 percent equity share in CMSB. The decision, which affected approximately 90 carbon black employees, was driven by the facility’s manufacturing inefficiencies and raw materials costs.

Through March 31, 2016, the Company recorded cumulative net pre-tax restructuring charges related to this plan of \$19 million, comprised mainly of accelerated depreciation and asset write-offs of \$16 million, severance charges of \$2 million, site demolition, clearing and environmental remediation charges of \$2 million, and other closure related charges of \$1 million, partially offset by the gain from the sale of land of \$2 million in the first quarter of fiscal 2016. CMSB’s net income or loss is attributable to Cabot Corporation and to the noncontrolling interest in the joint venture.

The Company has recorded a net pre-tax gain of approximately \$1 million and a net pre-tax charge of less than \$1 million in the six months ended March 31, 2016 and 2015, respectively, and a net pre-tax charge of less than \$1 million in both of the three months ended March 31, 2016 and 2015. The portion of the charges that are allocable to the noncontrolling interest in CMSB (49.9%) are recorded within Net income attributable to noncontrolling interests, net of tax, in the Consolidated Statements of Operations. The majority of actions related to closure of the plant were completed in fiscal 2014.

Cumulative net cash received related to this plan is \$3 million, comprised of \$7 million received from the sale of land, partially offset by approximately \$2 million paid for severance, \$1 million paid for site demolition, clearing and environmental remediation, and \$1 million paid for other closure related charges.

CMSB expects to make cash payments of less than \$1 million during the remainder of fiscal 2016 mainly for site demolition, clearing and environmental remediation costs.

As of March 31, 2016, Cabot has less than \$1 million of accrued restructuring costs in the Consolidated Balance Sheets related to this closure, which is mainly for accrued environmental charges.

#### Other Activities

The Company has recorded other pre-tax restructuring charges of approximately \$1 million and \$4 million during the first six months of fiscal 2016 and 2015, respectively, and a benefit of less than \$1 million and charges of \$3 million during the first three months of fiscal 2016 and 2015, respectively. Fiscal 2016 activity is comprised mainly of accelerated depreciation and severance adjustments whereas fiscal 2015 charges are comprised of severance costs. Future charges related to these actions are anticipated to be less than \$1 million in the remainder of fiscal 2016 and thereafter.

As of March 31, 2016, Cabot has approximately \$1 million of accrued severance and other closure related costs in the Consolidated Balance Sheets related to these activities which are expected to be paid through early fiscal 2017.

#### Previous Actions and Sites Pending Sale

Beginning in fiscal 2009, the Company entered into several different restructuring plans which have been substantially completed, pending the sale of former manufacturing site in Thane, India. The Company has incurred total cumulative pre-tax charges of approximately \$158 million related to these plans through March 31, 2016, comprised of \$67 million for severance charges, \$66 million for accelerated depreciation and asset impairments, \$10 million for environmental, demolition and site clearing costs, and \$23 million of other closure related charges, partially offset by

gains on asset sales of \$8 million. In the three months ended March 31, 2016 the Company recorded a net benefit of \$7 million driven by the gain on the sale of land rights in Hong Kong. Pre-tax restructuring charges were less than \$1 million in the three months ended March 31, 2015 related to these actions.

The net pre-tax restructuring gain related to these plans was \$7 million for the six months ended March 31, 2016 whereas charges of \$2 million were recorded during the six months ended March 31, 2015. Since fiscal 2009, Cabot has made net cash payments of \$78 million related to these plans comprised of \$63 million for severance payments, \$10 million for environmental, demolition and site clearing costs, and \$24 million for other closure related charges, partially offset by cash proceeds from asset sales of \$19 million. The Company expects to pay approximately \$2 million for environmental and other closure related costs in the remainder of fiscal 2016 and thereafter.



As of March 31, 2016, Cabot has \$2 million of accrued environmental and other closure related costs in the Consolidated Balance Sheets related to these activities.

#### K. Financial Instruments and Fair Value Measurements

The FASB authoritative guidance on fair value measurements defines fair value, provides a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. The disclosures focus on the inputs used to measure fair value. The guidance establishes the following hierarchy for categorizing these inputs:

Level 1 —Quoted market prices in active markets for identical assets or liabilities

Level 2 —Significant other observable inputs (e.g., quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs other than quoted prices that are observable such as interest rate and yield curves, and market-corroborated inputs)

Level 3 —Significant unobservable inputs

There were no transfers of financial assets or liabilities measured at fair value between Level 1 and Level 2 and there were no Level 3 investments during the first six months of either fiscal 2016 or 2015.

At both March 31, 2016 and September 30, 2015, the fair value of Guaranteed investment contracts, included in Other assets on the Consolidated Balance Sheets, was \$12 million. Guaranteed investment contracts were classified as Level 2 instruments within the fair value hierarchy as the fair value determination was based on other observable inputs.

At March 31, 2016 and September 30, 2015, the fair values of cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities, and notes payable and variable rate debt approximated their carrying values due to the short-term nature of these instruments. The carrying value and fair value of the long-term fixed rate debt were \$0.96 billion and \$1.01 billion, respectively, as of March 31, 2016 and \$0.96 billion and \$1.02 billion, respectively, as of September 30, 2015. The fair values of Cabot's fixed rate long-term debt and capital lease obligations are estimated based on comparable quoted market prices at the respective period ends. The carrying amounts of Cabot's floating rate long-term debt and capital lease obligations approximate their fair values. All such measurements are based on observable inputs and are classified as Level 2 within the fair value hierarchy. The valuation technique used is the discounted cash flow model.

#### L. Derivatives

##### Foreign Currency Risk Management

Cabot's international operations are subject to certain risks, including currency exchange rate fluctuations and government actions. Cabot endeavors to match the currency in which its debt is issued to the currency of the Company's major, stable cash receipts. In some situations Cabot has issued debt denominated in U.S. dollars and then entered into cross currency swaps that exchange the dollar principal and interest payments into a currency where the Company expects long-term, stable cash receipts.

Additionally, the Company has foreign currency exposure arising from its net investments in foreign operations. Cabot, from time to time, enters into cross-currency swaps to mitigate the impact of currency rate changes on the Company's net investments.

The Company also has foreign currency exposure arising from the denomination of monetary assets and liabilities 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, Cabot uses short-term forward contracts to minimize the exposure to foreign currency risk. In certain situations where the Company has forecasted purchases under a long-term commitment or forecasted sales denominated in a foreign currency, Cabot may enter into appropriate financial instruments in accordance with the Company's risk management policy to hedge future cash flow exposures.

The following table provides details of the derivatives held as of March 31, 2016 and September 30, 2015 to manage foreign currency risk.

Description	Borrowing	Notional Amount, net		Hedge Designation
		March 31, 2016	September 30, 2015	
Forward Foreign Currency Contracts <sup>(1)</sup>	N/A	USD 3 million	USD 2 million	No designation

<sup>(1)</sup>Cabot's forward foreign exchange contracts are denominated primarily in the British pound sterling, Czech koruna, and Indonesian rupiah.

#### Accounting for Derivative Instruments and Hedging Activities

The Company determines the fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available for various types of financial instruments (such as forwards, options and swaps), the Company uses standard models with market-based inputs, which take into account the present value of estimated future cash flows and the ability of the financial counterparty to perform. For interest rate and cross-currency swaps, the significant inputs to these models are interest rate curves for discounting future cash flows. For forward foreign currency contracts, the significant inputs are interest rate curves for discounting future cash flows, and exchange rate curves of the foreign currency for translating future cash flows.

#### Cash Flow Hedge

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is recorded in Accumulated other comprehensive (loss) income and reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current period earnings.

#### Derivative Instruments

From time to time, the Company may enter into certain derivative instruments that may not be designated as hedges for accounting purposes, which include cross currency swaps, foreign currency forward contracts and commodity derivatives. For cross currency swaps and foreign currency forward contracts not designated as hedges, the Company uses standard models with market-based inputs. The significant inputs to these models are interest rate curves for discounting future cash flows, and exchange rate curves of the foreign currency for translating 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. Although these derivatives do not qualify for hedge accounting, Cabot believes that such instruments are closely correlated with the underlying exposure, thus managing the associated risk. The gains or losses from changes in the fair value of derivative instruments that are not accounted for as hedges are recognized in current period earnings.

As of both March 31, 2016 and September 30, 2015, the fair value of derivative instruments were immaterial and were presented in Prepaid expenses and other current assets and Accounts payable and accrued liabilities on the Consolidated Balance Sheets.

M. Venezuela

Cabot owns 49% of an operating carbon black affiliate in Venezuela, which is accounted for as an equity affiliate, through wholly-owned subsidiaries that carry the investment and receive its dividends. As of March 31, 2016, these subsidiaries carried the operating affiliate investment of \$13 million and held 16 million bolivars (less than \$1 million) in cash.

During the six month periods ended March 31, 2016 and 2015, the Company received dividends in the amounts of \$2 million and \$4 million, respectively, which were paid in U.S. dollars.

A significant portion of the Company's operating affiliate's sales are exports denominated in U.S. dollars. The Venezuelan government mandates that a certain percentage of the dollars collected from these sales be converted into bolivars. During the second quarter of fiscal 2016, the exchange rate that was made available to the Company when converting these dollars to bolivars was changed from 52 bolivars to the U.S. dollar to 270 bolivars to the U.S. dollar. The operating affiliate and the Company's wholly-

owned subsidiaries remeasured their bolivar denominated monetary accounts to reflect the new rate. The impact of the exchange rate devaluation on the operating affiliate and the Company's wholly-owned subsidiaries' results was a net gain of less than \$1 million during the second quarter of fiscal 2016.

The operating entity has generally been profitable. The Company continues to closely monitor developments in Venezuela and their potential impact on the recoverability of its equity affiliate investment. Any future change in the exchange rate made available to the Company or opening of additional parallel markets could cause the Company to change the exchange rate it uses and result in gains or losses on the bolivar denominated assets held by its operating affiliate and wholly-owned subsidiaries.

#### N. Financial Information by Segment

The Company identifies a business as an operating segment if: i) it engages in business activities from which it may earn revenues and incur expenses; ii) its operating results are regularly reviewed by the Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance; and iii) it has available discrete financial information. The Company has determined that all of its businesses are operating segments. The CODM reviews financial information at the operating segment level to allocate resources and to assess the operating results and financial performance for each operating segment. Operating segments are aggregated into a reportable segment if the operating segments are determined to have similar economic characteristics and if the operating segments are similar in the following areas: i) nature of products and services; ii) nature of production processes; iii) type or class of customer for their products and services; iv) methods used to distribute the products or provide services; and v) if applicable, the nature of the regulatory environment.

The Company has four reportable segments: Reinforcement Materials, Performance Chemicals, Purification Solutions and Specialty Fluids.

The Reinforcement Materials segment represents the rubber blacks and elastomer composites product lines.

Performance Chemicals is comprised of two businesses: (i) our Specialty Carbons and Formulations business, which manufactures and sells specialty grades of carbon black, specialty compounds and inkjet colorants, and (ii) our Metal Oxides business, which manufactures and sells fumed silica, fumed alumina and dispersions thereof and aerogel. The net sales from each of these businesses for the three and six months ended March 31, 2016 and 2015 are as follows:

	Three Months Ended March 31, 2016		Six Months Ended March 31, 2015	
	2016	2015	2016	2015
	(Dollars in millions)			
Specialty Carbons and Formulations	\$145	\$162	\$285	\$319
Metal Oxides	71	75	138	147

Total Performance Chemicals	\$216	\$237	\$423	\$466
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The Purification Solutions segment represents the Company's activated carbon business and the Specialty Fluids segment includes cesium formate oil and gas drilling fluids and high-purity fine cesium chemicals product lines.

Reportable segment operating profit (loss) before interest and taxes ("Segment EBIT") is presented for each reportable segment in the financial information by reportable segment table below on the line entitled Income (loss) from continuing operations before taxes. Segment EBIT excludes certain items, meaning items management does not consider representative of segment results. In addition, Segment EBIT includes Equity in earnings (loss) of affiliated companies, net of tax, the full operating results of a contractual joint venture in Purification Solutions, royalties, Net income attributable to noncontrolling interests, net of tax, and discounting charges for certain Notes receivable, but excludes Interest expense, foreign currency transaction gains and losses, interest income, dividend income, unearned revenue, the effects of LIFO accounting for inventory, general unallocated expense and unallocated corporate costs.

Financial information by reportable segment is as follows:

	Reinforcement Materials	Performance Chemicals	Purification Solutions	Specialty Fluids	Segment Total	Unallocated and Other <sup>(1)</sup>	Consolidated Total
	(Dollars in millions)						
<b>Three Months Ended March 31, 2016</b>							
Revenues from external customers <sup>(2)</sup>	\$261	\$ 216	\$ 67	\$ 6	\$ 550	\$ 18	\$ 568
Income (loss) from continuing operations							
before taxes <sup>(3)</sup>	\$34	\$ 58	\$ (2 )	\$ (2 )	\$ 88	\$ (26 )	\$ 62
<b>Three Months Ended March 31, 2015</b>							
Revenues from external customers <sup>(2)</sup>	\$358	\$ 237	\$ 71	\$ 8	\$ 674	\$ 20	\$ 694
Income (loss) from continuing operations							
before taxes <sup>(3)</sup>	\$27	\$ 42	\$ 1	\$ (1 )	\$ 69	\$ (30 )	\$ 39
<b>Six Months Ended March 31, 2016</b>							
Revenues from external customers <sup>(2)</sup>	\$549	\$ 423	\$ 133	\$ 13	\$ 1,118	\$ 53	\$ 1,171
Income (loss) from continuing operations							
before taxes <sup>(3)</sup>	\$60	\$ 108	\$ (7 )	\$ (2 )	\$ 159	\$ (105 )	\$ 54
<b>Six Months Ended March 31, 2015</b>							
Revenues from external customers <sup>(2)</sup>	\$818	\$ 466	\$ 147	\$ 24	\$ 1,455	\$ 51	\$ 1,506
Income (loss) from continuing operations							
before taxes <sup>(3)</sup>	\$80	\$ 81	\$ —	\$ 5	\$ 166	\$ (76 )	\$ 90

<sup>(1)</sup>Unallocated and Other includes certain items and eliminations necessary to reflect management's reporting of operating segment results. These items are reflective of the segment reporting presented to the Chief Operating Decision Maker.

(2)“Unallocated and Other revenues from external customers” reflects royalties, other operating revenues, external shipping and handling costs, the impact of unearned revenue, the removal of 100% of the sales of an equity method affiliate and discounting charges for certain Notes receivable. Details are provided in the table below:

	Three Months Ended March 31, 2016	2015	Six Months Ended March 31, 2016	2015
	(Dollars in millions)			
Royalties, other operating revenues, the impact of unearned revenue, the removal of 100% of the sales of an equity method affiliate and discounting charges for certain Notes receivable	\$(9 )	\$(8 )	\$—	\$(4 )
Shipping and handling fees	27	28	53	55
<b>Total</b>	<b>\$18</b>	<b>\$20</b>	<b>\$53</b>	<b>\$51</b>

(3)Income (loss) from continuing operations before taxes that are categorized as Unallocated and Other includes:

	Three Months Ended March 31, 2016	2015	Six Months Ended March 31, 2016	2015
	(Dollars in millions)			
Interest expense	\$(14)	\$(14)	\$(27 )	\$(27)
Total certain items, pre-tax <sup>(a)</sup>	1	(6 )	(57 )	(32)
Equity in (earnings) loss of affiliated companies, net of tax <sup>(b)</sup>	(1 )	(2 )	(1 )	(3 )
Unallocated corporate costs <sup>(c)</sup>	(12)	(11)	(25 )	(23)
General unallocated income (expense) <sup>(d)</sup>	—	3	5	9
<b>Total</b>	<b>\$(26)</b>	<b>\$(30)</b>	<b>\$(105)</b>	<b>\$(76)</b>

(a) Certain items are items that management does not consider to be representative of operating segment results and they are, therefore, excluded from Segment EBIT. Certain items, pre-tax, for the three months ended March 31, 2016 include a \$5 million benefit related to global restructuring activities, \$3 million of net foreign currency impacts related to a loss on the devaluation of the Argentine peso, which was partially offset by a gain on the devaluation of the Venezuelan bolivar, and \$1 million related to legal and environmental matters and reserves. Certain items, pre-tax, for the six months ended March 31, 2016 include \$43 million related to global restructuring activities, \$11 million related to net foreign currency impacts related to a loss on the devaluation of the Argentine peso, which was partially offset by a gain on the devaluation of the Venezuelan bolivar, and \$3 million related to legal and environmental matters and reserves. Certain items, pre-tax, for the three months



ended March 31, 2015 include a \$5 million charge related to global restructuring activities and \$1 million for acquisition and integration-related charges. Certain items, pre-tax, for the six months ended March 31, 2015 include a \$12 million charge related to global restructuring activities, \$2 million for acquisition and integration-related charges and \$18 million related to an employee benefit plan settlement charge.

- (b) Equity in (earnings) loss of affiliated companies, net of tax, is included in Segment EBIT and is removed from Unallocated and other to reconcile to income (loss) from operations before taxes.
- (c) Unallocated corporate costs are not controlled by the segments and primarily benefit corporate interests.
- (d) General unallocated income consists of gains (losses) arising from foreign currency transactions, net of other foreign currency risk management activities, the impact of accounting for certain inventory on a LIFO basis, the profit or loss related to the corporate adjustment for unearned revenue, and the impact of including the full operating results of an equity affiliate in Purification Solutions Segment EBIT.

## Item 2. 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 the 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. Our critical accounting policies have not substantially changed from those described in the 2015 Form 10-K. We have updated the description of the policies included below to reflect recent events.

### Intangible Assets and Goodwill Impairment

We record tangible and intangible assets acquired and liabilities assumed in business combinations under the acquisition method of accounting. Amounts paid for an acquisition are allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. 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. Goodwill is not amortized, but is reviewed for impairment annually as of May 31, or when events or changes in the business environment indicate that the carrying value of the reporting unit may exceed its fair value. A reporting unit, for the purpose of the impairment test, is at or below the operating segment level, and constitutes a business for which discrete financial information is available and regularly reviewed by segment management. The separate businesses included within Performance Chemicals are considered separate reporting units. The goodwill balance relative to this segment is recorded in the Metal Oxides reporting unit.

For the purpose of the goodwill impairment test, we 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 amount. 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, an additional quantitative evaluation is performed under the two-step impairment test. Alternatively, we may elect to proceed directly to the quantitative goodwill 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. The fair value of a reporting unit is based on discounted estimated future cash flows. The fair value is also benchmarked against a market approach using the guideline public companies method. The assumptions used to estimate fair value include management's best estimates of future growth rates, operating cash flows, capital expenditures and discount rates over an estimate of the remaining operating period at the reporting unit level. Should the fair value of any of our reporting units decline below its carrying amount because of reduced operating performance, market declines, changes in the discount rate, or other conditions, charges for impairment may be necessary. Based on our most recent annual goodwill impairment test performed as of May 31, 2015, the fair values of the Reinforcement Materials and Metal Oxides reporting units were substantially in excess of their carrying values. The fair value of the Purification Solutions reporting unit was less than its carrying amount and an impairment was recorded in the third fiscal quarter of 2015. Due to the impairment recorded on June 30, 2015, the fair value of the Purification Solutions reporting unit was insignificantly higher than its carrying value as of the last impairment date. No events have occurred subsequent to the last impairment evaluation that would suggest that it is more likely than not that the carrying values of any of our reporting units exceeded its fair value. Nonetheless, the future growth in the Purification Solutions segment is highly dependent on achieving the expected volumes and

margins in the activated carbon based mercury removal business. These volumes and margins are highly dependent on demand for mercury removal products and our successful realization of its anticipated share of volumes in this business. The expected demand for mercury removal products significantly depends on: (1) environmental laws and regulations, particularly those that require U.S. based coal-fired electric utilities to reduce the quantity of air pollutants they release, including mercury, to comply with the Mercury and Air Toxics Standards (“MATS”) issued by the U.S. Environmental Protection Agency (“EPA”) continuing to be in effect and enforced and (2) other factors, such as the volume of activated carbon used in coal-fired energy units for the removal of pollutants and the utilization of these units for electricity generation.

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 assumptions used in the valuation model. 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 fair value of the assets at the dates of acquisition.

Definite-lived intangible assets, which are comprised of trademarks, customer relationships and developed technologies, are amortized over their estimated useful lives and are reviewed for impairment when indication of potential impairment exists, such as a significant reduction in cash flows associated with the assets. We recognized an impairment on intangible assets associated with the Purification Solutions business in the third fiscal quarter of 2015 and no events have been subsequently identified that would require an additional impairment evaluation.

#### Long-lived Assets Impairment

Our long-lived assets primarily include property, plant and equipment, intangible assets, long-term investments and assets held for rent. The carrying values of long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be recoverable.

To test for impairment of assets we generally use a probability-weighted estimate of the future undiscounted net cash flows of the assets over their remaining lives to determine if the value of the asset is recoverable. Long-lived assets are grouped with other assets and liabilities at the lowest level for which independent identifiable cash flows are determinable.

An asset impairment is recognized when the carrying value of the asset is not recoverable based on the analysis described above, in which case the asset is written down to its fair value. If the asset does not have a readily determinable market value, a discounted cash flow model may be used to determine the fair value of the asset. In circumstances when an asset does not have separate identifiable cash flows, an impairment charge is recorded when we no longer intend to use the asset.

#### Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives. The depreciable lives for buildings, machinery and equipment, and other fixed assets are twenty to twenty-five years, ten to twenty-five years, and three to twenty-five years, respectively. The cost and accumulated depreciation for property, plant and equipment sold, retired, or otherwise disposed of are removed from the Consolidated Balance Sheets and resulting gains or losses are included in earnings in the Consolidated Statements of Operations. Expenditures for repairs and maintenance are charged to expenses as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing plant and equipment, are capitalized and depreciated.

#### 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 our tax provision or benefit on an interim basis using an estimated annual effective tax rate. This rate is applied to the current period ordinary income or loss to determine the income tax provision or benefit allocated to the interim period. Losses from jurisdictions for which no benefit can be recognized and the income tax effects of unusual or infrequent items are excluded from the estimated annual effective tax rate and are recognized in the impacted interim period. The estimated annual effective tax

rate may be significantly impacted by nondeductible expenses and our projected earnings mix by tax jurisdiction. Adjustments to the estimated annual effective income tax rate are recognized in the period when such estimates are revised.

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.

## 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 mix of types and grades of products sold or the mix of geographic regions where products are sold, and the positive or negative impact this has on the revenue or profitability of the business and/or segment.

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

The discussion under the heading "Provision for Income Taxes and Reconciliation of Effective Tax Rate to Operating Tax Rate" includes a discussion of our "effective tax rate" and our "operating tax rate" and includes a reconciliation of the two rates. Our operating tax rate is a non-GAAP financial measure and should not be considered as an alternative to our effective tax rate, the most comparable GAAP financial measure. In calculating our operating tax rate, we exclude discrete tax items, which include: i) unusual or infrequent items such as a significant release of a valuation allowance, ii) items related to uncertain tax positions such as the tax impact of audit settlements, interest on tax reserves, and the release of tax reserves from the expiration of statutes of limitations, and iii) other discrete tax items, such as the tax

impact of legislative changes and, on a quarterly basis, the timing of losses in certain jurisdictions and the cumulative rate adjustment, if applicable. We also exclude the tax impact of certain items, as defined below in the discussion of Total segment EBIT, on both operating income and the tax provision. Our definition of the operating tax rate may not be comparable to the definition used by other companies. Management believes that the non-GAAP financial measure is useful supplemental information because it helps our investors compare our tax rate year to year on a consistent basis and understand what our tax rate on current operations would be without the impact of these items which we do not believe are reflective of the underlying business results.

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, as well as items that are not allocated to our business segments, such as interest expense and other 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 Total segment EBIT 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 earnings (loss) of affiliated companies is provided in Note N of our consolidated financial statements.

Cabot is organized into four reportable business segments: Reinforcement Materials, Performance Chemicals, Purification Solutions and Specialty Fluids. 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 our financial condition and operating results should be read with our consolidated financial statements and accompanying notes.

#### Overview

During the second quarter of fiscal 2016, Income from continuing operations before income taxes and equity in earnings of affiliated companies increased compared to the second quarter of fiscal 2015 primarily due to lower fixed costs as a result of restructuring actions taken earlier in the fiscal year and improved unit margins from lower raw material costs and improved product mix.

During the first six months of fiscal 2016, Income from continuing operations before income taxes and equity in earnings of affiliated companies decreased compared to the first six months of fiscal 2015 primarily due to charges associated with restructuring plans, including the closure of our carbon black manufacturing plant in Merak, Indonesia. The plans resulted in charges of \$43 million during the first six months of fiscal 2016. In addition, results declined due to lower volumes across the segments as well as the unfavorable impact from reducing inventory levels in the Purification Solutions segment.

#### Second Quarter of Fiscal 2016 versus Second Quarter of Fiscal 2015—Consolidated

##### Net Sales and other operating revenues and Gross Profit

	Three Months Ended March 31, 2016 2015 (Dollars in millions)		Six Months Ended March 31, 2016 2015 (Dollars in millions)	
Net sales and other operating revenues	\$568	\$694	\$1,171	\$1,506
Gross profit	\$150	\$139	\$249	\$296

The \$126 million decrease in net sales in the second quarter of fiscal 2016 compared to the second quarter of fiscal 2015 was due to a less favorable price and product mix (combined \$97 million), an unfavorable impact from foreign currency translation (\$21 million), and lower volumes (\$6 million). For the first six months of fiscal 2016, net sales decreased by \$335 million compared to the first six months of fiscal 2015 due to a less favorable price and product mix (combined \$248 million), an unfavorable impact from foreign currency translation (\$60 million), and lower volumes (\$26 million). The less favorable price and product mix in both comparative periods was primarily due to lower selling prices from price adjustments to customers for decreases in raw material costs. The lower volumes in



both comparative periods were driven primarily by lower demand in the Reinforcement Materials and Specialty Fluids segments.

Gross profit increased by \$11 million in the second quarter of fiscal 2016 compared to the second quarter of fiscal 2015 primarily due to lower fixed costs as a result of restructuring actions taken earlier in the fiscal year and improved unit margins from lower raw material costs and improved product mix. Results for the second quarter of fiscal 2016 also include a gain of \$7 million on the sale of land from a closed site. For the first six months of fiscal 2016, gross profit decreased by \$47 million primarily due to charges associated with restructuring plans.

Selling and Administrative Expenses

	Three Months Ended March 31, 2016 2015 (Dollars in millions)		Six Months Ended March 31, 2016 2015 (Dollars in millions)	
Selling and administrative expenses	\$62	\$ 71	\$133	\$149

Selling and administrative expenses decreased by \$9 million in the second quarter of fiscal 2016 and \$16 million in the first six months of fiscal 2016 compared to the same periods of fiscal 2015. The decline in both periods is primarily as a result of restructuring actions taken to reduce fixed costs across the Company.

#### Research and Technical Expenses

	Three Months Ended March 31, 2016		Six Months Ended March 31, 2015	
	2016	2015	2016	2015
	(Dollars in millions)		(Dollars in millions)	
Research and technical expenses	\$11	\$14	\$27	\$29

Research and technical expenses decreased by \$3 million in the second quarter of fiscal 2016 and \$2 million in the first six months of fiscal 2016 compared to the same periods of fiscal 2015. The decline in both periods is primarily as a result of restructuring actions taken to reduce fixed costs across the Company.

#### Interest and Dividend Income, Interest Expense and Other Expense

	Three Months Ended March 31, 2016		Six Months Ended March 31, 2015	
	2016	2015	2016	2015
	(Dollars in millions)		(Dollars in millions)	
Interest and dividend income	\$2	\$1	\$3	\$2
Interest expense	\$(14)	\$(14)	\$(27)	\$(27)
Other expense	\$(3 )	\$(2 )	\$(11)	\$(3 )

Interest and dividend income increased by \$1 million in both the second quarter of fiscal 2016 and the first six months of fiscal 2016 compared to the same periods of fiscal 2015 due to interest earned on higher cash balances.

Interest expense was consistent in the second quarter of fiscal 2016 and the first six months of 2016 as compared to the same periods in fiscal 2015.

Other expense increased by \$1 million in the second quarter of fiscal 2016 compared to the second quarter of fiscal 2015 and by \$8 million in the first six months of 2016 compared to the same period of fiscal 2015. The increase in both periods is primarily due to an unfavorable comparison of foreign currency movements, most notably the

devaluation of the Argentine peso.

Provision for Income Taxes and Reconciliation of Effective Tax Rate to Operating Tax Rate

	Three Months Ended March 31, 2016 2015 (Dollars in millions)		Six Months Ended March 31, 2016 2015 (Dollars in millions)	
Provision for income taxes	\$11	\$ 14	\$6	\$ 17
Effective tax rate	20%	36 %	12%	18 %
Impact of discrete tax items:				
(1) Unusual or infrequent items	(1 )%	(1 )%	1 %	5 %
(2) Items related to uncertain tax positions	-%	-%	3 %	9 %
(3) Other discrete tax items	1 %	(8 )%	1 %	(4 )%
Impact of certain items	5 %	1 %	8 %	-%
Operating tax rate	25%	28 %	25%	28 %

During the three and six months ended March 31, 2016, we recorded tax provisions of \$11 million and \$6 million, resulting in effective tax rates of 20% and 12%, respectively. These amounts included a net discrete tax expense unrelated to certain items of less than \$1 million and a net discrete tax benefit unrelated to certain items of \$3 million, respectively, for the three and six months

ended March 31, 2016. The operating tax rate for both the three and six months ended March 31, 2016 was 25%. During the three and six months ended March 31, 2015, we recorded tax provisions of \$14 million and \$17 million, resulting in effective tax rates of 36% and 18%, respectively. These amounts included a net discrete tax expense unrelated to certain items of \$4 million and a net discrete tax benefit unrelated to certain items of \$9 million, respectively, for the three and six months ended March 31, 2015. The operating tax rate for both the three and six months ended March 31, 2015 was 28%.

We are currently 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 2016, which may impact our tax expense and effective tax rate going forward. We expect our operating tax rate for fiscal 2016 to be between 25% and 26%.

#### Equity in Earnings of Affiliated Companies and Net Income Attributable to Noncontrolling Interests

	Three Months Ended March 31, 2016		Six Months Ended March 31, 2015	
	(Dollars in millions)		(Dollars in millions)	
Equity in earnings of affiliated companies, net of tax	\$ 1	\$ 2	\$ 1	\$ 3
Net income attributable to noncontrolling interests, net of tax	\$ 4	\$ 1	\$ 8	\$ 5

Equity in earnings (loss) of affiliated companies, net of tax, decreased by \$1 million in the second quarter fiscal 2016 and \$2 million in the first six months of fiscal 2016 compared to the same periods in 2015 due to lower earnings from our Venezuelan equity affiliate.

Net income attributable to noncontrolling interests, net of tax, increased by \$3 million in both the second quarter of fiscal 2016 and the first six months of fiscal 2016 as compared to the same periods in fiscal 2015 due to higher profitability at our joint ventures, primarily driven by favorable comparison of foreign currency movements.

#### Net Income Attributable to Cabot Corporation

In the second quarter and first six months of fiscal 2016, we reported net income attributable to Cabot Corporation of \$48 million and \$41 million, respectively (\$0.76 and \$0.65 per diluted common share, respectively). This is compared to net income attributable to Cabot Corporation of \$26 million and \$71 million, respectively (\$0.41 and \$1.10 per diluted common share, respectively) in the second quarter and first six months of fiscal 2015.

#### Second Quarter and First Six Months of Fiscal 2016 versus Second Quarter and First Six Months of Fiscal 2015—By Business Segment

Total segment EBIT, certain items, other unallocated items and Income from continuing operations before income taxes and equity in earnings (loss) of affiliated companies for the six months ended March 31, 2016 and 2015 are set forth in the table below. The details of certain items and other unallocated items are shown below and in Note N of

our consolidated financial statements.

	Three Months Ended March 31, 2016		Six Months Ended March 31, 2015	
	2015	2016	2015	2016
	(Dollars in millions)		(Dollars in millions)	
Total segment EBIT	\$88	\$69	\$159	\$166
Certain items	1	(6)	(57)	(32)
Other unallocated items	(27)	(24)	(48)	(44)
Income (loss) from continuing operations before income taxes and equity in earnings (loss) of affiliated companies	\$62	\$39	\$54	\$90

In the second quarter of fiscal 2016, total segment EBIT increased by \$19 million when compared to the same period of fiscal 2015. The increase was driven by higher unit margins (\$14 million), lower fixed costs (\$13 million) and the favorable impact of foreign currency translation (\$3 million) partially offset by the unfavorable impact from reducing inventory levels in the Purification Solutions segment (\$8 million) and lower volumes (\$4 million).

In the first six months of fiscal 2016, total segment EBIT decreased by \$7 million when compared to the same period of fiscal 2015. The decrease was driven by lower volumes (\$18 million), the unfavorable impact from reducing inventory levels in the Purification Solutions segment (\$15 million), and lower unit margins (\$8 million) partially offset by lower fixed costs (\$33 million) and the favorable impact of foreign currency translation (\$1 million).

#### Certain Items

Details of the certain items for the second quarter and first six months of fiscal 2016 and 2015 are as follows:

	Three Months Ended March 31, 2016 2015 (Dollars in millions)		Six Months Ended March 31, 2016 2015 (Dollars in millions)	
Global restructuring activities	\$5	\$ (5 )	\$(43)	\$(12)
Acquisition and integration-related charges	—	(1 )	—	(2 )
Employee benefit plan settlement	—	—	—	(18)
Net foreign currency loss on devaluations	(3)	—	(11)	—
Legal and environmental matters and reserves	(1)	—	(3 )	—
Total certain items, pre-tax	1	(6 )	(57)	(32)
Tax-related certain items				
Tax impact of certain items	4	2	19	8
Discrete tax items	—	(4 )	3	9
Total tax-related certain items	4	(2 )	22	17
Total certain items after tax	\$5	\$ (8 )	\$(35)	\$(15)

Certain items for the second quarter and first six months of fiscal 2016 include charges primarily related to restructuring activities, a net foreign currency loss from the devaluation of the Argentine peso partially offset by a gain on the devaluation of the Venezuelan bolivar, tax-related certain items, and legal and environmental matters and reserves. Details of restructuring activities are included in Note J of the consolidated financial statements. Tax-related certain items include discrete tax items, which are unusual and infrequent, and the tax impact of certain foreign exchange losses.

#### Other Unallocated Items

	Three Months Ended March 31, 2016 2015 (Dollars in millions)		Six Months Ended March 31, 2016 2015 (Dollars in millions)	
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Interest expense	\$(14)	\$(14)	\$(27)	\$(27)
Equity in earnings of affiliated companies	(1 )	(2 )	(1 )	(3 )
Unallocated corporate costs	(12)	(11)	(25)	(23)
General unallocated income	—	3	5	9
Total other unallocated items	\$(27)	\$(24)	\$(48)	\$(44)

Costs from Total other unallocated items increased by \$3 million in the second quarter of fiscal 2016 as compared to the same period in fiscal 2015. General unallocated income changed by \$3 million primarily due to a decrease in the benefit from the cost of sales impact of LIFO accounting (\$5 million).

Costs from Total other unallocated items increased by \$4 million in the first six months of fiscal 2016 as compared to the same period in fiscal 2015. General unallocated income changed by \$4 million primarily driven by a decrease in the benefit from the cost of sales impact of LIFO accounting (\$8 million) partially offset by the favorable impact of changes in foreign currency movements (\$1 million) and higher interest income (\$1 million).

## Reinforcement Materials

Sales and EBIT for Reinforcement Materials for the second quarter and first six months of fiscal 2016 and fiscal 2015 are as follows:

	Three Months Ended March 31, 2016 2015		Six Months Ended March 31, 2016 2015	
	(Dollars in millions)		(Dollars in millions)	
Reinforcement Materials Sales	\$261	\$358	\$549	\$818
Reinforcement Materials EBIT	\$34	\$27	\$60	\$80

In the second quarter of fiscal 2016, sales in Reinforcement Materials decreased by \$97 million when compared to the second quarter of fiscal 2015. The decrease was principally driven by a less favorable price and product mix (combined \$84 million), unfavorable comparison from foreign currency translation (\$12 million), and lower volumes (\$2 million). The less favorable price and product mix impact was primarily due to lower selling prices in the quarter from price adjustments to customers for decreases in raw material costs. Lower volumes were driven by lower demand in South America due to a challenging macro-economic environment, partially offset by higher contractual volumes in North America.

In the first six months of fiscal 2016, sales in Reinforcement Materials decreased by \$269 million when compared to the second quarter of fiscal 2015. The decrease was principally driven by a less favorable price and product mix (combined \$223 million), unfavorable comparison from foreign currency translation (\$35 million), and lower volumes (\$11 million). The less favorable price and product mix impact was primarily due to lower selling prices from price adjustments to customers for decreases in raw material costs. Lower volumes were driven by lower demand in South America and China due to a challenging macro-economic environment.

EBIT in Reinforcement Materials increased by \$7 million in the second quarter of fiscal 2016 when compared to the same period of fiscal 2015. The increase was principally driven by higher unit margins (\$4 million) and a favorable comparison from foreign currency translation (\$3 million), partially offset by lower volumes (\$1 million). Higher unit margins were driven by an improved product mix from the calendar year 2016 contracts. The favorable foreign currency impact was mainly due to the translation benefit of changes in currencies in South America on our fixed costs.

EBIT in Reinforcement Materials decreased by \$20 million in the first six months of fiscal 2016 when compared to the same period of fiscal 2015. The decrease was principally driven by lower unit margins (\$27 million) and lower volumes (\$4 million), partially offset by a favorable comparison from foreign currency translation (\$5 million) and lower fixed costs (\$5 million). Lower unit margins were driven by impacts in the first quarter of fiscal 2016, which included lower calendar year 2015 contract pricing and increased competition in Asia, unfavorable feedstock-related effects, and lower benefits generated from our energy efficiency investments as a result of lower energy prices. The favorable foreign currency impact was mainly due to the translation benefit of changes in currencies in South America on our fixed costs. Lower fixed costs were due to cost reductions as a result of restructuring actions and reduced maintenance costs.



## Performance Chemicals

Sales and EBIT for Performance Chemicals for the second quarter and first six months of fiscal 2016 and fiscal 2015 are as follows:

	Three Months Ended March 31, 2016 2015 (Dollars in millions)		Six Months Ended March 31, 2016 2015 (Dollars in millions)	
Specialty Carbons and Formulations Sales	\$ 145	\$ 162	\$ 285	\$ 319
Metal Oxides Sales	71	75	138	147
Performance Chemicals Sales	\$ 216	\$ 237	\$ 423	\$ 466
Performance Chemicals EBIT	\$ 58	\$ 42	\$ 108	\$ 81

In the second quarter of fiscal 2016, sales in Performance Chemicals decreased by \$21 million when compared to the second quarter of fiscal 2015. The decrease was due to a less favorable price and product mix (combined \$11 million), the unfavorable

impact of foreign currency translation (\$7 million), and lower volumes (\$2 million). The change in price and product mix was mainly driven by price adjustments to customers for decreases in raw material costs. The impact of lower volumes was due to lower demand in consumer applications in the inkjet colorants product line.

In the first six months of fiscal 2016, sales in Performance Chemicals decreased by \$43 million when compared to the same period of fiscal 2015. The decrease was due to a less favorable price and product mix (combined \$25 million) and the unfavorable impact of foreign currency translation (\$19 million). The change in price and product mix was mainly driven by price adjustments to customers for decreases in raw material costs.

EBIT in Performance Chemicals increased by \$16 million in the second quarter of fiscal 2016 when compared to the same quarter of fiscal 2015 principally due to favorable unit margins (\$14 million) and lower fixed costs (\$6 million) partially offset by lower volumes (\$2 million), and the unfavorable comparison from foreign currency translation (\$1 million). Unit margins improved primarily due to lower raw material costs. Lower fixed costs were primarily due to cost reductions as a result of restructuring actions taken earlier in the fiscal year.

EBIT in Performance Chemicals increased by \$27 million in the first six months of fiscal 2016 when compared to the same period of fiscal 2015 principally due to favorable unit margins (\$22 million) and lower fixed costs (\$11 million) partially offset by an unfavorable comparison from foreign currency translation (\$5 million). Unit margins improved primarily due to lower raw material costs. Lower fixed costs were primarily due to cost reductions as a result of restructuring actions taken earlier in the fiscal year.

#### Purification Solutions

Sales and EBIT for Purification Solutions for the second quarter and the first six months of fiscal 2016 and fiscal 2015 are as follows:

	Three Months Ended March 31, 2016		Six Months Ended March 31, 2015	
	2016	2015	2016	2015
	(Dollars in millions)		(Dollars in millions)	
Purification Solutions Sales	\$67	\$ 71	\$133	\$147
Purification Solutions EBIT	\$(2)	\$ 1	\$(7)	\$—

Sales in Purification Solutions decreased by \$4 million in the second quarter of fiscal 2016 when compared to the same period of fiscal 2015 due to a less favorable price and product mix (combined \$3 million) and the unfavorable impact of foreign currency translation (\$2 million) partially offset by higher volumes (\$1 million). The less favorable price and product mix was due to lower selling prices. Higher volumes were driven by higher demand for activated carbon in gas and air applications as coal fired utilities generally were required to be in compliance with the U.S. Mercury and Air Toxics Standards regulation in April 2016. Sales in Purification Solutions decreased by \$14 million in the first six months of fiscal 2016 when compared to the same period of fiscal 2015 due to lower volumes (\$7 million) and the unfavorable impact of foreign currency translation (\$6 million). Lower volumes were driven by lower demand for activated carbon used in air and gas and water applications during the first quarter of fiscal 2016.

EBIT in Purification Solutions decreased by \$3 million in the second quarter of fiscal 2016 when compared to the same quarter of fiscal 2015 due to an unfavorable impact from reducing inventory levels (\$8 million) and lower unit margins (\$3 million). These unfavorable impacts were partially offset by lower fixed costs (\$7 million) due to cost reduction efforts over the past two years. EBIT in Purification Solutions decreased by \$7 million in the first six months of fiscal 2016 when compared to the same period of fiscal 2015 due to an unfavorable impact from reducing inventory levels (\$15 million) and lower volumes (\$4 million). This unfavorable impact was partially offset by lower fixed costs (\$13 million) due to cost reduction efforts over the past two years.

## Specialty Fluids

Sales and EBIT for Specialty Fluids for the second quarter of fiscal 2016 and 2015 are as follows:

	Three Months Ended March 31, 2016		Six Months Ended March 31, 2015	
	(Dollars in millions)		(Dollars in millions)	
Specialty Fluids Sales	\$6	\$ 8	\$13	\$ 24
Specialty Fluid EBIT	\$(2)	\$(1)	\$(2)	\$ 5

Sales in Specialty Fluids decreased by \$2 million in the second quarter of fiscal 2016 when compared to the same period of fiscal 2015, primarily due to lower volumes (\$2 million). Sales in Specialty Fluids decreased by \$11 million in the first six months of fiscal 2016 when compared to the same period of fiscal 2015, primarily due to lower volumes (\$10 million). The decline in volumes in both periods was driven by a lower level of project activity, which was caused by the downturn in the oil and gas industry.

EBIT in Specialty Fluids decreased by \$1 million in the second quarter of fiscal 2016 when compared to the same period of fiscal 2015. The decline in volumes (\$2 million) was partially offset by lower fixed costs (\$1 million) due to cost reductions as a result of restructuring actions taken earlier in the fiscal year. EBIT in Specialty Fluids decreased by \$7 million in the first six months of fiscal 2016 when compared to the same period of fiscal 2015 due to lower volumes (\$9 million). This unfavorable impact was partially offset by lower fixed costs (\$3 million) due to cost reductions as a result of restructuring actions taken earlier in the fiscal year.

## Outlook

We anticipate a stronger second half of fiscal year 2016 as compared to the first half of fiscal 2016. This is due to an expectation for stronger volumes and from continuing to realize cost savings from restructuring actions. The outlook for stronger volumes is across the segments. Reinforcement Materials volumes are expected to grow in both North America and Europe and Performance Chemicals volumes are expected to strengthen in various automotive applications. Purification Solutions volume growth is expected to come from MATS compliance and seasonal increases, and Specialty Fluids volume improvement is expected from an increased level of project activity.

## Cash Flows and Liquidity

## Overview

Our liquidity position, as measured by cash and cash equivalents plus borrowing availability, increased by \$363 million during the first six months of fiscal 2016. The increase was largely attributable to increasing the size of our

credit facility. At March 31, 2016, we had cash and cash equivalents of \$178 million, and current availability under our revolving credit agreement of \$1 billion. We had no outstanding balance of commercial paper as of March 31, 2016.

Borrowings under the revolving credit agreement may be used for working capital, letters of credit and other general corporate purposes. The revolving credit agreement contains affirmative and negative covenants, a single financial covenant (debt-to-EBITDA) and events of default customary for financings of this type. At March 31, 2016, we were in compliance with this financial covenant.

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. The vast majority of our cash and cash equivalent holdings tend to be held outside the U.S., as excess cash balances in the U.S. are generally used to repay commercial paper.

We anticipate sufficient liquidity from (i) cash on hand; (ii) cash flows from operating activities; and (iii) cash available from our revolving credit agreement and our commercial paper program 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 issued \$300 million of 5% fixed rate debt in fiscal 2009 that matures in early fiscal 2017 (October 1, 2016). Our intention is to refinance these securities prior to maturity during fiscal 2016.

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 provided 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 \$188 million in the first six months of fiscal 2016 compared to \$205 million during the same period of fiscal 2015.

Cash provided by operating activities in the first six months of fiscal 2016 was driven primarily by net income excluding the non-cash impact of certain long-lived asset write-offs of \$23 million and depreciation and amortization of \$82 million. In addition, there was a decrease in accounts receivable and inventories, largely driven by lower raw material costs and associated price reductions as well as overall lower volumes. Partially offsetting these cash inflows were lower accounts payable and accrued liabilities.

Cash provided from operating activities in the first six months of fiscal 2015 was driven primarily by net income of \$76 million plus \$92 million of depreciation and amortization. In addition, there was a net decrease in working capital driven primarily by lower accounts receivable and inventory largely driven by lower energy prices partially offset by lower accounts payable and accrued liabilities.

#### Cash Flows from Investing Activities

In the six months ended March 31, 2016, investing activities consumed \$41 million of cash which was primarily driven by capital expenditures of \$52 million, offset by \$16 million of proceeds from the sale of land. In the six months ended March 31, 2015, investing activities consumed \$77 million of cash and were primarily driven by capital expenditures of \$70 million. In the first six months of fiscal 2016, capital expenditures were primarily attributed to sustaining and compliance capital projects at our operating facilities.

Capital expenditures for fiscal 2016 are expected to be approximately \$125 million. Our planned capital spending program for fiscal 2016 is primarily for sustaining and compliance capital projects at our operating facilities.

#### Cash Flows from Financing Activities

Financing activities consumed \$61 million of cash in the first six months of fiscal 2016 compared to \$37 million of cash in the first six months of fiscal 2015. In the first six months of fiscal 2016, we used our cash for share repurchases, dividend distributions and to repay debt.

In the first six months of fiscal 2015, our overall debt balance increased by \$58 million driven by the issuance of commercial paper to fund the operational needs of the Company. We also used cash for share repurchases and dividend distributions.

## Purchase Commitments

We have entered into long-term purchase agreements primarily for the purchase of raw materials. Under certain of these agreements the quantity of material being purchased is fixed, but the price paid changes as market prices change. For those commitments, the amounts included in the table below are based on market prices at March 31, 2016.

	Payments Due by Fiscal Year						
	Remainder of						
	Fiscal						
	2016	2017	2018	2019	2020	Thereafter	Total
	(Dollars in millions)						
Reinforcement Materials	\$100	\$128	\$119	\$116	\$80	\$1,446	\$1,989
Performance Chemicals	28	51	37	32	29	154	331
Purification Solutions	5	7	1	—	—	—	13
Total	\$133	\$186	\$157	\$148	\$109	\$1,600	\$2,333

## Off-balance sheet arrangements

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

## Forward-Looking Information

This report on Form 10-Q contains “forward-looking statements” under the Federal securities laws. These forward-looking statements address expectations or projections about the future, including our expectations for future financial performance; the benefits we expect to achieve from our restructuring plans; demand for our products and our expectations for stronger volumes; the amount and timing of the charge to earnings we will record and the cash outlays we will make in connection with the closing of certain manufacturing facilities and restructuring initiatives; our estimated future amortization expenses for our intangible assets; the sufficiency of our cash on hand, cash provided from operations and cash available under our credit facilities to fund our cash requirements; uses of available cash including anticipated capital spending and future cash outlays associated with long-term contractual obligations; our expected tax rate for fiscal 2016; 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 or difficult to predict. If known or unknown risks materialize, or should underlying assumptions prove inaccurate, our actual results could differ materially from those expressed in the forward-looking statements.

In addition to factors described elsewhere in this report, the following are some of the factors that could cause our actual results to differ materially from those expressed in the forward-looking statements: changes in raw material costs; lower than expected demand for our products; the loss of one or more of our important customers; our inability to complete capacity expansions or other development projects; the availability of raw materials; our failure to develop new products or to keep pace with technological developments; fluctuations in currency exchange rates;

patent rights of others; stock and credit market conditions; the timely commercialization of products under development (which may be disrupted or delayed by technical difficulties, market acceptance, competitors' new products, as well as difficulties in moving from the experimental stage to the production stage); demand for our customers' products; competitors' reactions to market conditions; delays in the successful integration of structural changes, including acquisitions or joint ventures; severe weather events that cause business interruptions, including plant and power outages or disruptions in supplier or customer operations; the accuracy of the assumptions we used in establishing reserves for environmental matters and for our share of liability for respirator claims; and the outcome of pending litigation. Other factors and risks are discussed in our 2015 10-K.

#### Recently Issued Accounting Pronouncements

In May 2014, the FASB issued a new standard related to the "Revenue from Contracts with Customers" which amends the existing accounting standards for revenue recognition. The standard requires entities to recognize revenue when they transfer promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in



exchange for those goods or services. This standard is applicable for fiscal years beginning after December 15, 2017 and for interim periods within those years and early adoption is permitted for the fiscal years beginning after December 15, 2016. We expect to adopt this standard on October 1, 2018. We are currently evaluating the impact the adoption of this standard may have on our consolidated financial statements.

In April 2015, the FASB issued a new standard simplifying the presentation of debt issuance costs by requiring debt issuance costs to be presented as a reduction of the corresponding debt liability. This will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. This standard is applicable for fiscal years beginning after December 15, 2015 and for interim periods within those years and early adoption is permitted. We expect to adopt this standard on October 1, 2016. The adoption of this standard is not expected to materially impact our consolidated financial statements.

In November 2015, the FASB issued a new standard that amends the existing accounting standard for income taxes and simplifies the presentation of deferred income taxes. This will require that deferred income tax assets and liabilities be classified as noncurrent on the balance sheet. This standard is applicable for fiscal years beginning after December 15, 2016 and for interim periods within those years and early adoption is allowed. We are evaluating this standard and the timing of its adoption. The adoption of this standard is not expected to materially impact our consolidated financial statements.

In February 2016, the FASB issued a new standard for the accounting of “leases”. This new standard requires lessees to recognize assets and liabilities for most leases, but recognize expenses on their income statements in a manner that is similar to the current accounting treatment for leases. The standard is applicable for fiscal years beginning after December 15, 2018 and for interim periods within those years and early adoption is permitted. We expect to adopt the standard on October 1, 2019. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

In March 2016, the FASB issued a new standard that amends the accounting standard for stock compensation by simplifying several aspects of the accounting for employee share-based payment transactions, including the related accounting for income taxes, forfeitures, and the withholding of shares to satisfy the employer’s tax withholding requirements, as well as classification in the statements of cash flows. The new standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those years and early adoption is permitted. We are evaluating this standard and the timing of its adoption. The adoption of this standard is not expected to materially impact our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about market risks for the period ended March 31, 2016 does not differ materially from that discussed under Item 7A of our 2015 10-K.

Item 4. Controls and Procedures

As of March 31, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and our Executive Vice President and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, our Principal Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of that date.

There were no changes in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item I. Legal 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. As more fully described in our 2015 10-K, the respirator liabilities generally involve claims for personal injury, including asbestosis, silicosis and coal worker's pneumoconiosis, allegedly resulting from the use of respirators that are alleged to have been negligently designed and/or labeled.

As of March 31, 2016 and September 30, 2015, there were approximately 37,000 and 38,000 claimants, respectively, in pending cases asserting claims against AO in connection with respiratory products. We have a reserve to cover our expected share of liability for existing and future respirator liability claims. At March 31, 2016 and September 30, 2015, the reserve was \$9 million and \$11 million, respectively. Cash payments related to this liability were \$2 million in the first six months of both fiscal 2016 and 2015.

Other Matters

We are subject to various other lawsuits, claims and contingent liabilities arising in the ordinary course of our business and with respect to our divested businesses. In our opinion, although final disposition of some or all of these other suits and claims may impact our consolidated financial statements in a particular period, they are not expected, in the aggregate, to have a material adverse effect on our financial position.



## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth information regarding Cabot's purchases of its equity securities during the quarter ended March 31, 2016:

## Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Maximum Number (or
				Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
January 1, 2016 - January 31, 2016	—	\$ —	—	3,405,700
February 1, 2016 - February 29, 2016	—	\$ —	—	3,405,700
March 1, 2016 - March 31, 2016	106,376	\$ 47.49	106,376	3,299,324
Total	106,376		106,376	

<sup>(1)</sup>On January 13, 2015, the Company announced that the Board of Directors authorized us to repurchase up to five million shares of our common stock on the open market or in privately negotiated transactions. This authorization does not have a set expiration date.

## Item 6. Exhibits

The following Exhibits are filed herewith:

Exhibit No.	Description
Exhibit 10.1*†	Form of Performance-Based Restricted Stock Unit Award Certificate under the Cabot Corporation 2009 Long-Term Incentive Plan.
Exhibit 10.2*†	Form of Time-Based Restricted Stock Unit Award Certificate under the Cabot Corporation 2009 Long-Term Incentive Plan.
Exhibit 10.3*†	Form of Stock Option Award Certificate under the Cabot Corporation 2009 Long-Term Incentive Plan.
Exhibit 31.1*	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
Exhibit 31.2*	

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Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.

Exhibit 32\*\* Certifications of the Principal Executive Officer and the Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

Exhibit 101.INS\* XBRL Instance Document.

Exhibit 101.SCH\* XBRL Taxonomy Extension Schema Document.

Exhibit 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document.

Exhibit 101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document.

Exhibit 101.LAB\* XBRL Taxonomy Extension Label Linkbase Document.

Exhibit 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

\*\* Furnished herewith.

Management contract or compensatory plan or arrangement.

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Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations for the three and six months ended March 31, 2016 and 2015; (ii) the Consolidated Statements of Comprehensive (Loss) Income for the three and six months ended March 31, 2016 and 2015; (iii) the Consolidated Balance Sheets at March 31, 2016 and September 30, 2015; (iv) the Consolidated Statements of Cash Flows for the six months ended March 31, 2016 and 2015; and (v) Notes to Consolidated Financial Statements, March 31, 2016.

SIGNATURES

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

Cabot Corporation

Date: May 6, 2016 By: /s/ Eduardo E. Cordeiro  
Eduardo E. Cordeiro  
Executive Vice President and Chief Financial Officer  
(Duly Authorized Officer)

Date: May 6, 2016 By: /s/ James P. Kelly  
James P. Kelly  
Vice President and Controller  
  
(Chief Accounting Officer)

Exhibit Index

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