

**CABOT CORPORATION**  
**CORPORATE GOVERNANCE GUIDELINES**  
**Adopted by the Board of Directors on January 9, 2004, as amended through**  
**September 9, 2011**

## **SELECTION AND COMPOSITION OF BOARD OF DIRECTORS**

### *Size of the Board*

Our charter and by-laws provide that the board of directors consist of not less than 3 nor more than 17 directors with the exact number determined from time to time by resolution of the directors. We believe a board should neither be too small to maintain the needed expertise and independence nor too large to be efficiently functional. Our general expectation is that our board will consist of approximately 12 directors, although we periodically review the appropriate size and mix of the board in light of our stated objectives below.

### *Selection of New Directors*

The board of directors should be responsible for selecting its own members for election by the stockholders. The board of directors, however, delegates the process for identifying and reviewing candidates for director positions to the Governance and Nominating Committee with direct input from the Chairman and the Chief Executive Officer.

### *Board Membership Criteria*

The Governance and Nominating Committee of the board of directors is responsible for reviewing with the entire board from time to time the appropriate skills and characteristics required of board members in the context of the current make-up of the board of directors and the evolving needs of our businesses. All board members should possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of the Company's stockholders. It is the policy of our board of directors that the composition of the board of directors at all times adhere to the standards of independence promulgated by the New York Stock Exchange or the Securities and Exchange Commission and reflect a range of talents, ages, skills, diversity, and expertise. The Board as a whole shall be competent in the following areas: (i) accounting and finance, (ii) management, (iii) strategic planning, (iv) domestic and international markets, (v) corporate governance, and (vi) the specialty chemicals and related industries sufficient to provide sound and prudent guidance with respect to the Company's operations and interests. In addition, the desired attributes of individual directors are (i) integrity and demonstrated high ethical standards; (ii) sound judgment; (iii) demonstrated leadership; (iv) knowledge, experience and skills in at least one specialty area, such as accounting or finance, corporate management, marketing, manufacturing, technology, information systems, international business or the specialty chemicals industry; (v) compassion; (vi) willingness and ability to work with other members of the Board openly and constructively; (vii) the ability to communicate clearly and persuasively; and (viii) diversity of origin, background, experience and thought.

We also require that our board members be able to dedicate the time and resources sufficient to ensure the diligent performance of his or her duties on our behalf, including attending all board and applicable committee meetings. In this respect, we believe that the board should review periodically the other commitments of each director and determine whether the outside commitments of any director are likely to impair such director's service on the Company board.

The board of directors also believes that each outside director should notify the Governance and Nominating Committee before accepting an invitation to serve as a director of another company or undertaking any other significant time commitment.

#### *Majority Vote*

The board of directors expects a director to tender his or her resignation if he or she fails to receive the required number of votes for re-election in accordance with the Company's bylaws. The board of directors shall nominate for election or re-election as directors only candidates who agree to tender, prior to the annual meeting at which they are elected or re-elected as directors, irrevocable resignations that will be effective upon (i) the failure to receive the required vote at the next annual meeting at which they are nominated for re-election and (ii) board acceptance of such resignation. In addition, the board of directors shall fill director vacancies and new directorships only with candidates who agree to tender, promptly following their appointment to the board, the same form of resignation tendered by other directors in accordance with this guideline.

If an incumbent director fails to receive the required vote for re-election, the Governance and Nominating Committee will act promptly to determine whether to recommend acceptance of the director's resignation and will submit such recommendation for prompt consideration by the board of directors. The board of directors expects the director whose resignation is under consideration to abstain from participating in any decision regarding that resignation. The Governance and Nominating Committee and the board of directors may consider any factors they deem relevant in deciding whether to accept a director's resignation. If the resignation is not accepted, the director will continue to serve until the next annual meeting and until the director's successor is elected and qualified.

#### *Director Independence*

At least a majority of the members of our board of directors shall be independent. For a director to be deemed "independent," the board shall affirmatively determine that the director has no material relationship with the Company or any of its consolidated subsidiaries (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company).<sup>1</sup> The board has established guidelines to assist it

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<sup>1</sup> Unless the context indicates otherwise, all references in these Guidelines to the Company include its consolidated subsidiaries.

in determining director independence. Under the board's guidelines, a director will not be independent if:

(1) The director is, or has been within the last three years, an employee of the Company; or an immediate family member of the director is, or has been within the last three years, an executive officer of the Company. Employment as an interim Chairman or CEO shall not disqualify a director from being considered independent following that employment.

(2) The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service). Compensation received by a director for former service as an interim Chairman or CEO does not need to be considered as a factor by the board in determining independence under this test. Compensation received by an immediate family member for service as a non-executive employee of the Company does not need to be considered as a factor by the board in determining independence under this test.

(3) (a) The director is a current partner or employee of a firm that is the Company's internal or external auditor; (b) the director has an immediate family member who is a current partner of such a firm; (c) the director has an immediate family member who is a current employee of such a firm and personally works on the Company's audit; or (d) the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the Company's audit within that time.

(4) The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee.

(5) The director is a current employee, principal or partner (or an immediate family member is a current executive officer, principal or partner) of a company or other organization that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

(6) The director is an executive officer or employee, or an immediate family member is a current executive officer, of a company that is indebted to the Company, or to which the Company is indebted, and the total amount of either company's indebtedness to the other at the end of the last completed fiscal year is greater than 1% of the other company's total consolidated assets.

In addition, in making independence determinations, the board will consider contributions or pledges made by the Company or its foundation to tax-exempt organizations of which a director is an officer, director or trustee. Where such contributions or pledges were \$25,000 or less in the most recently completed fiscal year, the relationship between the director and the Company will not be considered material. For contributions or pledges greater than \$25,000, the board will evaluate the particular facts and circumstances to determine whether the relationship is material.

An immediate family member shall include the director's spouse, parents, children, siblings, in-laws and anyone (other than employees) who shares such director's home.

The Governance and Nominating Committee is responsible for assessing director independence annually and making recommendations to the board. For any type of relationship not addressed by the guidelines above, the Governance and Nominating Committee will evaluate the relevant facts and circumstances of the relationship and make a recommendation to the board of directors about whether the relationship constitutes a material relationship with the Company.

#### *Non Independent Directors*

The board of directors is willing to have members of senior management, in addition to our Chief Executive Officer, and other individuals who may not meet the above definition of independence, as directors. In addition, the board of directors believes that it may help them discharge their duties as directors if managers that do not serve on the board of directors nonetheless attend board meetings on a regular basis. It is understood, however, that all matters of corporate governance will be decided by the independent directors in consultation with the Chairman of the Board.

#### *Selection of Chairman; Lead Director*

The Company's bylaws currently provide that the Chief Executive Officer of the Company shall serve as Chairman of the Board unless the board of directors otherwise specifies. The board of directors recognizes that circumstances may lead it to separate those offices depending on the Company's needs at the time and, as such, believes that it is important to retain flexibility to combine or separate these roles.

If the Chief Executive Officer of the Company also serves as the Chairman of the Board, the independent directors will select a lead director of the board annually. The lead director will set the agenda for each executive session of non-management or independent directors and chair such meetings. The lead director will also undertake such other responsibilities as the independent directors designate from time to time.

### *Directors Who Change Their Present Job Responsibility*

Whenever a director changes or discontinues the principal occupation or background association he or she held when originally invited to join our board of directors, the board of directors, through the Governance and Nominating Committee, shall review the continued appropriateness of that director's membership under the circumstances. If it is determined that the director's continued service is not appropriate, the director will resign from the board within a reasonable time thereafter.

When the Chief Executive Officer resigns from that position he or she is required to offer his or her resignation from the board of directors. Whether that individual continues to serve on the board of directors will then be a matter for discussion between the board of directors, through the Governance and Nominating Committee, and the new Chief Executive Officer.

### *Director Term Limits*

The board of directors does not believe it should establish term limits. While term limits may help ensure that the board has fresh ideas and viewpoints, the contribution of directors who over time have developed increasing insight into the Company and its operations and regulatory environment will be lost. Therefore, term limits may result in a disadvantage to the Company.

Consistent with the staggered terms established in the Company's by-laws, the Governance and Nominating Committee, in consultation with the Chief Executive Officer and the Chairman of the Board, will review yearly the continuation on the board of directors of roughly one-third of the directors. This will also allow each director the opportunity to confirm his or her desire to continue as a member of the board of directors.

### *Retirement Policy*

The board of directors has adopted a retirement policy for its non-employee directors and a retirement policy for employee directors of the Company. Under the policy for non-employee directors, a director who is not an employee of the Company must submit his or her resignation to the Chairman of the Board prior to, and effective at, the Annual Meeting of Stockholders of the Company next following the calendar year of such director's 72<sup>nd</sup> birthday. The full Board may make exceptions to this policy for special circumstances involving the Company.

Under the retirement policy for employee directors, a director of the Company who is an employee shall submit his or her resignation to the Chairman of the Board or, in the case of the Chairman of the Board, to the board of directors, (a) prior to and, if accepted, effective at the Annual Meeting of Stockholders following the calendar year of such director's 65<sup>th</sup> birthday, or (b) if the director ceases to be an employee of the Company prior to such Annual Meeting, then no later than the date of and, if accepted, effective upon the termination of the director's employment with the Company. Each

resignation submitted pursuant to this policy shall specifically state that the resignation is to be effective only upon acceptance by the board of directors. In each such case, the Governance and Nominating Committee shall consider the matter and make a recommendation to the board. If a resignation submitted pursuant to this policy is not initially accepted, the employee director shall, thereafter, annually submit his or her resignation for consideration by the board of directors.

## **BOARD COMPENSATION AND PERFORMANCE**

### *Board Compensation Policy and Stock Ownership*

It is appropriate for Company management to report from time to time to the Governance and Nominating Committee on the status of director compensation in relation to other companies operating in comparable industries. An executive officer of the Company serving as a member of the board of directors shall not receive additional compensation for his or her service as director.

Any proposed changes in director compensation should come at the suggestion of the Governance and Nominating Committee, but with full discussion and concurrence by the entire board of directors.

The Company believes that it is desirable for directors to have an equity interest in the Company and encourages all directors to own a reasonable amount of equity in the Company. Accordingly, to align director and shareholder interests and to enhance a director's long-term perspective, the Company requires each non-employee director to have equity ownership in the Company of at least 10,000 shares. This ownership interest should generally be achieved within a five year period beginning at the time a director is first elected to the board. In furtherance of this, where equity-based compensation is a component of compensation, the Company will require each non-employee director to retain the shares granted in any given year for a period of three years from the date of issuance, or until the director's earlier retirement. If a director elects to defer the receipt of any shares of common stock issued as compensation, the minimum deferral period shall end on the earlier of (i) three years from the date the shares would have otherwise been issued or (ii) such director's retirement. In addition, for purposes of determining a director's compliance with the ownership requirement described above, any deferred shares shall be considered held by the director.

The Company shall not provide retirement or other benefits or perquisites to non-employee directors.

### *Evaluation of Board Performance*

The board will conduct an annual self-evaluation to determine whether it is functioning effectively. The Governance and Nominating Committee shall develop board evaluation policies and procedures and report annually to the board with an

assessment of the board's performance. The report should be delivered following the end of each fiscal year.

The report will include an evaluation of, among other things, (i) the board's composition and independence, (ii) access to and review of information from management, (iii) the board's responsiveness to stockholder concerns and (iv) maintenance and implementation of these corporate governance guidelines.

The Governance and Nominating Committee should evaluate the contribution of the board of directors as a whole and should specifically review areas in which the board of directors and/or management believes a better contribution could be made. The purpose of the evaluation is to increase the board's effectiveness, not to target individual directors.

#### *Orientation and Continuing Education*

The Company shall provide an orientation program for new directors and continuing education opportunities for all directors.

## **MEETINGS OF THE BOARD OF DIRECTORS**

#### *Scheduling and Selection of Agenda Items for Board Meetings*

The Chairman of the Board, in consultation with other members of the board of directors, will determine the frequency and length of board meetings. The board of directors believes that regular meetings at appropriate intervals are in general desirable for the board to perform its responsibilities. In addition to regularly scheduled meetings, additional unscheduled meetings may be called upon appropriate notice at any time to address any special needs.

The Chairman of the Board will establish the agenda for each board meeting and distribute it in advance to board members. Each director is free to suggest items for the agenda, to raise at any board meeting subjects that are not on the agenda for that meeting or to request the presence of or a report by any member of management. If the Chief Executive Officer is also the Chairman of the Board, directors wishing to discuss issues or add agenda items that are not appropriately or best forwarded to the Chief Executive Officer should contact the lead director or, in the absence of a lead director, another specified contact director.

#### *Board Material and Presentations*

Information and data that is important to the understanding of the business and matters to be considered at a board meeting should be distributed in writing and in advance to board members. As a general rule, materials on specific subjects should be

sent to the board members sufficiently in advance so directors will be prepared to discuss questions that they may have about the material.

The board of directors encourages management to schedule presentations at board meetings by managers who (i) can provide additional insight into the specific matters being discussed because of personal involvement in these areas or (ii) have future potential that should be given exposure to the board of directors.

#### *Participation in Board Meetings*

Directors are expected to attend (in person or telephonically) board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. To the extent feasible, information and data that are important to the board's understanding of the business to be conducted at a board or committee meeting should be distributed in writing to the directors before the meeting and directors should be prepared to contribute substantively at the meeting by reviewing these materials in advance of the meeting.

#### *Access to Senior Management*

Each director is encouraged to keep himself or herself informed of the affairs of the Company between board meetings through contact with members of senior management and each director will have complete access to any such member of senior management. In addition, non-management directors are encouraged to make periodic scheduled visits to facilities of the Company without management being present if they wish.

#### *Meetings of the Non-Management Directors*

It is the policy of the board of directors to have a separate meeting session for the non-management directors during regularly scheduled board meetings to review such matters as they deem appropriate. In addition, if the group of non-management directors includes directors who are not independent under these guidelines, at least annually the Company will schedule an executive session to include only independent directors. The lead director of the board of directors shall set the agenda for each executive session of non-management or independent directors and preside at such meetings. In the absence of the lead director, the remaining non-management or independent directors will designate a chair for each meeting. Any formal actions taken at these meetings shall be recorded in the minutes of the meeting.

In order to allow interested parties the opportunity to make their concerns known to these non-management directors, the board of directors has established a procedure for these parties to communicate directly with the lead director.



## COMMITTEES OF THE BOARD OF DIRECTORS

### *Number of Committees*

Our board of directors will establish committees from time to time to facilitate and assist in the execution of its responsibilities. These committees shall generally address issues that, because of their complexity and technical nature, level of detail and time requirements or because of proper corporate governance principles cannot be adequately addressed at larger board meetings.

We currently have five committees, which are the Executive Committee, Compensation Committee, Audit Committee, Safety, Health and Environmental Affairs Committee and Governance and Nominating Committee. There will, from time to time, be occasions on which the board of directors may want to form a new committee or disband a current committee. The Company complies with all requirements of the New York Stock Exchange and the Securities Exchange Act of 1934, as amended, relating to the constitution of key committees, including requirements relating to the independence of committee members. Accordingly, only independent directors serve on the Compensation, Audit and Governance and Nominating Committees. In addition, all standing committees shall be chaired by independent directors. The Executive Committee shall include the Chief Executive Officer of the Company and shall include at least two other directors, provided that at least a majority of its members at all times shall be independent directors.

Each committee shall have a written charter of responsibilities and authorities that the board of directors shall periodically review. The charter for each of our Compensation, Audit, Safety, Health and Environmental Affairs, and Governance and Nominating Committees are publicly available on our website for review by our stockholders.

### *Assignment and Term of Service of Committee Members*

The board of directors is responsible for appointing committee members and committee chairpersons, taking into account the wishes of individual members, the needs of the Company and its business, and the recommendations of the Chairman of the Board and the Governance and Nominating Committee. In making such appointments, the board of directors shall consider the rotation of committee membership and chairs at appropriate intervals. The board, however, does not believe that rotation should be mandated as a policy.

### *Frequency and Length of Committee Meetings and Committee Agenda*

The Chair of each committee, in consultation with the other committee members, will determine the frequency and length of committee meetings consistent with any requirements set forth in the committee's charter. The Chair of each committee, in consultation with appropriate members of the committee and management, will develop

the agenda for committee meetings. The agendas and meeting minutes of the committees will be shared with the full board of directors. Any director who is not a member of a particular committee may attend any committee meetings.

## **LEADERSHIP DEVELOPMENT**

### *Formal Evaluation of Chief Executive Officer*

The Compensation Committee shall develop criteria for the evaluation of the Chief Executive Officer and shall establish specific performance goals and objectives relevant to the Chief Executive Officer's compensation. The Compensation Committee will evaluate the Chief Executive Officer's performance in light of the established criteria, goals and objectives, and will report to the independent directors meeting in executive session. The independent directors will evaluate the overall performance of the Chief Executive Officer, taking into account the report of the Compensation Committee. The lead director and the Chair of the Compensation Committee will discuss the results of the evaluation with the Chief Executive Officer.

### *Succession Planning and Management Development*

The Compensation Committee shall oversee succession planning, including succession planning in the event of an emergency, and management development. The Compensation Committee shall evaluate management performance biannually (or more often if required) and shall discuss management succession annually (or more often if required), and following its meetings, shall report on these matters to the non-management directors meeting in executive session. The entire board will work with the Compensation Committee to evaluate potential successors to the Chief Executive Officer. The Chief Executive Officer should make available his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals.