

Manufactures ceramic
proppants used in hydraulic
fracturing to stimulate
production in oil and gas wells



The logo for CARBO CERAMICS features the word "CARBO" in a large, bold, red-to-white gradient font, and "CERAMICS" in a smaller, white, outlined font below it. A white arrow points from the descriptive text above to the top of the "CARBO" letters. A vertical double-headed arrow on the right side of the logo indicates its height. A horizontal double-headed arrow below the logo indicates its width.

Ceramic proppants -
higher strength,
uniform in size and
shape

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A N N U A L

R E P O R T

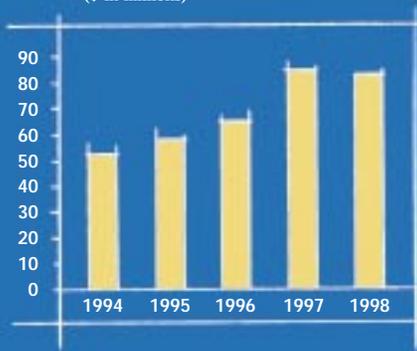
Based in Irving, Texas, CARBO Ceramics Inc. is the world's largest producer and supplier of ceramic proppants. Ceramic proppants are high strength, spherical pellets that are used by oilfield service companies in the hydraulic fracturing of new and existing natural gas and oil wells. Hydraulic fracturing is the most popular method of stimulating oil and gas production. In the hydraulic fracturing process, proppants are mixed with a highly viscous fluid which is pumped into a well at very high pressure, forming a fracture in the rock formation that contains oil or gas. After the fracture is formed, the proppants hold open the fracture, allowing oil and gas to flow at higher rates and improving the return on investment for well operators. Due to their high strength and their uniform size and shape, the ceramic proppants manufactured by CARBO Ceramics offer superior performance compared to alternative proppants.

Financial Highlights

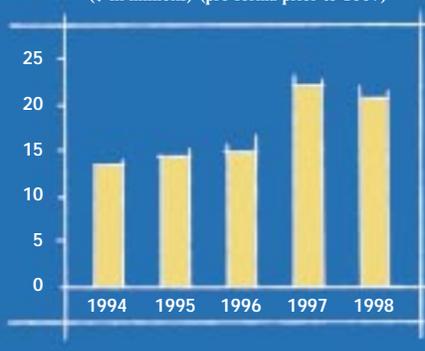
(\$ in thousands, except per share amounts)

	1998	1997	1996	1995	1994
Revenues	\$ 84,095	\$ 85,122	\$ 65,151	\$ 58,001	\$ 53,310
Gross profit	42,430	42,936	30,634	28,704	26,680
Operating profit	32,453	34,021	22,508	21,556	20,486
Income before income taxes	33,427	35,025	22,683	21,713	20,777
Net income (pro forma prior to 1997)	20,708	22,089	14,290	13,679	13,090
Fully diluted earnings per share (pro forma prior to 1997)	\$ 1.40	\$ 1.50	\$ 0.97	\$ 0.94	\$ 0.90
Total assets	99,427	80,954	60,405	39,089	29,154
Shareholders' equity	87,269	70,942	53,234	31,381	25,366
Capital expenditures	41,837	13,799	3,010	11,788	2,402

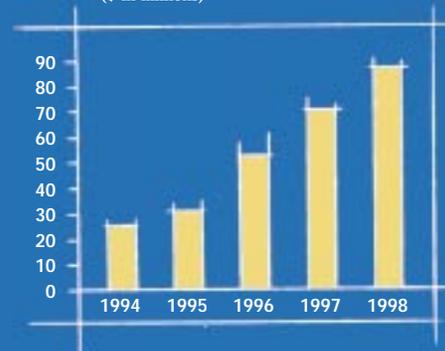
Revenues
(\$ in millions)



Net Income
(\$ in millions) (pro forma prior to 1997)



Shareholders' Equity
(\$ in millions)



Letter to Shareholders

Dear Shareholders:

“It was the best of times, it was the worst of times...it was the spring of hope, it was the winter of despair.”

Charles Dickens might have been describing the oil and gas industry in 1998 with those words.

CARBO Ceramics posted record financial and operating performance through the first nine months of the year. Oil and natural gas well completion activity was strong and we were producing and selling ceramic proppants at full capacity. For the second consecutive year, we increased prices on our entire product line by 5 percent on January 1, and this increase combined with good sales volume and excellent manufacturing efficiencies resulted in improved operating margins. It was indeed the *“spring of hope.”*

Then, three events caused a dramatic decline in industry activity: the decline of the Asian economies, increased oil production in the Middle East and a warmer than normal fall and early winter. These events caused a dramatic collapse in oil prices, which led to a reduction in spending by exploration and production companies. The end result was a decline in rig activity and well completions and a reduction in the sale of our products in the fourth quarter of 1998. The *“winter of despair”* hit the oil patch.

CARBO Ceramics fared better than most companies in the oilfield services sector in 1998. We achieved the second best financial and operating performance in the 20-year history of CARBO Ceramics and its predecessor companies. Net income for the year was \$20.7 million (\$1.40 per share on a diluted basis) on revenues of \$84.1 million and our return on equity was 25.2 percent. We were able to avoid much of the pain caused by the collapse of oil prices since nearly 80 percent of our sales are derived from the use of our products in natural gas wells.

Weak market conditions will carry over into 1999 but you won't find any hand wringing in this annual report. We are not pulling in our horns. Just the opposite — we are proceeding with our plans for growth. This is not a contrarian position. We are going forward confidently based on three fundamental beliefs.

Natural gas demand will continue to increase.

Demand for natural gas is forecast to grow worldwide over the next 20 years. The near-term outlook for gas is positive as well, with the drivers being environmental issues and increased demand for electrical power generation. In the U.S., natural gas consumption has increased by an average of 2 percent per year since 1987 and consumption in North America has grown by an average of 3 percent per year over the same period. According to the Annual Energy Outlook 1999, published by the Energy Information Administration of the U.S. Department of Energy, this trend is expected to continue with natural gas consumption in the U.S. expected to increase by 2 to 3 percent per year over the next 22 years.

Natural gas demand in Mexico is increasing and is slated to play a more important role in the future. Mexico's Energy Regulatory Commission expects that natural gas demand will double over the next decade, with half of this gas being used to generate electricity.

Over the long-term, we believe there will be significant development of natural gas reserves in markets outside of North America. China is currently the second largest energy consumer in the world but produces less than 2 percent of its total energy requirement from natural gas. The Chinese government has established goals to expand proven gas reserves, improve the coordination of gas production and power generation and develop new technology to improve gas production. Even the oil-rich Middle East is increasing its development of natural gas. Saudi Arabia is currently constructing new gas pipelines and processing plants and Oman is increasing the percentage of its power generated from natural gas.

1998 Financial and Operating Highlights

- * **Second best financial performance in 20-year history**
- * **Return on equity: 25.2 percent**
- * **Completed construction of Edmonton, Alberta, Canada distribution facility**
- * **Expanding production capacity 60 percent with new McIntyre, Georgia, plant (Startup: early 1999)**
- * **Initiated feasibility study of manufacturing facility in China**



CARBO Ceramics' management team pictured at the new McIntyre Plant (left to right): Mark Pearson, Vice President, Marketing and Technology; Terry Keefe, Vice President, Manufacturing; Jesse Orsini, President and Chief Executive Officer; and Paul Vitek, Vice President, Finance.

We have good opportunities for continued growth by increasing our market penetration.

We see an opportunity to increase our market penetration by further displacing sand-based products. Today, by our estimate, ceramic proppants represent about 8.5 percent of the total volume of proppants used in the hydraulic fracturing of oil and gas wells. We believe that our market share could grow significantly if we successfully demonstrate the value of our products to oil and gas producers that have not traditionally used ceramic proppants.

Historically, our products have been used in deep wells that require the strength of ceramic proppants to withstand high closure stress. However, ceramic proppants offer advantages other than strength. The focus of our marketing program will be to clearly demonstrate how these advantages translate to increased production rates and improved profitability for the owners of oil and gas wells. We believe that this marketing effort can contribute to a significant increase in the market share for ceramic proppants in the future.

We will develop new markets for our products outside the oil and gas industry.

We believe the ceramic media we produce have applications outside the oilfield. Our challenge is to identify new industrial markets for our products. We targeted the foundry market for initial trials in 1996. However, distribution problems and our capacity constraint hampered our efforts in this market. With the addition of new capacity we will have

the ability to develop products specifically for the foundry market. We have expanded our distribution to this market and we will investigate opportunities for ceramic media in the catalyst, filtration and grinding markets.

In 1997 and through most of 1998, a lack of manufacturing capacity was our biggest concern. We simply lacked the productive capacity to satisfy demand. As a result, we believe customers shifted to resin-coated sands that were more readily available. We will increase our manufacturing capacity by approximately 60 percent with the completion and startup of our new manufacturing facility in McIntyre, Georgia, which is expected to be completed during the second quarter of this year. Capacity will not be a problem in 1999.

Our distribution system is the best in the industry and we continue to improve it. With the addition of our new facility in Canada, we now have five distribution centers in North America. We also have storage locations in Europe, South America and China. As new markets develop, we have the expertise and capital to establish strategic local distribution operations.

Our marketing organization is equally strong. In recent years, we have added technical industry expertise and established worldwide sales representation. Currently we have sales offices in the U.S. and Aberdeen, Scotland, and we have sales representatives located in South America, Australia and China.

CARBO Ceramics is a low cost producer with an experienced work force and raw materials under contract at favorable prices. We are financially sound with strong cash flow and a conservative capital structure. Over the last decade, we've shown that we can grow this business by increasing the market share of our products, which offer significantly increased return on investment to our customers.

We are proceeding according to plan, and we have nearly all of the elements in place to react quickly when the industry recovers.

Jesse P. Orsini
President and Chief Executive Officer



The new McIntyre, Georgia facility will provide production capacity for future growth.



ARBO Ceramics has a long record of profitability and growth. During the 20-year

history of CARBO Ceramics and its predecessor businesses, we have grown sales volumes at a compound annual rate of 22 percent. It is worth noting, however, that this growth has not been without interruption. Due to depressed levels of drilling activity, sales volume declined in 1986, 1991 and 1998. On each of the previous occasions when we have experienced a decline in sales, we responded with a plan that resulted in a resumption of growth. As we begin 1999, we are again moving forward with a plan that will provide us the resources to grow sales and earnings in the future.

In 1998, our business was affected by a slumping Asian economy and a surplus of oil that resulted in the lowest oil prices since the 1970s. Worldwide drilling activity slowed, reducing the demand for our products. We believe that the current oversupply of oil is temporary, and we are aggressively preparing ourselves to take advantage of the opportunities that will come as oil markets return to equilibrium.

While ceramic proppants are used in the stimulation of oil wells, our products are more frequently used in the stimulation of natural gas wells. In recent years, the demand for natural gas



PRODUCTION CAPACITY EXPANDED

Our new manufacturing facility, located in McIntyre, Georgia, will increase our capacity by approximately 60 percent and will be capable of producing both our lightweight and high strength products. The plant is strategically located near large deposits of kaolin clay, the raw material used to produce CARBOLITE® and CARBOECONOPROP®, our fastest growing product lines.

has been increasing and the natural gas market has been more stable than the oil market. We firmly believe that the long-term demand for natural gas will continue to increase around the world and that the best course of action for CARBO Ceramics is to continue to develop our business according to our long-range blueprint.

We have nearly all of the elements in place to support our long-range plan of increasing sales worldwide: increased manufacturing capacity, an aggressive

marketing strategy, expanded geographic sales and distribution coverage, experienced personnel, and a strong financial position. With these elements in hand, we are preparing to increase market share now and accelerate sales quickly when oil prices and drilling activity recover.

Increased Capacity



For the past two years, CARBO Ceramics' growth has been limited by our production capacity. Despite increasing capacity in 1993 and 1995, we could not satisfy all of the demand for our products in the strong market experienced throughout all of 1997 and the first half of 1998.

The new McIntyre, Georgia, facility is expected to be completed during the second quarter of 1999 and will increase capacity by approximately 60 percent to 550 million pounds per year. This new plant represents an investment of approximately \$56 million and will be our most efficient and flexible manufacturing facility. The plant has two distinct production lines, each with annual capacity of 100 million pounds capable of producing either our lightweight or high strength products.

The plant provides the asset we need

to continue the growth of our business in the future. We will soon have the production capability to resume our penetration of the proppant market and to produce products designed to serve new markets outside the energy industry.

Geographic Expansion

CARBO Ceramics has continued to expand its worldwide marketing and distribution network. During 1998, we invested in a new distribution facility to improve the deliverability of our

Built at a cost of \$1.5 million, the facility is the first dedicated proppant storage and distribution facility in Canada.

Last year, CARBO Ceramics signed a letter of intent with Changqing Petroleum Exploration Bureau to conduct a study for the construction of a ceramic proppant manufacturing facility in China. Despite being the second largest energy market in the world behind the United States, China currently has no high volume manufacturer of premium-quality ceramic proppants, and has limited high

crisis in Southeast Asia, the U.S. Energy Information Administration forecasts that half of the world's projected energy consumption increase will occur in developing Asia. We are expanding our marketing and distribution capabilities in China while exploring the feasibility of constructing a ceramic proppant manufacturing facility in that country. In early 1999, we added a sales representative dedicated to the Chinese market and established a stocking location in Tianjin, China.

Our sales to Mexico increased an impressive 62 percent in 1998, as we

WE DELIVER AROUND THE WORLD

Our logistics staff provides rapid order response ensuring that our products are delivered to the wellsite exactly when needed. CARBO Ceramics has storage and distribution facilities in the major drilling markets of South Texas, Oklahoma, the Rocky Mountains, Western Canada, Alaska, Europe and China.



products in the important and expanding Canadian market. With storage capacity of nearly five million pounds, the facility located near Edmonton, Alberta supports the active gas drilling activity in western Canada.

quality deposits of basic fracturing sand. China plans to double its natural gas production capacity by 2005 and has announced plans to move into full-scale exploration of its huge Erdos Basin gas field. Despite the recent economic

supplied ceramic proppants for the first phase of a project in the Burgos Field in Northern Mexico. The field is an extension of the huge natural gas field in South Texas, currently the largest market for ceramic proppants in the

The Edmonton, Alberta distribution facility has a storage capacity of five million pounds. It is the first dedicated proppant facility in Canada.





A typical hydraulic fracturing job uses approximately 200,000 pounds of ceramic proppants.

world. Natural gas demand in Mexico is increasing in response to industrial growth in Northeastern Mexico and clean air goals. Natural gas is slated to play a more important role in the future as new combined cycle power plants are built and existing power plants are converted to natural gas. Mexico's Energy Regulatory Commission expects that natural gas demand will double over the next decade, and that half of this gas will be used to generate electricity. Under Mexico's industrial energy policy, a significant percentage of Mexico's thermoelectric plants are planned for conversion to natural gas by 2005.

Marketing Plan

With additional production capacity available from our new McIntyre, Georgia manufacturing facility, CARBO Ceramics will have the ability to implement its aggressive plan to increase market share worldwide. The company also continues to explore new industrial uses for ceramic proppants.

Increasing Market Share. While producing at the limit of our capacity in 1997 and 1998, we gave up some sales to alternative proppants. We plan to recapture the market share that was

lost, and increase our market penetration in the future.

We are expanding our technical selling efforts to educate both production and service companies about the economic benefits of ceramic proppants. The use

The uniform size and shape of our products result in larger pore spaces within a fracture, allowing oil and gas to flow more freely through the formation. The focus of our marketing efforts will be to provide technical presentations that clearly show the



LEADING MARKET POSITION

CARBO Ceramics is the industry leader in the ceramic proppant market, supplying approximately 60 percent of the ceramic proppants used in the hydraulic fracturing of oil and gas wells worldwide. Our efficient manufacturing processes, excellent marketing capabilities and strong financial condition are important building blocks for future growth.

of ceramic proppants in deep, tight formations has become an accepted practice throughout the oil and gas industry. However, ceramic proppants offer advantages other than strength.

additional production and revenue customers can generate from using technically advanced ceramic proppants compared with sand-based products in formations that have not traditionally

used ceramic proppants. Contrary to many companies in the oilfield service industry, we have increased our 1999 marketing budget to support the additional production that will be available with the opening of the

foundry market has shown a need for a finer (smaller-sized) product. However, our limited capacity hampered our ability to make these finer products. With the addition of new capacity in 1999, we will develop finer products for

strategy, we do not expect any important financial impact to result from these efforts during 1999.

The Right Staff

We believe that we have the right team in place to carry out our plan for future growth. Throughout our organization, in manufacturing, distribution, sales and administrative support, we have experienced personnel dedicated to serving our customers. Our patented manufacturing processes are highly automated, so we operate with a lean but experienced and capable staff. Our marketing and technical support team is made up of employees, agents and technical consultants working together to increase our worldwide sales presence and service our customers. This team provides unparalleled technical assistance to our customers, helping them select the right product for their reservoir conditions and ensuring just-in-time delivery of quality products.

In 1998, we enhanced our international marketing efforts by establishing a European sales office and recently we added a local sales agent in China to the local representatives we have in South America and Australia. These sales agents are a critical element of



DEVELOPING NEW MARKETS

We are pursuing new uses for our products outside the energy industry. We have introduced CARBO Accucast™ in the foundry market and we are exploring additional uses for our products in the catalyst, grinding and materials preparation markets.

McIntyre plant. We believe that this marketing effort can contribute to a significant increase in the market share for ceramic proppants.

New industrial markets. Our diversification efforts to explore the use of ceramic proppants in new markets outside the energy industry have been slower to develop than we had hoped. Our initial work in the

the foundry market. At the same time, we are expanding our distribution channels into the foundry industry and will accelerate trial activity to determine the economic utility of ceramics in this industry.

We continue to study the market for ceramic media in the catalyst, filtration and grinding markets. Although diversification remains an important



← Ceramic proppants can improve well performance and profitability for producers of oil and gas. →

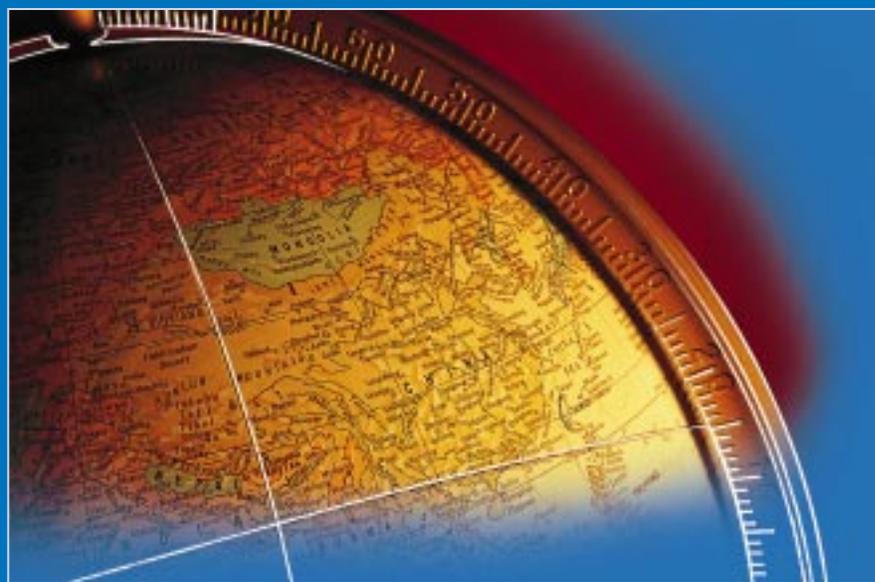
our international expansion strategy because they have expertise in their local markets. Their in-depth knowledge of the culture, regulations and business practices allow us to quickly gain a presence and establish credibility in those markets.

We provide outstanding support after the sale to our customers. Our logistics staff provides rapid order response through our extensive worldwide distribution network, ensuring that our products are delivered to the wellsite exactly when needed.

A Position of Strength

The company's financial strength and leading market position are important building blocks for our future growth. CARBO Ceramics has a strong balance sheet, with no debt and strong cash flow to support aggressive growth plans. The company is a low cost producer, and has incorporated new technology to reduce manufacturing costs. The new McIntyre plant will be our most cost efficient operation, with flexibility to shift between all of our product lines.

We are the industry leader in the ceramic proppants market, supplying about 60 percent of the ceramic proppants used in hydraulic fracturing,



CHINA PLANT FEASIBILITY STUDIED

As the demand for natural gas grows outside of North America, we will continue to expand our international operations. In early 1999, we opened a storage and distribution facility in China and we are currently conducting a feasibility study to explore the opportunity to build a manufacturing facility in this growing market.

and about 5 percent of the entire proppant market. We hold important patents on proprietary technology, processes and products that present formidable barriers to entry.

Our management team has many years of experience in the manufacturing and marketing of ceramic proppants, and has proven that CARBO Ceramics can grow its market share even in a less than robust energy market. Secure in our belief that we have the essential building blocks in place for growth, we are proceeding confidently according to plan.

Corporate Information

Board of Directors

William C. Morris
Chairman of the Board
Chairman, J. & W. Seligman & Co., Inc.

Claude E. Cooke, Jr.
of Counsel
Baker & Botts, L.L.P.

William A. Griffin, Jr.
Chairman Emeritus
Daniel Industries Inc.

John J. Murphy
Former Chairman of the Board
Dresser Industries

Jesse P. Orsini
President and Chief Executive Officer
CARBO Ceramics Inc.

Robert S. Rubin
Managing Director
Salomon Smith Barney

Corporate Officers

Jesse P. Orsini
President and Chief Executive Officer

Paul G. Vitek
Vice President, Finance and Chief Financial Officer

Terry P. Keefe
Vice President, Manufacturing

Dr. C. Mark Pearson
Vice President, Marketing and Technology

Corporate Offices

600 East Las Colinas Boulevard, Suite 1520
Irving, Texas 75039
(972)401-0090

Stock Exchange Listing

The Nasdaq Stock Market
Symbol: CRBO

Transfer Agent and Registrar

ChaseMellon Shareholder Services, L.L.C.
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
(800) 635-9270

Independent Auditors

Ernst & Young LLP
New Orleans, Louisiana

Form 10-K

A copy of the company's Annual Report to the Securities and Exchange Commission (Form 10-K) is available free of charge by contacting:

Paul G. Vitek
Vice President, Finance
CARBO Ceramics Inc.
600 East Las Colinas Boulevard, Suite 1520
Irving, Texas 75039

Annual Meeting

The company's Annual Meeting of Shareholders will be held at 9:00 a.m. on April 13, 1999, at The Mansion on Turtle Creek, 2821 Turtle Creek Boulevard, Dallas, Texas.

Investor Relations

Additional corporate information is available from our website at www.carboceramics.com or by emailing the company at IR@carboceramics.com



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