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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1992 | **Commission file number 1-3720**

W. R. Grace & Co.

Incorporated under the Laws of the State of New York | **I.R.S. Employer Identification No. 13-3461988**

One Town Center Road, Boca Raton, Florida 33486-1010
407/362-2000

PROCESSED BY
MAR 29 1993
DISCLOSURE INCORPORATED

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

Title of each class	Name of each exchange on which registered
Common Stock, $1 par value Common Stock Purchase Rights	New York Stock Exchange, Inc. Midwest Stock Exchange, Incorporated
6½% Convertible Subordinate Debentures Due 1996 Liquid Yield Option Notes due 2006	New York Stock Exchange, Inc.

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

None

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 and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ___

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

The aggregate market value of W. R. Grace & Co. voting stock held by nonaffiliates was approximately $3.4 billion at February 1, 1993.

At March 1, 1993, 90,075,124 shares of W. R. Grace & Co. Common Stock, $1 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated
1992 Annual Report to Shareholders (specified portions)	Parts I and II
Proxy Statement for Annual Meeting to be held May 10, 1993 (specified portions)	Part III

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PART I

Item 1. Business.

INTRODUCTION

W. R. Grace & Co. and its subsidiaries are primarily engaged in the specialty chemical business on a worldwide basis and in specialized health care activities. In its chemical operations, Grace develops, manufactures and markets specialty chemicals and materials and related application systems. In health care, Grace is primarily engaged in supplying kidney dialysis and home infusion and respiratory therapy services and products. Grace also engages in other business activities, consisting primarily of industrial cocoa and chocolate production.

As used in this Report, the term "Company" refers to W. R. Grace & Co., a New York corporation, and the term "Grace" refers to the Company and/or one or more of its subsidiaries. Grace's principal executive offices are located at One Town Center Road, Boca Raton, Florida 33486-1010, and its telephone number is 407/362-2000. At year-end 1992, Grace had approximately 44,000 full-time employees worldwide.

The Company's 1992 Annual Report to Shareholders ("Annual Report") is being filed as an exhibit to this Report on Form 10-K. Where this Report refers to information in the Annual Report, such information is incorporated by reference herein.

STRATEGIC RESTRUCTURING

In November 1991, Grace announced a new corporate strategy with the principal objective of enhancing shareholder value. The major components of the strategy are (a) focusing on core businesses to accelerate growth; (b) upgrading financial performance, principally by selling or monetizing non-core businesses, lowering the ratio of debt to total capital and reducing overhead; and (c) integrating corporate and operating unit functions through global product line management.

The core businesses referred to above are packaging, health care, catalysts and other silica-based products, construction products, water treatment and process chemicals, and container products. In addition, certain other businesses are being evaluated and, depending upon management's assessment of their potential contribution to future performance and growth (which assessment is expected to be completed by year-end 1993), such businesses may be designated as core or may be divested. As part of this strategy, Grace has reorganized the management of its core and other businesses on the basis of global product lines. Grace has also orga-

nized task forces to develop and implement "best practices" relating to financial, information systems, human resources, logistics and other management functions; has implemented a process to better allocate capital among its businesses; and has refinanced certain of its higher-cost debt.

Pursuant to its new strategy, Grace has divested or monetized a number of non-core businesses and has announced plans to divest others. In 1991, Grace sold its specialty textiles business; its automotive chemicals and sound deadening components businesses; investments in two pharmaceutical businesses; its Trinidadian fertilizer operations; its animal feed businesses; its polyurethane foam sealant manufacturing business; and its Japanese microwave products business. Grace sold its book, video and software distribution businesses in March 1992 and sold its organic chemicals business and related assets in December 1992. In December 1992, Grace also completed a transaction to monetize its cocoa and chocolate business by selling a 21% limited partnership interest in Grace Cocoa Associates, L.P., which owns this business and other assets, resulting in Grace's receipt of approximately $300 million in cash.

To facilitate the sale of its energy business, Grace acquired the 16.6% of Grace Energy Corporation ("GEC") common stock not already owned by Grace for approximately $80.1 million in July 1992. In January 1993, Grace completed the sale of the assets of the East Texas region of GEC's oil and gas subsidiary for $38 million in cash and the sale of the stock of the subsidiary for $125 million in cash, and entered into an agreement to sell its oil field services subsidiary for $97.5 million; completion of the latter transaction is subject to various conditions and is expected to occur in late March or early April 1993. In March 1993, Grace completed the sale of GEC's liquid storage and terminaling subsidiary for $63 million in cash and entered into agreements to sell GEC's offshore drilling and rig servicing businesses for a total of approximately $57 million, subject to adjustment for working capital items. Grace expects the latter transactions, which are subject to various conditions, to be completed during the second quarter of 1993. Grace is involved in negotiations with potential buyers of GEC's remaining oil and gas service business and is actively negotiating the sale of its remaining Caribbean fertilizer businesses. It has also commenced preliminary discussions concerning the sale of its investment in a Colombian pulp and paper manufacturing company and is considering alternatives for the disposition of GEC's coal production business.

As part of its strategy to focus on core business growth, Grace expects to continue to consider strategic acquisitions related directly to its core businesses. Accordingly, in 1992, Grace acquired the North American food service packaging business of Du Pont Canada for approximately $20 million and in February 1993, Grace acquired the water treatment and related operations of Aqua-

tec Quimica S.A. of Brazil, which has significant operations throughout South America and additional operations in Portugal and the United States. In the 1991-92 period, National Medical Care, Inc. ("NMC"), Grace's health care subsidiary, acquired the Renacare unit of Lloyds Chemists plc, the leading United Kingdom producer of dialysis concentrate and a distributor of associated products, as well as additional dialysis centers located primarily in the United States, for approximately $54 million in the aggregate. In March 1993, Grace acquired Virginia-based American Homecare Equipment, Inc., a provider of home infusion and respiratory therapy services, for approximately 116,000 shares of the Company's common stock and other consideration. In March 1993, Grace also announced that it expected to enter into an agreement to acquire Riggers Medizintechnik GmbH, a German manufacturer and distributor of dialysis products; completion of the transaction is subject to various conditions, including approval by the German government, and is expected to occur in April 1993. NMC is considering additional acquisitions, with continued emphasis on the development of its international business.

See Notes 3 and 6 to the Consolidated Financial Statements in the Annual Report for additional information.

INDUSTRY SEGMENTS

Information concerning the sales and revenues, pretax operating profit and identifiable assets of Grace's continuing operations by industry segment and geographic area for 1990, 1991 and 1992 is contained in Note 17 to Grace's Consolidated Financial Statements in the Annual Report.

Specialty Chemicals

Grace's specialty chemical operations consist of the development, manufacture and sale of approximately 70 separate product lines representing five core market groups and two non-core market groups (see "Strategic Restructuring" above). The following table shows these market groups and the principal products in each group.

Market Group	Principal Products
Core Market Groups -- Specialty Chemicals	
Packaging	Flexible plastic packaging products, foam trays and related application equipment, primarily for food products such as meat, poultry and cheese

Catalysts/Other Silica-Based Products.	Fluid cracking catalysts to aid in the separation of crude oil into components, including gasoline and kerosene
	Industrial catalysts used in manufacturing resins and other products with a wide variety of end-use applications
	Silica and adsorbent products for use in plastics, edible oil refining, dentifrices and insulated glass
	Membrane equipment for gas separation
Construction	Concrete admixtures to modify setting times and other properties
	Cement processing additives such as grinding aids
	Fireproofing and insulating materials to protect structural steel building members against heat, deformation and collapse in the event of fire
	Waterproofing materials such as membranes, surface treatments and accessory products
	Reinforced fiberglass plastic building components used in corrosive environments to provide superior strength and durability
Water Treatment and Process Chemicals.	Chemical controls for corrosion, scale and microbiological growth in industrial process water and heating/cooling applications, as well as industrial wastewater applications for water clarification, sludge dewatering and odor control
	Paper industry process chemicals to support equipment and related specialist/consulting services

	Paint detackification products and services to remove paint sludge from water wash paint spray systems
Container	Can and other closure sealing compounds and equipment for food, beverage and other containers
	Coatings and lacquers for cans, primarily to protect contents and metal from corrosion
	Container lubricants and cleaners used primarily to produce two-piece cans

Non-Core Market Groups -- Specialty Chemicals

Engineered Materials and Systems.	Printing products, including photopolymer plates and processing equipment and offset and textile printing blankets
	Specialty drying equipment used in web processing applications for the graphic arts industry and other applications
	Electromagnetic radiation control materials, including microwave absorption products and chambers, electromagnetic interference shielding and heat dissipating materials
	Engineered materials, including industrial ceramics, flotation and buoyancy modules, specialty microballoons, saturated papers and tape backings, specialty industrial roller coverings, molded protective cases and engineered elastomeric molded parts
	Specialty polymer compounds, including dielectric and conductive adhesives, coatings and encapsulants, and circuit board imaging systems

Battery Separators	Automotive and industrial battery separator materials, systems and services

In addition, Grace has recently combined its emission control catalysts and pollution control equipment businesses, together with certain other projects, to form a new developmental Emission Control products line.

Sales of the Packaging market group were $1.1 billion in 1990 and $1.2 billion in each of 1991 and 1992, in each case more than 10% of the sales and revenues of Grace's continuing operations.

Grace's specialty chemical products typically serve highly specialized markets and represent an important component (but a relatively small portion of the cost) of the end products in which they are used. Accordingly, competition is based primarily on technological capability, customer service and product quality.

Grace's specialty chemical products are produced in approximately 117 production facilities worldwide (72 in the United States and Canada, 23 in Western Europe and the balance in Pacific Rim countries and Latin America) and are sold primarily through direct sales organizations.

Most of the raw materials used in the manufacture of Grace's specialty chemical products are available from multiple suppliers (see "Materials and Energy" below). In addition, Grace supplies certain of its own raw materials.

See "Strategic Restructuring" above for information concerning 1992 and early 1993 transactions involving Grace's specialty chemical business.

Health Care

NMC. NMC provides kidney dialysis and related services for outpatients with chronic renal failure. At December 31, 1992, NMC operated 419 dialysis centers (397 in the United States and Puerto Rico, 19 in Portugal and 3 in Spain); these centers, substantially all of which are leased, average approximately 5,600 square feet in size. NMC also provides inpatient acute dialysis services under contracts with 318 hospitals in the United States (at December 31, 1992) and furnishes dialysis equipment and supplies to patients who elect home treatment. At December 31, 1992, NMC was treating approximately 32,000 patients in the U.S. and 2,000 patients in Portugal and Spain. Revenues from kidney dialysis services were $629.8 million in 1990, $720.3 in 1991 and $860.0

million in 1992, in each case more than 10% of the sales and revenues of Grace's continuing operations.

Additionally, NMC manufactures disposable artificial kidneys (dialyzers), bloodlines and dialysis solutions for use in its dialysis centers and for sale to unaffiliated dialysis facilities and home patients; distributes dialysis supplies and equipment and other medical products and supplies manufactured by others; and provides laboratory services (including hepatitis testing) to dialysis patients. Approximately two-thirds of NMC's sales of dialysis and other medical product supplies and equipment are made to patients not directly treated, or facilities not operated, by NMC.

NMC also provides infusion and respiratory therapy services and other medical equipment and supplies to patients for home use through a network of 77 locations (76 leased and 1 owned). Infusion therapy includes intravenous delivery of an expanding range of medications and nutritional preparations, such as chemotherapy, total parenteral nutrition, antibiotic therapy and drugs for pain management. Respiratory therapy includes delivery of oxygen and aerosolized drugs and the use of ventilators.

NMC believes there are adequate sources of supply for the raw materials and products utilized in its health care services and medical products businesses.

NMC's business is dependent on the continuation of Medicare and other third-party insurance coverage for dialysis and home care services and products. Medicare currently reimburses suppliers of such services and products for approximately 80% of established fees or reasonable charges; the remaining 20% is paid by the patient and/or his non-Medicare insurance carrier.

Because in most cases the prices of dialysis services and products are directly or indirectly regulated by Medicare, competition in the industry is based primarily on quality and accessibility of service. In addition, some states limit competition under laws that restrict the number of dialysis facilities within a geographic area based on need, as determined by state agencies. Competition in the home care business is also based on quality of service as well as price, and, where state laws do not impose limits on competition, there are no significant barriers to entering this business. Cost efficiency, therefore, is also a key element of competition in the health care market. NMC believes that it is among the most cost-efficient of the companies in its field and that it is the leading United States supplier of dialysis services and products and a leading United States provider of infusion therapy.

See "Strategic Restructuring" above for information concerning 1992 and early 1993 transactions involving Grace's health care business.

Health Care Investment. Grace has a 47% common equity interest in a company that serves hospitals and other health care institutions by recruiting nurses and other trained health care personnel and placing them on temporary assignments throughout the United States. Grace also owns preferred stock of the company and options, exercisable commencing in 1994, to acquire the balance of its common equity.

Other Businesses

Cocoa and Chocolate Production. Grace is a worldwide leader in the production of high-quality intermediate cocoa and chocolate products for sale as ingredients to the bakery, confectionery, dairy and beverage industries. Cocoa liquor, cocoa butter and cocoa powder produced at facilities in The Netherlands, Germany and Singapore are sold internationally; coatings and intermediate chocolate products are produced in Germany and France for the European market; and intermediate chocolate products, primarily coatings and cookie drops, are produced at four United States plants and one Canadian plant for the North American market. Grace's cocoa business competes primarily on the basis of superior service, product quality and reliability. Sales of cocoa and chocolate products were $685 million in 1990, $705 million in 1991 and $685 million in 1992, or more than 10% of the sales and revenues of Grace's continuing operations in each year.

See "Strategic Restructuring" above and Note 11 to Grace's Consolidated Financial Statements in the Annual Report for information concerning a 1992 monetization transaction involving Grace's cocoa business.

Other Businesses; Investments. Grace is engaged in animal artificial insemination services and genetics research; produces fertilizer in the Caribbean region for local use; provides logistical packaging, distribution and warehousing services to Grace units and others; and holds an interest of approximately 36% in a Colombian producer of writing, fine and specialty papers. Grace also maintains various other investments intended to complement its existing operations. See "Strategic Restructuring" above for additional information.

DISCONTINUED OPERATIONS

See Notes 3, 6 and 10 to Grace's Consolidated Financial Statements in the Annual Report and "Strategic Restructuring" above for information concerning Grace's discontinued operations.

RESEARCH ACTIVITIES

Grace engages in active research and development programs directed toward the development of new products and processes and the improvement of, and development of new uses for, existing products and processes in the specialty chemicals and health care areas. Research is carried out by divisional laboratories in the United States, Europe and Japan and by the Corporate Research Division, which has facilities in Columbia, Maryland, Lexington, Massachusetts and Atsugi, Japan. The Research Division's activities currently include specialty polymers; biomedical devices; catalysis; specialty inorganics; construction materials; photopolymers; specialty packaging; and process engineering, principally involving the development of technologies to manufacture chemical specialties and biomedical products. Research and development expenses relating to continuing operations amounted to $146.5 million in 1990, $149.8 million in 1991 and $150.6 million in 1992 (including expenses incurred in funding external research projects). The amount of research and development expenses relating to government- and customer-sponsored projects (as opposed to projects sponsored by Grace) is not material.

ENVIRONMENTAL AND SAFETY MATTERS

In constructing and operating its facilities, Grace incurs capital and operating expenditures related to protection of the environment. Grace's capital expenditures for environmental control facilities relating to continuing operations were approximately $23 million in 1991 and $20 million in 1992, and are estimated to total $62 million during the 1993-1994 period. Such expenditures have not had, and are not expected to have, a material effect on Grace's other capital expenditures or on its earnings or competitive position.

Grace's chemical operations have adopted the Chemical Manufacturers Association's "Responsible Care" principles, a comprehensive program that has, as its primary goal, improvements in the areas of health, safety and environmental quality. Grace has established policies, programs and procedures to monitor Responsible Care compliance, and other environmental, health and safety initiatives are being implemented throughout Grace. As part of these initiatives, Grace conducts safety programs with respect to all its operations, including those in which hazardous materials are used. These programs include safety training, emergency procedures, regular surveillance by employees, use of detection equipment and periodic inspections by employees and outside consultants.

See Item 3, "Legal Proceedings", in this Report for information concerning environmental proceedings to which Grace is a party.

MATERIALS AND ENERGY

The availability and prices of the raw materials and fuels used by Grace are subject to worldwide market conditions and governmental policies. On the basis of existing arrangements, Grace does not anticipate any major disruptions of its business in 1993 as a result of shortages of raw materials or energy. Should shortages occur, their effect on Grace's operations would depend upon their nature, duration and severity and consequently cannot be determined at this time. However, arrangements have been made, and will continue to be made, for long-term commitments for many of Grace's raw materials and fuel requirements from primary sources of supply.

Item 2. Properties.

Grace operates chemical, manufacturing and other types of plants and facilities (including office and other service facilities) throughout the world. Grace considers its major operating properties to be in good operating condition and suitable for their current use. Although Grace believes that the productive capacity of most of its plants and other facilities is adequate for current operations and foreseeable growth, it conducts ongoing, long-range forecasting of its capital requirements to assure that additional capacity will be available when and as needed (see information regarding Grace's capital expenditures on page 46 of the Annual Report). Accordingly, Grace does not anticipate that its operations or income will be materially affected by the absence of available capacity.

Additional information regarding Grace's properties is set forth in Item 1 above, in Schedules V and VI on pages F-2 and F-3 of this Report and in Notes 1, 8 and 10 to Grace's Consolidated Financial Statements in the Annual Report.

Item 3. Legal Proceedings.

Asbestos Litigation. Grace is a defendant in lawsuits relating to previously sold asbestos-containing products. At year-end 1992, Grace was a defendant in approximately 30,900 asbestos-related lawsuits representing approximately 53,000 claims (as compared to approximately 24,300 lawsuits and 36,000 claims at year-end 1991), and it is anticipated that Grace will be named as a defendant in additional asbestos-related lawsuits in the future. 105 of the lawsuits pending at year-end 1992 involved claims for property damage allegedly caused by the use of asbestos-containing materials in the construction of buildings. The plaintiffs in these lawsuits generally seek, among other things, to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. The

remaining asbestos-related lawsuits involve claims for personal injury. In most of the asbestos-related lawsuits, Grace is one of many defendants.

Through year-end 1992, 107 asbestos property damage cases had been dismissed with respect to Grace without payment of any damages or settlement amounts; verdicts were returned in favor of Grace in seven cases; in one case, Grace was held liable for $8.0 million and in two other cases, which are on appeal, Grace was held liable for a total of $21.4 million; and 116 property damage suits and claims had been settled by Grace for a total of $278.6 million. Grace has recorded a receivable for the insurance proceeds it expects to receive in connection with these settlements and the adverse verdicts and defense costs initially paid by Grace (see "Insurance Litigation" below and Notes 2 and 7 to Grace's Consolidated Financial Statements in the Annual Report).

In April 1992, in Prince George Center, Inc. v. U.S. Gypsum Company, et al., the Court of Common Pleas of Philadelphia County (Pennsylvania) certified a state class action of all commercial buildings leased in whole or in part to the United States government on or after May 30, 1986; the class would cover all such buildings regardless of location. Grace and the other defendants in the action are contesting the jurisdiction of the court over the class as defined.

In September 1992, in Central Wesleyan College, et al. v. W. R. Grace, et al., the United States District Court for the District of South Carolina conditionally certified a class of all public and private colleges and universities in the United States whose buildings contain asbestos materials. With the District Court's permission, the United States Court of Appeals for the Fourth Circuit has accepted an appeal by Grace and the other defendants, who are seeking decertification of the class.

In October 1992, the United States Court of Appeals for the Third Circuit granted petitions by Grace and other defendants to disqualify the judge presiding over In re: Asbestos School Litigation, a national class action brought in 1983 in the United States District Court for the Eastern District of Pennsylvania on behalf of all public and private elementary and secondary schools in the United States containing asbestos materials. The action has been assigned to a new judge, who is expected to reconsider the manageability of the case as a national class action.

In December 1992, Anderson Memorial Hospital, et al. v. W. R. Grace & Co., et al., a class action asbestos property damage suit, was filed in a South Carolina state court on behalf of all entities that own, in whole or in part, any building containing asbestos materials manufactured by Grace or one of eight other named defendants. Excluded are buildings subject to the class action lawsuits described above, as well as any building owned by

the federal or any state government. The defendants have successfully transferred this case to the United States District Court for the District of South Carolina.

The remaining asbestos lawsuits pending at year-end 1992 involved claims for personal injury. Through year-end 1992, approximately 5,800 personal injury lawsuits involving 6,600 claims had been dismissed with respect to Grace without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved), and approximately 8,500 such suits involving 9,400 claims had been settled for a total of $39.9 million, the majority of which has been paid by certain of Grace's insurance carriers (see "Insurance Litigation" below). In January 1993, in Edward M. Carlough, et al. v. Amchem Products, Inc., et al., the United States District Court for the Eastern District of Pennsylvania conditionally certified a class of all future asbestos personal injury claimants, including individuals who have been occupationally exposed to asbestos-containing materials but who do not presently allege asbestos-related injury. Although Grace is not among the defendants named in the class action complaint, dissemination of the required class notice may generate additional litigation against Grace.

In 1991, the Judicial Panel on Multi-District Litigation consolidated in the United States District Court for the Eastern District of Pennsylvania, for pre-trial purposes, all asbestos personal injury cases pending in the federal courts (including approximately 7,000 cases against Grace). To date, no action has been taken by the court handling the consolidated cases that would indicate whether the consolidation will affect Grace's cost of disposing of these cases or its defense costs.

Grace's ultimate exposure in respect of its asbestos-related lawsuits and claims will depend on the extent to which its insurance will cover damages for which it may be held liable, amounts paid in settlement and litigation costs. While (a) Grace's insurance carriers have not acknowledged or have denied the applicability of their insurance coverage to Grace's asbestos property damage lawsuits and claims (except as discussed below under "Insurance Litigation"), (b) Grace is currently in litigation with certain carriers concerning the applicability and extent of its insurance coverage and (c) the resolution of certain issues, primarily relating to the availability of coverage for specific years, will require further judicial proceedings, Grace believes that its insurance will cover a substantial portion of any damages, settlement amounts and litigation costs related to its asbestos litigation and claims. Consequently, Grace believes that the resolution of its asbestos litigation will not have a material adverse effect on its consolidated financial position or results of operations. See "Insurance Litigation" below and Note 2 to Grace's Consolidated Financial Statements in the Annual Report for additional information.

Environmental and Other Proceedings. Grace (together with other companies) has been designated a "potentially responsible party" ("PRP") by the United States Environmental Protection Agency ("EPA") with respect to absorbing the costs of investigating and remediating pollution at various sites. Grace has not incurred any material liability with respect to sites as to which such proceedings have been concluded by agreement with the EPA.

At year-end 1992, proceedings were pending with respect to 49 sites as to which Grace has been designated a PRP. Based on its investigation to date, Grace believes that its individual liability would not be material with respect to these sites. Further, although federal law provides that all PRPs may be held jointly and severally liable for the costs of investigation and remediation of a site, after consideration of the liabilities of other PRPs with respect to these sites and their respective levels of financial responsibility, Grace believes that its aggregate liability with respect to these sites is not material. Finally, Grace believes that a substantial portion of any amounts for which it may be held liable with respect to these sites will be covered by insurance, and Grace is presently involved in litigation with its insurance carriers seeking to hold them responsible therefor (see "Insurance Litigation" below).

Grace is also involved in other litigation, including certain environmental proceedings brought by federal, state and/or local government agencies and private parties. No such litigation is expected to result in significant monetary or other sanctions or in other material liabilities. However, as a voluntary participant in the EPA Toxic Substances Control Act Compliance Audit Program, Grace agreed to undertake a corporate-wide audit of compliance with Section 8 of such Act and to pay a stipulated civil penalty for each study or report that should have been, but was not, submitted to the EPA as required under such Section. Although final review of the audit is not complete, Grace believes it will be required to pay the EPA penalties aggregating from $300,000 to $600,000 for information discovered in the course of the audit. In addition, Grace has voluntarily reported to the EPA violations of certain notification and related requirements under such Act, and it is anticipated that penalties will be assessed against Grace in connection therewith; the amount of such penalties cannot be determined at this time. See Note 2 to Grace's Consolidated Financial Statements in the Annual Report for additional information.

Further, Hatco Corporation ("Hatco"), which purchased the assets of a Grace chemical business in 1978, previously instituted a lawsuit against Grace in the federal District Court for the District of New Jersey. The lawsuit seeks recovery of cleanup costs for waste allegedly generated at a New Jersey facility during the period of Grace's ownership, claiming that the terms of the sale to Hatco provide for Grace's retention of certain liabilities for environmental remediation at the facility. In 1992, the Court

preliminarily ruled that Grace had retained certain environmental responsibilities with respect to the facility. Grace believes that a portion of the costs in question relate to waste generated subsequent to the sale to Hatco and consequently should be borne by Hatco. In a separate ruling, the Court also resolved, in a manner favorable to Grace, certain legal issues regarding Grace's right to insurance. However, the issue of whether Grace's insurance carriers are ultimately liable to Grace for certain portions of Grace's liability to Hatco will be determined at trial (see "Insurance Litigation" below). An investigation to determine the scope of contamination of the site, and a feasibility study regarding possible alternatives for remediation, have not yet been performed. As a result of the above factors, neither the amount that Grace may be required to pay Hatco, nor the amount that Hatco may have to absorb, nor the amount of Grace's recoveries from its insurance carriers can be reliably estimated at this time. However, based on its investigation to date, Grace believes that the ultimate resolution of this matter will not have a material effect on its financial condition.

Insurance Litigation. Grace is involved in litigation with certain insurance carriers with respect to asbestos-related claims and environmental liabilities. Its asbestos-related insurance actions consist of two cases styled Maryland Casualty Co. v. W. R. Grace & Co., both pending in the United States District Court for the Southern District of New York; State of Mississippi v. The Flintkote Co., et al., pending in the Circuit Court of Jackson County, Mississippi; Dayton Independent School District v. United States Mineral Products Company, et al., pending in the United States District Court for the Eastern District of Texas; Independent School District No. 197, et al. v. W. R. Grace & Co. and Accident & Casualty Insurance Co., et al., pending in the First Judicial District in Minnesota; American Employers' Insurance Co., American Re-Insurance Co., and Commercial Union Insurance Co., and Unigard Security Insurance Co. v. W. R. Grace & Co., Continental Casualty Co., and Maryland Casualty Co., which is pending in the New York state courts; and two cases styled W. R. Grace & Co.-Conn. v. Admiral Insurance Co., et al., one pending in the Superior Court of California for the County of Los Angeles and the second pending in the District Court of Harris County, Texas. Grace's insurance actions relating to environmental liabilities consist of W. R. Grace & Co. v. Maryland Casualty Co., pending in the Superior Court of Middlesex County, Massachusetts; Maryland Casualty Co. v. W. R. Grace & Co., pending in the United States District Court for the Southern District of New York; and Hatco Corp. v. W. R. Grace & Co.-Conn., pending in the United States District Court for the District of New Jersey. The relief sought by Grace in these actions would provide insurance coverage in excess of that needed to cover Grace's estimated exposure with respect to the actions' subject matter, including damages for amounts previously expended by Grace to defend claims and satisfy judgments and settlements (see Note 2 to Grace's Consolidated Financial Statements in the

Annual Report). The factual bases underlying these actions are the nature of the underlying asbestos-related and environmental claims, the language of the insurance policies sold by the carriers to Grace and the drafting history of those policies.

In March 1991 (in one of the above asbestos-related cases involving Maryland Casualty Co.), the United States District Court for the Southern District of New York held that Grace's primary insurance carriers are obligated to defend and indemnify Grace for damages (other than certain punitive damages), settlement amounts and litigation costs with respect to asbestos-related property damage and personal injury claims; in so holding, the Court determined that coverage for property damage is triggered by the "discovery of damage" during the period covered by the relevant policy. In December 1991, the Mississippi Court referred to above also held that Grace's primary and excess insurance carriers are obligated to defend and indemnify Grace, determining that, for purposes of insurance coverage, damage to buildings from asbestos-containing products occurs at the time such products are put in place and that the damage continues as long as the building contains the products (referred to as a "continuous trigger"). In November 1992, the Minnesota court referred to above reached a similar decision in interpreting a Grace insurance policy.

Grace received $21.5 million in July 1990 from Continental Casualty Company ("CCC") and $34.3 million in December 1991 from Maryland Casualty Co. ("Maryland") as payments under Grace's primary level product liability insurance coverage. The payment by CCC represented CCC's aggregate remaining obligation to Grace under product liability insurance coverage provided by CCC from June 30, 1973 through June 30, 1987, and Grace agreed that CCC's product liability insurance obligation to Grace for that period was satisfied; in addition, CCC dismissed a lawsuit it had filed against Grace seeking reimbursement of certain amounts paid by CCC which Grace maintained were not owed by Grace. Accordingly, as of August 1, 1990, Grace assumed CCC's responsibility for payment of litigation costs arising from Grace's asbestos-related lawsuits. The payment by Maryland represented Maryland's aggregate remaining obligation to Grace under primary level product insurance coverage provided by Maryland from June 30, 1962 through June 30, 1973, and Grace agreed that Maryland's primary level product liability insurance obligation to Grace for that period was satisfied. As a result of the payments by CCC and Maryland, the above insurance litigations have been dismissed as to the primary level product liability insurance coverage previously sold by them to Grace; however, such litigations continue as to other primary carriers and as to excess level policies issued by CCC and Maryland.

See Notes 2 and 7 to Grace's Consolidated Financial Statements in the Annual Report for additional information.

Fumed Silica Plant Litigation. In January 1993, Grace initiated legal action in the Belgian courts against the Flemish government to recover losses resulting from the closing of Grace's fumed silica plant in Puurs, Belgium. The plant was closed by Grace after a by-product disposal permit, previously granted to a critical raw material supplier to Grace's plant, was revoked by the Flemish government, causing the operation of Grace's plant to become impracticable (see Note 8 to Grace's Consolidated Financial Statements in the Annual Report for additional information). Grace is seeking damages in excess of four billion Belgian francs (approximately $120 million at current exchange rates), plus interest and loss of profits. There is also pending a separate arbitration involving the engineering company involved in the design and construction of the fumed silica plant, the outcome of which may affect any recovery of damages from the Flemish government.

Item 4. Submission of Matters to a Vote of Security Holders.

This Item is inapplicable as no matters were submitted to a vote of the Company's security holders during the fourth quarter of 1992.

EXECUTIVE OFFICERS

The Company's current executive officers are listed below. Executive officers are elected to serve until the following annual meeting of the Company's Board of Directors; the next such meeting is scheduled to be held on May 10, 1993.

Name and Age	Office	First Elected
J. P. Bolduc (53)	President and Chief Executive Officer	08/02/90 01/01/93
J. Murfree Butler (50)	Vice Chairman	09/12/89
Joseph R. Wright, Jr. (54)	Vice Chairman	07/06/89
F. Peter Boer (52)	Executive Vice President	01/05/89
Hugh L. Carey (73)	Executive Vice President	12/03/87
Constantine L. Hampers (60)	Executive Vice President	06/06/91
Donald H. Kohnken (58)	Executive Vice President	12/07/89
James P. Neeves (55)	Executive Vice President	09/06/90
Brian J. Smith (48)	Executive Vice President and Chief Financial Officer	07/06/89

All the above executive officers have been actively engaged in Grace's business for the past five years, except for Mr. Wright, who was deputy director of the federal Office of Management and Budget from 1982 to 1988 and was its director in 1988 and 1989.

Mr. Carey was a partner of Finley, Kumble, Wagner, Heine, Underberg, Manley, Meyerson & Casey (a law firm) from 1983 to 1987; that firm is currently involved in bankruptcy proceedings commenced subsequent to Mr. Carey's departure. Mr. Carey is cooperating with the trustee in bankruptcy to secure a plan of reorganization which would result in some limited liability for Mr. Carey.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Except as provided below, the information called for by this Item appears in the Annual Report under the heading "Financial Summary" opposite the caption "Other Statistics - Common shareholders of record" (page 47); under the heading "Quarterly Summary" opposite the captions "Dividends declared per common share" and "Market price of common stock" for 1992 and 1991 (page 44); and in Note 12 to Grace's Consolidated Financial Statements.

Each share of the Company's Common Stock has an attendant Common Stock Purchase Right ("Right"). The Rights are not and will not become exercisable unless and until certain events occur (as described below). Until such events occur, the Rights will automatically trade with the Common Stock and separate certificates for the Rights will not be distributed. The Rights will become exercisable on the tenth business day (or such later business day as may be fixed by the Company's Board of Directors) after a person or group (a) becomes an "interested shareholder", as defined in Section 912 of the New York Business Corporation Law (generally, a beneficial owner of 20% or more of the outstanding voting stock), or (b) commences a tender offer or exchange offer that would result in such person or group becoming an interested shareholder. The Rights will not have any voting power at any time.

When the Rights become exercisable, each Right will initially entitle the holder to buy from the Company one share of Common Stock for $87.50, subject to adjustment in certain cases ("purchase price"). If, at any time after the Rights become exercisable, (a) the Company is involved in a merger or other business combination in which (i) the Company is not the surviving corporation or (ii) any of the Common Stock is changed or converted into or exchanged for stock or other securities of any other person or cash or other property, or (b) 50% of the Company's assets, cash flow or earning power is sold, each Right will entitle the holder

to buy a number of shares of common stock of the acquiring company having a market value equal to twice the purchase price. Alternatively, each right not owned by a person who becomes an interested shareholder would become exercisable for Common Stock (or other consideration) having a market value equal to twice the purchase price.

The Rights may be redeemed by the Company at $.025 per Right (payable in cash, Common Stock or any other form of consideration deemed appropriate by the Board) at any time through the tenth business day (or such later business day as may be fixed by the Board) after a public announcement that a person or group has become an interested shareholder; this right of redemption may be reinstated if all interested shareholders reduce their holdings to 10% or less of the outstanding Common Stock. The Rights will expire in January 1997.

The Rights may be amended either before or after they become exercisable. However, the basic economic terms of the Rights (such as the purchase and redemption prices and the expiration date) cannot be changed.

Item 6. Selected Financial Data.

The information called for by this Item appears in the Annual Report under the heading "Financial Summary" (page 47) and in Notes 5, 6, 10 and 15 to Grace's Consolidated Financial Statements. In addition, Exhibit 12 to this Report contains the ratio of earnings to fixed charges for Grace for the years 1988-1992.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information called for by this Item appears on pages 21 to 23 of the Annual Report.

Item 8. Financial Statements and Supplementary Data.

See the Index to Financial Statements and Schedules on page 25 of this Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

This item is inapplicable as no such changes or disagreements have occurred.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Except for information regarding the Company's executive officers (see pages 16 and 17), the information called for by this Item is incorporated in this Report by reference to the definitive Proxy Statement for the Company's 1993 Annual Meeting of Shareholders, except for information not deemed to be "soliciting material" or "filed" with the Securities and Exchange Commission ("SEC"), information subject to Regulations 14A or 14C under the Securities Exchange Act of 1934 ("Exchange Act") or information subject to the liabilities of Section 18 of the Exchange Act.

Item 11. Executive Compensation.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Item 13. Certain Relationships and Related Transactions.

The information called for by these Items is incorporated in this Report by reference to the definitive Proxy Statement for the Company's 1993 Annual Meeting of Shareholders, except for information not deemed to be "soliciting material" or "filed" with the SEC, information subject to Regulations 14A or 14C under the Exchange Act or information subject to the liabilities of Section 18 of the Exchange Act.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

Financial Statements and Schedules. See the Index to Financial Statements and Schedules on page 25 of this Report.

Reports on Form 8-K. The Company filed a Report on Form 8-K dated November 11, 1992 containing unaudited interim financial statements for the quarter ended March 31, 1992 and the quarter and six months ended June 30, 1992, restated to give effect to the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and SFAS No. 109, "Accounting for Income Taxes". The Company filed a Report on Form 8-K dated December 7,

1992 concerning the issuance and sale of $150 million principal amount of 6-1/2% Notes Due 1995. The Company filed a Report on Form 8-K dated December 16, 1992 concerning the retirement of J. Peter Grace as Chief Executive Officer of the Company.

Exhibits. The exhibits to this Report are listed below. Other than exhibits that are filed herewith, all exhibits listed below are incorporated herein by reference. Exhibits indicated by an asterisk (*) are the management contracts and compensatory plans, contracts or arrangements required to be filed as exhibits to this Report.

Exhibit	Where Located
Certificate of Incorporation of W. R. Grace & Co., as amended	Exhibit 3 to Form 8-K (filed 6/9/88)
By-laws of W. R. Grace & Co., as amended	Filed herewith
Indenture dated as of September 15, 1987 between W. R. Grace & Co. and Manufacturers Hanover Trust Company as supplemented	Exhibit 4(g) to Form 10-K (filed 3/29/88); Exhibit 4(e) to Form 8-K (filed 6/9/88)
Indenture dated as of May 1, 1991 among W. R. Grace & Co., W. R. Grace & Co.-Conn. and Manufacturers Hanover Trust Company	Exhibit 4(a) to Form 10-Q (filed 8/13/91)
Indenture dated as of September 29, 1992 among W. R. Grace & Co.-Conn., W. R. Grace & Co. and Bankers Trust Company	Filed herewith
Indenture dated as of January 28, 1993 among W. R. Grace & Co.-Conn., W. R. Grace & Co. and NationsBank of Georgia, N.A.	Filed herewith
Credit Agreement dated as of September 1, 1992 among W. R. Grace & Co., W. R. Grace & Co.-Conn. and the Several Bank Parties thereto and Chemical Bank, as Agent	Exhibit 4.2 to Form 8-K (filed 9/26/92)
Amended and Restated Rights Agreement dated as of June 7, 1990 between W. R. Grace & Co. and Manufacturers Hanover Trust Company	Exhibit to Amendment on Form 8 to Application for Registration on Form 8-B (filed 6/19/90)*

W. R. Grace & Co. Executive Salary Protection Plan, as amended	Exhibit 19(f) to Form 8-K (filed 6/9/88)*
W. R. Grace & Co. 1963 Stock Option Plan, as amended	Exhibit 10(c) to Form 10-K (filed 3/30/83)*
W. R. Grace & Co. 1967 Stock Incentive Plan, as amended	Exhibit 10(d) to Form 10-K (filed 3/30/83)*
W. R. Grace & Co. 1973 Stock Incentive Plan, as amended	Exhibit 10(e) to Form 10-K (filed 3/30/83)*
W. R. Grace & Co. 1981 Stock Incentive Plan, as amended	Exhibit 28(a) to Form 10-Q (filed 8/13/91)*
W. R. Grace & Co. 1986 Stock Incentive Plan, as amended	Exhibit 28(b) to Form 10-Q (filed 8/13/91)*
W. R. Grace & Co. 1989 Stock Incentive Plan, as amended	Exhibit 28(c) to Form 10-Q (filed 8/13/91)*
Forms of Stock Option Agreements	Exhibit 10(h) Form 10-K (filed 3/28/92)*
Forms of Restricted Share Award Agreements	Exhibit 10(i) Form 10-K (filed 3/28/92)*
Description of W. R. Grace & Co. incentive compensation program	Page 14 of Proxy Statement (filed 4/13/92)*
Description of W. R. Grace & Co. Special Bonus Program	Pages 14-15 of Proxy Statement (filed 4/13/92)*
Description of W. R. Grace & Co. Deferred Compensation Program	Page 15 of Proxy Statement (filed 4/13/92)*
W. R. Grace & Co. Long-Term Incentive Plan	Exhibit 10(l) to Form 10-K (filed 3/29/91)*
W. R. Grace & Co. Supplemental Executive Retirement Plan, as amended	Exhibit 19(d) to Form 8-K (filed 6/9/88)*
W. R. Grace & Co. Retirement Plan for Outside Directors, as amended	Exhibit 10(o) to Form 10-K (filed 3/28/92)*

Employment Agreement dated as of August 1, 1987 between W. R. Grace & Co. and J. Peter Grace, related Amendment and Assignment dated May 10, 1988 and Amendment dated July 31, 1989	Exhibit 10(o) to Form 10-K (filed 3/29/88); Exhibit 19(g) to Form 8-K (filed 6/9/88); Exhibit 10(t) to Form 10-K (filed 3/30/90)*
Employment Agreement and Housing Loan Agreement dated as of August 1, 1987 between W. R. Grace & Co. and J. P. Bolduc, related Amendment and Assignment dated May 10, 1988 and Amendnent dated July 31, 1989	Exhibit 10(q) to Form 10-K (filed 3/29/88); Exhibit 19(i) to Form 8-K (filed 6/9/88); Exhibit 10(x) to Form 10-K (filed 3/30/90)*
Employment Agreement dated August 7, 1989 between W. R. Grace & Co. and Joseph R. Wright, Jr.	Exhibit 10(r) to Form 10-K (filed 3/29/91)*
Option Agreement dated as of December 26, 1986 between W. R. Grace & Co. and J. Peter Grace	Exhibit 10(p) to Form 10-K (filed 3/30/87)*
Employment Agreement dated as of April 1, 1991 between W. R. Grace & Co.-Conn. and Constantine L. Hampers, as amended	Exhibit 10(x) to Form 10-K (filed 3/28/92)*
Stock Option Agreement dated January 2, 1990 between National Medical Care, Inc. and Constantine L. Hampers	Exhibit 10(z) to Form 10-K (filed 3/28/92)*
National Medical Care, Inc. and Subsidiaries Executive Bonus Plans	Exhibit 10 (aa) to Form 10-K (filed 3/28/92)*
Retirement Agreement between W. R. Grace & Co. and J. Peter Grace dated December 21, 1992	Filed herewith*
Executive Severance Agreement dated as of September 1, 1992 between W. R. Grace & Co. and J. P. Bolduc	Filed herewith*
Executive Severance Agreement dated as of September 1, 1992 between W. R. Grace & Co. and J. Peter Grace	Filed herewith*

Executive Severance Agreement dated September 1, 1992 between W. R. Grace & Co. and Constantine L. Hampers	Filed herewith*
Executive Severance Agreement dated September 1, 1992 between W. R. Grace & Co. and Joseph R. Wright, Jr.	Filed herewith*
Form of Executive Severance Agreement between W. R. Grace & Co. and others	Filed herewith*
Consulting Agreement dated June 1, 1992 between W. R. Grace & Co. and Kamsky Associates, Inc.	Filed herewith*
Incentive Compensation Agreement dated June 1, 1992 between National Medical Care, Inc. and Kamsky Associates, Inc.	Filed herewith*
Weighted Average Number of Shares and Earnings Used in Per Share Computations	Filed herewith
Computation of Ratio of Earnings to Fixed Charges	Filed herewith
1992 Annual Report to Shareholders of W. R. Grace & Co.	Filed herewith
List of Subsidiaries of W. R. Grace & Co.	Filed herewith
Consent of Independent Accountants	Filed herewith
Powers of Attorney	Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

W. R. GRACE & CO.

By B. J. Smith
B. J. Smith
(Executive Vice President)

Date: March 15, 1993

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 15, 1993.

Signature	Title
J. P. Bolduc*	President and Director (Principal Executive Officer)

G. C. Dacey*	~~V. A. Kamsky*~~	Directors
E. W. Duffy*	~~P. S. Lynch*~~	
H. A. Eckmann*	R. C. Macauley*	
C. H. Erhart, Jr.*	R. Milliken*	
R. C. Foster*	~~J. E. Phipps*~~	
J. W. Frick*	W. W. Prince*	
J. P. Grace*	J. A. Puelicher*	
R. H. Grierson*	~~E. W. Pyne*~~	
C. L. Hampers*	D. W. Robbins, Jr.*	
~~T. A. Holmes*~~	E. J. Sullivan*	
G. J. Humphrey*	G. S. Vance*	
G. P. Jenkins*	D. L. Yunich*	

B. J. Smith
(B. J. Smith) — Executive Vice President (Principal Financial Officer)

R. N. Sukenik
(R. N. Sukenik) — Vice President and Controller (Principal Accounting Officer)

* By signing his name hereto, Robert B. Lamm is signing this document on behalf of each of the persons indicated above pursuant to powers of attorney duly executed by such persons and filed with the Securities and Exchange Commission.

By
Robert B. Lamm
(Attorney-in-Fact)

W. R. GRACE & CO. AND SUBSIDIARIES

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* Refers to pages of the Annual Report.

The financial data listed above appearing in the Annual Report are incorporated by reference herein. The Financial Statement Schedules should be read in conjunction with the Consolidated Financial Statements and Notes thereto in the Annual Report. Financial statements of 50%- or less-owned persons and other persons accounted for by the equity method have been omitted as provided in Rule 3-09 of Securities and Exchange Commission Regulation S-X. Schedules not included have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors of W. R. Grace & Co.

Our audits of the consolidated financial statements referred to in our report dated February 3, 1993 appearing on page 24 of the 1992 Annual Report to Shareholders of W. R. Grace & Co. (which report and financial statements are incorporated in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedules listed in the Index to Financial Statements and Schedules on page 25 of this Form 10-K. In our opinion, these Financial Statement Schedules present fairly in all material respects the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICE WATERHOUSE

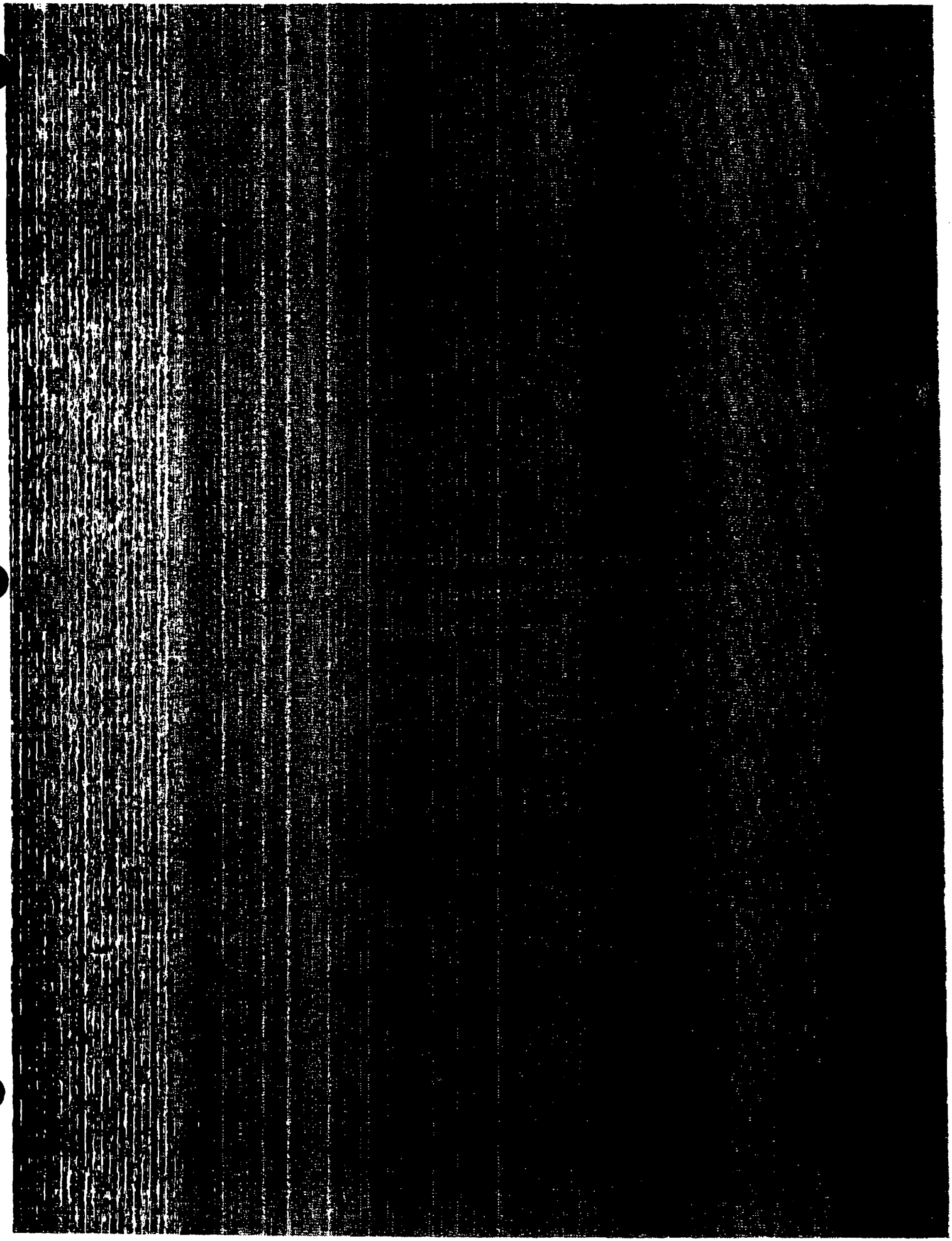
New York, New York
February 3, 1993

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectuses constituting parts of the Registration Statements on Form S-3 (Nos. 33-16031 and 33-25962) and Form S-8 (Nos. 33-7504, 33-15182, 33-27960 and 33-32151) of W. R. Grace & Co. of our report dated February 3, 1993 appearing on page 24 of the 1992 Annual Report to Shareholders which is incorporated in this Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedules, which appears above.

PRICE WATERHOUSE

New York, New York
March 25, 1993



Financial Summary

Dollars in millions, except per share amounts

	1992	1991[1]	1990[1][2]
Operating Results			
Sales and Revenues	$5,518.2	$5,569.9	$5,504.6
Income from Continuing Operations	79.4[3]	242.9	220.0
Cumulative Effect of Accounting Changes	(190.0)	—	—
Net (Loss)/Income	(294.5)	218.6	202.8
Capital Expenditures	398.4	447.0	513.7
Depreciation and Amortization	272.2	275.9	265.6
Research and Development Expenses	150.6	149.8	146.5
Financial Position			
Total Assets	$5,598.6	$6,007.1	$6,226.5
Total Debt	1,819.2	2,259.4	2,285.9
Common Shareholders' Equity	1,537.5	2,017.7	1,905.0
Data Per Common Share			
Earnings from Continuing Operations	$ .88	$ 2.78	$ 2.56
Cumulative Effect of Accounting Changes	(2.12)	—	—
(Loss)/Earnings	(3.29)	2.50	2.36
Dividends	1.40	1.40	1.40
Book Value	17.10	22.77	22.14
Other Information			
Common Shares Outstanding—End of Year *(thousands)*	89,892	88,603	86,052
Average Common Shares Outstanding *(thousands)*	89,543	87,236	85,879
Dividends Paid on Common Stock	$ 125.4	$ 122.0	$ 120.2
Number of Employees *(thousands)*	44.1	49.3	52.2

[1] Certain amounts have been restated to reflect the classification of Grace Energy as a discontinued operation.

[2] Certain amounts have been restated to reflect the classification of Grace's book, video and software distribution businesses as a discontinued operation.

[3] Includes a provision of $140.0 covering a fraud at a silica plant in Belgium.

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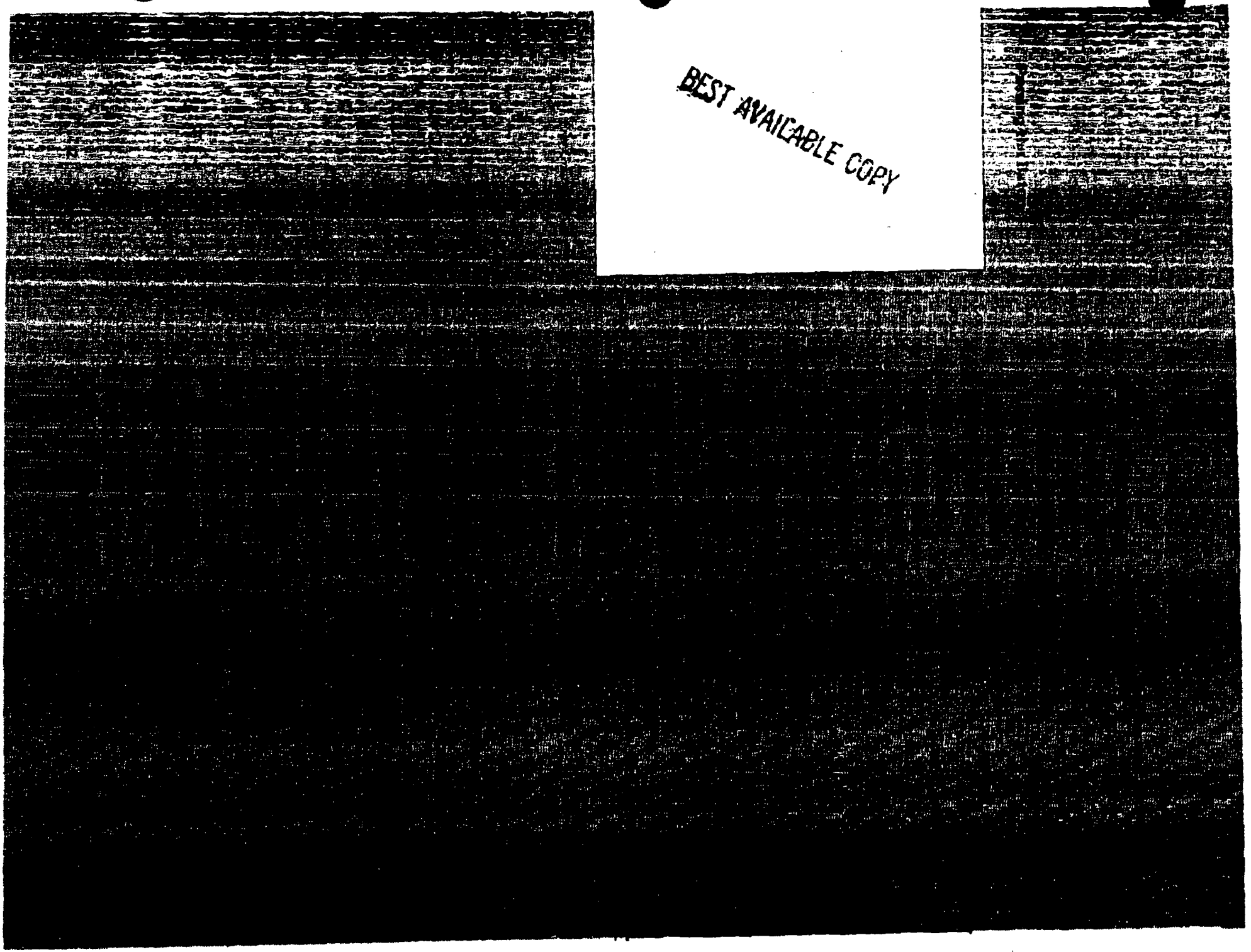


To Our Shareholders:

The past two years represent one of the most significant periods of constructive change in the history of your Company. As we have continuously communicated to you since late 1990, Grace is devoting enormous energies to implementing a strategic plan designed to accomplish one primary mission: creating maximum long-term value for our shareholders.

Our results to date are striking. They are consistent with our plan. Your management's enthusiasm for achieving our strategic mission is stronger than ever. And that enthusiasm is spreading throughout the enterprise as the plan turns into reality. Let's look briefly at our progress since we reported to you a year ago.

J. P. Bolduc

Your management's enthusiasm for achieving our strategic mission is stronger than ever.

- Our core businesses were reorganized globally to establish worldwide responsibility under strong, experienced, international leadership. The six strategic businesses that form the core are:

  - Packaging
  - Catalysts and Other Silica-Based Products
  - Water Treatment
  - Health Care
  - Construction Products
  - Container Products

  Each has developed, and is aggressively implementing, coordinated worldwide business plans to increase their value. Collectively, their operating earnings improved 6% in 1992 despite some tough market conditions — especially in Europe. We established or expanded regional headquarters for Southeast Asia and Latin America and opened offices in four Eastern European countries and four Asian countries, plus Spain and Turkey. During 1992 and in early 1993, we completed strategic acquisitions that meet or exceed our investment criteria in health care, water treatment and packaging, thus expanding global product offerings and opening significant markets in Europe and Latin America.

- Our divestiture program is on track. More than $700 million of additional businesses were sold or monetized — bringing the two-year total to over $1.2 billion. In the past 12 months, we sold our organic chemicals business and most of our oil and gas businesses, and we monetized our investment in *Grace Cocoa* in a creative financing. In early 1991, we said we would sell $1.5 billion of noncore businesses before December 31, 1993, and we are on target to exceed this goal.

- Overhead costs are coming down. We are achieving more than $50 million in cost reductions through

reduced health care, administrative and financial costs as well as savings in logistics. Other significant areas of savings are being targeted as we complete comprehensive reviews of seven major functional areas of staff support in your Company.

- Our financial condition is steadily improving. Cash flow has improved through more disciplined asset management. Debt levels have dropped 20%, and the capital markets are viewing the Company more favorably as we better structure our remaining debt.

On the other hand, our overall operating earnings for 1992 were a disappointment. Despite the inherent growth characteristics of our core businesses and the decline in interest expense, these factors were not sufficient to overcome a larger than anticipated decline in results from our noncore businesses as well as from several key markets in Europe.

How do all of these restructuring activities position Grace for the future? We've never felt better or more confident about our prospects for creating value -- not only for shareholders, but for all of our stakeholders: employees, customers, suppliers and the communities worldwide where we operate.

Growth prospects in our core businesses are excellent. Expanded business development activities through the newly opened international offices in Asia and Eastern Europe are already leading to market penetration and setting the stage for significant future business. Recently completed strategic acquisitions are nondilutive in structure and should strengthen our leading market positions. Strong additional candidates for nondilutive acquisitions among our core businesses are under continuing review. New products and applications are in the development pipeline to enhance our technological leadership. Capital expenditures and research and development resources are focused on our core businesses. Divestment of noncore businesses continues, with proceeds initially applied to reducing debt and, subsequently, to effectuating strategic and nondilutive acquisitions.

As the U.S. public and private sectors focus on the issue of health care, they will find the quality and cost-effectiveness of Grace's specialized health care operations to be models for the industry. Those quality and cost characteristics are also attractive in developing nations, where levels of kidney dialysis services and related

We've never felt better or more confident about our prospects for creating value — not only for shareholders, but for all of our stakeholders.

products lag behind more advanced economies. We look for near-term expansion in a number of these new markets.

Further global integration of operations and functions, as well as additional cost reductions, are now a way of life throughout your Company. In Europe, for example, our container operations are consolidating seven plants into two. Consolidation of research and development and other staff support services will lead to upgrading essential activities and eliminating unnecessary expense. Total quality management is being extended from top to bottom.

I am confident that the quality of our core products, technologies and people will drive us toward the significant creation of value for you — our shareholders.

Our three-year, $1.5 billion divestiture program goal will be exceeded as we complete the sale of businesses initially identified for divestment and then identify other units in the Company whose prospects do not qualify them as core. Proceeds from these divestments will continue to be used to support activities in the core sectors and to strengthen your Company's financial condition.

And what about our employees, who are a critical element to our long-term success? As the result of divestitures, cost reductions and consolidations, we are a trimmer and stronger organization today than when we started our restructuring program in early 1991 — by some 26%. To achieve our mission, we must continue to develop a commonality of purpose throughout Grace. This means eliminating organizational barriers and communicating more frequently, openly and candidly. I'm impressed with our employees' commitment to, and involvement with, the process of change, through the volume and quality of their ideas for continuously improving your Company's performance.

We are implementing a bold and innovative incentive program throughout the Company in an effort to motivate all employees — from the mailroom to the boardroom — and to further align the interests of our internal stakeholders with yours as we go about upgrading our values, culture and vision.

In a tougher and more complex worldwide marketplace, I am confident that the quality of our core products, technologies and people will drive us toward the significant creation of value for you — our shareholders.

J. P. Bolduc
President and
Chief Executive Officer

March 12, 1993

Grace at a Glance:

Founded nearly 140 years ago, Grace today is the world's largest specialty chemicals company and holds a leadership position in specialized health care.

Specialty Chemicals

Grace's core specialty chemicals product lines—packaging, catalysts and silica products, construction products, water treatment and process chemicals and container products—are the primary contributors to Grace's position as the world's leading source for high-technology, value-added specialty chemicals.

Packaging

Grace is the leading innovator in flexible packaging technology. Its *Cryovac* packaging systems have revolutionized the marketing and merchandising of foods and other products worldwide.

Catalysts & Silica Products

Grace Davison fluid cracking catalysts "crack" crude oil into fuel and other petroleum products. Its polyolefin catalysts are critical to the production of polyethylene, and its silica and zeolite adsorbents are value-added components for use in a wide range of industrial and consumer applications.

Construction Products

Grace concrete admixtures, cement processing additives and fireproofing and waterproofing materials perform the most vital construction jobs—creating stronger concrete, fighting corrosion, stopping water damage and protecting structural steel against collapse due to fire.

Water Treatment & Process Chemicals

Grace Dearborn water treatment and process chemicals inhibit scale, corrosion and fouling in water systems, treat wastewater and enhance operating efficiency and environmental performance.

Container Products

Grace container sealants keep foods and beverages safe from bacteria and other contaminants, extend shelf life and preserve flavor in four hundred billion cans and bottles annually.

Health Care

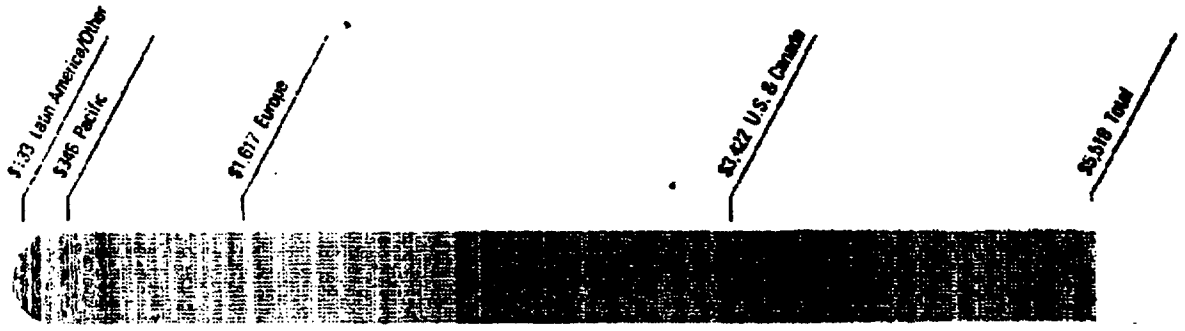
With an uncompromising commitment to quality and cost-effective management, Grace—through its *National Medical Care* unit—maintains leading positions in the specialized health care markets of dialysis services, medical products and home health care.

Other Businesses

In addition to its core product lines, Grace operates several specialized businesses that contribute to its success. Among these, *Grace Cocoa Associates, L.P.* is the global leader in the production of high-quality cocoa and chocolate products for food manufacturers.

Total Grace Geographic Sales

(millions)



Specialty Chemicals

Sales & Revenues *(millions)*



Operating Income After Taxes *(millions)*



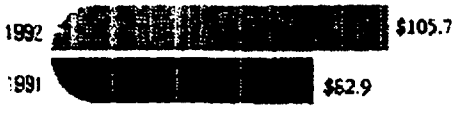
(a) Excludes a provision of $140.0 covering a joint silica plant in Belgium.

Health Care

Sales & Revenues *(millions)*



Operating Income After Taxes *(millions)*

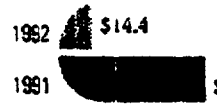


Other Businesses

Sales & Revenues *(millions)*



Operating Income After Taxes *(millions)*



"Through our products, technology and service, we are creating greater value for our customers around the world."

Donald H. Kohnken, Executive Vice President
Joined Grace in 1967 as Davison adsorbents project manager

"For our customers and their customers, Cryovac is passionately committed to anticipating needs and delivering technologically innovative packaging solutions."

Jean-Louis Grèze, President, Grace Packaging
Joined Grace in 1960 as Cryovac packaging film salesman in France

Specialty Chemicals

Grace's specialty chemicals product lines share exciting technical competencies, a dedication to total quality and customer service, high growth potential and strong management on a global product line basis. In 1992 they generated total sales and revenues of $3.5 billion and operating income after taxes of $278 million. Grace's global focus is promoting more efficient utilization of resources and accelerating dissemination of core technologies, products and services to benefit from emerging market opportunities, particularly in Latin America, the Pacific Rim and Eastern Europe.



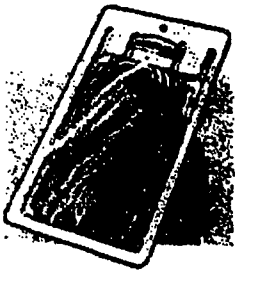
Cryovac food packaging is purpose-developed to meet customers' specific performance and marketing requirements

GRACE Packaging

Grace is the world's leading innovator in flexible packaging systems. Through its global *Cryovac* product line, it has revolutionized marketing and distribution techniques for the food industry and other markets.

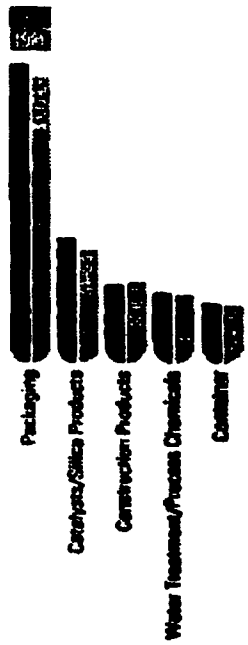
Using sophisticated multilayer coextrusion technology, *Cryovac* has developed high-performance plastic materials that preserve flavor and aroma and enhance the shelf life and appearance of packaged foods and other products. *Cryovac's* environmentally sensitive packaging materials offer strength, protection from moisture and oxygen and other application-specific properties.

Cryovac's success is founded on its ability to provide innovative packaging solutions to satisfy the marketing requirements of its customers, as well as the needs of the ultimate consumer. It does this by integrating an in-depth knowledge of the marketplace with expertise in the packaging sciences and a dedication to total quality. *Cryovac* packaging systems address the specific requirements of each market segment they serve. These include multilayer shrinkable bags used by industrial food producers to protect fresh red meats,



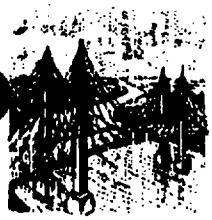
Cryovac pioneered the Darfresh *vacuum-skin packaging concept for a wide variety of consumer foods.*

Photo opposite: While Cryovac *packaging systems provide a natural showcase for every shape and variety of cheese, these high-performance materials also offer hidden value, preserving flavor and aroma while extending shelf life.*





In the medical field, Cryovac packaging systems are providing technical solutions to human problems.



Grace Servicised bridge deck waterproofing material protect the Queen Elizabeth II Bridge, the largest cable stay bridge in Europe.

"We deliver value through customer service and effectively product development and innovation, superior managing costs in a cyclical market."

Robert J. Bettacchi, President, Grace Construction Products
Joined Grace in 1968 as commercial development analyst

Specialty Chemicals
(continued)

poultry, cheeses and processed meats; multilayer shrink films for retail consumer units such as pizza, poultry, produce and bakery items, and display or tamper-evident packages; and laminates for bulk food service portions or consumer-size packaging. This technology is being extended into highly demanding markets such as food service, medical and electronics packaging.

To complement its innovative technology, *Cryovac* takes a "total systems approach" in creating comprehensive packaging solutions for customers around the world, involving a broad range of scientific skills, materials, equipment and technical support. This philosophy of customer service is Grace's guiding principle as it grows its businesses on a global basis.



Grace concrete admixtures are recognized worldwide for the strength and durability they provide.

Grace Construction Products is a leading worldwide supplier of concrete admixtures, cement processing additives and fireproofing and structural waterproofing materials. It combines high-quality, high value-added proprietary products and systems with a strong specification selling effort in the architectural and engineering markets and a high level of customer service. Grace construction products provide long-term structural integrity—creating stronger concrete, fighting corrosion, stopping water damage and protecting structural steel against collapse due to fire. They also offer value to specialty contractors through savings in labor, materials and energy. Although faced with a significant downturn in the construction economy in North America and Europe, *Grace Construction Products* continued to profit in 1992 by reengineering its operations to a lower cost structure. In addition to the growth potential in Southeast Asia, *Grace Construction Products* is targeting sales increases based on the development of new specialty products and geographic expansion of product lines, particularly fireproofing in Europe and Japan and structural waterproofing and cement and concrete products in Europe.



Monokote fireproofing helped save the First Interstate Bank building from collapse in the largest high-rise fire in Los Angeles history.

Photo opposite: Monokote fireproofing, Bituthene waterproofing and Grace concrete admixtures were specified for use in the new 53-square mile Denver International Airport, Grace's largest construction project in 1992.

"As a partner with industry, Grace Dearborn helps customers manage water, minimize pollution and maximize return on investment."

Ian Priestnall, President, Grace Dearborn
Joined Grace in 1969 as Dearborn U.K. project manager

"I am immensely proud of the people in Davison who provide our customers with unparalleled service all over the world."

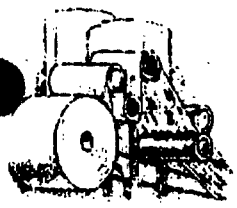
James R. Hyde, President, Grace Davison
Joined Grace in 1962 as quality control supervisor at Davison's Cincinnati plant

Specialty Chemicals

(continued)

Grace Dearborn Water Treatment

Grace Dearborn helps customers manage water use to meet environmental and process improvement goals. It treats water to prevent the scale, corrosion and fouling that result in reduced operating efficiency and increased energy use. *Grace Dearborn* process chemicals improve operating efficiency in paper mills, enhance paper quality and maximize environmental performance. *Grace Dearborn* also treats wastewater to optimize reuse or remove pollutants prior to discharge. *Grace Dearborn* monitoring systems not only signal a problem and automatically correct it, but measure and evaluate trends in system efficiency to identify and address potential problems. Upgrading its ability to satisfy global demand for advanced water treatment technology, *Grace Dearborn* completed a $1.7 million expansion of its Antwerp, Belgium research facility in 1992 and, in February of this year, Grace acquired South America's largest water treatment business from Aquatec Química S. A. in Brazil.

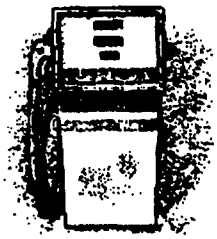


Daraspray technology promotes increased use of secondary fiber in paper production and improves paper quality.

GRACE Davison Catalysts & Silica Products

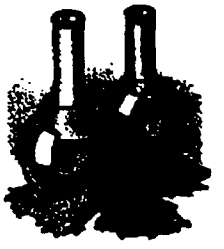
Grace Davison fluid cracking catalysts, polyolefin and other industrial catalysts and silica and zeolite adsorbents share a focus on customer service that results in products that are custom-formulated to demanding specifications.

Although oil is a commodity, oil refining is a highly specialized discipline. Expert at matching catalysts to crude oil to produce specific end products, *Grace Davison* technical service engineers work alongside refinery engineers around the world to select optimum catalysts for local operations. Leading-edge technology, high-efficiency production and hands-on customer service combine to make *Grace Davison* the world leader in petroleum



Grace Davison catalysts help refiners upgrade low-value, heavy oil into valuable transportation fuels such as gasoline.

Photo opposite: Grace Dearborn process control systems monitor, manage and adjust water treatment processes to provide unparalleled levels of control, increased profitability and measurable return on investment for customers.



T:.Syl Silica

Refining enhance the purity and quality of edible oils, improves process control and reduce operating costs.

"By maintaining our number one position in quality, service and technology, we look for continued global growth."

Charles H. Ehlers, President, Grace Container Products
Joined Grace in 1954 as Dewey and Almy sales engineer

Specialty Chemicals
(continued)

fluid cracking catalysts. *Grace Davison* is introducing new catalysts like the *RFG Series* for reformulated gasoline; *Orion* and *Residcat* for heavy metals tolerance and high coke selectivity, and FCC additives to reduce emissions.

Grace Davison high-performance polyolefin catalysts and catalyst supports are employed in manufacturing nearly half of the world's catalytically produced polyethylene resins.

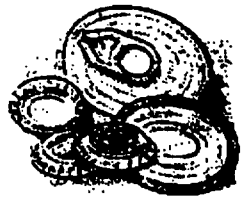
Silica gel has remarkable versatility that allows it to enhance customers' products and processes in many industries. *Davison Syloid* silicas are used extensively in coatings to produce semigloss finishes, in plastics to improve handling, in toothpastes as thickeners and cleaners and in foods to carry flavors and prevent caking. An exciting new growth opportunity, *TriSyl Silica* is used globally in the purification of edible oils. Whether in vegetable, soybean, sunflower or canola oil, *TriSyl Silica Refining* is setting new global quality standards with an unsurpassed ability to remove contaminants and enhance flavor and stability in edible oil products.



Grace can sealants are small but critical components that keep canned foods and beverages safe from bacteria and other contaminants

GRACE Container Products

Grace is the world's leading supplier of can sealing compounds. Focusing on complete systems and service, Grace supports customers with a range of water- and solvent-based sealants and compound application equipment, closure compounds, can coatings and can forming lubricants. Grace container sealants keep foods and beverages safe from bacteria and other contaminants, extend shelf life and preserve flavor. New products, such as *Daraclean* metalworking fluids, offer an environmentally benign substitute for chlorofluorocarbon cleaners. PVC-free *Daraform* coating systems for crowns and aluminum closures are being introduced on a global basis. Consolidating and upgrading facilities worldwide to improve product quality and manufacturing efficiency, Grace is completing a new $30 million container plant in Epernon, France and plans to build a new facility in Jakarta, Indonesia. Increasing consumption of canned and bottled foods and beverages in Latin America and Southeast Asia signals new growth potential for this business.



Daraform coating systems combine compatible sealants and adhesion coatings for lug caps, crowns and aluminum closures.

"By focusing on quality patient care and cost control, we will continue to be one of the world's premier specialized health care companies."

Dr. Constantine L. Hampers, Chairman & CEO, National Medical Care
Cofounded National Medical Care in 1968

Health Care

Excellence is no accident. Through an uncompromising commitment to quality and cost-efficient management, Grace maintains leading positions in the specialized health care markets of dialysis services, medical products and home health care. Representing nearly 25% of total Grace sales, the Company's health care businesses generated sales and revenues in 1992 of nearly $1.3 billion and operating income after taxes of $105.7 million.

As the primary component of Grace's core health care operations, *National Medical Care (NMC)* is a world leader in kidney dialysis services, the number one manufacturer of hemodialysis supplies in the U.S. and a major U.S. provider of home intravenous and respiratory therapies.



During hemodialysis, blood is continually circulated through a dialyzer to remove excess fluids and waste products

Dialysis Services

Focused on saving lives, *NMC's* main business is the provision of kidney dialysis—primarily hemodialysis—to people afflicted with chronic or acute renal failure. Dialysis is a mechanical filtering process used to cleanse blood of waste products, draw off excess fluids and regulate body chemistry when the kidneys fail to function properly. Operating 404 outpatient clinics in the U.S., as well as 23 in Portugal and Spain (with others becoming operational around the world as we go to press), *NMC* provides more than four million dialysis treatments annually to approximately 34,000 patients. Affiliated with more than 1,000 nephrologists, *NMC* integrates standardized clinical policies and procedures with advanced dialysis treatments and the safest medical supplies to provide high-quality, cost-effective health care, helping people continue to lead active lives.

Medical Products

An expert in forward and backward integration, *NMC* is the leading producer of dialysis concentrates and dialysis bloodlines in the U.S., manufacturing more than 1,000 specialized dialysis products and distributing another 2,500 medical supplies to dialysis care providers and home patients in 25 countries.



The dedication of nearly 14,000 doctors, nurses, technicians and support personnel is at the heart of NMC's success.

Health Care
(continued)

NMC's LifeChem clinical laboratories provide vital support to its kidney dialysis treatment network, maintaining a database that is invaluable to physicians in managing patient care. *LifeChem* is the primary medical laboratory relied upon by nephrologists in the U.S. for dialysis blood and hepatitis testing services.

Pursuing its strategy to expand health care operations globally, Grace acquired the *Renacare* health care unit of Lloyds Chemists in June 1992. *Renacare* is the leading manufacturer and distributor of renal dialysis concentrates and associated products in the United Kingdom. In March 1993, Grace announced plans to acquire Riggers Medizintechnik GmbH, a manufacturer and distributor of kidney dialysis products in Germany. This acquisition should facilitate *NMC's* growth in Germany, one of the major markets for dialysis in the European Community.

Consistent with the Company's strategy to integrate related business lines, during 1992 Grace's *Amicon* unit became an integral part of *NMC Medical Products*. *Amicon* bioseparation products are used extensively in biomedical research and for the manufacture of vaccines and pharmaceuticals.



NMC is the leading manufacturer of dialysis bloodlines in the U.S.

Home Health Care

Today, as a result of the changing needs of clinicians and patients for a safe, cost-effective alternative to extended hospitalization, more patients are being treated at home or in community facilities other than hospitals. In the U.S., *NMC Homecare* provides life-sustaining drug and nutritional intravenous and respiratory therapies in nonhospital settings.

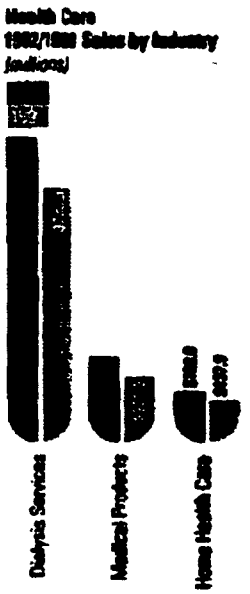
Health care reform is a major issue in the U.S., and health care services are being carefully scrutinized for their inherent value, clinical efficiency and cost-effectiveness. With expert teams of health care professionals available around the clock, in-depth training for patients and their caregivers and rigorous quality assurance and cost control standards, *NMC Homecare* clearly meets these criteria.

In developed nations as well as in developing economies throughout the world, longer life spans signal an increased need for the specialized health care services at which *Grace Health Care* excels.



Diala-Kit is a customized package containing all the medical supplies necessary for a single dialysis treatment.

A focus on patient needs and quality care administered by dedicated professionals make NMC the leading provider of kidney dialysis services for treatment of chronic and acute renal failure.





However patients are visited regularly by NMC caregivers who provide individualized treatment, equipment and supplies.

Other Businesses

In addition to its core product lines, Grace operates several specialized businesses that contribute to its success. Among these, *Grace Cocoa Associates, L.P.* is the global leader in the production of high-quality cocoa and chocolate products for food manufacturers.

Enhanced global raw material sourcing programs and technological advances that improve product quality reinforce *Grace Cocoa's* commitment to excellence. In 1992, Milwaukee-based *Ambrosia* celebrated on-time completion of its new $90 million plus, 350,000-square foot computer-controlled manufacturing facility, one of the most advanced in the food industry. *Grace Cocoa* in Singapore added a new chocolate and compound operation to supply the Asian market. *De Zaan* successfully introduced *Defatted S*, a no-fat cocoa powder.

Throughout *Grace Cocoa*, global teamwork has led to innovations in research, production, product packaging, marketing and business development, resulting in increased opportunities in Eastern Europe, Latin America and the Pacific Rim.





Grace Cocoa *procures just the right combination of beans from worldwide sources to bring added value to its global customers.*

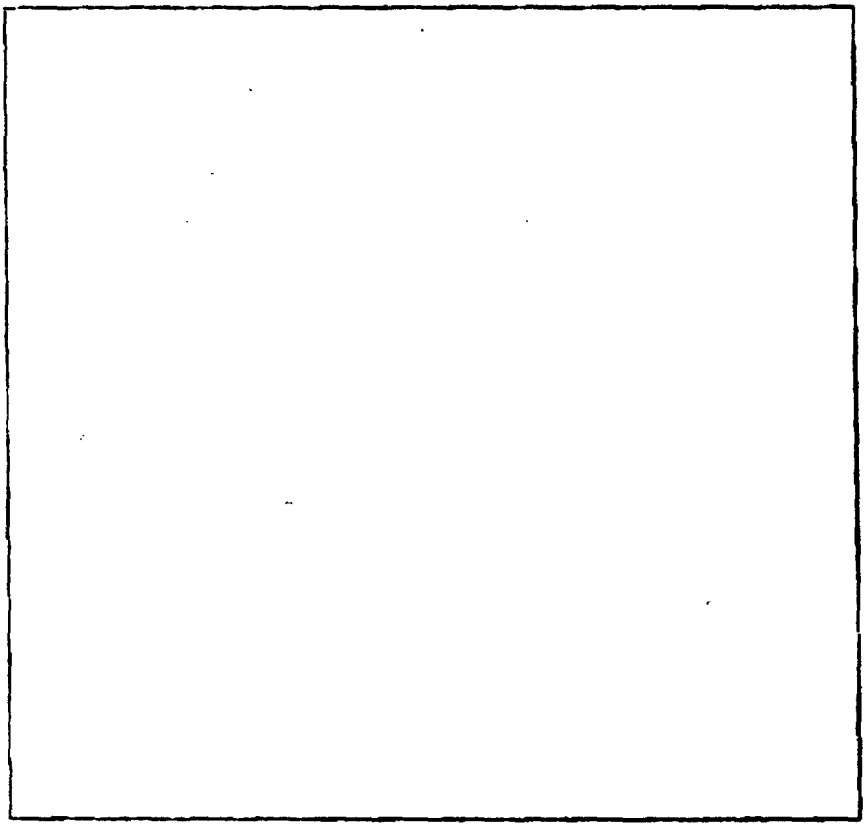
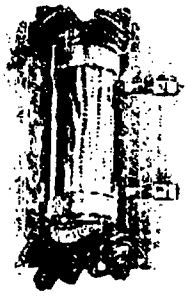


Photo above: Grace Cocoa baking chips, blocks and coatings made of pure chocolate and compound are marketed globally to industrial and food service customers under the Ambrosia, Merckens, Soboca *and* Kascho *brand names.*

The aim of Grace research and development is twofold: to efficiently convert the Company's investment in technology into profits — by continuously improving Grace products and processes in support of customer needs — and to probe selected frontiers of science to identify new business opportunities.

R&D programs capitalize on those technological trends that reinforce the Company's strength in specialty chemicals and health care. For example, Grace scientists are working on multilayer "smart films" that incorporate unique properties tailored to improve the quality of packaged foods; new generations of catalysts for environmentally compatible, high-octane fuels; strength enhancers for concrete; high-performance scale and corrosion inhibitors for water treatment; improved solvent-free car sealants; and specialized biomedical devices to treat patients with a variety of ailments. Throughout the development process, Grace scientists focus on the end uses of research: how technical ideas solve problems and how product concepts will actually work for the customer.



Grace's developmental liver-assist device is designed for short-term treatment of acute or chronic liver failure.



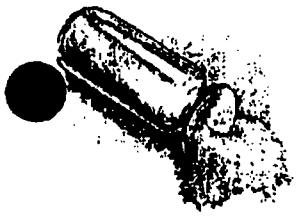
Biocontrol research on the neem tree is yielding new growth opportunities in environmentally friendly pesticides.

Photo above: Grace researchers use blown-film extrusion to process polymer mixtures into layered films. Polymer processing has wide applications in packaging films, battery separators and gas separation membranes.

Commitment: Environment

Grace is committed not only to meeting the letter and spirit of compulsory environmental standards but to managing its environmental, health and safety affairs in ways that continually make its operations safer and healthier and our environment cleaner. The Company devotes $150 million annually to deliver on this commitment.

Grace is also developing technologies that enhance the environmental compatibility of Grace products and processes and others that specifically address environmental needs. Building on its broad strength in emission control technology, in 1992 Grace established a new product line dedicated to providing cost-effective solutions to the air pollution control challenges of the '90s and beyond. *Grace Emission Control Products* markets emission control systems for industrial and power generation facilities. Grace also has developmental products such as the electrically heated catalytic converter, which is designed to address new clean air regulations for low and ultra-low emission vehicles.



Grace Davison *proprietary alumina beads are used in a developmental acid rain control process.*

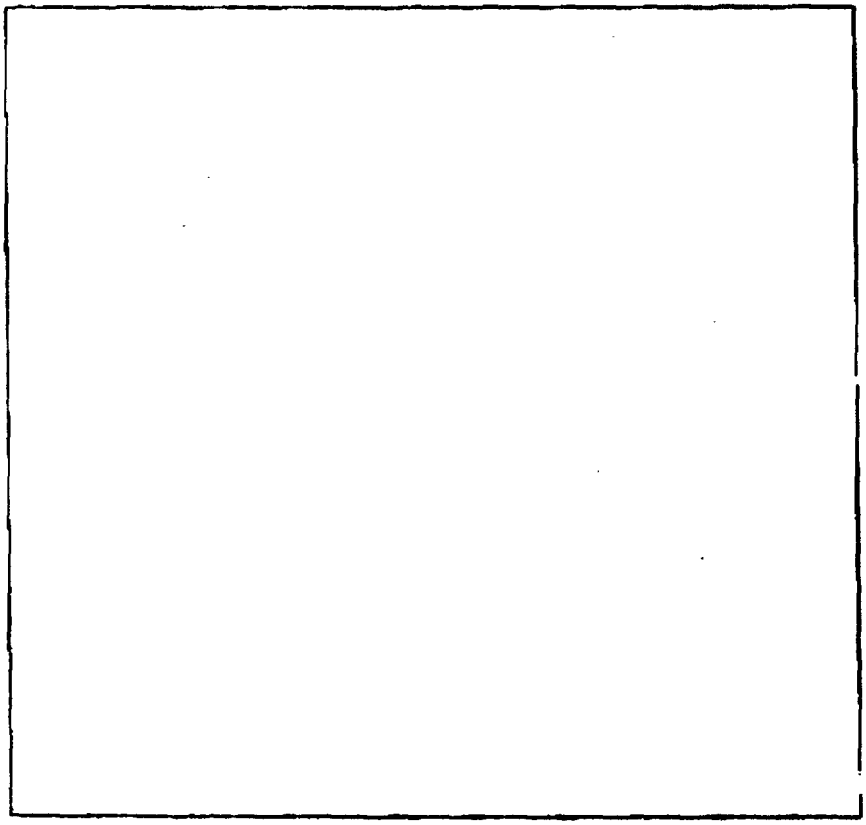


Photo above: TEC *thermal and catalytic oxidation systems—engineered to minimize VOC emissions—help industrial customers meet emission control targets.*

Review of Operations

Overview

For all periods presented, the statement of operations has been restated to reflect Grace Energy Corporation (Grace Energy) and certain corporate investments as discontinued operations, as discussed in Note 6 to the Consolidated Financial Statements.

The 1992 loss of $294.5 million includes: (1) a $140.0 million provision covering Grace's Belgian fumed silica plant (as discussed in Note B to the Consolidated Financial Statements); (2) a one-time accounting charge of $190.0 million (net of $98.0 million of deferred tax benefits), or $2.12 per share, due to the implementation of Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (see Note 15 to the Consolidated Financial Statements); and (3) the loss of $183.9 million (net of taxes) from discontinued operations (see Note 6 to the Consolidated Financial Statements).

Sales and revenues increased 7% in 1992 over 1991, excluding the results of businesses sold during both years; including those businesses, 1992 sales and revenues decreased slightly as compared to 1991. Excluding the $140.0 million provision covering Grace's Belgian fumed silica plant, 1992 income from continuing operations decreased 10%, to $219.4 million, as compared to 1991. Sales and revenues increased 5% in 1991 over 1990, excluding businesses sold in 1991. Income from continuing operations increased by 10% in 1991 as compared to 1990.

Specialty Chemicals—General

Sales for 1992 were essentially flat with 1991, including the results of the chemical intermediates product line, which was sold in December 1992, and the Teroson automotive and acoustical chemicals businesses, which were sold in 1991. Operating income (income after taxes) for 1992 increased by 3% versus 1991, including the results of the divested businesses prior to their sale. This increase does not reflect the provision covering the fumed silica plant.

Specialty Chemicals—Product Line Results

(excludes results in 1992 from divested businesses and the fumed silica provision)

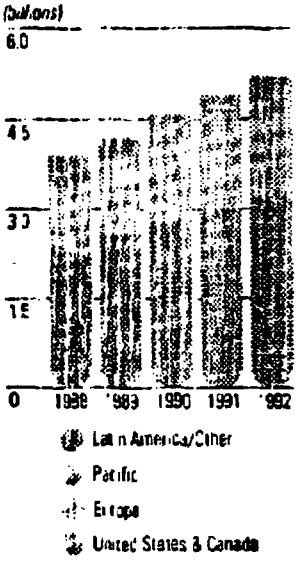
Sales increased approximately 5% in 1992 as compared to 1991, due to favorable volume, foreign currency exchange and price/product mix variances, estimated at 3%, 1% and 1%, respectively. Volume increases occurred in most product lines, particularly packaging and fluid cracking catalysts. Operating income decreased 4% from 1991 to 1992. North American results improved as compared to 1991 (except for a decrease in the container product line due to declining usage of sealants and lubricants by North American can makers), and strong growth was exhibited in packaging and in Grace Davison (fluid cracking catalysts and silica products), mainly due to the volume increases noted above. However, European results were adversely affected by recessionary conditions, leading to reduced profitability. Although Grace Davison catalysts showed strong sales growth, primarily due to the shutdown of a competitor, most product lines experienced marginal sales growth in Europe. Grace Dearborn water treatment profitability declined due to weakness in demand from the European paper industry, together with planned expenditures for business development. Construction products also experienced reduced profitability due to the economic slowdown in Europe, particularly in the United Kingdom and Spain. However, favorable results were achieved in both the Asia/Pacific region and Latin America for most product lines.

Sales and operating income of the chemical intermediates product line (consisting largely of the organic chemicals business sold in December 1992) increased significantly in 1992 due to increased sales to a competitor as a result of an explosion at the competitor's plant. Sales and operating income from the chemical intermediates product line are expected to be more than replaced by growth in other specialty chemicals product lines.

Specialty chemicals sales increased by 3% in 1991 compared to 1990, excluding from both periods sales of the divested chemical intermediates business and the Teroson automotive and acoustical chemicals businesses; sales decreased 1% including these divested businesses. The increase was primarily due to a favorable price and product mix variance (estimated at 2%) and an estimated volume increase of 2%, reflecting improvements in water treatment, packaging and catalysts. These were partially offset by unfavorable currency translation, estimated at less than 1%. Excluding the divested businesses, operating income for 1991 increased 4% over 1990 (3% including the divested businesses), due to improvements in worldwide packaging and water treatment (reflecting higher sales volume) and fluid

cracking catalysts (reflecting higher sales volume and improved margins). These favorable 1991 results were partially offset by start-up costs for a European plant, softness in construction products sales (caused by severe weakness in the building industry), and lower sales volume in graphic arts because of adverse economic conditions. 1990 results were adversely affected by the establishment of certain plant closure and environmental/restructuring reserves. See "Other Income" below for additional information.

Worldwide Sales & Revenues
(excludes divested businesses)



Health Care

Sales and revenues for 1992 increased by 20% over 1991, reflecting increases of 19% in kidney dialysis services, 16% in home health care and 26% in medical products operations. The number of dialysis centers increased 7%, from 390 at year-end 1991 to 419 at year-end 1992 (397 in the U.S. and Puerto Rico, 19 in Portugal and 3 in Spain). Plans to expand Grace's health care operations outside of the U.S. are expected to generate greater international revenues in the future. Operating income in 1992 increased by 27%, reflecting the continued growth of all health care businesses. Grace has realized increased profit margins due to improvements in operating efficiencies and capacity utilization. Grace's health care businesses are dependent on the continuation of Medicare and other third party insurance coverage. It is unclear at this time whether and to what extent any U.S. health care reforms will affect Grace's health care operations. However, Grace believes that it is among the most cost-efficient of the health care companies in its field.

Sales and revenues of health care operations increased by 15%, to $1.1 billion, in 1991 as compared to 1990, reflecting improvements of 14% in kidney dialysis services, 23% in home health care and 13% in medical products operations. Operating income for 1991 increased by 23% over 1990 due to continued growth as well as improved profit margins.

Other Businesses

This segment consists primarily of Grace's cocoa business. Cocoa sales decreased 3% in 1992 versus 1991. Increased depreciation, resulting from the opening of a state-of-the-art plant in Milwaukee, as well as higher production and operating expenses, also contributed to reduced cocoa operating income in 1992. 1991 sales (excluding the animal feed and textile businesses sold in 1991) increased 3% compared to 1990. Operating income for cocoa operations decreased slightly in 1991 versus 1990.

Statement of Operations

Other Income

Other income for 1992 includes, among other items, dividends, royalties from product licensing agreements, interest income and equity in affiliated companies. Other income for 1991 also includes a net gain on strategic restructuring of $6.1 million.

Interest Expense

Interest expense decreased by 20% in 1992 versus 1991, primarily due to lower interest rates in 1992, the use of derivative financial instruments and the replacement of certain fixed rate debt with lower-cost floating rate borrowings. In addition, the Company issued approximately $300 million in fixed rate debt in 1992, which was effectively converted to floating rate debt.

Interest expense decreased by 12% in 1991 versus 1990 as a result of lower interest rates.

See "Financial Condition: Liquidity and Capital Resources" below for additional information concerning borrowings.

Research and Development Expenses

Research and development spending increased by 1% in 1992 and 2% in 1991 over the respective prior years. Research spending was primarily directed toward Grace's core specialty chemicals and health care businesses.

Income Taxes

The effective tax rate for 1992 was 41.5% before the increase of $51.9 million in the valuation allowance for deferred tax assets. This valuation allowance relates to a provision for uncertainty as to the absorption of net operating loss and general business credit carryforwards.

The 1991 effective tax rate increased to 38.6% as compared with 35.2% in 1990, largely due to tax costs attributable to the divestiture of the specialty textiles and Teroson businesses, the additional tax

costs of repatriating to the U.S. a higher level of earnings of foreign subsidiaries and an increase in state income taxes (net of federal tax benefit).

See Note 5 to the Consolidated Financial Statements for additional information regarding income taxes.

Loss from Discontinued Operations

In 1992, Grace restated its financial statements to reflect the classification of Grace Energy and certain corporate investments as discontinued operations. See Note 6 to the Consolidated Financial Statements for additional information.

Financial Condition

Liquidity and Capital Resources

During 1992, the net pretax cash flow generated by Grace's continuing operating activities was $442.6 million. After giving effect to discontinued operations and payments of income taxes, the net cash provided by operating activities was $438.3 million in 1992 versus $602.3 million in 1991, primarily a result of receiving $211.1 million in net proceeds from the sale of accounts receivable in 1991, compared with net proceeds of $99.3 million in 1992.

Investing activities used $337.7 million of cash in 1992, largely reflecting capital expenditures and business acquisitions and investments, including $80 million for the acquisition of the publicly held shares of Grace Energy. These investing activities were offset by net proceeds of $221.2 million from divestments.

Net cash used for financing activities in 1992 was $241.4 million, reflecting a net decrease in total borrowings, the payment of $125.9 million of dividends and funds received from the sale of a minority interest in a Grace Cocoa limited partnership (see Note 11 to the Consolidated Financial Statements). Total debt was approximately $1.8 billion at December 31, 1992, a decrease of $440.2 million from December 31, 1991. The changes in total debt reflected a reduction in commercial paper and bank borrowings of $453.7 million; the June 1992 redemption of the remaining $94.0 million principal amount of 10-3/8% Notes Due 1997; the repayment in the 1992 first quarter of $131.0 million principal amount of promissory notes; and, using the proceeds from the 1991 divestment of the specialty textiles business, the repayment of $125.0 million of short-term debt. During 1992, Grace issued $150.0 million of 7.75% Notes Due 2002 and $150.0 million of 6.5% Notes Due 1995. Grace entered into a new bank credit agreement in September 1992 under which it may borrow up to $1.225 billion at interest rates based upon the prevailing prime, federal funds and/or Eurodollar rates. See Note 10 to the Consolidated Financial Statements for additional information.

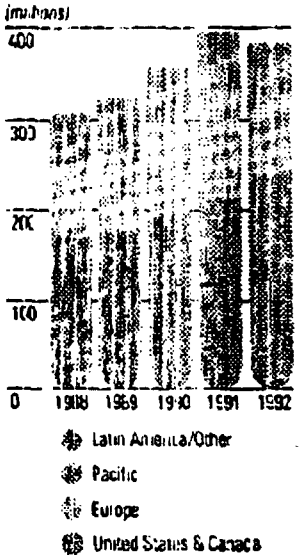
Grace's total debt as a percentage of total capital (debt ratio) was 49.7% at December 31, 1992, compared with 51.6% at December 31, 1991. The decrease in the debt ratio is due to a reduction in total debt, partially offset by a decrease in shareholders' equity in 1992 as a result of the provision recorded in connection with the classification of Grace Energy as a discontinued operation, the provision covering the fumed silica plant and the accounting charge recorded for the implementation of SFAS 106.

As previously reported (see Note 2 to the Consolidated Financial Statements), Grace is a defendant in lawsuits relating to asbestos-containing products it previously sold. In 1992, Grace paid $63.3 million in connection with the defense and disposition of both property damage and bodily injury litigation related to asbestos, net of amounts received in 1992 from settlements with certain of Grace's insurance carriers. While Grace cannot precisely estimate the amounts to be paid in 1993 in respect of asbestos-related lawsuits and claims, Grace expects that it will be required to expend a minimum of $125.0 million in 1993 to defend and dispose of such lawsuits and claims.

In January 1993, Grace sold $300.0 million principal amount of 7.4% Notes Due 2000. The net proceeds from the sale of these notes were used to repay commercial paper and bank borrowings.

Grace expects to satisfy its 1993 cash requirements from the following sources: (1) funds generated by operations, (2) proceeds from the sale of businesses, and (3) financings. Such financings could include new borrowings, the availability and cost of which will depend upon general economic and market conditions.

Worldwide After-Tax Operating Income
(excludes divested businesses)



Management's Responsibility for Financial Reporting

Management is responsible for the preparation, as well as the integrity and objectivity, of the financial statements and other financial information included in this report. The financial statements and other financial information have been prepared in conformity with generally accepted accounting principles and, accordingly, include certain amounts that represent management's best estimates and judgments.

For many years, management has maintained internal control systems to assist in fulfilling its responsibility for financial reporting, including careful selection of personnel, segregation of duties, formal business, accounting and reporting policies and procedures and an extensive internal audit function. While no system can ensure elimination of all errors and irregularities, Grace's systems, which are reviewed and modified in response to changing conditions, have been designed to provide reasonable assurance that assets are safeguarded, policies and procedures are followed and transactions are properly executed and reported. The concept of reasonable assurance is based on the recognition that there are limitations in all systems and that the cost of such systems should not exceed the benefits to be derived.

The Audit Committee of the Board of Directors, which is comprised of directors who are neither officers nor employees of nor consultants to Grace, meets with Grace's senior financial personnel, internal auditors and independent accountants to review audit plans and results as well as the actions taken by management in discharging its responsibilities for accounting, financial reporting and internal control systems. The Audit Committee reports its findings and also recommends the selection of independent accountants to the Board of Directors. Grace's management, internal auditors and independent accountants also have direct and confidential access to the Audit Committee at all times.

The independent accountants are engaged to conduct audits of and render a report on the financial statements in accordance with generally accepted auditing standards. These standards include a review of the systems of internal controls and tests of transactions to the extent they consider necessary for purposes of supporting their opinion as set forth in their report.

Brian J. Smith
Executive Vice President
and Chief Financial Officer

Report of Independent Accountants

Price Waterhouse
153 East 53rd Street
New York, NY 10022

February 3, 1993

To the Shareholders and Board of Directors of W. R. Grace & Co.

In our opinion, the consolidated financial statements appearing on pages 25 through 43 of this report present fairly, in all material respects, the financial position of W. R. Grace & Co. and subsidiaries at December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Notes 5 and 15, the Company adopted new accounting standards for income taxes and postretirement benefits in 1992.

Price Waterhouse

Consolidated Financial Statements

W. R. Grace & Co. and Subsidiaries

Consolidated Statement of Operations

Dollars in millions, except per share amounts	1992	1991	1990
Sales and revenues	$5,518.2	$5,569.9	$5,504.6
Other income (Note 4)	87.5	79.8	59.5
Total	5,605.7	5,649.7	5,564.1
Cost of goods sold and operating expenses	3,501.5	3,545.4	3,593.7
Selling, general and administrative expenses	1,203.6	1,142.0	1,048.3
Depreciation and amortization	272.2	275.9	265.6
Interest expense	113.4	140.9	159.8
Research and development expenses	150.6	149.8	146.5
Provision covering fumed silica plant (Note 8)	140.0	—	—
Total	5,381.3	5,254.0	5,213.9
Income from continuing operations before income taxes and minority interests	224.4	395.7	350.2
Income taxes (Note 5)	145.0	152.8	123.2
Minority interests	—	—	7.0
Income from continuing operations	79.4	242.9	220.0
Loss from discontinued operations (Note 6)	183.9	24.3	17.2
(Loss)/income before cumulative effect of accounting changes	(104.5)	218.6	202.8
Cumulative effect of accounting changes (Notes 5 and 15)	(190.0)	—	—
Net (loss)/income	$ (294.5)	$ 218.6	$ 202.8
(Loss)/earnings per share:			
Continuing operations	$ .88	$ 2.78	$ 2.56
Cumulative effect of accounting changes	$ (2.12)	$ —	$ —
Net (loss)/earnings	$ (3.29)	$ 2.50	$ 2.36
Fully diluted earnings per share:			
Continuing operations	$ —(1)	$ 2.65	$ 2.52
Net earnings	$ —(1)	$ 2.40	$ 2.32

The Notes to Consolidated Financial Statements, pages 29 to 43, are integral parts of these statements.

(1) *Not presented as the effect is anti-dilutive.*

Consolidated Statement of Cash Flows

Dollars in millions	1992	1991	1990
Operating Activities			
Income from continuing operations before income taxes and minority interests	$ 224.4	$ 395.7	$350.2
Reconciliation to cash provided by operating activities:			
Depreciation and amortization	272.2	275.9	265.6
Provision covering fumed silica plant	140.0	—	—
Changes in assets and liabilities, excluding businesses acquired/divested and foreign exchange effect:			
Decrease/(increase) in notes and accounts receivable, net	48.4	171.2	(89.1)
Increase in receivable due from insurance carriers	(150.3)	(54.9)	(23.2)
Increase in accounts payable	29.5	11.9	59.0
Other	(121.6)	(139.5)	(73.5)
Net pretax cash provided by operating activities of continuing operations	442.6	660.3	489.0
Net pretax cash provided by operating activities of discontinued operations	94.6	59.5	3.8
Net pretax cash provided by operating activities	537.2	719.8	492.8
Income taxes paid	(98.9)	(117.5)	(59.8)
Net cash provided by operating activities	438.3	602.3	433.0
Investing Activities			
Capital expenditures	(398.4)	(447.0)	(513.7)
Businesses acquired in purchase transactions, net of cash acquired	(61.2)	(131.0)	(186.5)
Increase in net investment of discontinued operations	(101.5)	(55.9)	(51.1)
Decrease/(increase) in investments in and advances to affiliated companies	4.7	(44.8)	(7.5)
Net proceeds from strategic restructuring/business divestments	221.2	366.4	—
Proceeds from disposals of assets	38.7	30.2	115.1
Other	(41.2)	(45.5)	32.9
Net cash used for investing activities	(337.7)	(327.6)	(610.8)
Financing Activities			
Dividends paid	(125.9)	(122.5)	(120.7)
Repayments of borrowings having original maturities in excess of three months	(274.0)	(695.6)	(127.2)
Increase in borrowings having original maturities in excess of three months	355.7	319.7	37.8
Net (repayments)/increase in borrowings having original maturities of less than three months	(508.0)	271.3	392.4
Sale of limited partnership interest	297.0	—	—
Stock options exercised	21.3	45.7	1.3
Other	(7.5)	—	(2.4)
Net cash (used for)/provided by financing activities	(241.4)	(181.4)	181.2
Effect of exchange rate changes on cash and cash equivalents	(3.5)	(2.2)	3.9
(Decrease)/increase in cash and cash equivalents	(144.3)	91.1	7.3
Cash and cash equivalents, beginning of year	207.1	116.0	108.7
Cash and cash equivalents, end of year	$ 62.8	$ 207.1	$116.0

The Notes to Consolidated Financial Statements, pages 29 to 43, are integral parts of these statements.

Consolidated Balance Sheet

Dollars in millions, except per value — December 31,	1992	1991
Assets		
Current Assets		
Cash and cash equivalents	$ 62.8	$ 207.1
Notes and accounts receivable, net (Note 7)	690.4	891.4
Inventories (Note 7)	592.9	670.0
Net assets of discontinued operations, current (Note 6)	606.3	147.5
Deferred income taxes (Note 5)	96.8	—
Other current assets	42.2	74.0
Total Current Assets	2,091.4	1,990.0
Properties and equipment, net (Note 8)	1,707.9	2,558.2
Investments in and advances to affiliated companies (Note 9)	115.8	193.7
Net assets of discontinued operations, noncurrent (Note 6)	108.5	—
Goodwill, less accumulated amortization of $50.1 (1991—$48.8)	298.6	308.7
Other assets (Note 7)	1,276.4	956.5
Total Assets	$5,598.6	$6,007.1
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term debt (Note 10)	$ 464.7	$ 466.3
Accounts payable	423.6	486.4
Income taxes (Note 5)	158.1	124.5
Other current liabilities	593.2	544.9
Total Current Liabilities	1,639.6	1,622.1
Long-term debt (Note 10)	1,354.5	1,793.1
Other noncurrent liabilities	666.1	317.2
Deferred income taxes (Note 5)	96.4	151.9
Minority interests (Note 11)	297.0	97.6
Total Liabilities	4,053.6	3,981.9
Commitments and Contingencies (Notes 2 and 10)		
Shareholders' Equity (Note 12)		
Preferred stocks, $100 par value	7.5	7.5
Common stock, $1.00 par value; 300,000,000 shares authorized; outstanding at December 31: 1992—89,892,000; 1991—88,603,000	89.9	88.6
Paid in capital	151.4	120.1
Retained earnings	1,298.6	1,719.0
Cumulative translation adjustments	(2.4)	90.0
Total Shareholders' Equity	1,545.0	2,025.2
Total Liabilities and Shareholders' Equity	$5,598.6	$6,007.1

The Notes to Consolidated Financial Statements, pages 29 to 43, are integral parts of these statements.

Consolidated Statement of Shareholders' Equity

Dollars in millions	1992	1991	1990
Preferred Stock			
Balance, beginning of year	$ 7.5	$ 7.5	$ 7.5
Balance, end of year	7.5	7.5	7.5
Common Stock			
Balance, beginning of year	88.6	86.1	85.5
Stock options and awards	1.3	2.5	.3
Other	—	—	.3
Balance, end of year	89.9	88.6	86.1
Paid in Capital			
Balance, beginning of year	120.1	61.6	47.4
Stock options and awards	31.1	58.4	12.6
Other	.2	.1	1.6
Balance, end of year	151.4	120.1	61.6
Retained Earnings			
Balance, beginning of year	1,719.0	1,622.9	1,540.8
Net (loss)/income	(294.5)	218.6	202.8
Dividends paid	(125.9)	(122.5)	(120.7)
Balance, end of year	1,298.6	1,719.0	1,622.9
Cumulative Translation Adjustments			
Balance, beginning of year	90.0	134.4	49.2
Translation adjustments	(92.4)	(44.4)	85.2
Balance, end of year	(2.4)	90.0	134.4
Total Shareholders' Equity	$1,545.0	$2,025.2	$1,912.5

The Notes to Consolidated Financial Statements, pages 29 to 43, are integral parts of these statements.

1. Summary of Significant Accounting and Financial Reporting Policies

The accounting and financial reporting policies of W. R. Grace & Co. and subsidiaries (Grace) conform to generally accepted accounting principles and reflect practices common in the industries in which Grace operates.

Principles of Consolidation The consolidated financial statements include the accounts of W. R. Grace & Co. and majority-owned companies. Investments in affiliated companies (20%–50% owned) are accounted for under the equity method.

Reclassifications Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the current year's presentation and as required with respect to discontinued operations.

Cash Equivalents Cash equivalents consist of highly liquid instruments with original maturities of three months or less.

Inventories Inventories are stated at the lower of cost or market. Due to the diversified nature of Grace's operations, several methods of determining cost are used, including first-in/first-out, average and, for substantially all U.S. chemical inventories, last-in/first-out. Market value for raw and packaging materials is based on current cost and, for other inventory classifications, on net realizable value.

Properties and Equipment Properties and equipment are stated at the lower of cost or net realizable value. Depreciation of properties and equipment is generally computed using the straight-line method over the estimated useful lives of the assets. Interest is capitalized in connection with major project expenditures and amortized, generally on a straight-line basis, over the estimated useful lives of the assets.

Fully depreciated assets are retained in properties and equipment and related depreciation accounts until they are removed from service. In the case of disposals, assets and related depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

Goodwill Goodwill arises from certain purchase transactions and is amortized using the straight-line method over appropriate periods not exceeding 40 years.

Income Taxes Effective January 1, 1992, Grace adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." The statement requires the use of an asset and liability approach for the accounting and financial reporting for income taxes.

Cumulative Translation Adjustments The financial statements of Grace's non-U.S. subsidiaries are translated into U.S. dollars in accordance with the provisions of SFAS No. 52, "Foreign Currency Translation." The assets and liabilities of certain non-U.S. subsidiaries whose "functional" currencies are other than the U.S. dollar are translated at rates of exchange at year end, and revenues and expenses are translated at average monthly exchange rates. The allocation for income taxes included in the translation adjustments account in shareholders' equity was not significant.

Earnings Per Share Primary earnings per share are computed on the basis of the weighted average number of common shares outstanding. Fully diluted earnings per share assume the conversion of convertible debentures (with an increase in net income for the after-tax interest savings) and the issuance of common stock equivalents related to stock options. Fully diluted earnings per share are not presented for 1992 as the effect is anti-dilutive.

Financial Instruments In 1992, Grace adopted SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." Grace enters into interest rate swap agreements and foreign currency contracts to manage fluctuations in interest and foreign currency exchange rates. The differential paid or received on interest rate swap agreements is recognized as an adjustment to interest expense over the life of the debt instrument to which it relates; gains and losses realized upon termination of these agreements are deferred and amortized to interest expense over the remaining life of the related indebtedness. Gains and losses on foreign currency contracts offset gains and losses resulting from the underlying transactions. Gains and losses on contracts that hedge specific foreign currency commitments are deferred and recognized in net income in the period in which the transaction is consummated. Gains and losses on contracts that hedge net investments in foreign subsidiaries are recognized in the cumulative translation adjustments account in shareholders' equity.

2. Asbestos, Environmental and Other Proceedings

Grace is a defendant in lawsuits relating to previously sold asbestos-containing products. At December 31, 1992, Grace was a defendant in approximately 30,900 asbestos-related lawsuits representing approximately 53,000 claims (versus approximately 24,300 lawsuits and 36,000 claims at December 31, 1991). It is anticipated that Grace will be named as a defendant in additional asbestos-related lawsuits in the future. At December 31, 1992, 105 (122 at December 31, 1991) of such lawsuits pending involved claims for property damage allegedly caused by the use of asbestos-containing materials in the construction of buildings. The plaintiffs in these lawsuits generally seek, among other things, to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. The remaining asbestos-related lawsuits involved claims for personal injury. In most of these lawsuits, Grace is one of many defendants.

Property Damage Litigation

Through December 31, 1992, 107 asbestos property damage cases had been dismissed with respect to Grace without payment of any damages or settlement amounts; verdicts were returned in favor of Grace in seven cases; in one case, Grace was held liable for $8.0 and in two other cases, which are on appeal, Grace was held liable for a total of $21.4; and 116 property damage suits and claims had been settled by Grace for a total of $278.6. Grace has recorded a receivable for the insurance proceeds it expects to receive in connection with these settlements and the adverse verdicts and defense costs initially paid by Grace.

In April 1992, a Pennsylvania state court certified a state class action of all commercial buildings leased in whole or in part to the U.S. government on or after May 30, 1986; the class would cover all such buildings regardless of location. Grace and the other defendants are contesting the jurisdiction of the court over the class as defined.

In September 1992, a federal District Court in South Carolina conditionally certified a class of all public and private colleges and universities in the U.S. whose buildings contain asbestos materials. With the District Court's permission, the U.S. Court of Appeals for the Fourth Circuit has accepted an appeal by Grace and the other defendants, who are seeking decertification of the class.

In October 1992, the U.S. Court of Appeals for the Third Circuit granted petitions by Grace and other defendants to disqualify the judge presiding over a national class action brought in 1983 on behalf of all public and private elementary and secondary schools in the U.S. that contain asbestos materials. The action has been assigned to a new judge, who is expected to reconsider the manageability of the case as a national class action.

In December 1992, a class action asbestos property damage suit was filed in a South Carolina state court on behalf of all entities that own, in whole or in part, any building containing asbestos materials manufactured by Grace or one of eight other named defendants. Excluded are buildings subject to the class action lawsuits described above, as well as any building owned by the federal or any state government. The defendants have successfully transferred this case to a federal District Court in South Carolina.

Personal Injury Litigation

Through December 31, 1992, approximately 5,800 asbestos personal injury lawsuits involving 6,600 claims had been dismissed with respect to Grace without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved), and approximately 8,500 such suits involving 9,400 claims had been settled for a total of $39.9, the majority of which has been paid by certain of Grace's insurance carriers as part of the settlements described below.

In January 1993, a federal District Court in Pennsylvania conditionally certified a class of all future asbestos personal injury claimants, including individuals who have been occupationally exposed to asbestos-containing materials but who do not presently allege asbestos-related injury. Although Grace is not among the defendants named in the class action complaint, dissemination of the required class notice may generate additional litigation against Grace.

Range of Potential Exposure

Although personal injury cases are generally similar to each other (differing only in the type of asbestos-related illness allegedly suffered by the plaintiff), each property damage case is unique in that building types, sizes, utilization and difficulty of abatement, if necessary, may vary from structure to structure; thus, the amounts involved in prior dispositions of property damage cases are not necessarily indicative of the amounts that may be required to dispose of such cases in the future. In addition, in property damage cases, information regarding product identification on a building-by-building basis (*i.e.*,

whether or not Grace products were actually used in the construction of the building), the age of the building, the type, size and use of the building, the jurisdictional history of prior cases and the court in which the case is pending provide the only meaningful guidance as to potential future costs. However, much of this information is not yet available in the majority of the property damage cases currently pending against Grace. Accordingly, estimates of future costs to dispose of these cases are, in most instances, based on incomplete information, as well as assumptions that may not be accurate. Further, the filing of new class actions and uncertainty with respect to the class certification in the national elementary and secondary schools class action make it more difficult to reliably predict the costs Grace will incur in disposing of asbestos-related litigation.

Subject to the preceding qualifications (which Grace believes to be significant), Grace has attempted to determine its future costs to dispose of this litigation and has concluded that it is probable that the personal injury and property damage cases pending at December 31, 1992 can be disposed of for total amounts estimated to range between $480.0 and $627.0, inclusive of legal fees and expenses. Grace has recorded a receivable of $358.3 for the insurance proceeds it expects to receive for prior payments made to dispose of asbestos-related litigation. Adding the receivable to the estimated maximum exposure of approximately $627.0 for pending cases yields a total maximum estimated exposure of approximately $985.3.

Although Grace has determined its estimated and probable additional exposure to be at least $480.0 as discussed above, this amount has not been recorded in Grace's consolidated financial statements because recovery from Grace's insurance carriers with respect to the underlying claims is deemed probable notwithstanding assertions by certain of those carriers that they are not required to indemnify Grace. Uncertainties relating to such indemnification have been considered in establishing this estimate and in the preparation of the consolidated financial statements.

Insurance Litigation

Grace's ultimate exposure in respect of its asbestos-related lawsuits and claims will depend on the extent to which its insurance will cover damages for which it may be held liable, amounts paid in settlement and litigation costs. In March 1991, the U.S. District Court for the Southern District of New York held that: Grace's primary insurance carriers are obligated to defend and indemnify Grace with respect to damages (other than certain punitive damages), settlement amounts and litigation costs in connection with both personal injury and property damage asbestos claims. The court held that coverage for asbestos property damage was triggered by the "discovery of damage" during the policy period. In December 1991, the Circuit Court for Jackson County, Mississippi also held that Grace's primary and excess insurance carriers are obligated to defend and indemnify Grace, holding that for the purposes of insurance coverage, damage to buildings from asbestos-containing products occurs at the time such products are put in place and that the damage continues as long as the building contains the products (a "continuous trigger"). A similar decision was rendered by a Minnesota state court in November 1992.

In 1992, Grace received $31.2 in reimbursements from insurance carriers for monies expended by Grace in connection with asbestos-related litigation. Grace is still seeking to recover the balance of the payments it has made with respect to asbestos-related litigation from its excess insurers and from insurance companies that sold insurance policies to predecessor companies of Grace. Prior to 1992, Grace received payments totalling $55.8 from two carriers, which represented the aggregate remaining obligation owed to Grace by those carriers for primary level insurance coverage written by them for the period June 30, 1962 through June 30, 1987.

For the period June 30, 1970 through June 30, 1985—the most relevant period for asbestos-related litigation—Grace purchased, on an annual basis, as much as eight levels of excess insurance coverage. In general, excess policies provide that when claims paid exhaust coverage at one level, the insured may seek payment from the carriers at the next higher level. For that 15-year period, the first six levels of excess insurance available from insurance companies that Grace believes to be solvent (based primarily upon reports from a leading independent insurance rating service) provide coverage in excess of $1.5 billion, which is $514.7 or 52% more than the estimated maximum exposure referred to above. If, however, the amount available in the first six levels should prove to be insufficient, Grace has substantial additional coverage available in its two remaining levels of excess coverage. In Grace's opinion, it is probable that recoveries from its excess insurance coverage will be available to satisfy Grace's asbestos-related exposure. Consequently, Grace believes that the resolution of its asbestos-related litigation will not have a material effect on its consolidated financial position or results of operations.

Environmental and Other Proceedings

Grace has also been designated, along with other companies, as a "potentially responsible party" by the U.S. Environmental Protection Agency (EPA) with respect to absorbing the costs of investigating and remediating pollution at various sites. Grace is also involved in other litigation, including certain environmental proceedings brought by federal, state and/or local government agencies and private parties. The EPA actions and other proceedings are not expected to result in either significant monetary or other sanctions or to have any other material effects.

3. Acquisitions, Divestments and Strategic Restructuring

In July 1992, Grace completed the purchase of the common stock of Grace Energy Corporation (Grace Energy) not previously owned by Grace for a total of $77.3; see Note 6 for a discussion of divestment activity with respect to Grace Energy's businesses. During 1992, Grace continued to expand its health care operations through the acquisition of several businesses and facilities for consideration totalling $44.2.

In 1991, Grace purchased the 25% minority interest in Grace Cocoa for $74.6 and purchased an initial 47% common equity interest in a health care service company. In addition, Grace Energy purchased its former partner's 50% interest in Colowyo Coal Company (Colowyo) for $34.2.

During 1990, Grace acquired several suppliers of water treatment products and services and health care service operations, as well as the 2.5% of National Medical Care, Inc. common stock not already owned.

All of the above transactions were accounted for as purchases, and the results of operations of the acquired businesses are included in the consolidated financial statements from the respective dates of acquisition.

In December 1992, Grace sold its organic chemicals business and related net assets for approximately $100.0 in cash plus preferred stock of the buyer. In March 1992, Grace sold its book, video and software distribution business (Grace Distribution), which was classified as a discontinued operation in the fourth quarter of 1991.

The 1991 net gain on strategic restructuring (see Note 4) includes gains of $108.8, inclusive of cumulative translation gains of $37.9, on the disposition of certain noncore businesses and investments. Offsetting these gains were expenses related to the relocation of Grace's corporate offices from New York to Florida, provisions for litigation and certain environmental and plant closure expenses, costs for consultants retained in connection with the restructuring plan and a reserve for the costs of implementing the restructuring plan.

4. Other Income

	1992	1991	1990
Interest	$14.3	$14.9	$17.6
Net gain on strategic restructuring	—	6.1	—
Equity in earnings of affiliated companies	2.8	7.6	7.0
Other	70.4	51.2	34.9
	$87.5	$79.8	$59.5

5. Income Taxes

Effective January 1, 1992, Grace adopted SFAS No. 109, "Accounting for Income Taxes," which supersedes SFAS No. 96, adopted by Grace as of January 1, 1988. Like SFAS No. 96, SFAS No. 109 applies an asset and liability approach that requires the recognition of deferred tax assets and liabilities with respect to the expected future tax consequences of events that have been recognized in the consolidated financial statements and tax returns. However, unlike SFAS No. 96, SFAS No. 109 generally considers all future events, other than enactment of changes in tax laws or rates, in estimating future tax consequences. If it is more likely than not that all or a portion of a deferred tax asset will not be realized, a valuation allowance is recognized. As permitted under SFAS No.109, Grace has elected not to restate prior periods' consolidated financial statements. Excluding the deferred tax benefit recognized upon the adoption of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," the effect of the adoption of SFAS No. 109 on Grace's financial statements is not material.

The components of income from continuing operations before income taxes are as follows:

	1992	1991	1990
Domestic	$212.1	$131.8	$ 96.7
Foreign	12.3	263.9	253.5
	$224.4	$395.7	$350.2

The provision for income taxes allocated to continuing operations consists of:

	1992	1991	1990
Federal income taxes:			
Current	$ 74.5	$ 40.8	$ 33.6
Deferred	(18.1)	(2.7)	(6.3)
State and local income taxes (current)	16.3	15.2	10.7
Foreign income taxes:			
Current	66.0	84.2	70.9
Deferred	6.3	15.3	14.3
	$ 145.0	$152.8	$123.2

At December 31, 1992, the deferred tax assets and liabilities consisted of the following items:

	1992
Expenses deducted for book purposes but capitalized for tax purposes:	
Research and development expenses	$106.7
Postretirement benefits other than pensions	94.1
Net operating loss carryforwards	53.6
Reserves not yet deductible for tax purposes	26.8
Tax credit carryforwards	26.0
Pension and insurance reserves	23.0
Capitalized inventory costs and inventory reserve	17.7
Other	60.9
Total deferred tax assets	408.8
Depreciation and amortization	141.6
Prepaid pension cost	71.4
Other	6.4
Total deferred tax liabilities	219.4
Deferred tax assets valuation allowance	51.9
Net deferred tax assets	$137.5

The valuation allowance for 1992 relates to a provision for uncertainty as to the absorption of net operating loss and general business credit carryforwards.

The items giving rise to deferred tax assets and liabilities at December 31, 1991 and 1990 included depreciation, research and development costs that have been capitalized for tax purposes, and other items whose treatment for tax purposes does not conform to their treatment for financial statement purposes.

The U.S. Federal statutory tax rate reconciles to the effective tax rate for continuing operations as follows:

	1992	1991	1990
U.S. Federal statutory tax rate	34.0%	34.0%	34.0%
Increase/(decrease) in tax rate resulting from:			
U.S. and foreign taxes on foreign operations	9.3	5.7	2.9
Utilization of general business credits	—	(2.3)	(2.0)
State and local income taxes, net of Federal income tax benefit	4.8	2.3	1.7
Valuation allowance for deferred tax assets	22.6	—	—
Other, net	(6.1)	(1.1)	(1.4)
Effective tax rate	64.6%	38.6%	35.2%

The U.S. Internal Revenue Service has completed examinations of the consolidated Federal income tax returns of W. R. Grace & Co. and its domestic subsidiaries through 1986. U.S. and foreign taxes have not been provided on approximately $535.0 of undistributed earnings of foreign subsidiaries, which are being retained indefinitely by the foreign subsidiaries for reinvestment. The distribution of these earnings would result in additional foreign withholding taxes of approximately $39.0 and additional U.S. Federal income taxes to the extent they are not offset by foreign tax credits, but it is not practicable to estimate the total tax liability that would be incurred on such a distribution.

6. Discontinued Operations

Grace Energy

In the second quarter of 1992, Grace recorded a provision of $155.0 (net of an applicable tax benefit of $82.0) for the expected loss on the divestment of Grace Energy's oil and gas operations and the operating losses expected to be incurred pending their divestment. Effective in the fourth quarter of 1992, Grace reclassified Colowyo, a Grace Energy subsidiary, as a discontinued operation. Accordingly, the consolidated statement of operations for periods prior to 1992 has been restated to reflect all of Grace Energy as a discontinued operation.

In January 1993, Grace sold the stock and substantially all of the assets of Grace Petroleum Corporation, Grace Energy's oil and gas production subsidiary, to two buyers for total cash proceeds of $163.0. Grace expects to complete the sale of Support Terminal Services, Inc., Grace Energy's liquid storage and terminaling subsidiary, in March 1993, for total cash proceeds of $63.5. Grace has agreed to sell the assets of Homco International, Inc., Grace Energy's oil field service subsidiary, for cash proceeds of $97.5; the transaction is expected to be completed in April 1993.

Grace Distribution

In March 1992, Grace completed the sale of Grace Distribution, which had been reclassified as a discontinued operation in 1991, for $97.8 in cash and notes. The 1992 loss from discontinued operations includes the operating losses of Grace Distribution prior to the sale. The loss from discontinued operations in 1991 included a provision for the estimated loss on the sale of Grace Distribution and its operating results prior to divestment.

Other

In the fourth quarter of 1992, Grace reclassified certain corporate investments as discontinued operations, including Grace's minority interests in Canonie Environmental Services Corp. and Grace-Sierra Horticultural Products Company. Grace believes that it has adequate recorded provisions to cover the losses anticipated on the disposal of these investments.

The loss from discontinued operations in 1992 includes an after-tax provision of $12.1 relating to the loss associated with the sale of Grace's remaining Mexican-style restaurant operation, which was first classified as a discontinued operation in 1986.

During 1991, Grace conducted an analysis of the reserve related to its discontinued fertilizer operations and the remaining liabilities retained by Grace, which resulted in a $19.5 decrease to the reserve established in 1986.

Sales and revenues and operating results of discontinued operations, including net (losses)/gains on disposals, for the three years ended December 31, 1992, 1991 and 1990 are as follows:

	1992	1991	1990
Grace Energy			
Sales and revenues	$ 515.0	$ 479.2	$ 479.5
(Loss) from operations before taxes	$ (11.1)	$ (25.6)	$ (13.8)
Net pretax (loss) on disposal of operations	(236.8)	—	—
Income tax benefit	88.4	9.7	3.9
(Loss) from discontinued operations[1]	$(159.5)	$ (15.9)	$ (9.9)
Grace Distribution			
Sales and revenues	$ 178.0	$ 780.4	$ 769.8
(Loss)/income from operations before taxes	$ (2.8)	$ (.1)	$ .1
Net pretax (loss) on disposal of operations	—	(28.3)	—
Income tax benefit	.9	8.3	.4
(Loss)/income from discontinued operations[1]	$ (1.9)	$ (20.1)	$ .5
Other			
Sales and revenues	$ 31.7	$ 42.4	$ 141.9
(Loss) from operations before taxes	$ (14.6)	$ (11.9)	$ (11.3)
Net pretax (loss) on disposal of operations	(18.3)	—	—
Reversal of prior year divestment reserve	—	28.3	—
Income tax benefit/(provision)	10.4	(4.7)	3.5
(Loss)/income from discontinued operations	$ (22.5)	$ 11.7	$ (7.8)
Total (loss) from discontinued operations	$(183.9)	$ (24.3)	$ (17.2)

[1] *The operating results of discontinued operations include an allocation of interest expense based on Grace's incremental borrowing rate applied to the expected proceeds from the divestment of Grace Energy and to the net assets of Grace Distribution through the date of sale, assuming such proceeds will be used to reduce Grace debt.*

Net assets of Grace's discontinued operations as of December 31, 1992 are set forth as follows:

	Grace Energy	Other	Total
Current assets	$104.3	$ 12.8	$117.1
Properties and equipment, net	640.9	25.7	666.6
Investments in and advances to affiliated companies	23.1	75.1	98.2
Other noncurrent assets	15.1	30.0	45.1
Total assets	783.4	143.6	927.0
Current liabilities	85.1	10.5	95.6
Other noncurrent liabilities	116.6	—	116.6
Total liabilities	201.7	10.5	212.2
Net assets of discontinued operations	$581.7	$133.1	$714.8

The consolidated balance sheet at December 31, 1992 and the consolidated statement of cash flows for 1992 reflect Grace Energy's operations separately from Grace's continuing operations. The consolidated balance sheet at December 31, 1991 and the consolidated statement of cash flows for 1991 reflect Grace Distribution separately from continuing operations. The consolidated statement of operations for all periods presented reflects all discontinued operations separately from continuing operations.

7. Other Balance Sheet Items

	1992	1991
Notes and Accounts Receivable		
Trade receivables, less allowances of $38.3 (1991—$40.2)	$ 598.3	$734.8
Other receivables, less allowances of $1.0 (1991—$.8)	92.1	157.4
	$ 690.4	$891.4
Inventories		
Raw and packaging materials	$ 179.3	$221.3
In process	76.2	74.9
Finished products	324.7	370.1
General merchandise	59.8	57.9
Less: Adjustment of certain inventories to a last-in/first-out (LIFO) basis	(47.1)	(54.2)
	$ 592.9	$670.0
Other Assets		
Receivable due from insurance carriers (Note 2)	$ 358.3	$288.0
Prepaid pension costs	229.2	199.7
NMC patient relationships, less accumulated amortization of $109.7 (1991—$61.4)	184.8	194.3
Deferred income taxes	137.1	—
Deferred charges	108.1	74.4
Long-term receivables, less allowance of $8.4 (1991—$4.5)	103.5	49.8
Long-term investments	68.2	75.9
Energy services equipment (less accumulated amortization in 1991 of $165.2)	—	108.1
Other	87.2	46.3
	$1,276.4	$956.5

During 1992 and 1991, Grace entered into agreements to sell up to $345.0 and $275.0, respectively, of interests in designated pools of trade receivables. At December 31, 1992 and 1991, $307.9 and $211.1, respectively, had been received pursuant to such sales, portions of which amounts are reflected as reductions to trade accounts receivable. Included in the trade receivables sold at December 31, 1992 are $50.0 of Grace Energy trade receivables, which have been reflected as a reduction in net assets of discontinued operations.

Under the terms of these agreements, new interests in trade receivables are sold as collections reduce previously sold trade receivables. There is no recourse to Grace, nor is Grace required to repurchase any of the trade receivables in the pools; if certain trade receivables in the pools prove to be uncollectible, other trade receivables are substituted (to the extent available). Costs related to these sales are expensed as incurred. There were no gains or losses on these transactions.

Inventories valued at LIFO cost comprised 22.9% of inventories at December 31, 1992 and 22.2% at December 31, 1991.

8. Properties and Equipment

	1992	1991
Land	$ 59.2	$ 66.5
Natural resource properties	—	822.0
Buildings	801.3	822.0
Machinery, equipment and other	2,199.1	2,965.2
Projects under construction	231.4	332.6
Properties and equipment, gross	3,291.0	5,008.3
Accumulated depreciation, depletion and amortization	(1,583.1)	(2,450.1)
Properties and equipment, net	$1,707.9	$2,558.2

Interest costs have been incurred in connection with the financing of certain assets prior to placing them in service. Capitalized interest costs in 1992, 1991 and 1990 were $20.4, $21.4 and $15.2, respectively.

Depreciation and amortization expense relating to properties and equipment amounted to $241.4, $245.6 and $236.3 in 1992, 1991 and 1990, respectively.

Grace's rental expense for operating leases amounted to $83.5, $71.9 and $66.6 in 1992, 1991 and 1990, respectively. See Note 10 for information regarding contingent rentals.

At December 31, 1992, minimum future payments for operating leases were:

1993	$ 69.6
1994	58.9
1995	48.9
1996	41.9
1997	38.9
Later years	150.8
Total minimum lease payments	$409.0

The above minimum lease payments include sublease income of $3.2 for 1993 through 1997 and $17.2 in later years.

In 1992, a critical raw material supplier to Grace's fumed silica plant in Belgium was effectively denied a previously promised permit for by-product disposal, resulting in the shutdown of the supplier's plant. As a result, the continued operation of Grace's plant would have required Grace to obtain other suppliers and/or take other actions requiring significant additional investment. Consequently, Grace closed its plant and in the third quarter of 1992 recorded a one-time provision of $140.0 reflecting the impairment of the plant's value and certain additional expenses. This provision could be offset in part by recoveries from litigation, the renegotiation of certain contracts relating to the plant and/or the sale of the plant.

9. Investments in and Advances to Affiliated Companies

Included in Grace's continuing operations at December 31, 1992 are equity interests of 50% or less in companies engaged in health care services and pulp and paper manufacturing. Certain of Grace's other investments are being accounted for as discontinued operations; see Note 6. In 1992, Grace sold a portion of its interest in a Japanese company specializing in packaging, resulting in a decrease of its interests from 20.0% to 5.6%.

During 1991, Grace acquired a 47% common equity interest in a company that serves hospitals and other health care institutions and decreased its interest in a Colombian pulp and paper manufacturing company from 38.3% to 36.2%.

A summary of financial information of affiliated companies (100% basis) is set forth below:

	1992	1991
Current assets	$297.4	$310.2
Noncurrent assets	305.6	413.6
Current liabilities	150.6	160.6
Noncurrent liabilities	184.2	252.1
Net assets	$268.2	$311.1
Grace investments and advances	$115.8	$193.7

	1992	1991	1990
Net sales	$370.5	$355.6	$300.8
Net income	$ (1.4)	$ 20.4	$ 21.2
Grace equity in earnings	$ 2.8	$ 7.6	$ 7.0
Distributions/Dividends received	$ 5.0	$ 4.0	$ .3

10. Debt

	1992	1991
Short-Term Debt		
Bank borrowings (4.3% weighted average interest rate at year-end 1992)[1]	$ 170.6	$ —
Commercial paper (4.1% weighted average interest rate at year-end 1992)[1]	25.0	—
Current maturities of long-term debt	50.7	150.3
Other short-term borrowings[2]	218.4	306.0
	$ 464.7	$ 456.3
Long-Term Debt		
Bank borrowings (4.3% and 5.9% weighted average interest rate at year-end 1992 and 1991, respectively)[1]	$ 510.0	$ 984.0
Commercial paper (5.9% weighted average interest rate at year-end 1991)[1]	—	175.3
Liquid Yield Option Notes (LYONs)[3]	351.2	324.7
6.25% Convertible Subordinate Debentures Due 2002[4]	150.0	150.0
7.75% Notes Due 2002[5]	150.0	—
6.5% Notes Due 1995[6]	150.0	—
Sundry indebtedness with various maturities through 2003	87.4	81.0
Industrial revenue bonds with various maturities through 2007	6.6	13.4
Promissory notes at 9.0% due through 1998	—	131.0
Promissory notes at 10.375% due 1997	—	94.0
	1,405.2	1,955.4
Less amounts due within one year included in short-term debt[7]	50.7	160.3
	$1,354.5	$1,793.1
Full-year weighted average interest rate on total debt	6.7%	8.6%

[1] Prior to September 1992, all commercial paper and bank borrowings, although short-term in nature, were classified as long-term borrowings because of the availability of long-term financing under Grace's then existing credit agreements and Grace's intent to refinance these borrowings on a long-term basis. In the third quarter of 1992, Grace replaced its principal bank revolving credit agreement with a new bank revolving credit agreement under which it may borrow up to $1,225.0 at interest rates based upon the prevailing prime, federal funds and/or Eurodollar rate. Of the $1,225.0, $715.0 is available under a 364-day facility and $510.0 is available under a three-year facility. At December 31, 1992, borrowings of $250.0 were outstanding under the revolving credit agreement and are included in long-term bank borrowings above. $455.6 was reserved to support commercial paper and other bank borrowings outstanding at December 31, 1992, leaving net unused credit facilities of $519.4. Grace's ability to borrow the maximum amounts available under these facilities is subject to compliance with certain covenants.

[2] Represents various lines of credit and miscellaneous borrowings, primarily of non-U.S. subsidiaries.

[3] In 1991, Grace completed the public offering of $1,012.5 principal amount at maturity of LYONs at an issue price of $308.32 per $1,000 principal amount at maturity, for gross proceeds of approximately $312.0. There are no periodic payments of interest; however, interest is accrued from the date of issue. The LYONs are (a) convertible into common stock at the rate of 8.916 shares per $1,000 principal amount at maturity; (b) redeemable at the option of Grace, subject to certain restrictions with respect to partial redemptions and conditions relating to redemptions prior to May 16, 1993; and (c) subject to rights of the holders to require Grace to purchase LYONs in 1996 and 2001.

[4] Convertible into one share of common stock for each $42.125 principal amount. Grace has entered into a swap contract maturing in 1999, which has effectively converted the interest on these Notes to a variable rate based on LIBOR. The effective rate in 1992 was 4.4%.

[5] During the third quarter of 1992, Grace sold at par $150.0 of 7.75% Notes Due 2002. Interest is payable semiannually and the Notes may not be redeemed prior to maturity. Concurrent with the issuance of these Notes, Grace entered into an interest rate swap agreement, which has effectively converted the interest on these Notes through maturity to a variable rate based on LIBOR. The effective interest rate in 1992 was 4.4%.

[6] During the fourth quarter of 1992, Grace sold $150.0 of 6.5% Notes Due 1995 at an initial public offering price of 99.758% of their principal amount, to yield 6.59%. Interest is payable semiannually and the Notes may not be redeemed prior to maturity. Grace has entered into a swap contract maturing in 1995, which has effectively converted interest on these Notes to a variable rate based on LIBOR. The effective interest rate in 1992 was 4.2%.

[7] Proceeds of $125.0 received in January 1992 from the divestment of the specialty textiles business were used to repay bank borrowings. As a result, $125.0 of such borrowings is included in short-term debt in 1991.

Grace's subordinate debentures and the LYONs listed above (representing aggregate borrowings of $502.2 at December 31, 1992) contain provisions under which payment of the borrowings may be accelerated at the lenders' option in the event of a change in control. Payment of substantially all of Grace's borrowings may be accelerated, and its principal borrowing agreements terminated, upon the occurrence of a default under other Grace borrowings.

Scheduled maturities of debt outstanding at December 31, 1992 are: 1993—$50.7; 1994—$4.7; 1995—$154.2; 1996—$5.1; and 1997—$3.7.

Grace has guaranteed certain lease obligations of previously divested businesses. The leases, some of which extend to 2015, have future minimum lease payments aggregating $155.0, including $79.7 relating to The Restaurant Enterprises Group, Inc. (REG). In 1992, Grace provided REG with several forms of financial support to assist it in meeting certain liquidity and other financial requirements. At December 31, 1992, this support consisted of a $46.7 letter of credit support facility expiring in 1994. Additionally, Grace is the guarantor or named tenant on lease obligations having future minimum lease payments aggregating $50.2, as to which Channel Home Centers, Inc., a previously divested business, has been released. Offsetting this is $43.2 of future minimum rental income from subtenants, and Grace continues to attempt to sublease the remaining properties and believes its ultimate exposure is not material.

Interest expense for 1992, 1991 and 1990 amounted to $113.4, $140.9 and $159.8, respectively. Interest payments made in 1992, 1991 and 1990 amounted to $166.8, $263.9 and $219.2, respectively.

In January 1993, Grace sold $300.0 of 7.4% Notes Due 2000 at par. Interest is payable semiannually and the Notes may not be redeemed prior to maturity. Concurrent with the issuance of these Notes, Grace entered into an interest rate swap agreement, which has effectively converted interest on these Notes through maturity to a variable rate based on LIBOR. The net proceeds from the sale of these Notes were used to repay commercial paper and bank borrowings.

11. Minority Interests

In December 1992, Grace Cocoa Associates, L.P. (LP), formerly a general partnership named Grace Cocoa that was wholly owned by two Grace entities, admitted two additional Grace entities as general partners and also admitted one new limited partner. As a result of the admission of these new partners, the total capital of LP increased to $1,430.5, which included a $300.0 cash contribution made by the new limited partner, $297.0 of which was funded by outside investors. LP's assets consist of Grace Cocoa's worldwide cocoa and chocolate business, long-term notes and demand loans due from various Grace entities, which are guaranteed by W. R. Grace & Co. and its principal operating subsidiary, and cash. The cash contribution from the new limited partner was initially lent by LP to the principal operating subsidiary of W. R. Grace & Co. and was used to retire certain domestic borrowings and for general corporate purposes. Four Grace entities serve as general partners of LP and own general partner interests totalling 79.03% in LP; the new limited partner owns a 20.97% limited partner interest in LP. LP is a separate and distinct legal entity from each of the Grace entities and has separate assets, liabilities, business functions and operations. For financial reporting purposes, the assets, liabilities, results of operations and cash flows of LP are included in Grace's consolidated financial statements and the outside investors' interest in LP is reflected as a minority interest.

Minority interests reflected in the 1991 consolidated balance sheet consist primarily of the former publicly held minority interest in Grace Energy.

12. Shareholders' Equity

The weighted average number of shares of common stock outstanding during 1992 was 89,543,000 (1991—87,236,000; 1990—85,879,000).

W. R. Grace & Co. is authorized to issue 300,000,000 shares of common stock. Of the common stock unissued at December 31, 1992, approximately 22,677,000 shares may be issued or delivered upon the conversion and/or redemption of convertible debt securities and the exercise of stock options or grant of share awards. In addition, at December 31, 1992, 112,568,000 shares were reserved in connection with Common Stock Purchase Rights (Rights). A Right is issued for each outstanding share of common stock; the Rights are not and will not become exercisable unless and until certain events occur, and at no time will the Rights have any voting power.

Preferred stocks authorized, issued and outstanding are:

	Shares as of December 31, 1992			Par Value of Shares Outstanding		
	Authorized and Issued	In Treasury	Outstanding	1992	1991	1990
6% Cumulative[1]	40,000	3,536	36,464	$3.6	$3.6	$3.6
8% Cumulative Class A[2]	50,000	33,244	16,756	1.7	1.7	1.7
8% Noncumulative Class B[2]	40,000	18,415	21,585	2.2	2.2	2.2
				$7.5	$7.5	$7.5

[1] 160 votes per share.
[2] 16 votes per share.

Dividends paid on the preferred stocks amounted to $.5 in each of 1992, 1991 and 1990.

The Certificate of Incorporation also authorizes 5,000,000 shares of Class C Preferred Stock, $1 par value, none of which has been issued.

13. Stock Incentive Plans

Changes in outstanding common stock options are summarized below:

	1992		1991		1990	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Balance at beginning of year	6,112,248	$32.01	7,172,775	$24.91	5,649,402	$26.29
Options granted	1,445,300	37.77	2,901,793	39.27	1,842,900	20.50
	7,557,548		10,074,568		7,492,302	
Options exercised	(1,132,863)	25.29	(2,052,421)	23.48	(75,597)	22.06
Options terminated or canceled	(59,498)	27.97	(1,909,899)	25.54	(243,930)	24.41
Balance at end of year	6,365,187	35.09	6,112,248	32.01	7,172,775	24.91

At December 31, 1992, options covering 4,025,840 shares (1991—3,690,088, 1990—6,183,534) were exercisable and 3,087,994 shares (1991—4,637,368, 1990—6,459,670) were available for the granting of additional options.

Prior to 1991, certain optionees had stock appreciation rights under which the optionee could, in lieu of exercising an option, request its cancellation and, without payment, receive cash or shares of common stock having a market value equal to the difference between the exercise price of the option and the market price of the common stock. Upon cancellation, the shares covered by the option, less the shares issued, if any, would become available for future grants.

In 1991, certain executive officers surrendered all or a portion of their outstanding stock options in exchange for shares of common stock equal in value to the excess of (1) the market value of the option shares at the date of surrender over (2) the purchase price of the option shares. The shares received upon surrender were subject to restrictions on transfer. The officers surrendering options generally were granted an equal number of new options with a purchase price equal to 110% of the fair market value of the common stock on the date of grant. Subject to certain exceptions, such options may not be exercised for five and one-half years, at which time they become exercisable in five annual installments.

In addition, a restricted stock program provides for the award of shares of common stock to certain employees based on the achievement of preestablished earnings targets. Shares covered by an award generally may not be sold (except to Grace) until the shares "vest" (in four annual installments); in the case of shares sold to Grace, the proceeds may not be received by the employee until the shares would have vested. In certain circumstances (including termination of employment for any reason other than death, disability, retirement or termination without cause), the shares not then vested (and/or proceeds from the sale of unvested shares) are forfeited.

14. Pension Plans

Grace maintains defined benefit pension plans covering employees of certain units who meet age and service requirements. Benefits are generally based on final average salary and years of service. Grace funds its U.S. pension plans in accordance with Federal laws and regulations. Non-U.S. pension plans are funded under a variety of methods because of differing local laws and customs and therefore cannot be summarized. Approximately 51% of U.S. and non-U.S. plan assets at December 31, 1992 were common stocks, with the remainder primarily fixed income securities.

Pension (benefit)/cost is comprised of the following components:

	1992		1991		1990	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost on benefits earned during the year	$ 15.1	$ 11.1	$ 17.7	$ 15.1	$ 15.1	$ 15.9
Interest cost on benefits earned in prior years	38.8	20.5	37.4	19.7	33.2	22.3
Actual return on plan assets	(25.4)	(37.9)	(100.1)	(36.4)	(18.7)	13.1
Deferred (loss)/gain on plan assets	(37.1)	10.8	39.6	10.0	(43.7)	(41.8)
Amortization of net gains and prior service costs	(10.0)	(5.5)	(9.3)	(3.4)	(14.4)	(5.6)
Net pension (benefit)/cost	$(18.6)	$ (1.0)	$(14.7)	$ 5.0	$(28.5)	$ 3.9

The funded status of these plans was as follows:

	1992 U.S.	1992 Non-U.S.	1991 U.S.	1991 Non-U.S.
Actuarial present value of benefit obligations:				
Vested	$454.7	$163.6	$378.0	$160.1
Accumulated benefit obligation	$458.5	$176.1	$381.9	$165.3
Total projected benefit obligation	$513.7	$240.4	$472.4	$229.3
Plan assets at fair value	767.9	288.5	786.8	273.5
Plan assets in excess of projected benefit obligation	254.2	48.1	314.4	44.2
Unamortized net gain at initial adoption	(108.6)	(14.3)	(120.3)	(19.0)
Unamortized prior service cost	17.6	4.2	18.8	4.5
Unrecognized net gain	(26.7)	(21.0)	(89.9)	(20.3)
Prepaid pension cost	$136.5	$ 17.0[a]	$123.0	$ 9.4[a]

[a] *Includes $80.7 in 1992 and $74.5 in 1991 of prepaid pension cost.*

The following significant assumptions were used to calculate the pension (benefit)/cost in 1992, 1991 and 1990:

	U.S.	Non-U.S.
Discount rate	9.0%	6.0–13.0%
Expected long-term rate of return	9.0	6.0–11.0
Rate of compensation increase	6.0	3.5–7.5

In calculating the pension benefit for the U.S. pension plans in 1993, Grace will use a discount rate of 8.0%. The other significant assumptions will remain the same. It is estimated that lowering the discount rate by one percentage point will increase the projected benefit obligation for the U.S. plans by approximately $67.8.

As a result of classifying certain operations as discontinued and divesting other operations, Grace recognized an increase in the net prepaid pension benefit of $6.2, $10.9 and $5.1 in 1992, 1991 and 1990, respectively. In addition, Grace settled certain pension obligations of one of its non-U.S. plans which resulted in gains of $.7 and $11.8 in 1992 and 1991, respectively, and settled certain pension obligations of its U.S. plans which resulted in a gain of $15.4 in 1990.

Grace's Retirement Plan for Salaried Employees (Plan) contains provisions under which the Plan would automatically terminate in the event of a change in control of W. R. Grace & Co., and Plan benefits would be secured through the purchase of annuity contracts. Upon such termination, a portion of the Plan's excess assets would be placed in an irrevocable trust to fund various employee benefit plans and arrangements of Grace, and any balance would be returned to Grace.

15. Other Postretirement Benefit Plans

Grace provides certain other postretirement health care and life insurance benefits for retired employees of specified U.S. units. These retiree medical and life insurance plans provide benefits to employees who retire from Grace after age 55 with at least 10 years of service. The plans are currently unfunded.

Effective January 1, 1992, Grace adopted SFAS No. 106, which requires the accrual method of accounting for the future costs of postretirement health care and life insurance benefits over the employees' years of service. The "pay as you go" method of accounting, used prior to 1992, recognized these costs on a cash basis. The adoption of SFAS No. 106 on the immediate recognition basis, concurrent with the adoption of SFAS No. 109, resulted in a charge to 1992 earnings of $190.0, net of $98.0 of deferred income taxes. In addition, the application of SFAS No. 106 resulted in a decrease of $5.1 in 1992 after-tax earnings from continuing operations. Grace's cash flow, however, is unaffected by implementation of SFAS No. 106, as Grace will continue to pay the costs of postretirement benefits as they are incurred. Included in noncurrent liabilities as of December 31, 1992 are the following:

	1992
Accumulated postretirement benefit obligation:	
Retirees	$140.2
Fully eligible participants	19.4
Active ineligible participants	40.4
Accumulated postretirement benefit obligation	200.0
Unrecognized prior service benefit	75.2
Accrued postretirement benefit obligation	$275.2

Net periodic postretirement benefit cost for the year ended December 31, 1992 is comprised of the following components:

	1992
Service cost	$ 6.8
Interest cost on accumulated benefit obligation	21.1
Amortization of prior service benefit	(3.0)
Net periodic postretirement benefit cost	$24.9

The costs of these benefits (cash basis) to Grace's continuing operations were approximately $7.4 and $7.5 for 1991 and 1990, respectively. As a result of classifying certain operations as discontinued during 1992, Grace recognized a reduction of the accrued postretirement benefit obligation of approximately $23.5, which is included in the reserve for discontinued operations.

During 1992, the retiree medical plans were amended to increase cost sharing by employees who retire after January 1, 1993. This amendment is expected to decrease the accumulated postretirement benefit obligation by $75.2 and will be amortized over an average future service life of approximately 14 years.

The medical care cost trend rates were projected at 12.7% in 1992, declining to 6% through 2001 and remaining level thereafter. The effect of a one percentage point increase in each year's assumed medical care cost trend rate, holding all other assumptions constant, would be to increase the annual net periodic postretirement benefit cost by $3.0 and the accumulated postretirement benefit obligation by $28.1. The discount rate for 1992 was 9%.

16. Financial Instruments

In the normal course of business, Grace is a party to financial instruments with off-balance sheet risk. Exposure to market risk on interest rate and foreign currency contracts results from fluctuations in floating rate indices and currency rates, respectively, during the periods in which the contracts are outstanding. The counterparties to Grace's interest rate swap and currency exchange agreements consist of a diversified group of major financial institutions. Grace is exposed to credit risk to the extent of nonperformance by these counterparties; however, management believes the risk of incurring losses related to credit risk is remote.

At December 31, 1992, the carrying value of financial instruments such as cash, short- and long-term investments and trade receivables and payables approximate their fair values, while short- and long-term debt are as follows:

	Carrying Amount	Fair Value
Short-term debt	$ 464.7	$ 464.7
Long-term debt	1,354.5	1,400.9

The fair values can vary with market conditions and are estimated based on quoted market prices or by obtaining quotes from brokers. The carrying value and respective fair value of interest rate and foreign currency contracts were not material.

17. Industry and Geographic Segments

Industry Segment Information[1]		Specialty Chemicals	Health Care	Other Businesses	Unallocated Corporate Items	Total
Sales and Revenues	1992	$3,475	$1,275	$ 768	$ —	$5,518
	1991	3,480	1,060	1,030	—	5,570
	1990	3,524	921	1,060	—	5,505
Pretax Operating Profit	1992	295[2]	176	22	(269)[3]	224
	1991	441	143	82	(270)[3]	396
	1990	443	116	70	(279)[3]	350
Identifiable Assets	1992	2,342	1,095	577	1,585 [4]	5,599
	1991	2,614	1,016	559	1,818 [4]	6,007
	1990	2,701	958	669	1,899 [4]	6,227
Capital Expenditures	1992	239	52	57	50 [4]	398
	1991	231	46	69	101 [4]	447
	1990	299	41	41	133 [4]	514
Depreciation and Amortization	1992	172	65	26	9	272
	1991	174	61	33	8	276
	1990	163	57	30	16	266

Geographic Segment Information[1]		United States	Canada	Europe	Other	Unallocated Corporate Items	Total
Sales and Revenues	1992	$3,286	$136	$1,617	$479	$ —	$5,518
	1991	3,100	141	1,863	466	—	5,570
	1990	3,025	134	1,919	429	—	5,505
Pretax Operating Profit	1992	420	2	(17)[2]	88	(269)[3]	224
	1991	339	10	219	98	(270)[3]	396
	1990	308	11	197	13	(279)[3]	350
Identifiable Assets	1992	2,377	84	1,170	383	1,585 [4]	5,599
	1991	2,302	92	1,393	402	1,818 [4]	6,007
	1990	2,231	86	1,618	393	1,899 [4]	6,227

[1] Certain 1991 and 1990 information has been reclassified to conform with the 1992 presentation.

[2] Includes a provision of $140 covering a fraud silica plant in Belgium.

[3] Unallocated Corporate Items include:

	1992	1991	1990
Interest expense	$(113)	$(141)	$(160)
General corporate overhead expenses	(64)	(63)	(63)
General corporate research expenses	(62)	(56)	(50)
Net gain on strategic restructuring	—	6	—
Other expense, net	(30)	(16)	(6)
Total	$(269)	$(270)	$(279)

[4] Includes discontinued operations. Capital expenditures are included only for the periods prior to the classification of a business as a discontinued operation.

Quarterly Summary

Unaudited—dollars in millions, except per share

Quarter Ended	March 31	June 30	September 30	December 31
1992[1]				
Sales and revenues	$1,211.3	$1,332.3	$1,406.0	$1,568.6
Cost of goods sold and operating expenses	(770.7)	(811.9)	(874.9)	(1,044.0)
Income/(loss) from continuing operations	22.3	59.8	(82.7)[3]	80.0
(Loss)/income from discontinued operations	(19.4)	(161.0)	.6	(4.1)
Cumulative effect of accounting changes	(190.0)	—	—	—
Net (loss)/income	(187.1)	(101.2)	(82.1)	75.9
Earnings per share:				
Continuing operations	$ .25	$ .67	$ (.92)	$ .89
Cumulative effect of accounting changes	(2.12)	—	—	—
Net (loss)/earnings	(2.10)	(1.13)	(.92)	.84
Fully diluted earnings per share:				
Continuing operations	$ —[4]	$ .63	$ —[4]	$ .81
Net (loss)/earnings	—[4]	(.94)	—[4]	.77
Dividends declared per common share	$ .35	$ .35	$ .35	$ .35
Market price of common stock:[2]				
High	$ 45	$ 38½	$ 38½	$ 40¼
Low	37¼	33¾	32	34
Close	40¼	34	37¼	40¼
1991[1]				
Sales and revenues	$1,352.4	$1,401.3	$1,333.0	$1,483.2
Cost of goods sold and operating expenses	(898.6)	(903.8)	(846.2)	(896.8)
Income from continuing operations	34.5	61.8	55.6	91.0
Net income	30.8	57.6	49.6	80.6
Earnings per share:				
Continuing operations	$ .40	$ .71	$ .63	$ 1.03
Net earnings	.36	.66	.57	.91
Fully diluted earnings per share:				
Continuing operations	$ .39	$ .67	$ .60	$ .95
Net earnings	.35	.63	.54	.85
Dividends declared per common share	$ .35	$ .35	$ .35	$ .35
Market price of common stock:[2]				
High	$ 32	$ 35	$ 39½	$ 40¼
Low	23¾	28¼	31¼	34¼
Close	29¾	33¾	37½	39¼

[1] Amounts have been restated to conform to the year-end 1992 presentation.

[2] Principal market: New York Stock Exchange.

[3] Includes a provision of $140.0 covering a fumed silica plant in Belgium.

[4] Not presented as the effect is anti-dilutive.

Quarterly Statistics

Unaudited—dollars in millions

Quarter Ended	March 31	June 30	September 30	December 31
1992[1]				
Sales and Revenues[2]				
Specialty Chemicals	$ 696.0	$ 790.4	$ 824.2	$ 922.9
Health Care	289.0	309.0	332.3	344.9
Other Businesses	174.7	168.2	190.8	233.8
Total	$1,159.7	$1,267.6	$1,347.3	$1,501.6
Operating Income After Taxes[3]				
Specialty Chemicals	$ 38.9	$ 65.3	$ 65.7[4]	$ 92.1
Health Care	20.6	25.6	27.8	31.7
Other Businesses	3.6	6.1	2.2	2.5
Total	$ 63.1	$ 97.0	$ 95.7	$ 126.3
1991[1]				
Sales and Revenues[2]				
Specialty Chemicals	$ 703.6	$ 770.0	$ 753.6	$ 855.9
Health Care	241.9	259.5	271.0	288.1
Other Businesses	200.2	171.4	182.4	227.5
Total	$1,145.7	$1,200.9	$1,207.0	$1,371.5
Operating Income After Taxes[3]				
Specialty Chemicals	$ 48.2	$ 71.1	$ 69.0	$ 85.3
Health Care	16.5	20.5	21.5	24.4
Other Businesses	8.5	8.6	6.5	11.3
Total	$ 73.2	$ 100.2	$ 97.0	$ 121.0

[1] Amounts have been restated to conform to the year-end 1992 presentation.

[2] Excludes sales of divested businesses; therefore, the total does not agree with sales and revenues in the Consolidated Statement of Operations.

[3] Excludes divested businesses, and amounts are computed before minority interests and the allocation of corporate research, corporate overhead and corporate interest. For this table, taxes are computed substantially on a separate return basis for each subsidiary and division. In the case of each U.S. subsidiary and division, tax benefits for operating losses, if any, are recognized currently.

[4] Excludes a provision of $140.0 covering a fumed silica plant in Belgium.

Worldwide Operations

Dollars in millions

	Sales and Revenues[1]			Operating Income After Taxes[1][2]		
	1992	1991	1990	1992	1991	1990
United States/Canada						
Specialty Chemicals	$1,692	$1,623	$1,635	$137	$130	$127
Health Care	1,229	1,029	897	98	78	62
Other Businesses	315	327	315	4	4	2
Total	3,236	2,979	2,847	239	212	191
Europe						
Specialty Chemicals	1,109	1,055	998	71[3]	95	87
Health Care	45	31	24	8	5	5
Other Businesses	406	408	399	8	20	19
Total	1,560	1,494	1,421	87	120	111
Pacific						
Specialty Chemicals	300	298	260	40	39	37
Health Care	—	—	1	—	—	—
Other Businesses	45	45	47	3	4	7
Total	345	343	308	43	43	44
Latin America/Other						
Specialty Chemicals	133	107	108	14	9	13
Other Businesses	2	2	1	(1)	7	7
Total	135	109	109	13	16	20
Subtotal	5,276	4,925	4,685	382	391	366
Divested Businesses	242	645	820	16	10	16
Total Continuing Operations	$5,518	$5,570	$5,505	$398	$401	$382

[1] 1991 and 1990 amounts have been restated to conform to the 1992 presentation.

[2] Computed before minority interests and the allocation of corporate research, corporate overhead and corporate interest. For this table, taxes are computed unintentionally on a separate return basis for each subsidiary and division. In the case of each U.S. subsidiary and division, tax benefits for operating losses, if any, are recognized currently.

[3] Excludes a provision of $140 covering a fumed silica plant in Belgium.

Capital Expenditures, Net Fixed Assets and Depreciation and Lease Amortization[1]

Dollars in millions

	Capital Expenditures			Net Fixed Assets			Depreciation and Lease Amortization		
	1992	1991	1990	1992	1991	1990	1992	1991	1990
Operating Group									
Specialty Chemicals	$215	$194	$249	$1,147	$1,142	$1,095	$152	$146	$133
Health Care	52	46	41	221	205	199	38	36	33
Other Businesses	57	60	28	240	217	177	26	24	21
Subtotal	324	300	318	1,608	1,564	1,471	216	206	187
General Corporate	28	43	33	96	85	54	7	6	13
Total Continuing Operations	352	343	351	1,704	1,649	1,525	223	212	200
Divested Businesses	24	44	61	4	213	347	18	34	36
Discontinued Operations	22	60	102	—	696	590	—	—	—
Total	$398	$447	$514	$1,708	$2,558	$2,462	$241	$246	$236
Geographic Location									
United States/Canada	$202	$209	$165	$ 976	$ 902	$ 820	$130	$126	$115
Europe	102	72	127	509	531	526	71	66	60
Other Areas	20	19	26	123	131	125	15	14	12
Subtotal	324	300	318	1,608	1,564	1,471	216	206	187
General Corporate	28	43	33	96	85	54	7	6	13
Total Continuing Operations	352	343	351	1,704	1,649	1,525	223	212	200
Divested Businesses	24	44	61	4	213	347	18	34	36
Discontinued Operations	22	60	102	—	696	590	—	—	—
Total	$398	$447	$514	$1,708	$2,558	$2,462	$241	$246	$236

[1] 1991 and 1990 amounts have been restated to conform to the 1992 presentation.

Financial Summary

Dollars in millions, except per share amounts

	1992	1991	1990	1989	1988
Income Statement					
Sales and revenues	$5,518.2	$5,569.9	$5,504.6	$4,910.3	$4,631.3
Cost of goods sold and operating expenses	3,501.5	3,545.4	3,593.7	3,258.2	3,080.3
Depreciation and amortization	272.2	275.9	265.6	231.5	201.2
Interest expense	113.4	140.9	159.8	139.9	104.8
Research and development expenses	150.6	149.8	146.5	124.0	118.5
Income from continuing operations before income taxes and minority interests	224.4[1]	395.7	350.2	285.1	322.9
Income taxes	145.0	152.8	123.2	83.2	124.5
Income from continuing operations	79.4	242.9	220.0	194.4	188.1
(Loss)/income from discontinued operations	(183.9)	(24.3)	(17.2)	58.8	40.7
Cumulative effect of accounting changes	(190.0)	—	—	—	4.8
Net (loss)/income	(294.5)	218.6	202.8	253.2	233.6
Financial Position					
Current assets	$2,091.4	$1,990.0	$2,380.1	$2,166.3	$2,028.1
Current liabilities	1,639.6	1,622.1	1,680.1	1,589.1	1,498.1
Properties and equipment, net	1,707.9	2,558.2	2,462.1	2,220.0	2,028.3
Total assets	5,598.6	6,007.1	6,226.5	5,619.1	5,190.2
Total debt	1,819.2	2,259.4	2,285.9	2,016.7	1,816.6
Shareholders' equity—common stock	1,537.5	2,017.7	1,905.0	1,722.9	1,543.6
Data Per Common Share					
Earnings from continuing operations	$ .88	$ 2.78	$ 2.56	$ 2.28	$ 2.22
Cumulative effect of accounting changes	(2.12)	—	—	—	.06
(Loss)/earnings	(3.29)	2.50	2.36	2.97	2.75
Dividends	1.40	1.40	1.40	1.40	1.40
Book value	17.10	22.77	22.14	20.16	18.18
Average common shares outstanding *(thousands)*	89,543	87,236	85,879	85,193	84,629
Other Statistics					
Dividends paid on common stock	$ 125.4	$ 122.0	$ 120.2	$ 119.2	$ 118.6
Capital expenditures	398.4	447.0	513.7	484.6	418.1
% Total debt to total capital	49.7%	51.6%	52.4%	51.7%	52.7%
Common shareholders of record	20,869	21,949	23,327	26,457	27,012
Common stock price range	45–32	40¾–23⅜	33⅜–17	39⅛–25⅛	29⅞–23⅛
Number of employees *(thousands)*	44.1	49.3	52.2	49.7	45.7

[1] *Includes a provision of $140.0 covering a formal silica plant in Belgium.*

Officers

Chairman

J. Peter Grace

President and Chief Executive Officer

J. P. Bolduc

Vice Chairman

J. Murfree Butler

Joseph R. Wright, Jr.

Executive Vice Presidents

F. Peter Boer, Chief Technical Officer

Hugh L. Carey, Government Relations

Constantine L. Hampers, Health Care

Donald H. Kohnken, Specialty Chemicals

James P. Neeves, Corporate Administration

Brian J. Smith, Chief Financial Officer

Senior Vice Presidents

Robert H. Beber, General Counsel

Jean-Louis Grèze, Grace Packaging

Christian F. Horn, Grace Ventures

Fred Lemperecur, Grace Engineered Materials & Systems

Pedro F. Mata, Grace Cocoa

W. Brian McGowan, Corporate Administration

Robert C. Walsh, Specialty Chemicals

Vice Presidents

William L. Below, Information Systems

Fred E. Bennett, Grace Dearborn/North America

Robert J. Bertacchi, Grace Construction Products

Frederick E. Bona, Corporate Communications

Brian H. Burns, Environmental Policy

Charles H. Ehlers, Grace Container Products

Antonio R. Ferré, Specialty Chemicals/Latin America

Alan D. Fiers, Grace Emission Control Products

Peter D. Houchin, Treasurer

James R. Hyde, Grace Davison

Noel A. Lee, Specialty Chemicals/Asia Pacific

Shojiro Makino, Specialty Chemicals/Japan

Peter B. Martin, Investor Relations

William L. Monroe, Human Resources

Susan A. Ollila, Pension Investments

Ian Priestnell, Grace Dearborn

Bernd A. Schulte, Business Development

Martin B. Sherwin, Commercial Development

William B. Sturgis, Cryovac/North America

Richard N. Sukenik, Controller

Jacques Theumann, Specialty Chemicals/Europe

Francois P. van Remoortere, Research

Elwood S. Wood, Grace Printing Products

Corporate Secretary

Robert B. Lamm

Directors

J. P. Bolduc, President and Chief Executive Officer, W. R. Grace & Co.

George C. Dacey, Retired President, Sandia National Laboratories (government research and development)

Edward W. Duffy, Retired Chairman and Chief Executive Officer, Marine Midland Banks, Inc. (banking)

Harold A. Eckmann, Retired Chairman and Chief Executive Officer, The Atlantic Companies (insurance)

Charles H. Erhart, Jr., Retired President, W. R. Grace & Co.

Raymond C. Foster, Retired Chairman and Chief Executive Officer, Stone & Webster, Inc. (engineering and other services)

James W. Frick, President, James W. Frick Associates, Inc. (educational consulting)

J. Peter Grace, Chairman and retired Chief Executive Officer, W. R. Grace & Co.

Ronald H. Grierson, Retired Vice Chairman, The General Electric Co., p.l.c. (U.K.) (manufacturing)

Constantine L. Hampers, Executive Vice President, W. R. Grace & Co.

Thomas A. Holmes, Retired Chairman, President and Chief Executive Officer, Ingersoll-Rand Company (manufacturing)

Gordon J. Humphrey, Former U.S. Senator; Founder, The Humphrey Group (international trade)

George P. Jenkins, Consultant to W. R. Grace & Co.; Retired Chairman and Chief Financial Officer, Metropolitan Life Insurance Company (insurance)

Virginia A. Kamsky, Founder, President and Chief Executive Officer, Kamsky Associates Inc. (Far East consulting and investment banking)

Peter S. Lynch, Vice Chairman and Managing Director, FMR Corp. (investments)

Robert C. Macauley, Founder and Chairman, Virginia Fibre Corporation (packaging)

Roger Milliken, Chief Executive Officer, Milliken & Company (textiles)

John E. Phipps, Private Investor

William Wood Prince, Vice Chairman, F. H. Prince & Co., Inc. (investment company)

John A. Puelicher, Retired Chairman of the Board, Marshall & Ilsley Corporation (banking)

Eben W. Pyne, Retired Senior Vice President, Citibank, N.A. (banking)

D. Walter Robbins, Jr., Consultant to W. R. Grace & Co.; Retired Chairman of the Executive Committee

Eugene J. Sullivan, Chairman Emeritus, Borden, Inc. (foods, consumer and industrial goods)

Grace Sloane Vance, Educational, cultural and philanthropic activities

David L. Yunich, Consultant to W. R. Grace & Co.; Retired Vice Chairman, R. H. Macy & Co., Inc. (department stores)

Principal Board Committees

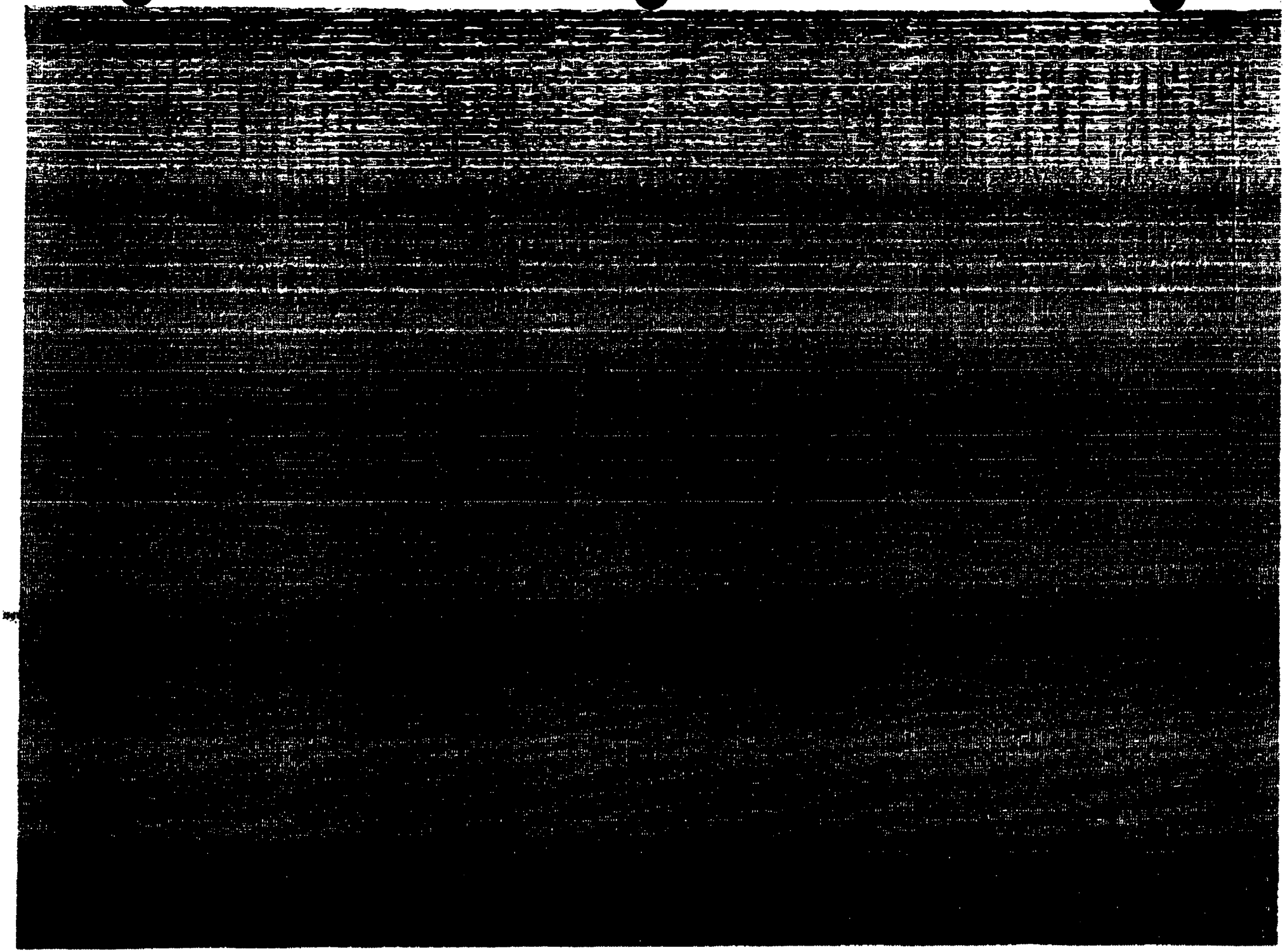
Audit: Messrs. Duffy, Eckmann*, Holmes, Phipps; Dr. Frick

Compensation, Employee Benefits and Stock Incentives: Messrs. Eckmann, Erhart, Lynch, Macauley, Milliken, Puelicher, Pyne*, Yunich

Corporate Responsibility: Messrs. Holmes, Yunich; Mrs. Vance*; Dr. Frick

Nominating: Messrs. Duffy, Foster, Macauley, Milliken*, Prince; Mrs. Vance; Dr. Dacey

*Chairman



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SCHEDULE X

W. R. GRACE & CO. AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM OFFICERS AND EMPLOYEES EXCEEDING $100,000*
(dollar amounts in thousands)

For the Year 1992

	Balance at beginning of period	Additions	Deductions: Amounts collected	Deductions: Amounts written off	Balance at end of period**: Current	Balance at end of period**: Not Current***
Amount	$ 2,813	$ 808	$ 212	$ 450	$ 506	$ 2,453
Number of employees	11				4	7

For the Year 1991

	Balance at beginning of period	Additions	Deductions: Amounts collected	Deductions: Amounts written off	Balance at end of period**: Current	Balance at end of period**: Not Current***
Amount	$ 4,022	-	$ 750	$ 450	$ 777	$ 2,096
Number of employees	12				7	7

For the Year 1990

	Balance at beginning of period	Additions	Deductions: Amounts collected	Deductions: Amounts written off	Balance at end of period**: Current	Balance at end of period**: Not Current***
Amount	$ 2,718	$ 1,791	$ 497	-	$ 778	$ 3,247
Number of employees	5				7	11

*The receivables generally represent relocation loans to employees. Additional information concerning certain of these loans is contained in the Proxy Statement for the Company's 1993 Annual Meeting.

**The balances may include both current and non-current portions due from an individual employee. Therefore, the total number of employees owing balances at the end of a period may reflect different portions of the same employee's indebtedness.

***Represents amounts due more than one year after the end of the period.

SCHEDULE V

W. R. GRACE & CO. AND SUBSIDIARIES

PROPERTY, PLANT AND EQUIPMENT

(In millions)

For the Year 1992

Classification	Balance at beginning of period	Additions at cost	Retirements	Other changes - add (deduct) Applicable to disposals of businesses(a)	Applicable to discontinued operations(a)	Reclassifications (b)	Currency adjustments	Balance at end of period
Land	$ 66.4	$ 1.0	$ (1.6)	$ (1.1)	$ (8.0)	$ 5.4	$ (1.3)	$ 59.2
Natural resource properties	823.1	5.0	-	-	(822.0)	(5.8)	(0.3)	-
Buildings	822.0	37.6	(6.9)	(29.5)	(33.0)	68.1	(26.0)	801.3
Machinery, equipment and other	2,965.2	90.8	(92.2)	(140.7)	(842.6)	107.8	(89.8)	2,198.1
Projects under construction	332.6	264.9	-	(22.5)	(2.8)	(333.7)	(5.9)	231.4
	$ 5,008.3	$ 398.4	$ (103.7)	$ (194.1)	$ (1,527.5)	$ (165.9)	$ (123.3)	$ 3,291.9

For the Year 1991

Classification	Balance at beginning of period	Additions at cost	Retirements	Other changes - add (deduct) Applicable to disposals of businesses(a)	Applicable to businesses acquired	Reclassifications (c)	Currency adjustments	Balance at end of period
Land	$ 72.0	$ 1.9	$ (1.4)	$ (5.4)	-	$ 8.2	$ (0.8)	$ 65.4
Natural resource properties	682.5	23.9	(20.4)	-	$ 90.5	76.5	-	823.1
Buildings	888.0	30.7	(17.3)	(62.6)	8.4	16.8	(6.0)	822.0
Machinery, equipment and other	3,011.2	123.8	(91.1)	(252.7)	3.1	182.4	(11.5)	2,965.2
Projects under construction	312.5	266.9	(0.1)	(4.2)	1.4	(244.6)	0.7	332.6
	$ 4,966.2	$ 447.0	$ (130.3)	$ (325.9)	$ 95.5	$ 31.3	$ (18.5)	$ 5,008.3

For the Year 1990

Classification	Balance at beginning of period	Additions at cost	Retirements	Other changes - add (deduct) Applicable to businesses acquired(a)	Reclassifications (d)	Currency adjustments	Balance at end of period
Land	$ 67.4	$ 1.4	$ (0.4)	$ 0.8	$ 0.4	$ 2.4	$ 72.0
Natural resource properties	706.0	29.2	(53.7)	-	1.0	-	682.5
Buildings	760.2	34.8	(10.6)	6.8	34.7	32.9	858.8
Machinery, equipment and other	2,707.5	176.0	(183.1)	30.2	178.4	102.2	3,011.2
Projects under construction	232.1	272.5	(0.7)	2.3	(210.7)	17.0	312.5
	$ 4,473.2	$ 513.7	$ (278.5)	$ 40.1	$ 3.8	$ 153.9	$ 4,966.2

(a) See Note 3 to Grace's Consolidated Financial Statements in the Annual Report.

(b) Includes a provision relating to Grace's Belgian fumed silica plant; see Note 8 to Grace's Consolidated Financial Statements in the Annual Report.

(c) Primarily reflects the deconsolidation of previously consolidated subsidiaries that are now being accounted for as discontinued operations, and the consolidation of subsidiaries previously accounted for by the equity method.

(d) Primarily reflects the reclassification of amounts from other assets.

Depreciation and Lease Amortization Rates

In view of the variety of properties and depreciation and lease amortization rates, it is not practicable to set forth detailed rates. The average depreciation and lease amortization rates on a consolidated basis for 1992, 1991 and 1990 were as follows:

	1992	1991	1990
Buildings	4.8 %	4.8 %	4.8 %
Machinery, equipment and other	8.0	7.5	7.6

W. R. GRACE & CO. AND SUBSIDIARIES

ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
(in millions)

For the Year 1992

Classification	Balance at beginning of period	Additions charged to costs and expenses	Retirements	Applicable to disposals of businesses(a)	Applicable to Discontinued Operations (a)	Reclassifications (b)	Currency Adjustments	Balance at end of period
Land	$ 0.9	$ 0.1	$ (0.1)	-	-	$ 0.4	-	$ 1.3
Natural resource properties	475.6	-	-	-	$ (475.6)	0.3	$ (0.3)	-
Buildings	312.8	37.9	(6.8)	$ (9.8)	(22.1)	3.8	(0.6)	306.6
Machinery, equipment and other	1,660.8	203.4	(58.4)	(97.1)	(334.4)	(46.6)	(82.5)	1,276.2
	$ 2,450.1	$ 241.4	$ (65.0)	$ (106.9)	$ (832.1)	$ (42.1)	$ (82.3)	$ 1,583.1

For the Year 1991

Classification	Balance at beginning of period	Additions charged to costs and expenses	Retirements	Applicable to disposals of businesses(a)	Reclassifications (c)	Currency Adjustments	Balance at end of period
Land	$ 1.1	$ 0.1	-	$ (0.3)	-	-	$ 0.9
Natural resource properties	425.6	36.9	$ (20.2)	-	$ 33.3	-	475.6
Buildings	326.3	40.9	(11.8)	(34.7)	(6.1)	$ (3.6)	312.8
Machinery, equipment and other	1,691.1	222.3	(74.3)	(155.2)	(18.9)	(4.2)	1,660.8
	$ 2,444.1	$ 300.2	$ (106.1)	$ (190.2)	$ 8.3	$ (6.2)	$ 2,450.1

For the Year 1990

Classification	Balance at beginning of period	Additions charged to costs and expenses	Retirements	Reclassifications (d)	Currency Adjustments	Balance at end of period
Land	$ 1.4	$ 0.3	-	$ (0.6)	-	$ 1.1
Natural resource properties	465.6	35.3	$ (75.2)	-	-	425.6
Buildings	281.9	30.1	(5.8)	0.1	$ 11.9	326.3
Machinery, equipment and other	1,505.3	216.9	(89.4)	1.8	56.5	1,691.1
	$ 2,253.2	$ 281.6	$ (170.4)	$ 1.3	$ 68.4	$ 2,444.1

(a) See Note 3 to Grace's Consolidated Financial Statements in the Annual Report.
(b) Includes a provision relating to Grace's Belgian fumed silica plant; see Note 6 to Grace's Consolidated Financial Statements in the Annual Report.
(c) Primarily reflects the deconsolidation of previously consolidated subsidiaries that are now being accounted for as discontinued operations, and the consolidation of subsidiaries previously accounted for by the equity method.
(d) Primarily reflects the reclassification of amounts from other assets.

SCHEDULE VIII

W. R. GRACE & CO. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(in millions)

For the Year 1992

Description	Balance beginning of period	Additions (deductions) Charged (credited) to costs and expenses	Additions (deductions) Other net**	Balance at end of period
Valuation and qualifying accounts deducted from assets:				
Allowances for notes and accounts receivable	$ 41.0	$ 46.0	$ (48.7)	$ 38.3
Securities of divested businesses	$ 201.0	$ (84.9)	$ 16.8	$ 132.9
Deferred tax assets valuation allowance	-	$ 51.9	-	$ 51.9
Reserves:				
Foreign employee benefit obligations*	$ 82.3	$ 15.6	$ (14.5)	$ 83.4
Discontinued operations	$ 74.7	-	$ 70.0	$ 144.7

For the Year 1991

Description	Balance beginning of period	Additions (deductions) Charged (credited) to costs and expenses	Additions (deductions) Other net**	Balance at end of period
Valuation and qualifying accounts deducted from assets:				
Allowances for notes and accounts receivable	$ 54.8	$ 42.7	$ (55.5)	$ 41.0
Securities of divested businesses	$ 180.7	-	$ 20.3	$ 201.0
Reserves:				
Foreign employee benefit obligations*	$ 110.7	$ 11.8	$ (39.9)	$ 82.3
Discontinued operations	$ 93.8	-	$ (19.1)	$ 74.7

For the Year 1990

Description	Balance beginning of period	Additions (deductions) Charged (credited) to costs and expenses	Additions (deductions) Other net**	Balance at end of period
Valuation and qualifying accounts deducted from assets:				
Allowances for notes and accounts receivable	$ 44.9	$ 46.9	$ (36.9)	$ 54.8
Securities of divested businesses	$ 160.4	-	$ 20.3	$ 180.7
Reserves:				
Foreign employee benefit obligations*	$ 91.7	$ 13.3	$ 5.7	$ 110.7
Discontinued operations	$ 124.4	-	$ (30.6)	$ 93.8

* Represents legally mandated employee benefit obligations, primarily pension benefits, relating to Grace's operations in Europe.

** Consists of additions and deductions applicable to businesses acquired, disposals of businesses, bad debt write-offs, foreign currency translation, additional reserves for accrued interest and dividends on securities of divested businesses, current year (charges)/credits to previously established reserves (including the operating income/(losses) of discontinued operations), reclassification and miscellaneous other adjustments.

SCHEDULE IX

W. R. GRACE & CO. AND SUBSIDIARIES

SHORT-TERM BORROWINGS

(dollar amounts in millions)

	Balance at end of period	Weighted average interest rate at end of period	Maximum amount outstanding during period	Average amount outstanding during period (c)	Weighted average interest rate during period (d)	
For the year 1992						
Commercial paper and bank borrowings (a).....	$ 705.6	4.3 %	$ 1,194.6	$ 1,034.4	5.3 %	
Other short-term borrowings (b).....	218.4	8.1	467.2	337.3	10.2	
For the year 1991						
Commercial paper and bank borrowings (a).....	1,159.3	5.9	1,244.4	1,152.4	7.2	
Other short-term borrowings (b).....	306.0	9.5	370.5	340.8	11.2	
For the year 1990						
Commercial paper and bank borrowings (a).....	937.3	8.7	937.3	941.2	8.7	
Other short-term borrowings (b).....	258.4	11.8	280.0	283.7	16.8	(e)

(a) Represents commercial paper and bank borrowings. Prior to September 1992, all amounts, although short-term in nature, were classified as long-term borrowings because of the availability of long-term financing and Grace's intent to refinance these borrowings on a long-term basis. In accordance with a new revolving credit agreement, effective in the third quarter of 1992, only a portion of these borrowings may be classified as long-term; see Note 10 to Grace's Consolidated Financial Statements in the Annual Report.

(b) Represents various lines of credit and miscellaneous borrowings, primarily of non-U.S. subsidiaries.

(c) Average amount outstanding is computed by dividing the total of the quarter-end outstanding principal balances by four.

(d) Weighted average interest rate is computed by dividing the interest expense on short-term borrowings incurred during the year by average short-term borrowings outstanding.

(e) Excluding short-term borrowings denominated in Brazilian Cruzeiros, a hyperinflationary currency, the weighted average interest rate during the period would be 12.7%; at the end of the period there were no outstanding short-term borrowings denominated in Cruzeiros.

SCHEDULE X

W. R. GRACE & CO. AND SUBSIDIARIES

SUPPLEMENTARY INCOME STATEMENT INFORMATION
(in millions)

Item	Charged to costs and expenses Years ended December 31, 1992	1991	1990
Maintenance and repairs.....	$ 178.1	$ 182.5	$ 183.5

W. R. GRACE & CO. AND SUBSIDIARIES

WEIGHTED AVERAGE NUMBER OF SHARES AND EARNINGS USED IN PER SHARE COMPUTATIONS

The weighted average number of shares of Common Stock outstanding were as follows:

	(in thousands)		
	1992	1991	1990
Weighted average number of shares of Common Stock outstanding	89,543	87,236	85,879
Conversion of convertible debt obligations	-*	8,456	3,667
Additional dilutive effect of outstanding options (as determined by the application of the treasury stock method)	-*	1,159	175
Weighted average number of shares of Common Stock outstanding assuming full dilution	89,543	96,851	89,721

(Loss)/income used in the computation of earnings per share were as follows:

	(in millions, except per share)		
	1992	1991	1990
Net (loss)/income	$(294.5)	$218.6	$202.8
Dividends paid on preferred stocks	(.5)	(.5)	(.5)
(Loss)/income used in per share computation of earnings	(295.0)	218.1	202.3
Interest, net of tax on convertible debt obligations	-*	14.4	6.1
(Loss)/income used in per share computation of earnings assuming full dilution	$(295.0)	$232.5	$208.4
(Loss)/income per share	$ (3.29)	$ 2.50	$ 2.36
Earnings per share assuming full dilution	-*	$ 2.40	$ 2.32

* The effect of these convertible securities and outstanding options is anti-dilutive; therefore, they are excluded from the calculation.

Exhibit 12

W. R. GRACE & CO. AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(in millions except ratios)
(Unaudited)

	Years Ended December 31. (a)				
	1992	1991	1990	1989	1988
Net income from continuing operations	$ 79.4 (b)	$242.9	$220.0	$194.4	$188.1
Add (deduct):					
Income taxes	145.0	152.8	123.2	83.2	124.5
Income taxes of 50%-owned companies	2.9	2.3	2.4	1.4	2.5
Minority interest in income of majority-owned subsidiaries	-	-	7.0	7.4	10.2
Equity in unremitted losses (earnings) of less than 50%-owned companies	3.4	(4.5)	(7.6)	(.3)	(.3)
Interest expense, including amortization of capitalized interest	120.7	148.9	166.8	146.0	110.0
Amortization of debt discount and expense	1.5	2.1	1.9	1.9	2.3
Estimated amount of rental expense deemed to represent the interest factor.	28.1	24.2	22.4	20.4	16.7
Income as adjusted	$381.0	$568.7	$536.1	$454.4	$454.0
Fixed charges:					
Interest expense, including capitalized interest	$134.4	$163.8	$175.8	$150.5	$113.8
Amortization of debt discount and expense	1.5	2.1	1.9	1.9	2.3
Estimated amount of rental expense deemed to represent the interest factor.	28.1	24.2	22.4	20.4	16.7
Fixed charges	$164.0	$190.1	$200.1	$172.8	$132.8
Ratio of earnings to fixed charges	2.32	2.99	2.68	2.63	3.42

(a) 1991-1988 amounts have been restated to conform to the 1992 presentation.
(b) Includes a $140.0 provision relating to Grace's Belgian fumed silica plant; see Note 8 to Grace's Consolidated Financial Statements in the Annual Report.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

W. R. GRACE & CO.

FORM 10-K

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

For the fiscal year ended December 31, 1992

Commission File Number 1-3720

EXHIBIT VOLUME I OF II

W. R. Grace & Co.

Annual Report on Form 10-K
for the Fiscal Year Ended December 31, 1992

EXHIBIT INDEX

Exhibit No.	Description	Where Located
3.1	Certificate of Incorporation of W. R. Grace & Co., as amended	Exhibit 3 to Form 8-K (filed 6/9/88)
3.2	By-laws of W. R. Grace & Co., as amended	Filed herewith (Page ___)
4.1	Indenture dated as of September 1987 between W. R. Grace & Co. and Manufacturers Hanover Trust Company as supplemented	Exhibit 4(g) to Form 10-K (filed 3/29/88); Exhibit 4(e) to Form 8-K (filed 6/9/88)
4.2	Indenture dated as of May 1, 1991 among W. R. Grace & Co., W. R. Grace & Co.-Conn. and Manufacturers Hanover Trust Company	Exhibit 4(a) to Form 10-Q (filed 8/13/91)
4.3	Indenture dated as of September 29, 1992 among W. R. Grace & Co.-Conn., W. R. Grace & Co. and Bankers Trust Company	Filed herewith (Page ___)
4.4	Indenture dated as of January 28, 1993 among W. R. Grace & Co.-Conn., W. R. Grace & Co. and NationsBank of Georgia, N.A.	Filed herewith (Page ___)
4.5	Credit Agreement dated as of September 1, 1992 among W. R. Grace & Co., W. R. Grace & Co.-Conn. and the Several Bank Parties thereto and Chemical Bank, as Agent	Exhibit 4.2 to Form 8-K (filed 9/26/92)

Other than exhibits that are filed herewith, all exhibits listed in this Exhibit Index are incorporated herein by reference. Exhibits indicated by an asterisk (*) are the management contracts and compensatory plans, contracts or arrangements required to be filed as exhibits to this Report. In accordance with paragraph (b)(4)(iii) of Item 601 of Regulation S-K, certain instruments relating to long-term debt are not being filed; W. R. Grace & Co. agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

Exhibit No.	Description	Where Located
4.6	Amended and Restated Rights Agreement dated as of June 7, 1990 between W. R. Grace & Co. and Manufacturers Hanover Trust Company	Exhibit to Amendment on Form 8 to Application for Registration on 8-B (filed 6/19/90)*
10.1	W. R. Grace & Co. Executive Salary Protection Plan, as amended	Exhibit 19(f) to Form Form 10-K (filed 6/9/88)*
10.2	W. R. Grace & Co. 1963 Stock Option Plan, as amended	Exhibit 10(c) to Form 10-K (filed 3/30/83)*
10.3	W. R. Grace & Co. 1967 Stock Incentive Plan, as amended	Exhibit 10(d) to Form 10-K (filed 3/30/83)*
10.4	W. R. Grace & Co. 1973 Stock Incentive Plan, as amended	Exhibit 10(e) to Form 10-K (filed 3/30/83)*
10.5	W. R. Grace & Co. 1981 Stock Incentive Plan, as amended	Exhibit 28(a) to Form 10-Q (filed 8/13/91)*
10.6	W. R. Grace & Co. 1986 Stock Incentive Plan, as amended	Exhibit 28(b) to Form 10-Q (filed 8/13/91)*
10.7	W. R. Grace & Co. 1989 Stock Incentive Plan, as amended	Exhibit 28(c) to Form 10-Q (filed 8/13/91)*
10.8	Forms of Stock Option Agreements	Exhibit 10(h) Form Form 10-K (filed 3/28/92)*
10.9	Forms of Restricted Share Award Agreements	Exhibit 10(i) Form Form 10-K (filed 3/28/92)*
10.10	Description of W. R. Grace & Co. incentive compensation program	Page 14 of Proxy Statement (filed 4/13/92)*
10.11	Description of W. R. Grace & Co. Special Bonus Program	Pages 14-15 of Proxy Statement (filed 4/13/92)*

Exhibit No.	Description	Where Located
10.12	Description of W. R. Grace & Co. Deferred Compensation Program	Page 15 of Proxy Statement (filed 4/13/92)*
10.13	W. R. Grace & Co. Long-Term Incentive Plan	Exhibit 10(l) to Form 10-K (filed 3/29/91)*
10.14	W. R. Grace & Co. Supplemental Executive Retirement Plan, as amended	Exhibit 19(d) to Form 8-K (filed 6/9/88)*
10.15	W. R. Grace & Co. Retirement Plan for Outside Directors, as amended	Exhibit 10(o) to Form 10-K (filed 3/28/92)*
10.16	Employment Agreement dated as of August 1, 1987 between W. R. Grace & Co. and J. Peter Grace, related Amendment and Assignment dated May 10, 1988 and Amendment dated July 31, 1989	Exhibit 10(o) to Form 10-K (filed 3/29/88); Exhibit 19(g) to Form 8-K (filed 6/9/88); Exhibit 10(t) to Form 10-K (filed 3/30/90)*
10.17	Employment Agreement and Housing Loan Agreement dated as of August 1, 1987 between W. R. Grace & Co. and J. P. Bolduc, related Amendment and Assignment dated May 10, 1988 and Amendment dated July 31, 1989	Exhibit 10(q) to Form 10-K (filed 3/29/88); Exhibit 19(i) to Form 8-K (filed 6/9/88); Exhibit 10(x) to Form 10-K (filed 3/30/90)*
10.18	Employment Agreement dated August 7, 1989 between W. R. Grace & Co. and Joseph R. Wright, Jr.	Exhibit 10(r) to Form 10-K (filed 3/29/91)*
10.19	Option Agreement dated as of December 26, 1986 between W. R. Grace & Co. and J. Peter Grace	Exhibit 10(p) to Form 10-K (filed 3/30/87)*
10.20	Employment Agreement dated as of April 1, 1991 between W. R. Grace & Co.-Conn. and Constantine L. Hampers, as amended	Exhibit 10(x) to Form 10-K (filed 3/28/92)*
10.21	Stock Option Agreement dated January 2, 1990 between National Medical Care, Inc. and Constantine L. Hampers	Exhibit 10(z) to Form 10-K (filed 3/28/92)*

Exhibit No.	Description	Where Located
10.22	National Medical Care, Inc. and Form Subsidiaries Executive Bonus Plans	Exhibit 10 (aa) to 10-K (filed 3/28/92)*
10.23	Retirement Agreement between W. R. Grace & Co. and J. Peter Grace dated December 21, 1992	Filed herewith* (Page ___)
10.24	Executive Severance Agreement dated as of September 1, 1992 between W. R. Grace & Co. and J. P. Bolduc	Filed herewith* (Page ___)
10.25	Executive Severance Agreement dated as of September 1, 1992 between W. R. Grace & Co. and J. Peter Grace	Filed herewith* (Page ___)
10.26	Executive Severance Agreement dated September 1, 1992 between W. R. Grace & Co. and Constantine L. Hampers	Filed herewith* (Page ___)
10.27	Executive Severance Agreement dated September 1, 1992 between W. R. Grace & Co. and Joseph R. Wright, Jr.	Filed herewith* (Page ___)
10.28	Form of Executive Severance Agreement between W. R. Grace & Co. and others	Filed herewith* (Page ___)
10.29	Consulting Agreement dated June 1, 1992 between W. R. Grace & Co. and Kamsky Associates, Inc.	Filed herewith* (Page ___)
10.30	Incentive Compensation Agreement dated June 1, 1992 between National Medical Care, Inc. and Kamsky Associates, Inc.	Filed herewith* (Page ___)
11	Weighted Average Number of Shares and Earnings Used in Per Share Computations	Filed herewith (Page ___)
12	Computation of Ratio of Earnings to Fixed Charges	Filed herewith (Page ___)

Exhibit No.	Description	Where Located
13	1992 Annual Report to Shareholders of W. R. Grace & Co.	Filed herewith (Page ___)
22	List of Subsidiaries of W. R. Grace & Co.	Filed herewith (Page ___)
24	Consent of Independent Accountants	Filed herewith (Page ___)
25	Powers of Attorney	Filed herewith (Page ___)

Management's Responsibility for Financial Reporting

Management is responsible for the preparation, as well as the integrity and objectivity, of the financial statements and other financial information included in this report. The financial statements and other financial information have been prepared in conformity with generally accepted accounting principles and, accordingly, include certain amounts that represent management's best estimates and judgments.

For many years, management has maintained internal control systems to assist in fulfilling its responsibility for financial reporting, including careful selection of personnel, segregation of duties, formal business, accounting and reporting policies and procedures and an extensive internal audit function. While no system can ensure elimination of all errors and irregularities, Grace's systems, which are reviewed and modified in response to changing conditions, have been designed to provide reasonable assurance that assets are safeguarded, policies and procedures are followed and transactions are properly executed and reported. The concept of reasonable assurance is based on the recognition that there are limitations in all systems and that the cost of such systems should not exceed the benefits to be derived.

The Audit Committee of the Board of Directors, which is comprised of directors who are neither officers nor employees of nor consultants to Grace, meets with Grace's senior financial personnel, internal auditors and independent accountants to review audit plans and results as well as the actions taken by management in discharging its responsibilities for accounting, financial reporting and internal control systems. The Audit Committee reports its findings and also recommends the selection of independent accountants to the Board of Directors. Grace's management, internal auditors and independent accountants also have direct and confidential access to the Audit Committee at all times.

The independent accountants are engaged to conduct audits of and render a report on the financial statements in accordance with generally accepted auditing standards. These standards include a review of the systems of internal controls and tests of transactions to the extent they consider necessary for purposes of supporting their opinion as set forth in their report.

Brian J. Smith
Executive Vice President
and Chief Financial Officer

Report of Independent Accountants

Price Waterhouse
153 East 53rd Street
New York, NY 10022

February 3, 1993

To the Shareholders and Board of Directors of W. R. Grace & Co.

In our opinion, the consolidated financial statements appearing on pages 25 through 43 of this report present fairly, in all material respects, the financial position of W. R. Grace & Co. and subsidiaries at December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Notes 5 and 15, the Company adopted new accounting standards for income taxes and postretirement benefits in 1992.

Price Waterhouse

Consolidated Financial Statements

W. R. Grace & Co. and Subsidiaries

Consolidated Statement of Operations

Dollars in millions, except per share amounts	1992	1991	1990
Sales and revenues	$5,518.2	$5,569.9	$5,504.6
Other income (Note 4)	87.5	79.8	59.5
Total	5,605.7	5,649.7	5,564.1
Cost of goods sold and operating expenses	3,501.5	3,545.4	3,593.7
Selling, general and administrative expenses	1,203.6	1,142.0	1,048.3
Depreciation and amortization	272.2	275.9	265.6
Interest expense	113.4	140.9	159.8
Research and development expenses	150.6	149.8	146.5
Provision covering fumed silica plant (Note 8)	140.0	—	—
Total	5,381.3	5,254.0	5,213.9
Income from continuing operations before income taxes and minority interests	224.4	395.7	350.2
Income taxes (Note 5)	145.0	152.8	123.2
Minority interests	—	—	7.0
Income from continuing operations	79.4	242.9	220.0
Loss from discontinued operations (Note 6)	183.9	24.3	17.2
(Loss)/income before cumulative effect of accounting changes	(104.5)	218.6	202.8
Cumulative effect of accounting changes (Notes 5 and 15)	(190.0)	—	—
Net (loss)/income	$ (294.5)	$ 218.6	$ 202.8
(Loss)/earnings per share:			
Continuing operations	$ .88	$ 2.78	$ 2.56
Cumulative effect of accounting changes	$ (2.12)	$ —	$ —
Net (loss)/earnings	$ (3.29)	$ 2.50	$ 2.36
Fully diluted earnings per share:			
Continuing operations	$ —(1)	$ 2.65	$ 2.52
Net earnings	$ —(1)	$ 2.40	$ 2.32

The Notes to Consolidated Financial Statements, pages 29 to 43, are integral parts of these statements.

(1) *Not presented as the effect is anti-dilutive.*

Consolidated Statement of Cash Flows

Dollars in millions	1992	1991	1990
Operating Activities			
Income from continuing operations before income taxes and minority interests	$ 224.4	$ 395.7	$350.2
Reconciliation to cash provided by operating activities:			
Depreciation and amortization	272.2	275.9	265.6
Provision covering fumed silica plant	140.0	—	—
Changes in assets and liabilities, excluding businesses acquired/divested and foreign exchange effect:			
Decrease/(increase) in notes and accounts receivable, net	48.4	171.2	(89.1)
Increase in receivable due from insurance carriers	(150.3)	(54.9)	(23.2)
Increase in accounts payable	29.5	11.9	59.0
Other	(121.6)	(139.5)	(73.5)
Net pretax cash provided by operating activities of continuing operations	442.6	660.3	489.0
Net pretax cash provided by operating activities of discontinued operations	94.6	59.5	3.8
Net pretax cash provided by operating activities	537.2	719.8	492.8
Income taxes paid	(98.9)	(117.5)	(59.8)
Net cash provided by operating activities	438.3	602.3	433.0
Investing Activities			
Capital expenditures	(398.4)	(447.0)	(513.7)
Businesses acquired in purchase transactions, net of cash acquired	(61.2)	(131.0)	(186.5)
Increase in net investment of discontinued operations	(101.5)	(55.9)	(51.1)
Decrease/(increase) in investments in and advances to affiliated companies	4.7	(44.8)	(7.5)
Net proceeds from strategic restructuring/business divestments	221.2	366.4	—
Proceeds from disposals of assets	38.7	30.2	115.1
Other	(41.2)	(45.5)	32.9
Net cash used for investing activities	(337.7)	(327.6)	(610.8)
Financing Activities			
Dividends paid	(125.9)	(122.5)	(120.7)
Repayments of borrowings having original maturities in excess of three months	(274.0)	(695.6)	(127.2)
Increase in borrowings having original maturities in excess of three months	355.7	319.7	37.8
Net (repayments)/increase in borrowings having original maturities of less than three months	(508.0)	271.3	392.4
Sale of limited partnership interest	297.0	—	—
Stock options exercised	21.3	45.7	1.3
Other	(7.5)	—	(2.4)
Net cash (used for)/provided by financing activities	(241.4)	(181.4)	181.2
Effect of exchange rate changes on cash and cash equivalents	(3.5)	(2.2)	3.9
(Decrease)/increase in cash and cash equivalents	(144.3)	91.1	7.3
Cash and cash equivalents, beginning of year	207.1	116.0	108.7
Cash and cash equivalents, end of year	$ 62.8	$ 207.1	$116.0

The Notes to Consolidated Financial Statements, pages 29 to 43, are integral parts of these statements.

Consolidated Balance Sheet

Dollars in millions, except per value — December 31,	1992	1991
Assets		
Current Assets		
Cash and cash equivalents	$ 62.8	$ 207.1
Notes and accounts receivable, net (Note 7)	690.4	891.4
Inventories (Note 7)	592.9	670.0
Net assets of discontinued operations, current (Note 6)	606.3	147.5
Deferred income taxes (Note 5)	96.8	—
Other current assets	42.2	74.0
Total Current Assets	2,091.4	1,990.0
Properties and equipment, net (Note 8)	1,707.9	2,558.2
Investments in and advances to affiliated companies (Note 9)	115.8	193.7
Net assets of discontinued operations, noncurrent (Note 6)	108.5	—
Goodwill, less accumulated amortization of $50.1 (1991—$48.8)	298.6	308.7
Other assets (Note 7)	1,276.4	956.5
Total Assets	$5,598.6	$6,007.1
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term debt (Note 10)	$ 464.7	$ 466.3
Accounts payable	423.6	486.4
Income taxes (Note 5)	158.1	124.5
Other current liabilities	593.2	544.9
Total Current Liabilities	1,639.6	1,622.1
Long-term debt (Note 10)	1,354.5	1,795.1
Other noncurrent liabilities	666.1	317.2
Deferred income taxes (Note 5)	96.4	151.9
Minority interests (Note 11)	297.0	97.6
Total Liabilities	4,053.6	3,981.9
Commitments and Contingencies (Notes 2 and 10)		
Shareholders' Equity (Note 12)		
Preferred stocks, $100 par value	7.5	7.5
Common stock, $1.00 par value; 300,000,000 shares authorized; outstanding at December 31: 1992—89,892,000; 1991—88,603,000.	89.9	88.6
Paid in capital	151.4	120.1
Retained earnings	1,298.6	1,719.0
Cumulative translation adjustments	(2.4)	90.0
Total Shareholders' Equity	1,545.0	2,025.2
Total Liabilities and Shareholders' Equity	$5,598.6	$6,007.1

The Notes to Consolidated Financial Statements, pages 29 to 43, are integral parts of these statements.

Consolidated Statement of Shareholders' Equity

Dollars in millions	1992	1991	1990
Preferred Stock			
Balance, beginning of year	$ 7.5	$ 7.5	$ 7.5
Balance, end of year	7.5	7.5	7.5
Common Stock			
Balance, beginning of year	88.6	86.1	85.5
Stock options and awards	1.3	2.5	.3
Other	—	—	.3
Balance, end of year	89.9	88.6	86.1
Paid in Capital			
Balance, beginning of year	120.1	61.6	47.4
Stock options and awards	31.1	58.4	12.6
Other	.2	.1	1.6
Balance, end of year	151.4	120.1	61.6
Retained Earnings			
Balance, beginning of year	1,719.0	1,622.9	1,540.8
Net (loss)/income	(294.5)	218.6	202.8
Dividends paid	(125.9)	(122.5)	(120.7)
Balance, end of year	1,298.6	1,719.0	1,622.9
Cumulative Translation Adjustments			
Balance, beginning of year	90.0	134.4	49.2
Translation adjustments	(92.4)	(44.4)	85.2
Balance, end of year	(2.4)	90.0	134.4
Total Shareholders' Equity	$1,545.0	$2,025.2	$1,912.5

The Notes to Consolidated Financial Statements, pages 29 to 43, are integral parts of these statements.

1. Summary of Significant Accounting and Financial Reporting Policies

The accounting and financial reporting policies of W. R. Grace & Co. and subsidiaries (Grace) conform to generally accepted accounting principles and reflect practices common in the industries in which Grace operates.

Principles of Consolidation The consolidated financial statements include the accounts of W. R. Grace & Co. and majority-owned companies. Investments in affiliated companies (20%–50% owned) are accounted for under the equity method.

Reclassifications Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the current year's presentation and as required with respect to discontinued operations.

Cash Equivalents Cash equivalents consist of highly liquid instruments with original maturities of three months or less.

Inventories Inventories are stated at the lower of cost or market. Due to the diversified nature of Grace's operations, several methods of determining cost are used, including first-in/first-out, average and, for substantially all U.S. chemical inventories, last-in/first-out. Market value for raw and packaging materials is based on current cost and, for other inventory classifications, on net realizable value.

Properties and Equipment Properties and equipment are stated at the lower of cost or net realizable value. Depreciation of properties and equipment is generally computed using the straight-line method over the estimated useful lives of the assets. Interest is capitalized in connection with major project expenditures and amortized, generally on a straight-line basis, over the estimated useful lives of the assets.

Fully depreciated assets are retained in properties and equipment and related depreciation accounts until they are removed from service. In the case of disposals, assets and related depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

Goodwill Goodwill arises from certain purchase transactions and is amortized using the straight-line method over appropriate periods not exceeding 40 years.

Income Taxes Effective January 1, 1992, Grace adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." The statement requires the use of an asset and liability approach for the accounting and financial reporting for income taxes.

Cumulative Translation Adjustments The financial statements of Grace's non-U.S. subsidiaries are translated into U.S. dollars in accordance with the provisions of SFAS No. 52, "Foreign Currency Translation." The assets and liabilities of certain non-U.S. subsidiaries whose "functional" currencies are other than the U.S. dollar are translated at rates of exchange at year end, and revenues and expenses are translated at average monthly exchange rates. The allocation for income taxes included in the translation adjustments account in shareholders' equity was not significant.

Earnings Per Share Primary earnings per share are computed on the basis of the weighted average number of common shares outstanding. Fully diluted earnings per share assume the conversion of convertible debentures (with an increase in net income for the after-tax interest savings) and the issuance of common stock equivalents related to stock options. Fully diluted earnings per share are not presented for 1992 as the effect is anti-dilutive.

Financial Instruments In 1992, Grace adopted SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." Grace enters into interest rate swap agreements and foreign currency contracts to manage fluctuations in interest and foreign currency exchange rates. The differential paid or received on interest rate swap agreements is recognized as an adjustment to interest expense over the life of the debt instrument to which it relates; gains and losses realized upon termination of these agreements are deferred and amortized to interest expense over the remaining life of the related indebtedness. Gains and losses on foreign currency contracts offset gains and losses resulting from the underlying transactions. Gains and losses on contracts that hedge specific foreign currency commitments are deferred and recognized in net income in the period in which the transaction is consummated. Gains and losses on contracts that hedge net investments in foreign subsidiaries are recognized in the cumulative translation adjustments account in shareholders' equity.

2. Asbestos, Environmental and Other Proceedings

Grace is a defendant in lawsuits relating to previously sold asbestos-containing products. At December 31, 1992, Grace was a defendant in approximately 30,900 asbestos-related lawsuits representing approximately 53,000 claims (versus approximately 24,300 lawsuits and 36,000 claims at December 31, 1991). It is anticipated that Grace will be named as a defendant in additional asbestos-related lawsuits in the future. At December 31, 1992, 105 (122 at December 31, 1991) of such lawsuits pending involved claims for property damage allegedly caused by the use of asbestos-containing materials in the construction of buildings. The plaintiffs in these lawsuits generally seek, among other things, to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. The remaining asbestos-related lawsuits involved claims for personal injury. In most of these lawsuits, Grace is one of many defendants.

Property Damage Litigation

Through December 31, 1992, 107 asbestos property damage cases had been dismissed with respect to Grace without payment of any damages or settlement amounts; verdicts were returned in favor of Grace in seven cases; in one case, Grace was held liable for $8.0 and in two other cases, which are on appeal, Grace was held liable for a total of $21.4; and 116 property damage suits and claims had been settled by Grace for a total of $278.6. Grace has recorded a receivable for the insurance proceeds it expects to receive in connection with these settlements and the adverse verdicts and defense costs initially paid by Grace.

In April 1992, a Pennsylvania state court certified a state class action of all commercial buildings leased in whole or in part to the U.S. government on or after May 30, 1986; the class would cover all such buildings regardless of location. Grace and the other defendants are contesting the jurisdiction of the court over the class as defined.

In September 1992, a federal District Court in South Carolina conditionally certified a class of all public and private colleges and universities in the U.S. whose buildings contain asbestos materials. With the District Court's permission, the U.S. Court of Appeals for the Fourth Circuit has accepted an appeal by Grace and the other defendants, who are seeking decertification of the class.

In October 1992, the U.S. Court of Appeals for the Third Circuit granted petitions by Grace and other defendants to disqualify the judge presiding over a national class action brought in 1983 on behalf of all public and private elementary and secondary schools in the U.S. that contain asbestos materials. The action has been assigned to a new judge, who is expected to reconsider the manageability of the case as a national class action.

In December 1992, a class action asbestos property damage suit was filed in a South Carolina state court on behalf of all entities that own, in whole or in part, any building containing asbestos materials manufactured by Grace or one of eight other named defendants. Excluded are buildings subject to the class action lawsuits described above, as well as any building owned by the federal or any state government. The defendants have successfully transferred this case to a federal District Court in South Carolina.

Personal Injury Litigation

Through December 31, 1992, approximately 5,800 asbestos personal injury lawsuits involving 6,600 claims had been dismissed with respect to Grace without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved), and approximately 8,500 such suits involving 9,400 claims had been settled for a total of $39.9, the majority of which has been paid by certain of Grace's insurance carriers as part of the settlements described below.

In January 1993, a federal District Court in Pennsylvania conditionally certified a class of all future asbestos personal injury claimants, including individuals who have been occupationally exposed to asbestos-containing materials but who do not presently allege asbestos-related injury. Although Grace is not among the defendants named in the class action complaint, dissemination of the required class notice may generate additional litigation against Grace.

Range of Potential Exposure

Although personal injury cases are generally similar to each other (differing only in the type of asbestos-related illness allegedly suffered by the plaintiff), each property damage case is unique in that building types, sizes, utilization and difficulty of abatement, if necessary, may vary from structure to structure; thus, the amounts involved in prior dispositions of property damage cases are not necessarily indicative of the amounts that may be required to dispose of such cases in the future. In addition, in property damage cases, information regarding product identification on a building-by-building basis (*i.e.*,

whether or not Grace products were actually used in the construction of the building), the age of the building, the type, size and use of the building, the jurisdictional history of prior cases and the court in which the case is pending provide the only meaningful guidance as to potential future costs. However, much of this information is not yet available in the majority of the property damage cases currently pending against Grace. Accordingly, estimates of future costs to dispose of these cases are, in most instances, based on incomplete information, as well as assumptions that may not be accurate. Further, the filing of new class actions and uncertainty with respect to the class certification in the national elementary and secondary schools class action make it more difficult to reliably predict the costs Grace will incur in disposing of asbestos-related litigation.

Subject to the preceding qualifications (which Grace believes to be significant), Grace has attempted to determine its future costs to dispose of this litigation and has concluded that it is probable that the personal injury and property damage cases pending at December 31, 1992 can be disposed of for total amounts estimated to range between $480.0 and $627.0, inclusive of legal fees and expenses. Grace has recorded a receivable of $358.3 for the insurance proceeds it expects to receive for prior payments made to dispose of asbestos-related litigation. Adding the receivable to the estimated maximum exposure of approximately $627.0 for pending cases yields a total maximum estimated exposure of approximately $985.3.

Although Grace has determined its estimated and probable additional exposure to be at least $480.0 as discussed above, this amount has not been recorded in Grace's consolidated financial statements because recovery from Grace's insurance carriers with respect to the underlying claims is deemed probable notwithstanding assertions by certain of those carriers that they are not required to indemnify Grace. Uncertainties relating to such indemnification have been considered in establishing this estimate and in the preparation of the consolidated financial statements.

Insurance Litigation

Grace's ultimate exposure in respect of its asbestos-related lawsuits and claims will depend on the extent to which its insurance will cover damages for which it may be held liable, amounts paid in settlement and litigation costs. In March 1991, the U.S. District Court for the Southern District of New York held that Grace's primary insurance carriers are obligated to defend and indemnify Grace with respect to damages (other than certain punitive damages), settlement amounts and litigation costs in connection with both personal injury and property damage asbestos claims. The court held that coverage for asbestos property damage was triggered by the "discovery of damage" during the policy period. In December 1991, the Circuit Court for Jackson County, Mississippi also held that Grace's primary and excess insurance carriers are obligated to defend and indemnify Grace, holding that for the purposes of insurance coverage, damage to buildings from asbestos-containing products occurs at the time such products are put in place and that the damage continues as long as the building contains the products (a "continuous trigger"). A similar decision was rendered by a Minnesota state court in November 1992.

In 1992, Grace received $31.2 in reimbursements from insurance carriers for monies expended by Grace in connection with asbestos-related litigation. Grace is still seeking to recover the balance of the payments it has made with respect to asbestos-related litigation from its excess insurers and from insurance companies that sold insurance policies to predecessor companies of Grace. Prior to 1992, Grace received payments totalling $55.8 from two carriers, which represented the aggregate remaining obligation owed to Grace by those carriers for primary level insurance coverage written by them for the period June 30, 1962 through June 30, 1987.

For the period June 30, 1970 through June 30, 1985—the most relevant period for asbestos-related litigation—Grace purchased, on an annual basis, as much as eight levels of excess insurance coverage. In general, excess policies provide that when claims paid exhaust coverage at one level, the insured may seek payment from the carriers at the next higher level. For that 15-year period, the first six levels of excess insurance available from insurance companies that Grace believes to be solvent (based primarily upon reports from a leading independent insurance rating service) provide coverage in excess of $1.5 billion, which is $514.7 or 52% more than the estimated maximum exposure referred to above. If, however, the amount available in the first six levels should prove to be insufficient, Grace has substantial additional coverage available in its two remaining levels of excess coverage. In Grace's opinion, it is probable that recoveries from its excess insurance coverage will be available to satisfy Grace's asbestos-related exposure. Consequently, Grace believes that the resolution of its asbestos-related litigation will not have a material effect on its consolidated financial position or results of operations.

Environmental and Other Proceedings

Grace has also been designated, along with other companies, as a "potentially responsible party" by the U.S. Environmental Protection Agency (EPA) with respect to absorbing the costs of investigating and remediating pollution at various sites. Grace is also involved in other litigation, including certain environmental proceedings brought by federal, state and/or local government agencies and private parties. The EPA actions and other proceedings are not expected to result in either significant monetary or other sanctions or to have any other material effects.

3. Acquisitions, Divestments and Strategic Restructuring

In July 1992, Grace completed the purchase of the common stock of Grace Energy Corporation (Grace Energy) not previously owned by Grace for a total of $77.3; see Note 6 for a discussion of divestment activity with respect to Grace Energy's businesses. During 1992, Grace continued to expand its health care operations through the acquisition of several businesses and facilities for consideration totalling $44.2.

In 1991, Grace purchased the 25% minority interest in Grace Cocoa for $74.6 and purchased an initial 47% common equity interest in a health care service company. In addition, Grace Energy purchased its former partner's 50% interest in Colowyo Coal Company (Colowyo) for $34.2.

During 1990, Grace acquired several suppliers of water treatment products and services and health care service operations, as well as the 2.5% of National Medical Care, Inc. common stock not already owned.

All of the above transactions were accounted for as purchases, and the results of operations of the acquired businesses are included in the consolidated financial statements from the respective dates of acquisition.

In December 1992, Grace sold its organic chemicals business and related net assets for approximately $100.0 in cash plus preferred stock of the buyer. In March 1992, Grace sold its book, video and software distribution business (Grace Distribution), which was classified as a discontinued operation in the fourth quarter of 1991.

The 1991 net gain on strategic restructuring (see Note 4) includes gains of $108.8, inclusive of cumulative translation gains of $37.9, on the disposition of certain noncore businesses and investments. Offsetting these gains were expenses related to the relocation of Grace's corporate offices from New York to Florida, provisions for litigation and certain environmental and plant closure expenses, costs for consultants retained in connection with the restructuring plan and a reserve for the costs of implementing the restructuring plan.

4. Other Income

	1992	1991	1990
Interest	$14.3	$14.9	$17.6
Net gain on strategic restructuring	—	6.1	—
Equity in earnings of affiliated companies	2.8	7.6	7.0
Other	70.4	51.2	34.9
	$87.5	$79.8	$59.5

5. Income Taxes

Effective January 1, 1992, Grace adopted SFAS No. 109, "Accounting for Income Taxes," which supersedes SFAS No. 96, adopted by Grace as of January 1, 1988. Like SFAS No. 96, SFAS No. 109 applies an asset and liability approach that requires the recognition of deferred tax assets and liabilities with respect to the expected future tax consequences of events that have been recognized in the consolidated financial statements and tax returns. However, unlike SFAS No. 96, SFAS No. 109 generally considers all future events, other than enactment of changes in tax laws or rates, in estimating future tax consequences. If it is more likely than not that all or a portion of a deferred tax asset will not be realized, a valuation allowance is recognized. As permitted under SFAS No.109, Grace has elected not to restate prior periods' consolidated financial statements. Excluding the deferred tax benefit recognized upon the adoption of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," the effect of the adoption of SFAS No. 109 on Grace's financial statements is not material.

The components of income from continuing operations before income taxes are as follows:

	1992	1991	1990
Domestic	$212.1	$131.8	$ 96.7
Foreign	12.3	263.9	253.5
	$224.4	$395.7	$350.2

The provision for income taxes allocated to continuing operations consists of:

	1992	1991	1990
Federal income taxes:			
Current	$ 74.5	$ 40.8	$ 33.6
Deferred	(18.1)	(2.7)	(6.3)
State and local income taxes (current)	16.3	15.2	10.7
Foreign income taxes:			
Current	66.0	84.2	70.9
Deferred	6.3	15.3	14.3
	$ 145.0	$152.8	$123.2

At December 31, 1992, the deferred tax assets and liabilities consisted of the following items:

	1992
Expenses deducted for book purposes but capitalized for tax purposes:	
Research and development expenses	$106.7
Postretirement benefits other than pensions	94.1
Net operating loss carryforwards	53.6
Reserves not yet deductible for tax purposes	26.8
Tax credit carryforwards	26.0
Pension and insurance reserves	23.0
Capitalized inventory costs and inventory reserve	17.7
Other	60.9
Total deferred tax assets	408.8
Depreciation and amortization	141.6
Prepaid pension cost	71.4
Other	6.4
Total deferred tax liabilities	219.4
Deferred tax assets valuation allowance	51.9
Net deferred tax assets	$137.5

The valuation allowance for 1992 relates to a provision for uncertainty as to the absorption of net operating loss and general business credit carryforwards.

The items giving rise to deferred tax assets and liabilities at December 31, 1991 and 1990 included depreciation, research and development costs that have been capitalized for tax purposes, and other items whose treatment for tax purposes does not conform to their treatment for financial statement purposes.

The U.S. Federal statutory tax rate reconciles to the effective tax rate for continuing operations as follows:

	1992	1991	1990
U.S. Federal statutory tax rate	34.0%	34.0%	34.0%
Increase/(decrease) in tax rate resulting from:			
U.S. and foreign taxes on foreign operations	9.3	5.7	2.9
Utilization of general business credits	—	(2.3)	(2.0)
State and local income taxes, net of Federal income tax benefit	4.8	2.3	1.7
Valuation allowance for deferred tax assets	22.6	—	—
Other, net	(6.1)	(1.1)	(1.4)
Effective tax rate	64.6%	38.6%	35.2%

The U.S. Internal Revenue Service has completed examinations of the consolidated Federal income tax returns of W. R. Grace & Co. and its domestic subsidiaries through 1986. U.S. and foreign taxes have not been provided on approximately $535.0 of undistributed earnings of foreign subsidiaries, which are being retained indefinitely by the foreign subsidiaries for reinvestment. The distribution of these earnings would result in additional foreign withholding taxes of approximately $39.0 and additional U.S. Federal income taxes to the extent they are not offset by foreign tax credits, but it is not practicable to estimate the total tax liability that would be incurred on such a distribution.

6. Discontinued Operations

Grace Energy

In the second quarter of 1992, Grace recorded a provision of $155.0 (net of an applicable tax benefit of $82.0) for the expected loss on the divestment of Grace Energy's oil and gas operations and the operating losses expected to be incurred pending their divestment. Effective in the fourth quarter of 1992, Grace reclassified Colowyo, a Grace Energy subsidiary, as a discontinued operation. Accordingly, the consolidated statement of operations for periods prior to 1992 has been restated to reflect all of Grace Energy as a discontinued operation.

In January 1993, Grace sold the stock and substantially all of the assets of Grace Petroleum Corporation, Grace Energy's oil and gas production subsidiary, to two buyers for total cash proceeds of $163.0. Grace expects to complete the sale of Support Terminal Services, Inc., Grace Energy's liquid storage and terminaling subsidiary, in March 1993, for total cash proceeds of $63.5. Grace has agreed to sell the assets of Homco International, Inc., Grace Energy's oil field service subsidiary, for cash proceeds of $97.5; the transaction is expected to be completed in April 1993.

Grace Distribution

In March 1992, Grace completed the sale of Grace Distribution, which had been reclassified as a discontinued operation in 1991, for $97.8 in cash and notes. The 1992 loss from discontinued operations includes the operating losses of Grace Distribution prior to the sale. The loss from discontinued operations in 1991 included a provision for the estimated loss on the sale of Grace Distribution and its operating results prior to divestment.

Other

In the fourth quarter of 1992, Grace reclassified certain corporate investments as discontinued operations, including Grace's minority interests in Canonie Environmental Services Corp. and Grace-Sierra Horticultural Products Company. Grace believes that it has adequate recorded provisions to cover the losses anticipated on the disposal of these investments.

The loss from discontinued operations in 1992 includes an after-tax provision of $12.1 relating to the loss associated with the sale of Grace's remaining Mexican-style restaurant operation, which was first classified as a discontinued operation in 1986.

During 1991, Grace conducted an analysis of the reserve related to its discontinued fertilizer operations and the remaining liabilities retained by Grace, which resulted in a $19.5 decrease to the reserve established in 1986.

Sales and revenues and operating results of discontinued operations, including net (losses)/gains on disposals, for the three years ended December 31, 1992, 1991 and 1990 are as follows:

	1992	1991	1990
Grace Energy			
Sales and revenues	$ 515.0	$ 479.2	$ 479.5
(Loss) from operations before taxes	$ (11.1)	$ (25.6)	$ (13.8)
Net pretax (loss) on disposal of operations	(236.8)	—	—
Income tax benefit	88.4	9.7	3.9
(Loss) from discontinued operations[1]	$(159.5)	$ (15.9)	$ (9.9)
Grace Distribution			
Sales and revenues	$ 178.0	$ 780.4	$ 769.8
(Loss)/income from operations before taxes	$ (2.8)	$ (.1)	$ .1
Net pretax (loss) on disposal of operations	—	(28.5)	—
Income tax benefit	.9	8.5	.4
(Loss)/income from discontinued operations[1]	$ (1.9)	$ (20.1)	$ .5
Other			
Sales and revenues	$ 31.7	$ 42.4	$ 141.9
(Loss) from operations before taxes	$ (14.6)	$ (11.9)	$ (11.3)
Net pretax (loss) on disposal of operations	(18.3)	—	—
Reversal of prior year divestment reserve	—	28.3	—
Income tax benefit/(provision)	10.4	(4.7)	3.5
(Loss)/income from discontinued operations	$ (22.5)	$ 11.7	$ (7.8)
Total (loss) from discontinued operations	$(183.9)	$ (24.3)	$ (17.2)

[1] *The operating results of discontinued operations include an allocation of interest expense based on Grace's incremental borrowing rate applied to the expected proceeds from the divestment of Grace Energy and to the net assets of Grace Distribution through the date of sale, assuming such proceeds will be used to reduce Grace debt.*

Net assets of Grace's discontinued operations as of December 31, 1992 are set forth as follows:

	Grace Energy	Other	Total
Current assets	$104.3	$ 12.8	$117.1
Properties and equipment, net	640.9	25.7	666.6
Investments in and advances to affiliated companies	23.1	75.1	98.2
Other noncurrent assets	15.1	30.0	45.1
Total assets	783.4	143.6	927.0
Current liabilities	85.1	10.5	95.6
Other noncurrent liabilities	116.6	—	116.6
Total liabilities	201.7	10.5	212.2
Net assets of discontinued operations	$581.7	$133.1	$714.8

The consolidated balance sheet at December 31, 1992 and the consolidated statement of cash flows for 1992 reflect Grace Energy's operations separately from Grace's continuing operations. The consolidated balance sheet at December 31, 1991 and the consolidated statement of cash flows for 1991 reflect Grace Distribution separately from continuing operations. The consolidated statement of operations for all periods presented reflects all discontinued operations separately from continuing operations.

7. Other Balance Sheet Items

	1992	1991
Notes and Accounts Receivable		
Trade receivables, less allowances of $38.3 (1991—$40.2)	$ 598.3	$734.0
Other receivables, less allowances of $1.0 (1991—$.8)	92.1	157.4
	$ 690.4	$891.4
Inventories		
Raw and packaging materials	$ 179.3	$221.3
In process	76.2	74.9
Finished products	324.7	370.1
General merchandise	59.8	57.9
Less: Adjustment of certain inventories to a last-in/first-out (LIFO) basis	(47.1)	(54.2)
	$ 592.9	$670.0
Other Assets		
Receivable due from insurance carriers (Note 2)	$ 358.3	$208.0
Prepaid pension costs	229.2	199.7
NMC patient relationships, less accumulated amortization of $189.7 (1991—$61.4)	184.8	194.3
Deferred income taxes	137.1	—
Deferred charges	108.1	74.4
Long-term receivables, less allowance of $8.4 (1991—$4.5)	103.5	69.8
Long-term investments	68.2	75.9
Energy services equipment (less accumulated amortization in 1991 of $165.2)	—	108.1
Other	87.2	46.3
	$1,276.4	$956.5

During 1992 and 1991, Grace entered into agreements to sell up to $345.0 and $275.0, respectively, of interests in designated pools of trade receivables. At December 31, 1992 and 1991, $307.9 and $211.1, respectively, had been received pursuant to such sales, portions of which amounts are reflected as reductions to trade accounts receivable. Included in the trade receivables sold at December 31, 1992 are $50.0 of Grace Energy trade receivables, which have been reflected as a reduction in net assets of discontinued operations.

Under the terms of these agreements, new interests in trade receivables are sold as collections reduce previously sold trade receivables. There is no recourse to Grace, nor is Grace required to repurchase any of the trade receivables in the pools; if certain trade receivables in the pools prove to be uncollectible, other trade receivables are substituted (to the extent available). Costs related to these sales are expensed as incurred. There were no gains or losses on these transactions.

Inventories valued at LIFO cost comprised 22.9% of inventories at December 31, 1992 and 22.2% at December 31, 1991.

8. Properties and Equipment

	1992	1991
Land	$ 59.2	$ 66.5
Natural resource properties	—	822.0
Buildings	801.3	
Machinery, equipment and other	2,199.1	2,965.2
Projects under construction	231.4	332.6
Properties and equipment, gross	3,291.0	3,808.3
Accumulated depreciation, depletion and amortization	(1,583.1)	(2,450.1)
Properties and equipment, net	$1,707.9	$2,358.2

Interest costs have been incurred in connection with the financing of certain assets prior to placing them in service. Capitalized interest costs in 1992, 1991 and 1990 were $20.4, $21.4 and $15.2, respectively.

Depreciation and amortization expense relating to properties and equipment amounted to $241.4, $245.6 and $236.3 in 1992, 1991 and 1990, respectively.

Grace's rental expense for operating leases amounted to $83.5, $71.9 and $66.6 in 1992, 1991 and 1990, respectively. See Note 10 for information regarding contingent rentals.

At December 31, 1992, minimum future payments for operating leases were:	
1993	$ 69.6
1994	58.9
1995	48.9
1996	41.9
1997	38.9
Later years	150.8
Total minimum lease payments	$409.0

The above minimum lease payments include sublease income of $3.2 for 1993 through 1997 and $17.2 in later years.

In 1992, a critical raw material supplier to Grace's fumed silica plant in Belgium was effectively denied a previously promised permit for by-product disposal, resulting in the shutdown of the supplier's plant. As a result, the continued operation of Grace's plant would have required Grace to obtain other suppliers and/or take other actions requiring significant additional investment. Consequently, Grace closed its plant and in the third quarter of 1992 recorded a one-time provision of $140.0 reflecting the impairment of the plant's value and certain additional expenses. This provision could be offset in part by recoveries from litigation, the renegotiation of certain contracts relating to the plant and/or the sale of the plant.

9. Investments in and Advances to Affiliated Companies

Included in Grace's continuing operations at December 31, 1992 are equity interests of 50% or less in companies engaged in health care services and pulp and paper manufacturing. Certain of Grace's other investments are being accounted for as discontinued operations; see Note 6. In 1992, Grace sold a portion of its interest in a Japanese company specializing in packaging, resulting in a decrease of its interests from 20.0% to 5.6%.

During 1991, Grace acquired a 47% common equity interest in a company that serves hospitals and other health care institutions and decreased its interest in a Colombian pulp and paper manufacturing company from 38.3% to 36.2%.

A summary of financial information of affiliated companies (100% basis) is set forth below:

	1992	1991
Current assets	$297.4	$310.2
Noncurrent assets	305.6	413.6
Current liabilities	150.6	160.6
Noncurrent liabilities	184.2	252.1
Net assets	$268.2	$311.1
Grace investments and advances	$115.8	$193.7

	1992	1991	1990
Net sales	$370.5	$355.6	$300.8
Net income	$ (1.4)	$ 20.4	$ 21.2
Grace equity in earnings	$ 2.8	$ 7.6	$ 7.0
Distributions/Dividends received	$ 5.0	$ 4.0	$ .3

10. Debt

	1992	1991
Short-Term Debt		
Bank borrowings (4.3% weighted average interest rate at year-end 1992)[1]	$ 170.6	$ —
Commercial paper (4.1% weighted average interest rate at year-end 1992)[1]	25.0	—
Current maturities of long-term debt	50.7	150.3
Other short-term borrowings[2]	218.4	306.0
	$ 464.7	$ 456.3
Long-Term Debt		
Bank borrowings (4.3% and 5.9% weighted average interest rate at year-end 1992 and 1991, respectively)[1]	$ 510.0	$ 984.0
Commercial paper (5.9% weighted average interest rate at year-end 1991)[1]	—	175.3
Liquid Yield Option Notes (LYONs)[3]	351.2	324.7
6.25% Convertible Subordinate Debentures Due 2002[4]	150.0	150.0
7.75% Notes Due 2002[5]	150.0	—
6.5% Notes Due 1995[6]	150.0	—
Sundry indebtedness with various maturities through 2003	87.4	81.0
Industrial revenue bonds with various maturities through 2007	6.6	13.4
Promissory notes at 9.0% due through 1998	—	131.0
Promissory notes at 10.375% due 1997	—	94.0
	1,405.2	1,953.4
Less amounts due within one year included in short-term debt[7]	50.7	160.3
	$1,354.5	$1,793.1
Full-year weighted average interest rate on total debt	6.7%	8.6%

[1] Prior to September 1992, all commercial paper and bank borrowings, although short-term in nature, were classified as long-term borrowings because of the availability of long-term financing under Grace's then existing credit agreements and Grace's intent to refinance these borrowings on a long-term basis. In the third quarter of 1992, Grace replaced its principal bank revolving credit agreement with a new bank revolving credit agreement under which it may borrow up to $1,225.0 at interest rates based upon the prevailing prime, federal funds and/or Eurodollar rate. Of the $1,225.0, $715.0 is available under a 364-day facility and $510.0 is available under a three-year facility. At December 31, 1992, borrowings of $250.0 were outstanding under the revolving credit agreement and are included in long-term bank borrowings above. $455.6 was reserved to support commercial paper and other bank borrowings outstanding at December 31, 1992, leaving net unused credit facilities of $519.4. Grace's ability to borrow the maximum amounts available under these facilities is subject to compliance with certain covenants.

[2] Represents various lines of credit and miscellaneous borrowings, primarily of non-U.S. subsidiaries.

[3] In 1991, Grace completed the public offering of $1,012.5 principal amount at maturity of LYONs at an issue price of $308.32 per $1,000 principal amount at maturity, for gross proceeds of approximately $312.0. There are no periodic payments of interest; however, interest is accrued from the date of issue. The LYONs are (a) convertible into common stock at the rate of 8.916 shares per $1,000 principal amount at maturity; (b) redeemable at the option of Grace, subject to certain restrictions with respect to partial redemptions and conditions relating to redemptions prior to May 16, 1993; and (c) subject to rights of the holders to require Grace to purchase LYONs in 1996 and 2001.

[4] Convertible into one share of common stock for each $42.125 principal amount. Grace has entered into a swap contract maturing in 1999, which has effectively converted the interest on these Notes to a variable rate based on LIBOR. The effective rate in 1992 was 4.4%.

[5] During the third quarter of 1992, Grace sold at par $150.0 of 7.75% Notes Due 2002. Interest is payable semiannually and the Notes may not be redeemed prior to maturity. Concurrent with the issuance of these Notes, Grace entered into an interest rate swap agreement, which has effectively converted the interest on these Notes through maturity to a variable rate based on LIBOR. The effective interest rate in 1992 was 4.4%.

[6] During the fourth quarter of 1992, Grace sold $150.0 of 6.5% Notes Due 1995 at an initial public offering price of 99.758% of their principal amount, to yield 6.59%. Interest is payable semiannually and the Notes may not be redeemed prior to maturity. Grace has entered into a swap contract maturing in 1995, which has effectively converted interest on these Notes to a variable rate based on LIBOR. The effective interest rate in 1992 was 4.2%.

[7] Proceeds of $125.0 received in January 1992 from the divestment of the specialty textiles business were used to repay bank borrowings. As a result, $125.0 of such borrowings is included in short-term debt in 1991.

Grace's subordinate debentures and the LYONs listed above (representing aggregate borrowings of $502.2 at December 31, 1992) contain provisions under which payment of the borrowings may be accelerated at the lenders' option in the event of a change in control. Payment of substantially all of Grace's borrowings may be accelerated, and its principal borrowing agreements terminated, upon the occurrence of a default under other Grace borrowings.

Scheduled maturities of debt outstanding at December 31, 1992 are: 1993—$50.7; 1994—$4.7; 1995—$154.2; 1996—$5.1; and 1997—$3.7.

Grace has guaranteed certain lease obligations of previously divested businesses. The leases, some of which extend to 2015, have future minimum lease payments aggregating $155.0, including $79.7 relating to The Restaurant Enterprises Group, Inc. (REG). In 1992, Grace provided REG with several forms of financial support to assist it in meeting certain liquidity and other financial requirements. At December 31, 1992, this support consisted of a $46.7 letter of credit support facility expiring in 1994. Additionally, Grace is the guarantor or named tenant on lease obligations having future minimum lease payments aggregating $50.2, as to which Channel Home Centers, Inc., a previously divested business, has been released. Offsetting this is $43.2 of future minimum rental income from subtenants, and Grace continues to attempt to sublease the remaining properties and believes its ultimate exposure is not material.

Interest expense for 1992, 1991 and 1990 amounted to $113.4, $140.9 and $159.8, respectively. Interest payments made in 1992, 1991 and 1990 amounted to $166.8, $263.9 and $219.2, respectively.

In January 1993, Grace sold $300.0 of 7.4% Notes Due 2000 at par. Interest is payable semiannually and the Notes may not be redeemed prior to maturity. Concurrent with the issuance of these Notes, Grace entered into an interest rate swap agreement, which has effectively converted interest on these Notes through maturity to a variable rate based on LIBOR. The net proceeds from the sale of these Notes were used to repay commercial paper and bank borrowings.

11. Minority Interests

In December 1992, Grace Cocoa Associates, L.P. (LP), formerly a general partnership named Grace Cocoa that was wholly owned by two Grace entities, admitted two additional Grace entities as general partners and also admitted one new limited partner. As a result of the admission of these new partners, the total capital of LP increased to $1,430.5, which included a $300.0 cash contribution made by the new limited partner, $297.0 of which was funded by outside investors. LP's assets consist of Grace Cocoa's worldwide cocoa and chocolate business, long-term notes and demand loans due from various Grace entities, which are guaranteed by W. R. Grace & Co. and its principal operating subsidiary, and cash. The cash contribution from the new limited partner was initially lent by LP to the principal operating subsidiary of W. R. Grace & Co. and was used to retire certain domestic borrowings and for general corporate purposes. Four Grace entities serve as general partners of LP and own general partner interests totalling 79.03% in LP; the new limited partner owns a 20.97% limited partner interest in LP. LP is a separate and distinct legal entity from each of the Grace entities and has separate assets, liabilities, business functions and operations. For financial reporting purposes, the assets, liabilities, results of operations and cash flows of LP are included in Grace's consolidated financial statements and the outside investors' interest in LP is reflected as a minority interest.

Minority interests reflected in the 1991 consolidated balance sheet consist primarily of the former publicly held minority interest in Grace Energy.

12. Shareholders' Equity

The weighted average number of shares of common stock outstanding during 1992 was 89,543,000 (1991—87,236,000; 1990—85,879,000).

W. R. Grace & Co. is authorized to issue 300,000,000 shares of common stock. Of the common stock unissued at December 31, 1992, approximately 22,677,000 shares may be issued or delivered upon the conversion and/or redemption of convertible debt securities and the exercise of stock options or grant of share awards. In addition, at December 31, 1992, 112,568,000 shares were reserved in connection with Common Stock Purchase Rights (Rights). A Right is issued for each outstanding share of common stock; the Rights are not and will not become exercisable unless and until certain events occur, and at no time will the Rights have any voting power.

Preferred stocks authorized, issued and outstanding are:

	Shares as of December 31, 1992			Par Value of Shares Outstanding		
	Authorized and Issued	In Treasury	Outstanding	1992	1991	1990
6% Cumulative[1]	40,000	3,536	36,464	$3.6	$3.6	$3.6
8% Cumulative Class A[2]	50,000	33,244	16,756	1.7	1.7	1.7
8% Noncumulative Class B[2]	40,000	18,415	21,585	2.2	2.2	2.2
				$7.5	$7.5	$7.5

[1] 160 votes per share.
[2] 16 votes per share.

Dividends paid on the preferred stocks amounted to $.5 in each of 1992, 1991 and 1990.

The Certificate of Incorporation also authorizes 5,000,000 shares of Class C Preferred Stock, $1 par value, none of which has been issued.

13. Stock Incentive Plans

Changes in outstanding common stock options are summarized below:

	1992		1991		1990	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Balance at beginning of year	6,112,248	$32.01	7,172,775	$24.91	5,649,402	$26.29
Options granted	1,445,300	37.77	2,901,793	39.27	1,842,900	20.50
	7,557,548		10,074,568		7,492,302	
Options exercised	(1,132,863)	25.29	(2,052,421)	23.48	(75,597)	22.06
Options terminated or canceled	(59,498)	27.97	(1,909,899)	25.54	(243,930)	24.41
Balance at end of year	6,365,187	35.09	6,112,248	32.01	7,172,775	24.91

At December 31, 1992, options covering 4,025,840 shares (1991—3,690,088, 1990—6,183,534) were exercisable and 3,087,994 shares (1991—4,637,368, 1990—6,459,670) were available for the granting of additional options.

Prior to 1991, certain optionees had stock appreciation rights under which the optionee could, in lieu of exercising an option, request its cancellation and, without payment, receive cash or shares of common stock having a market value equal to the difference between the exercise price of the option and the market price of the common stock. Upon cancellation, the shares covered by the option, less the shares issued, if any, would become available for future grants.

In 1991, certain executive officers surrendered all or a portion of their outstanding stock options in exchange for shares of common stock equal in value to the excess of (1) the market value of the option shares at the date of surrender over (2) the purchase price of the option shares. The shares received upon surrender were subject to restrictions on transfer. The officers surrendering options generally were granted an equal number of new options with a purchase price equal to 110% of the fair market value of the common stock on the date of grant. Subject to certain exceptions, such options may not be exercised for five and one-half years, at which time they become exercisable in five annual installments.

In addition, a restricted stock program provides for the award of shares of common stock to certain employees based on the achievement of preestablished earnings targets. Shares covered by an award generally may not be sold (except to Grace) until the shares "vest" (in four annual installments); in the case of shares sold to Grace, the proceeds may not be received by the employee until the shares would have vested. In certain circumstances (including termination of employment for any reason other than death, disability, retirement or termination without cause), the shares not then vested (and/or proceeds from the sale of unvested shares) are forfeited.

14. Pension Plans

Grace maintains defined benefit pension plans covering employees of certain units who meet age and service requirements. Benefits are generally based on final average salary and years of service. Grace funds its U.S. pension plans in accordance with Federal laws and regulations. Non-U.S. pension plans are funded under a variety of methods because of differing local laws and customs and therefore cannot be summarized. Approximately 51% of U.S. and non-U.S. plan assets at December 31, 1992 were common stocks, with the remainder primarily fixed income securities.

Pension (benefit)/cost is comprised of the following components:

	1992		1991		1990	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost on benefits earned during the year	$ 15.1	$ 11.1	$ 17.7	$ 15.1	$ 15.1	$15.9
Interest cost on benefits earned in prior years	38.8	20.5	37.4	19.7	33.2	22.3
Actual return on plan assets	(25.4)	(37.9)	(100.1)	(36.4)	(18.7)	15.1
Deferred (loss)/gain on plan assets	(37.1)	10.8	39.6	10.0	(43.7)	(41.8)
Amortization of net gains and prior service costs	(10.0)	(5.5)	(9.3)	(3.4)	(14.4)	(9.6)
Net pension (benefit)/cost	$(18.6)	$ (1.0)	$(14.7)	$ 5.0	$(28.5)	$ 3.9

The funded status of these plans was as follows:

	1992 U.S.	1992 Non-U.S.	1991 U.S.	1991 Non-U.S.
Actuarial present value of benefit obligations:				
Vested	$454.7	$163.6	$378.0	$160.1
Accumulated benefit obligation	$458.5	$176.1	$381.9	$165.3
Total projected benefit obligation	$513.7	$240.4	$472.4	$229.3
Plan assets at fair value	767.9	288.5	786.8	273.5
Plan assets in excess of projected benefit obligation	254.2	48.1	314.4	44.2
Unamortized net gain at initial adoption	(108.6)	(14.3)	(120.3)	(19.0)
Unamortized prior service cost	17.6	4.2	18.8	4.5
Unrecognized net gain	(26.7)	(21.0)	(89.9)	(20.3)
Prepaid pension cost	$136.5	$ 17.0[1]	$123.0	$ 9.4[1]

[1] *Includes $80.7 in 1992 and $74.3 in 1991 of prepaid pension cost.*

The following significant assumptions were used to calculate the pension (benefit)/cost in 1992, 1991 and 1990:

	U.S.	Non-U.S.
Discount rate	9.0%	6.0–13.0%
Expected long-term rate of return	9.0	6.0–11.0
Rate of compensation increase	6.0	3.5–7.5

In calculating the pension benefit for the U.S. pension plans in 1993, Grace will use a discount rate of 8.0%. The other significant assumptions will remain the same. It is estimated that lowering the discount rate by one percentage point will increase the projected benefit obligation for the U.S. plans by approximately $67.8.

As a result of classifying certain operations as discontinued and divesting other operations, Grace recognized an increase in the net prepaid pension benefit of $6.2, $10.9 and $5.1 in 1992, 1991 and 1990, respectively. In addition, Grace settled certain pension obligations of one of its non-U.S. plans which resulted in gains of $.7 and $11.8 in 1992 and 1991, respectively, and settled certain pension obligations of its U.S. plans which resulted in a gain of $15.4 in 1990.

Grace's Retirement Plan for Salaried Employees (Plan) contains provisions under which the Plan would automatically terminate in the event of a change in control of W. R. Grace & Co., and Plan benefits would be secured through the purchase of annuity contracts. Upon such termination, a portion of the Plan's excess assets would be placed in an irrevocable trust to fund various employee benefit plans and arrangements of Grace, and any balance would be returned to Grace.

15. Other Postretirement Benefit Plans

Grace provides certain other postretirement health care and life insurance benefits for retired employees of specified U.S. units. These retiree medical and life insurance plans provide benefits to employees who retire from Grace after age 55 with at least 10 years of service. The plans are currently unfunded.

Effective January 1, 1992, Grace adopted SFAS No. 106, which requires the accrual method of accounting for the future costs of postretirement health care and life insurance benefits over the employees' years of service. The "pay as you go" method of accounting, used prior to 1992, recognized these costs on a cash basis. The adoption of SFAS No. 106 on the immediate recognition basis, concurrent with the adoption of SFAS No. 109, resulted in a charge to 1992 earnings of $190.0, net of $98.0 of deferred income taxes. In addition, the application of SFAS No. 106 resulted in a decrease of $5.1 in 1992 after-tax earnings from continuing operations. Grace's cash flow, however, is unaffected by implementation of SFAS No. 106, as Grace will continue to pay the costs of postretirement benefits as they are incurred. Included in noncurrent liabilities as of December 31, 1992 are the following:

	1992
Accumulated postretirement benefit obligation:	
Retirees	$140.2
Fully eligible participants	19.4
Active ineligible participants	40.4
Accumulated postretirement benefit obligation	200.0
Unrecognized prior service benefit	75.2
Accrued postretirement benefit obligation	$275.2

Net periodic postretirement benefit cost for the year ended December 31, 1992 is comprised of the following components:

	1992
Service cost	$ 6.8
Interest cost on accumulated benefit obligation	21.1
Amortization of prior service benefit	(3.0)
Net periodic postretirement benefit cost	$24.9

The costs of these benefits (cash basis) to Grace's continuing operations were approximately $7.4 and $7.5 for 1991 and 1990, respectively. As a result of classifying certain operations as discontinued during 1992, Grace recognized a reduction of the accrued postretirement benefit obligation of approximately $23.5, which is included in the reserve for discontinued operations.

During 1992, the retiree medical plans were amended to increase cost sharing by employees who retire after January 1, 1993. This amendment is expected to decrease the accumulated postretirement benefit obligation by $75.2 and will be amortized over an average future service life of approximately 14 years.

The medical care cost trend rates were projected at 12.7% in 1992, declining to 6% through 2001 and remaining level thereafter. The effect of a one percentage point increase in each year's assumed medical care cost trend rate, holding all other assumptions constant, would be to increase the annual net periodic postretirement benefit cost by $3.0 and the accumulated postretirement benefit obligation by $28.1. The discount rate for 1992 was 9%.

16. Financial Instruments

In the normal course of business, Grace is a party to financial instruments with off-balance sheet risk. Exposure to market risk on interest rate and foreign currency contracts results from fluctuations in floating rate indices and currency rates, respectively, during the periods in which the contracts are outstanding. The counterparties to Grace's interest rate swap and currency exchange agreements consist of a diversified group of major financial institutions. Grace is exposed to credit risk to the extent of nonperformance by these counterparties; however, management believes the risk of incurring losses related to credit risk is remote.

At December 31, 1992, the carrying value of financial instruments such as cash, short- and long-term investments and trade receivables and payables approximate their fair values, while short- and long-term debt are as follows:

	Carrying Amount	Fair Value
Short-term debt	$ 464.7	$ 464.7
Long-term debt	1,354.5	1,400.9

The fair values can vary with market conditions and are estimated based on quoted market prices or by obtaining quotes from brokers. The carrying value and respective fair value of interest rate and foreign currency contracts were not material.

17. Industry and Geographic Segments

Industry Segment Information[1]		Specialty Chemicals	Health Care	Other Businesses	Unallocated Corporate Items	Total
Sales and Revenues	1992	$3,475	$1,275	$ 768	$ —	$5,518
	1991	3,480	1,060	1,030	—	5,570
	1990	3,524	921	1,060	—	5,505
Pretax Operating Profit	1992	295[2]	176	22	(269)[3]	224
	1991	441	143	82	(270)[3]	396
	1990	443	116	70	(279)[3]	350
Identifiable Assets	1992	2,342	1,095	577	1,585 [4]	5,599
	1991	2,614	1,016	559	1,818 [4]	6,007
	1990	2,701	958	669	1,899 [4]	6,227
Capital Expenditures	1992	239	52	57	50 [4]	398
	1991	231	46	69	101 [4]	447
	1990	299	41	41	133 [4]	514
Depreciation and Amortization	1992	172	65	26	9	272
	1991	174	61	33	8	276
	1990	163	57	30	16	266

Geographic Segment Information[1]		United States	Canada	Europe	Other	Unallocated Corporate Items	Total
Sales and Revenues	1992	$3,286	$136	$1,617	$479	$ —	$5,518
	1991	3,100	141	1,863	466	—	5,570
	1990	3,023	134	1,919	429	—	5,505
Pretax Operating Profit	1992	420	2	(17)[2]	88	(269)[3]	224
	1991	339	10	219	98	(270)[3]	396
	1990	308	11	197	13	(279)[3]	350
Identifiable Assets	1992	2,377	84	1,170	383	1,585 [4]	5,599
	1991	2,302	92	1,393	402	1,818 [4]	6,007
	1990	2,231	86	1,618	393	1,899 [4]	6,227

[1] Certain 1991 and 1990 information has been reclassified to conform with the 1992 presentation.

[2] Includes a provision of $140 covering a leased silica plant in Belgium.

[3] Unallocated Corporate Items include:

	1992	1991	1990
Interest expense	$(113)	$(141)	$(160)
General corporate overhead expenses	(64)	(63)	(63)
General corporate research expenses	(62)	(56)	(50)
Net gain on strategic restructuring	—	6	—
Other expense, net	(30)	(16)	(6)
Total	$(269)	$(270)	$(279)

[4] Includes discontinued operations. Capital expenditures are included only for the periods prior to the classification of a business as a discontinued operation.