GRACE Packaging

GRACE Davison Catalysts
& Silica Products

GRACE Construction Products

GRACE

W. R. Grace & Co. Annual Report 1993

GRACE Dearborn Water Treatment
& Process Chemicals

GRACE Container Products

GRACE Health Care

Financial Summary

Dollars in millions, except per share amounts	1993	1992[1]	1991[1]
Operating Results			
Sales and Revenues	**$4,408.4**	$4,337.0	$4,386.6
Income from Continuing Operations	**134.4**[2]	57.7[3]	201.7
(Loss)/Income from Discontinued Operations	**(108.4)**	(162.2)	16.9
Cumulative Effect of Accounting Changes	**—**	(190.0)	–
Net Income/(Loss)	**26.0**	(294.5)	218.6
Capital Expenditures	**309.6**	398.4	447.0
Depreciation and Amortization	**227.7**	224.9	232.9
Research and Development Expenses	**135.0**	130.0	128.1
Financial Position			
Total Assets	**$6,108.6**	$5,598.6	$6,007.1
Total Debt	**1,706.1**	1,819.2	2,259.4
Common Shareholders' Equity	**1,510.2**	1,537.5	2,017.7
Data Per Common Share			
Earnings from Continuing Operations	**$ 1.46**	$ .64	$ 2.31
Cumulative Effect of Accounting Changes	**—**	(2.12)	–
Earnings/(Loss)	**.28**	(3.29)	2.50
Dividends	**1.40**	1.40	1.40
Book Value	**16.16**	17.10	22.77
Other Information			
Common Shares Outstanding – End of Year *(thousands)*	**93,465**	89,892	88,603
Common Shares Outstanding – Average *(thousands)*	**91,461**	89,543	87,236
Dividends Paid on Common Stock	**$ 127.9**	$ 125.4	$ 122.0
Number of Employees – Continuing Operations *(thousands)*	**34.0**	32.8	32.9

[1]Certain amounts have been restated to conform to the 1993 presentation.
[2]Includes a provision of $100.0 after taxes relating to asbestos-related insurance coverage.
[3]Includes a provision of $140.0 relating to a fumed silica plant in Belgium

Contents

About the Company

Grace's mission is to maximize long-term value to shareholders while balancing value to other stakeholders – employees, customers, suppliers and communities. It is the world's largest specialty chemicals company and holds a leadership position in specialized health care. Through the hard work and dedication of the 34,000 employees who staff Grace's continuing operations worldwide, the Company generated sales and revenues in 1993 of $4.4 billion and operating income of $381.7 million.

GRACE AT A GLANCE

GRACE Packaging Grace is the leading innovator in flexible packaging technology. Specializing in packaging systems for meat, poultry, cheese and other perishable food products as well as shrink packaging materials for consumer and industrial products, Cryovac films, bags and laminates have revolutionized marketing and merchandising techniques for the food industry and other markets.

GRACE Davison Grace Davison cracking catalysts "crack" crude oil into fuel and related by-products. *Davison* polyolefin catalysts are critical to polyethylene production, and its silica and zeolite adsorbents are value-added ingredients in industrial and consumer applications.

GRACE Construction Products Grace concrete and cement additives, fireproofing and waterproofing systems protect structures from the punishing effects of nature. They strengthen concrete, fight corrosion, stop water damage and protect structural steel from fire damage.

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

GRACE Container & Specialty Polymers Grace container sealant systems keep foods and beverages safe from bacteria and other contaminants, extend shelf-life and preserve flavor. Grace specialty polymers are essential to printed circuit board and electronic components assembly.

GRACE Health Care Committed to the highest quality, cost-effective health care, *Grace Health Care* maintains leading positions in the specialized health care markets of dialysis services, medical products and home health care.

To Our Shareholders:

1993 was another year of progress for your Company. Despite recession-impacted results in Europe, operating income was up 13% or 30 cents per share. We accomplished this by aggressively growing our six core businesses, especially health care and catalysts, and by continuing to cut costs.

Disappointing events during the year regarding asbestos insurance coverage and import alerts imposed by the FDA on disposable medical products are being favorably resolved in 1994. During 1993 we also –

- divested over $500 million of noncore businesses;
- reduced total debt by more than $100 million;
- invested over $320 million in strategic acquisitions to strengthen our core businesses.

On the softer side of the Company, we're involving, energizing and motivating our thousands of global employees to help make Grace a better place to work and invest. We've done this by –

1) Removing barriers and other impediments to create a passion for continuous improvement.

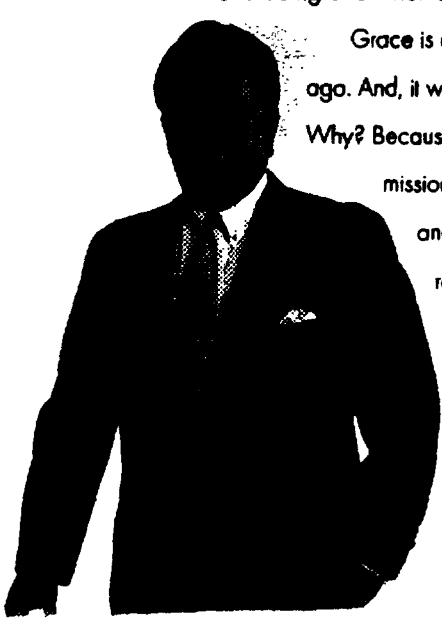
2) Establishing incentive systems that recognize and reward employee contributions – at all levels.

3) Changing attitudes and behaviors –
   - "Good enough" never is.
   - "Stretch targets" are good; "comfort targets" are not.
   - A sense of urgency in everything we do.

4) Sharing and applying "best practices" from within and outside the Company.

5) Understanding that yesterday's "hard issues" (i.e., budget, margins, manufacturing) are limiting, while today's "soft issues" (vision, values, incentives, "fire in the belly") are limitless.

All of this is in line with our Strategic Plan, announced in 1991, to maximize value for you, our shareholders, while better serving our customers. Further evidence of our progress can be found in the chart on the following pages. I urge you to study it and to let me know how we're doing and whether you think we're on the right track.



Grace is a stronger company today than it was one year ago. And, it will be an even stronger company a year from now. Why? Because we have a mission, and a plan to achieve that mission. We're not there yet, but we have momentum and we're moving aggressively. We have the resources and we are developing and motivating the people to get the job done. Stay with us!

J. P. Bolduc
President and
Chief Executive Officer
March 19, 1994

THE REFOCUSING OF W. R. GRACE & CO.

	[illegible]	YEAR-END 1993	[illegible]
I. RESTRUCTURING			
• Lines of Business	28 businesses, more than 100 different product lines.	Six core businesses.	Be the worldwide leader in each of our businesses.
• Divestments	Announced plan to divest noncore and nonstrategic businesses and use proceeds to reduce debt and build core businesses.	Completed three-year divestment (DV) program with $1.5 billion in proceeds. An additional $700 million of DV proceeds expected in 1994.	Focus on those businesses with greatest potential for growth and where Grace has a competitive advantage as a world leader.
• Capital Spending	Of $513.7 million worldwide, only 43% directed to core businesses.	Of $309.6 million worldwide, 92% invested in core businesses.	Ensure all incremental investment provides returns that exceed cost of capital.
• Acquisitions/ Joint Ventures	Opportunistic. Unfocused. No overall strategy.	Focused on core businesses: • Home Intensive Care (health care – U.S.) • Riggers (health care – Germany) • Grace Kaustik (packaging – Russia) • Aquatec (water treatment – Latin America) Over $500 million invested in strategic acquisitions since 1990.	Grow core businesses domestically and internationally through strategic acquisitions and alliances.
• Research & Development	53% of $147.5 million aimed at core businesses.	78% of $135.0 million invested in core businesses.	Ensure future leadership of the core businesses.
• Quality Assurance	Only 10 Grace plants worldwide had International Standards Organization (ISO) certification.	More than 20 Grace plants certified in 1993 alone.	Attain world-class quality for competitive advantage at all Grace plants.
II. GLOBALIZATION			
• Product Lines	Operated and managed through sectors, groups and divisions.	Appointed global product line manager for each core business and eliminated organization layers.	Provide customer-driven, high-quality products and services at lowest possible cost on a global basis.
• Asia Pacific	No coordinated strategy in region.	Established Hong Kong management support center for all product lines. Initiated regional development plan. Doubled resources employed.	Position Grace for competitive leadership in this most robust area of the world.

		YEAR-END 1993	
• **Latin America**	No coordinated strategy in region.	Reengineered administrative activities and integrated Aquatec acquisition. Initiated regional development plan.	Position Grace for competitive leadership in this growing area.
• **Packaging**	Had only limited exposure in Asia.	Expanding into China, India, Indonesia, South Korea and Pakistan.	Aggressively enter every economically viable global market.
• **Health Care**	Essentially a domestic business.	Expanding into Argentina, Czech Republic, Hungary, China, South Korea, U.K., Germany and Taiwan.	
• **Support Function Councils**	None.	Established global councils for finance, R&D, logistics, management information systems, human resources, engineering and environment, health and safety.	Leverage the best minds across the world, working in a boundaryless company, transferring "best practices" in efforts to provide high-qualtiy services at the lowest possible cost.
III. COST MANAGEMENT			
• **Overhead (ex Health Care Costs)**	Growing.	Reduced by more than $50 million from 1990 level.	Make efficiency a way of life at Grace.
• **Health Care Costs (U.S.)**	Company cost rising at more than 12% per year.	Implemented new program in 1992 and reduced cost by $10 million in 1993 or 10%.	Institutionalize cost-containment measures.
• **Corporate Officers**	47	39	Speed and improve decision-making by delayering and streamlining.
• **Layers of Management from CEO to Product Line Managers**	5	1	
• **Headcount**	52,200	34,000 (continuing operations)	Divest noncore and non-strategic businesses. Eliminate duplication of functions and administrative overlap.
• **Management Systems**	Disjointed. Not integrated. Duplicated and overlapping.	Implementing 75 major initiatives recommended by six internal task forces focused on identifying cost-saving and management improvement opportunities.	Do more with less by consolidating, integrating, improving and eliminating systems in order to save $100 million per year.

		YEAR-END 1993	
IV. FINANCIAL RESULTS			
• **Operating Earnings**	$174.6 million	$234.4 million (up 34%)	Grow by more than 10% annually.
• **Debt (Total)**	$2.3 billion	$1.7 billion (down 26%)	Manage debt level to allow Grace to achieve its growth objectives.
• **Debt-to-Capital Ratio**	54.4%	52.9%	Target is 45% to 50%.
• **Market Capitalization**	$2,062 million	$3,804 million	Maximize total value over the long term.
• **Return on Equity**	11.1%	15.3%	Target is 20%.
• **Return on Total Capital**	7.1%	10.9%	Target is 15%.
• **Total Return to Shareholders**	Underperforming its peers and the market averages.	Three-year average annual total return of 24%.	Maximize total return to shareholders over the long term.
V. HUMAN RESOURCES			
• **Company Culture**	Diverse. Each business had its own culture. Separate "fiefdoms."	Moving toward greater unity. Focused on "Team Grace" concept.	Strengthen common value system with global commitment to excellence.
• **Human Resources Development**	No coordination among units. No overall strategy or standardized criteria for employee performance, incentives, training and evaluation.	Appointed senior human resources executive to implement world-class human resources management programs.	Develop diverse, multicultural team of best people. Put them in the right jobs with the right reward systems to encourage "stretch" achievements.
• **Communications**	No mechanism for employees to communicate directly with senior management.	Toll-free telephone line installed along with e-mail to encourage employee feedback, suggestions, commentary.	Unlock ideas and creativity of employees at all levels.

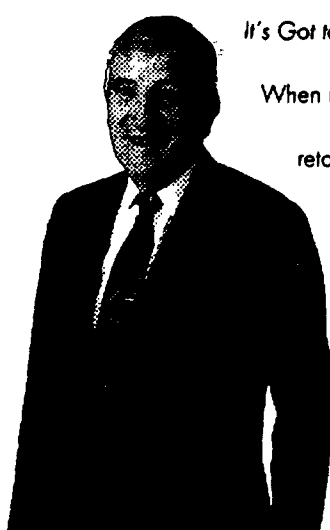
Grace's specialty chemical product lines share exciting technical competencies, a dedication to total quality and customer service, as well as high growth potential. In 1993 they generated sales and revenues of $2.9 billion and operating income after taxes of $240 million. At the same time, these product lines concentrated on strengthening the global teams established in 1992 to service customers in all markets. Grace's global focus is promoting more efficient resource utilization and accelerated distribution of core technologies, products

and services in established markets as well as emerging ones such as Latin America, Asia Pacific and Central Europe.

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 consumer and industrial markets. Using sophisticated multilayer coextrusion technology, Grace *Packaging* has developed high-performance plastic materials that preserve flavor and aroma and enhance the shelf-life and appearance of packaged foods and improve the merchandising of consumer packaged goods.

Grace Packaging works in partnership with its customers, sharing in-depth knowledge of the marketplace, expertise in packaging sciences and dedication to total quality. This results in innovative packaging solutions that fulfill the marketing requirements of Grace's customers while satisfying the needs of the ultimate consumer.



It's Got to Be Fresh

When Mann Packing Company wanted to ensure that its produce retained peak freshness from the time it left the California fields until it reached American dinner tables, it turned to Grace *Packaging* for advice. Now Mann packages 14 different precut fresh vegetable products in *Cryovac PD-960*. The film's clarity enhances the merchandising appeal of Mann's Broccoli Cole Slaw, Broccoli Wokly,

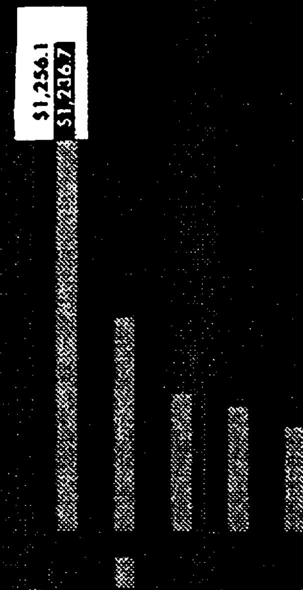
1 *Cryovac flexible packaging is engineered for high-performance applications in the food industry and other markets*

2 *At Mann Packing in Salinas, California, precut vegetables are packaged in Cryovac PD-960 bags for prolonged freshness.*

3 *A growing array of fresh-cut, prepackaged vegetable products is luring more and more shoppers to the supermarket produce aisle.*

Jean-Louis Grèze, President, Grace Packaging

3



The Total Systems Approach

As a "total systems" business, Grace Packaging is responsive to the complete packaging/marketing/merchandising needs of customers. This approach encompasses package design, selection of materials and machinery, installation and startup of equipment, operator training and ongoing full-service support.

Grace Packaging technology allowed it to develop film that could be carefully matched to the natural respiration rate of cut broccoli, cauliflower and carrots. The film's breathability helps provide up to two weeks of freshness, allowing Mann to sell its products to supermarkets and food service businesses across the nation. The film protects produce from damage caused by ice and cold temperatures and also permits microwave cooking so that Mann can offer cook-in-bag convenience to consumers. Special advantages for Mann for manual filling. This is a valuable option if machinery downtime develops or market shifts dictate quick changes in product sizes.

Grace Packaging is forging business partnerships with entrepreneurial companies such as Mann to help stay on top of the tremendous growth in fresh-cut vegetables. It's an emerging marketing opportunity that could dominate the supermarket produce department in the next few years, accounting for as much as 25% of total produce sales by the year 2000. Cryovac advanced film formulations help keep these perishable products fresh, and the handy-sized, no-waste packages bring a new measure of convenience to time-pressed consumers.

1

Opening New Vistas for French Duck

Duck has always been one of the true culinary delights of the French, gracing the menus of leading restaurants but only rarely finding its way to the family dinner table. It was an important step, therefore, when Labeyrie – a leading French supplier of specialty foods such as goose and duck liver pâté, foie gras, smoked salmon and smoked duck fillets – decided to venture into supermarkets with high-quality duck products, making them available to all consumers in France.

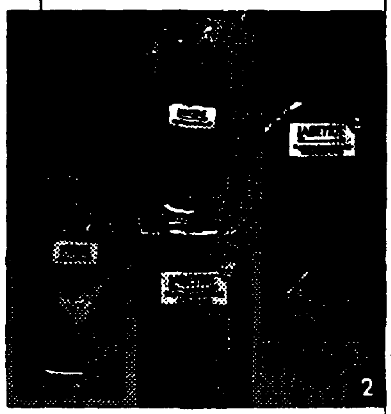
Equally important was the selection of the right packaging material. Labeyrie demanded a superb packaging solution for superb duck products. The *Cryovac Darfresh* vacuum-skin packaging system for consumer-size packages proved ideal for this demanding application. It preserves product quality and taste, displays it attractively and offers convenience in opening the pack.

Labeyrie relies on the *Darfresh* system to package fresh-cut duck breasts and fillets, dried or smoked whole or sliced breasts and diced products. At the packaging plant, the system has proven its flexibility and versatility as machines can be changed quickly and simply, depending upon the product being processed. In the market, the *Darfresh* package showcases Labeyrie products for maximum consumer appeal.

1 *Sophisticated extrusion techniques are used in the production of Darfresh consumer packaging.*

2 *A variety of Labeyrie duck delicacies are enticingly displayed in Darfresh vacuum-skin packaging.*

3 *Working in partnership with Grace, Labeyrie is adding variety and elegance to the family dinner table.*



2

An Olympic Feat

One million meals served during the 1994 Winter Olympics included foods packaged in Cryovac C300 casings. These unique casings preserved the fresh-made quality and flavor of soups and stews prepared by the "cook and chill" method by Gilde/Hed Opp, one of Norway's largest meat producers. At mealtime, the Olympic service kitchens simply reheated and served 120 tons of food in Cryovac casings.

The quality duck products in consumer-size packs were quickly endorsed by retailers as well as consumers when introduced last year – evidence that duck specialties no longer are reserved only for special-occasion banquets but are fast becoming an affordable culinary addition to every French dinner table.

Consumers never see *Grace Davison* technology, but it makes possible efficient transportation fuels, reliable low-cost packaging materials, high-quality coatings, better food products and much more. *Grace Davison* is the world's leading supplier of petroleum fluid cracking catalysts, which are critical to the production of gasoline and other refined petroleum products. Its polyolefin catalysts are essential to the manufacture of polyethylene, which is used in packaging film and in pipe. *Grace Davison* silica and zeolite adsorbents are value-added components used in a wide range of industrial and consumer applications.

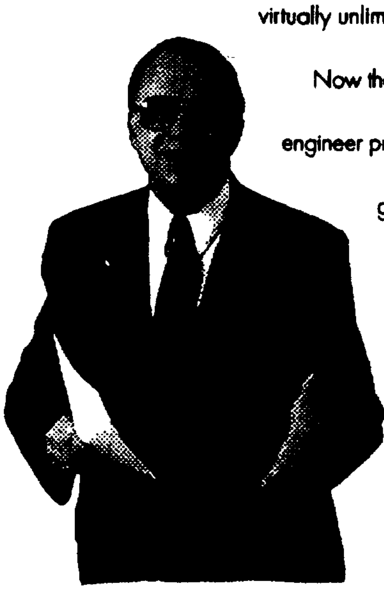
The Genesis of a Catalyst

Value is designed into *Grace Davison* fluid cracking catalysts (FCCs) at every step of their evolution, from initial contact with the refiner to actual use in the fluid catalytic cracking unit.

The genesis of a new catalyst is rooted in the close relationship that *Grace Davison* nurtures with its customer. Initially, the *Grace Davison* sales/technical team develops operating objectives. Does the refiner need to maximize gasoline production? Reduce emissions? Maximize olefin output for reformulated gasoline? What are the operating constraints?

In Search of a Solution

After studying the variables, the team selects two or three possibilities for the refiner. With the greatest manufacturing flexibility in the FCC business, *Grace Davison* can choose from a virtually unlimited number of catalyst formulations.



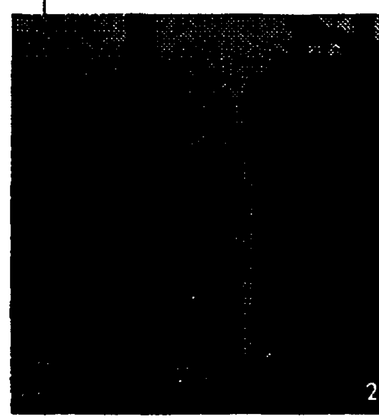
Now the intense analytical work begins. The technical service engineer prepares yield estimates. If the performance assessment isn't good enough, R&D investigates and designs new catalysts in *Grace Davison* pilot plants. Meanwhile, manufacturing and quality assurance weigh in to ensure that the catalyst meets stringent product qualifications.

The final package presented to the customer is honed by *Grace Davison* refining experts to deliver

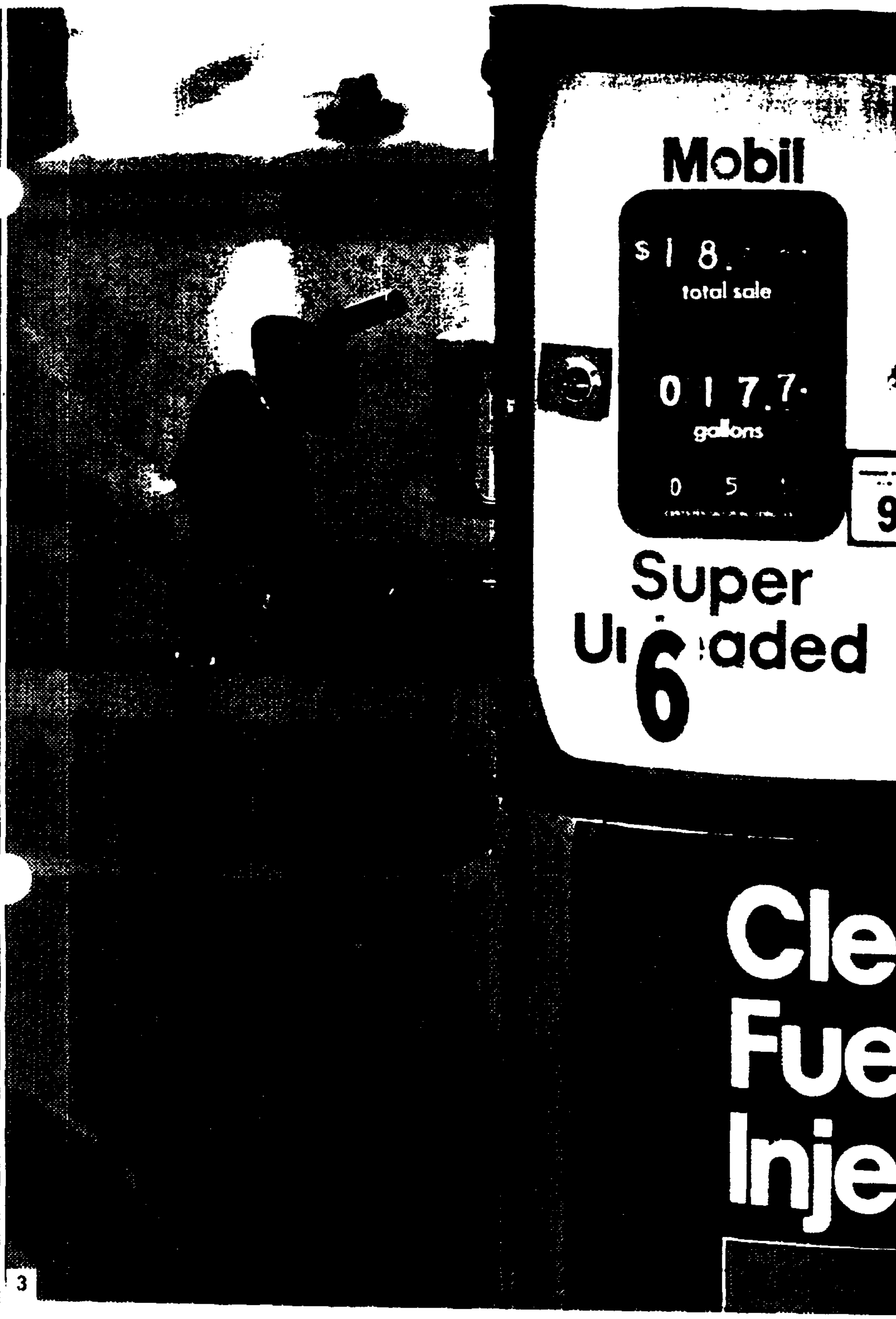
1 *Grace Davison's Lake Charles, Louisiana plant is the world's largest production facility for petroleum fluid cracking catalysts*

2 *Refineries use fluid cracking catalysts to upgrade oil to more valuable transportation fuels such as gasoline and jet and diesel fuel.*

Grace Davison catalysts help refiners promote gasoline yield, octane enhancement and reduced emissions.



James R. Hyde, President, Grace Davison



Top-notch Technical Service

Grace Davison places a powerful arsenal of R&D, analysis and technical service support tools at the disposal of its customers for each of its primary product lines — fluid cracking catalysts, polyolefin catalysts and silica/adsorbents. For polyolefin catalyst customers, 1993 marked the establishment of a new Grace technical center in Worms, Germany and an increase in development and evaluation capabilities in the U.S. to prepare for evolving process technologies.

An Ongoing Relationship

The story does not end here. *Grace Davison* partnerships are strengthened with frequent followup, technical service troubleshooting, equilibrium catalyst analyses, quality assurance programs and optimum logistics. As the catalyst is used in the "cat cracker" and refinery objectives change, the *Grace Davison* team stands by, ready to use its analytical tools to create the next-generation catalyst.

GRACE Construction Products

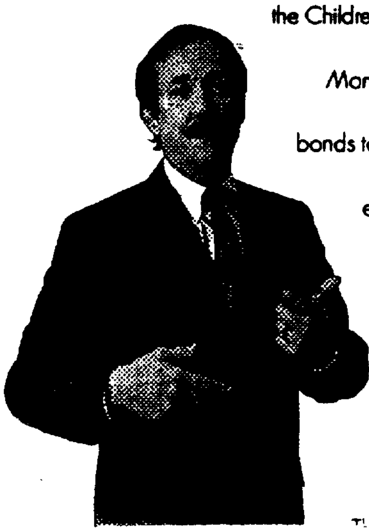
Grace markets high-quality, high value-added construction products with a strong specification selling effort in the architectural and engineering markets. For many Grace construction products, the primary benefit accrues to the owner of the structure in the form of long-term structural integrity and low maintenance costs. Grace products also offer value to the specialty contractor through labor, material and energy savings.

Keeping Water Out of Boston Harbor Tunnel

When structural engineers for Boston's mammoth Third Harbor Tunnel/Central Artery project were faced with challenging waterproofing design issues, *Grace Construction Products* provided solutions. It outperformed the competition, solving a number of design concerns. Critical among them was a hydrocarbon-resistant waterproofing system to protect the structure from groundwater contamination around Logan Airport. Specialty membranes in three different thicknesses, along with a hydrocarbon-resistant lap tape, were manufactured specifically for the project. Today, plans call for over 2.2 million square feet of *Bituthene* waterproofing to be installed on the underslab, walls and roof deck of the approach tunnel to the steel tube that will run beneath Boston Harbor.

Monokote Delivers Performance Under Fire

In-place performance is critical in a blazing inferno, where fireproofing undergoes its toughest test. *Monokote* fireproofing aced that test when structural steel remained undamaged during a fire at the Children's National Medical Hospital in Washington, D.C.



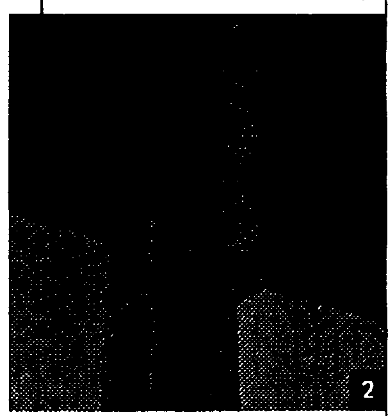
Monokote creates a hard, durable surface that resists damage, bonds tenaciously and performs reliably onsite. It meets or exceeds all essential performance standards. In fact, project engineers were so impressed with *Monokote's* performance that it has been specified for the hospital's new addition now under construction.

Strengthening the Asia Pacific Transportation Network

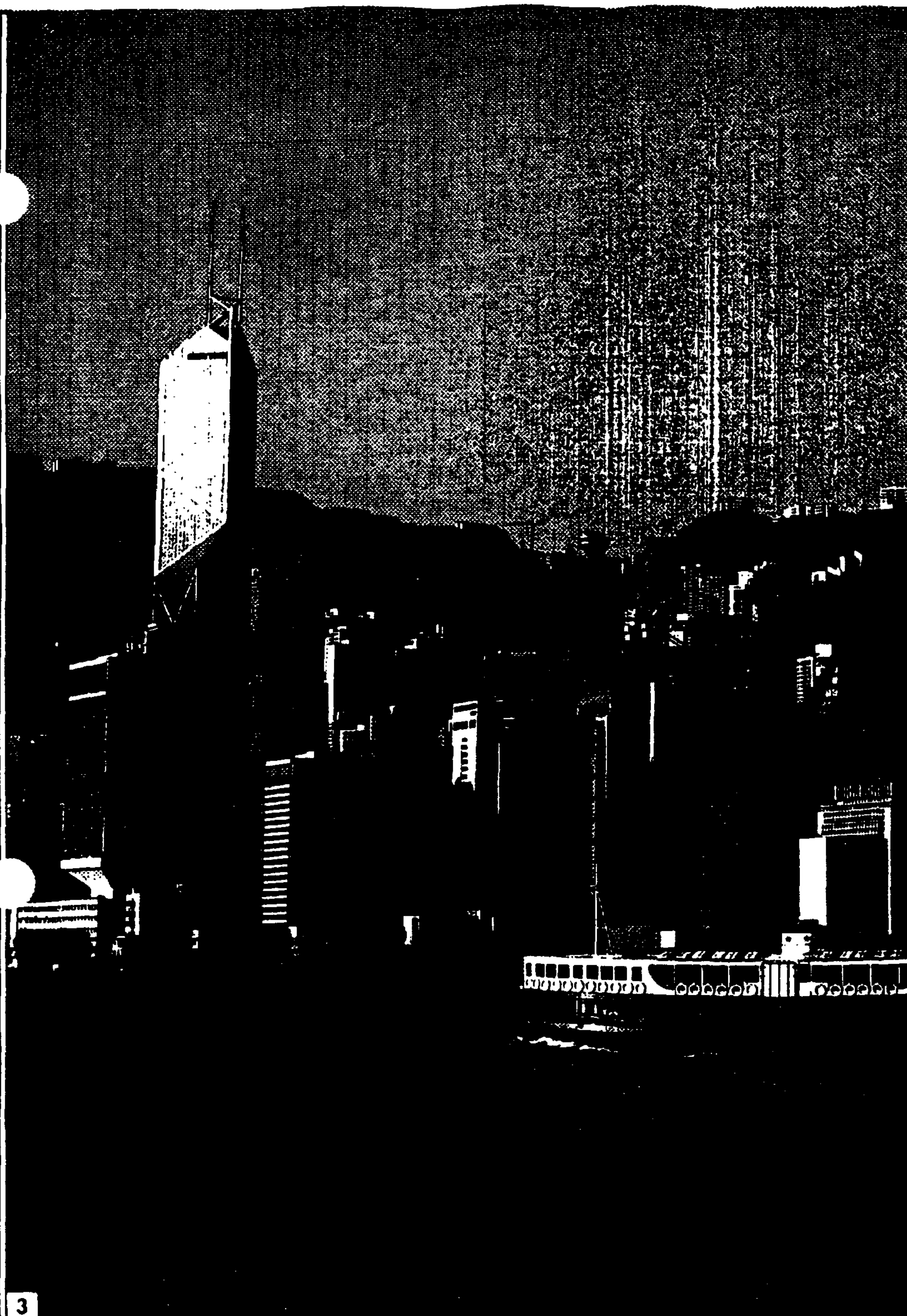
1 *Bituthene waterproofing systems provide long-term protection for concrete, masonry and wood structures*

2 *Monokote fireproofing safeguards structural steel, concrete and other substrates against collapse caused by fire.*

3 *Grace waterproofing, fireproofing, concrete admixtures and cement grinding aids protect Hong Kong's majestic Bank of China Tower*



Robert J. Bettacchi, President, Grace Construction Products



Standing Up to Mother Nature

Grace construction products — concrete admixtures, cement processing additives, fireproofing and structural waterproofing products and systems — perform some of industry's most vital jobs: protecting structures from the elements of nature, strengthening concrete, fighting corrosion, preventing water damage and protecting structural steel from the hazards of fire.

now under construction will consist of a three-mile, six-lane bridge and 181 miles of four lane highway, linking the port of Hong Kong with mainland China. The first phase of this billion-dollar project consists of precast bridge segments utilizing over 100,000 gallons of Grace specialty concrete admixtures for improved flowability and added strength.

The bridge section spans the Pearl River delta and will improve transportation efficiency in the region by expediting export shipment of China's manufactured goods through Hong Kong.

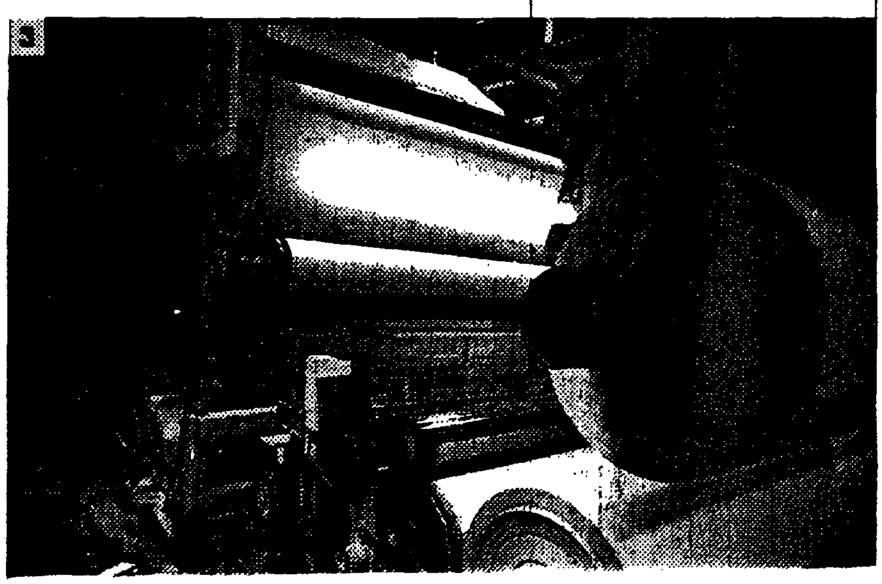
GRACE Dearborn Water Treatment & Process Chemicals

For more than a century, *Grace Dearborn* has engineered water treatment and process chemical technologies that help customers manage their systems to meet environmental and process improvement goals. *Grace Dearborn* products and consulting services prolong capital equipment life, promote process improvements and conserve water and energy in industrial applications.

Treating Water Saves Money

In the canned food industry, the integrity of process water is a critical factor in quality and cost control. Food producers like American Fine Foods rely on *Dearborn Sterisafe* to treat process water used in the huge industrial pressure cookers required for sterilizing and cooking canned foods. Cans that are stained or rusty from process water never make it through quality control. They are rejected and must be reworked. Incorrectly treated process water can also lead to corrosion of expensive industrial cookers. *Sterisafe* products prevent deposits on cans and eliminate corrosion in the cookers so that food producers can continuously run a high-quality, cost-effective production line with rigid product and safety controls.

In the pulp and paper industry, *Grace Dearborn* technologies promote increased use of secondary fiber (recycled paper) and improved paper quality. They eliminate the need for solvent-based cleaners and increase overall productivity by controlling the "stickies" that latch onto the wires and felts of paper machines.



1 *Grace Dearborn's focus on R&D yields water treatment technologies that provide a valuable return on investment to customers.*

2 *Grace Dearborn corrosion inhibitors extend equipment life, reduce downtime and enhance utilization of water and energy.*

3 *Grace Dearborn process chemicals help paper mills improve paper quality, eliminate solvent-based cleaners and boost productivity.*

◀ *Ian Priestnell, President, Grace Dearborn*

GRACE Container Products

Grace Container Products supports customers in the food, beer and beverage industries worldwide with complete closure sealant systems, technical service and state-of-the-art sealant technology alternatives, including PVC and non-PVC materials.

Natural Flavor

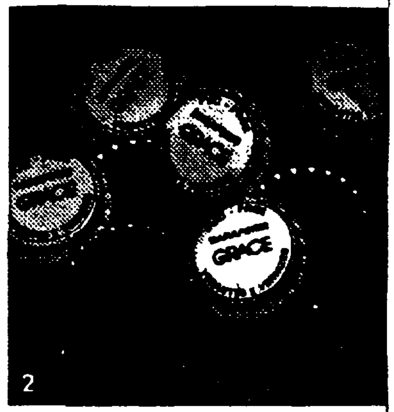
To improve the taste of packaged beer and selected oxygen-sensitive beverages, such as iced tea and fruit juices, *Grace Container* developed *Darafresh* technology. *Darafresh* absorbs oxygen, reducing or eliminating the need for preservatives or anti-oxidants that can spoil the taste of beverages and reduce shelf-life.

Darafresh technology was first commercialized with Fosters brewmasters, who discovered that preservatives could be taken out of beer when patented *Darafresh* technology was incorporated in the package. This success is spreading to other well-known breweries, including Molsons in Canada, Courage in the U.K. and Anheuser-Busch licensees worldwide.

Grace Container Products also offers coatings for sanitary cans, meat release cans, high-performance external systems, easy-open ends and metal closures.

GRACE Specialty Polymers

Related to *Grace Container* through a shared core competency in polymer technology, *Grace Specialty Polymers* develops formulated engineered polymers for printed circuit board and component assembly in the electronics, electrical, automotive and military industries.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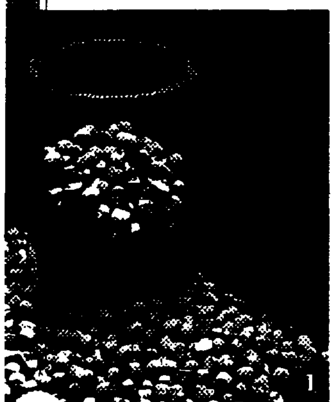
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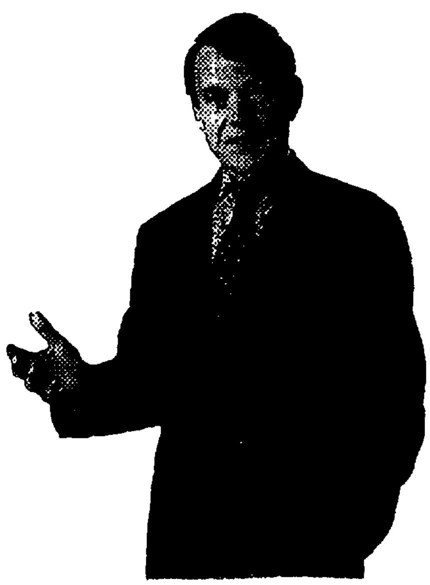
1 *Patented Darafresh technology is supplied in specialty sealant systems such as PVC-free Daraform for beverage closures.*

2 *Grace Container systems offer a range of coatings to anchor gaskets firmly to caps while providing excellent corrosion protection.*

3 *International cricketer Ian Botham can attest to the smooth flavor of Fosters Special Bitter*

◀ *Fred Lempereur, President, Grace Container Products and Grace Specialty Polymers*




3

Grace, through its *National Medical Care, Inc. (NMC)* subsidiary, is the leading, fully integrated provider of dialysis products and services and operates a strategically placed home health care network. In 1993 health care operations had sales and revenues of $1.5 billion, a 19% rise over 1992, and operating income after taxes of $142 million, an increase of 35%.

Dialysis Services

Grace Health Care operates more than 470 outpatient dialysis clinics across the U.S.A. and in Puerto Rico. It also operates 30 clinics internationally in Portugal, Spain, the Czech Republic and Argentina. Grace is currently expanding this international service and hopes to be operating in almost a dozen countries by year-end 1994. These clinics provide dialysis services to about 40,000 patients on an ongoing basis, making Grace the largest single provider worldwide.

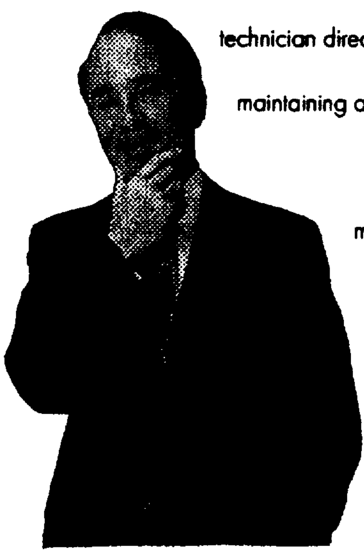
1

Grace Health Care employees are committed to providing quality health care. Within its expansive clinical network, patients benefit from a wealth of shared experience and information. They also enjoy personal access to their center's professional patient care team, which handles clinical decisions locally.

Each clinic's medical director is a practicing local physician with extensive experience in nephrology and the care of dialysis patients. The director is supported by a group of attending physicians. The director of nursing heads a team of nurses and patient care technicians who, in conjunction with social workers and dieticians, collaborate with physicians in the delivery of patient care.

Every center also has a technical support staff to contribute to overall efficiency. The chief technician directs equipment and reuse technicians, who are responsible for maintaining all equipment at peak operating performance.

The entire clinic staff reports to an administrator or clinic manager, who serves as the main link between the facility and *Grace Health Care's* administrative offices.



Medical Products

Through an integrated network of international plants, distribution centers and customer service sites, Grace

1 *At NMC clinics around the world, local doctors, nurses and technicians provide direct primary care while NMC offers technical and operational support*

2 *Angel Riesgo gets comfortable as he prepares for treatment at the new Unidad Nefrologica el Pilar dialysis center in Spain*

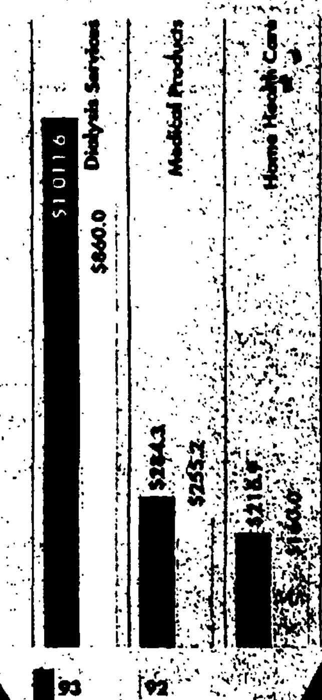
Following dialysis, Señor Riesgo enjoys a midday stroll through nearby Plaza Mayor in Madrid.

2

Constantine L. Hampers, M.D., Chairman and Chief Executive Officer, National Medical Care, Inc.

3

Health Care
1993/1992 Sales by Industry
(millions)



2,500 related medical supplies in 46 countries. Expanding its geographic reach, *Grace Health Care* strives to provide faster routine and emergency order processing to deliver critical products to health care providers and patients, whether in a dialysis center or at home.

The leading producer of hemodialysis concentrates in the U.S., *Grace Health Care* will open a liquid concentrate plant in Taiwan in early 1995. This local manufacturing plant and distribution center will ensure cost-effective dialysis and a steady, secure supply line for

Treating the Whole Patient

In addition to life-sustaining dialysis treatments, Grace Health Care offers dialysis patients an array of ancillary services and diagnostic testing to safeguard their health. These include intradialetic parenteral nutrition for patients with gastrointestinal malfunction; erythropoietin for patients who need to boost production of red blood cells to counter anemia, and pediatric services for patients with poor circulation.

Grace's *Renacare,* a leading manufacturer and distributor of dialysis products in the U.K., opened a new concentrate plant in Nottingham in 1993. From this centrally located facility, Grace provides products to 70% of the hemodialysis patients in the U.K. In addition to standard concentrates, the new plant produces an easy-to-use liquid bicarbonate, *Renacarb.* By eliminating a mixing step, *Renacarb* frees the dialysis nurse to focus more on patient care.

Grace's *Riggers Medizintechnik GmbH,* a supplier of dialysis products in unified Germany, also manufactures a state-of-the-art, hemodynamically stable dialysis machine engineered with advanced ultrafiltration monitoring capabilities. In its first year of production, the *HDR 210* has operated successfully in more than 25 dialysis centers in Germany. It is currently in clinical trials at an NMC dialysis center in the Czech Republic and will undergo similar evaluations in Argentina later in 1994.

With an extensive dialysis-specific test menu, Grace's *LifeChem* is the leading clinical laboratory servicing end-stage renal disease (ESRD) patients and their care providers in the U.S. *LifeChem's* PC-based laboratory data management system, *LifeLine*, simplifies test ordering based on a patient's specific clinical requirements. Through *LifeLine*, the dialysis care provider can easily utilize both clinical and laboratory results to evaluate patient care. *LifeChem's* innovative *Statistical Test Analysis Reports* program allows the dialysis care provider to compare local patient test results against a nationwide 50,000-plus ESRD patient database.

Homecare Services

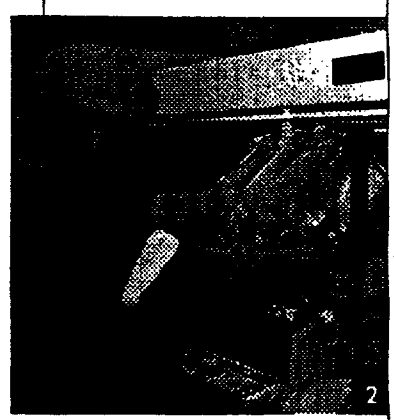
While the issue of health care reform in the U.S. has created uncertainty in the industry, Grace *Health* Care has held to a course of growth and clinical excellence, strengthening its position as a leading provider of home infusion and respiratory services.

Homecare operations grew substantially during 1993 through a series of acquisitions designed to broaden service capabilities and increase geographical presence. The development of a national network of home nursing care capabilities began on a regional basis in 1993, moving Grace closer to its goal of becoming the first national provider of integrated homecare services in the U.S. Nationwide, Grace *Health* Care now operates over 100 home infusion and respiratory service locations serving more than 40 states.

1 *NMC Homecare service vans transport medications and homecare equipment to clients in more than 40 states.*

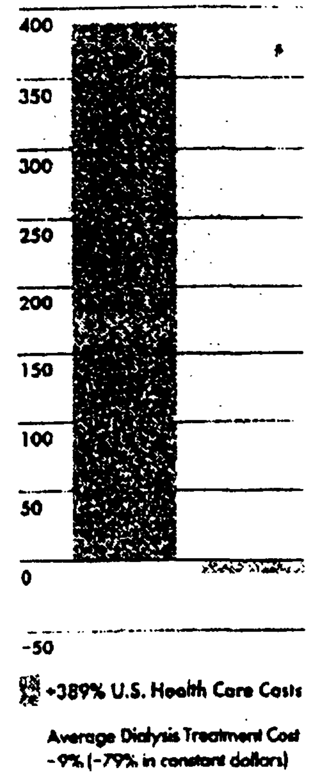
2 *Nationwide, NMC Homecare has 60 full-service pharmacies to fulfill patient needs around the clock.*

3 *NMC clinical professionals provide extensive therapy services, training and education to homecare clients.*



The managed care arena, with its emphasis on cost containment, represents a new frontier of opportunity for the home health industry. Health care reform provisions currently under discussion in the U.S. are expected to promote an environment in which *Grace Health Care* is well equipped to compete. Its ability to provide appropriate care in a cost-effective and clinically sound manner is positioning Grace for further growth as a value-added provider in the world of managed health care.

Cost-Effective Health Care (1974–1992)
(percent)



Cost-Effective Health Care

While overall health care costs in the U.S. have skyrocketed, the price tag attached to dialysis care has actually dropped. From 1974 to 1992, U.S. health care costs jumped a whopping 389%, a nearly four-fold increase. However, the average cost of dialysis treatment dropped by 9%. NMC keeps a sharp eye on expenses and has reduced the cost of providing treatment by leveraging overhead expenses and increasing efficiencies such as dialyzer and

MANAGING FOR ASSURANCE

Protecting the environment and the health and safety of our employees, customers and communities is one of Grace's most critical concerns. Compliance with all applicable health, safety and environmental laws, wherever we operate, is Company policy. Beyond that, Grace is committed to providing a safe and healthful workplace and to ensuring that safety and environmental issues are integral to the planning and operation of all Company activities.

With a goal to "manage for assurance" in protecting human health and the environment, Grace is committed to continuously improving environmental, health and safety (EHS) performance. "Managing for assurance" recognizes that laws and regulations may provide only minimum standards. Therefore, Grace is putting in place the necessary resources, organization and systems to assure that tomorrow's potential problems are identified and appropriately managed today.

A comprehensive internal evaluation of EHS functions and systems, conducted as part of the overall restructuring at Grace, is leading to performance enhancements through a new centralized EHS effort. Grace recognizes that the successful management of EHS involves continuous improvements of critical EHS "processes." These processes are:

- Communication of EHS goals and performance, internally and externally;
- Transfer of EHS knowledge and experience among all Grace product lines;
- EHS training, both skills and general awareness;
- Development and implementation of EHS policies and procedures; and
- Implementation of *Commitment to Care.*

Commitment to Care, modeled on the Chemical Manufacturers Association's Responsible Care program, is Grace's comprehensive effort for global implementation and improvement of EHS programs over the next several years. These include product responsibility, pollution prevention, process safety, employee health and safety, distribution safety and community awareness.

The EHS auditing function, which assesses plant performance against Company policy – both good manufacturing practices and requirements under law – is also being expanded globally so that best practices may be shared among Grace facilities at different stages of EHS development.

Good EHS performance means good business. It protects our employees, our communities and the environment. It helps us control future costs and liabilities. It makes us more competitive and better serves our stakeholders. Every one of our employees must be an

Emissions Reductions

The U.S. Environmental Protection Agency's SARA Title III Toxic Release Inventory was created to track emissions reductions in U.S. industry. From 1987-1992, Grace has recorded a 79% reduction in overall emissions – with dramatic improvements in both fugitive and stack air emissions.

Review of Operations

Overview

Sales and revenues increased 8% in 1993 over 1992, excluding businesses divested in 1992; including the divested businesses, 1993 sales and revenues increased by 2% as compared to 1992. Sales and revenues increased 9% in 1992 over 1991, excluding businesses sold in both years.

In the third quarter of 1993, Grace recorded a special noncash after-tax charge of $300 million ($475 million pretax) to reflect a September 1, 1993 decision of the U.S. Court of Appeals for the Second Circuit, which had the effect of reducing Grace's insurance coverage for asbestos property damage lawsuits and claims. In the fourth quarter of 1993, Grace reversed $200 million of the after-tax provision ($316 million pretax) following the Court's decision to grant Grace's petition for a re-hearing concerning the September 1, 1993 decision; the remaining after-tax provision of $100 million ($159 million pretax) reflects anticipated additional legal expenses and other uncertainties related to Grace's asbestos lawsuits and claims. In the third quarter of 1992, Grace closed its Belgian fumed silica plant and recorded a one-time provision of $140 million, representing the entire net book value of the facility and certain additional expenses. Excluding the 1993 asbestos and 1992 fumed silica charges, income from continuing operations for 1993 increased 19%, to $234.4 million, over 1992 (including businesses divested in 1992). Income from continuing operations decreased by 2% in 1992 as compared to 1991 (excluding the provision relating to the fumed silica plant, but including businesses divested in both years).

For all periods presented, the statement of operations has been restated to reflect the classification of certain businesses as discontinued operations, as discussed in Note 6 to the Consolidated Financial Statements.

Specialty Chemicals

Including the results of chemical businesses divested in 1992, sales and revenues decreased by 5% in 1993 as compared to 1992, and operating income after taxes (operating income) decreased by 6% for 1993 versus 1992 (excluding the 1992 provision related to the fumed silica plant).

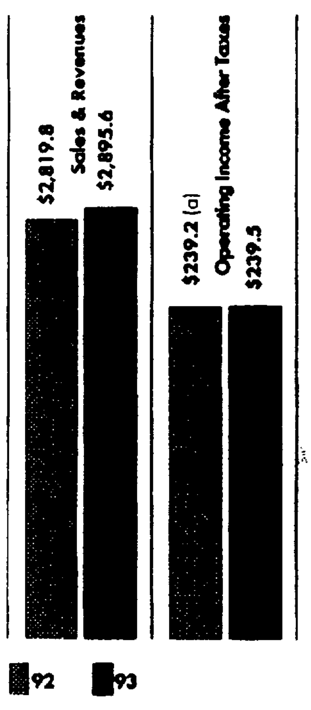
The following discussion excludes sales and revenues and operating income of divested businesses and the fumed silica provision referred to above.

Sales and revenues increased 3% in 1993 as compared to 1992, reflecting favorable volume and price/product mix variances estimated at 6% and 2%, respectively, offset by an unfavorable currency exchange variance estimated at 5%. Volume increases occurred in 1993 in packaging (due to improved sales of films and laminates), water treatment (reflecting the acquisition of Latin America's largest water treatment business in the first quarter of 1993), fluid cracking catalysts and silica products (reflecting improvements in market share and pricing) and construction products (reflecting the introduction of new concrete admixtures and stronger sales in waterproofing systems).

Operating income was flat in 1993 compared to 1992. North American results significantly improved in 1993, as strong growth occurred in packaging, fluid cracking catalysts and silica products and construction products, due mainly to the volume increases noted above. European results for most product lines were adversely affected by continuing recessionary conditions, leading to reduced profitability; however, results for European fluid cracking catalysts and silica products improved, primarily due to increased volumes achieved following the withdrawal of certain competitors from this market in 1992. In Asia Pacific, favorable results were achieved, primarily in packaging and fluid cracking catalysts and silica products. In Latin America, results were down, primarily due to the costs of integrating the operations of the new water treatment business, partially offset by favorable results in packaging.

Sales increased by 5% in 1992 compared to 1991, excluding from both periods the sales of chemical businesses divested in both years; sales were essentially flat including those businesses. The increase was primarily due to favorable volume, price/product mix and foreign currency exchange variances estimated at 3%, 1% and 1%, respectively. Volume increases occurred in most product lines, particularly packaging and fluid cracking catalysts and silica products. Operating income for 1992 decreased 5% over 1991, excluding the divested chemical businesses; operating income increased 3% including those businesses. North American results for most product lines improved in 1992, as strong growth was exhibited in packaging and fluid cracking catalysts and silica products, mainly due to strong volume increases. European results were adversely affected by recessionary conditions, leading to reduced profitability. However, favorable results were achieved in both Asia Pacific and Latin America for most product lines.

Specialty Chemicals
(excludes divested businesses)
(millions)



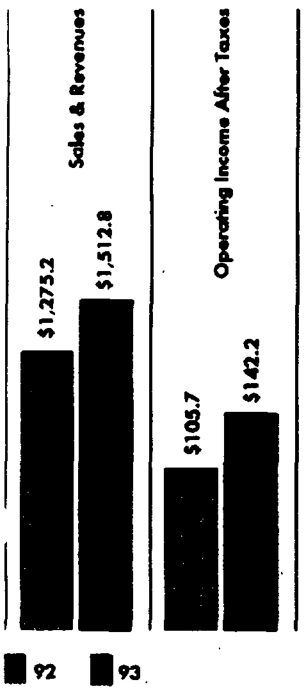
(a) Excludes a provision of $140.0 relating to a fumed silica plant in Belgium.

Health Care

Sales and revenues for 1993 increased by 19% over 1992, due to increases of 18%, 36% and 11%, respectively, in kidney dialysis services, home health care and medical products operations (including laboratory services). 1993 results for dialysis services and home health care include the results of Home Intensive Care, Inc., acquired in June 1993, as well as a number of smaller acquisitions during the year. The number of centers providing dialysis and related services increased 20%, from 419 at year-end 1992 to 501 at year-end 1993 (471 in the U.S. and Puerto Rico, 23 in Portugal, 4 in Spain, 2 in the Czech Republic and 1 in Argentina).

Operating income in 1993 increased by 35% over 1992. The 1993 results for all health care businesses benefited from improvements in cost controls, operating efficiencies and/or capacity utilization, partially offset by the costs of improving and expanding quality assurance systems for medical products manufacturing (see below for further discussion). In addition, results for 1992 included costs related to previously reported long-term incentive arrangements with certain health care executives. It is unclear at this time whether and to what extent any of the currently proposed reforms in U.S. health care will affect Grace's health care operations. However, based on its knowledge and understanding of the health care industry in general and of other providers of kidney dialysis and infusion therapy, as well as on publicly available information, Grace believes that its health care operations are among the most cost-efficient in the industry.

Health Care
(millions)



Sales and revenues of health care operations increased by 20%, to $1.3 billion, in 1992 as compared to 1991, reflecting improvements of 19%, 16% and 26%, respectively, in kidney dialysis services, home health care and medical products operations. Operating income for 1992 increased by 27% over 1991, reflecting the continued growth of all health care businesses, as well as improvements in operating efficiencies and capacity utilization.

In 1993, the U.S. Food and Drug Administration (FDA) issued import alerts with respect to (1) hemodialysis bloodlines manufactured at the plant of National Medical Care, Inc. (NMC), Grace's principal health care subsidiary, located in Reynosa, Mexico and (2) hemodialyzers manufactured in NMC's Dublin, Ireland facility. Products subject to FDA import alerts may not enter the U.S. until the FDA approves the quality assurance systems of the facility at which such products are manufactured. In January 1994, NMC entered into a consent decree providing for the resumption of importation of bloodlines and hemodialyzers following certification by NMC that the relevant facility complies with FDA regulations and successful completion of an FDA inspection to verify such compliance. In accordance with the consent decree, NMC certified compliance to the FDA with respect to the Reynosa, Mexico facility in January 1994, and the FDA lifted the bloodline import alert in March 1994, following a thorough reinspection by the FDA and a commitment by NMC to finish certain studies by May 1994 and, in the interim, to perform additional product testing. Certification of compliance at the Dublin, Ireland facility is anticipated in the second quarter of 1994. The consent decree also requires NMC to certify and maintain compliance with applicable FDA device manufacturing laws and regulations at all of its U.S. manufacturing facilities. NMC has conducted a full review of its facilities and upgraded, as necessary, all of its quality assurance systems. No fines or penalties were imposed on NMC as a result of any of the FDA's actions relating to the import alerts or in connection with the consent decree. Neither the import alerts nor previously reported recalls of certain NMC products are expected to have a material effect on Grace's results of operations or financial position.

Statement of Operations

Other Income

See Note 4 to the Consolidated Financial Statements for information relating to other income.

Interest Expense

Interest expense decreased by 9% in 1993 versus 1992, primarily due to lower debt levels and lower interest rates, the use of financial instruments (see Note 10 to the Consolidated Financial Statements) and the replacement of certain fixed-rate debt with lower-cost floating-rate borrowings, partially offset by a reduction in interest allocated to discontinued operations and interest capitalized.

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

Research and Development Expenses

Research and development (R&D) spending increased by 4% in 1993 versus 1992. R&D spending is now primarily directed toward Grace's core specialty chemicals and health care businesses.

Income Taxes

The effective tax rate was 39.2% in 1993 versus 43.1% in 1992, before giving effect to the 1992 provision of $51.9 million for a valuation allowance for deferred tax assets. The lower effective tax rate in 1993 resulted primarily from reductions in certain foreign tax rates and higher utilization of research and development and foreign tax credits, partially offset by tax costs associated with repatriating to the U.S. earnings of foreign subsidiaries. The valuation allowance for 1993 and 1992 relates to the uncertainty as to the realization of certain deferred tax assets, including U.S. tax credit carryforwards, state and local net operating loss carryforwards and net deferred tax assets, and net operating loss carryforwards in certain foreign jurisdictions. Based upon anticipated future results, the Company has concluded, after consideration of the valuation allowance, that it is more likely than not that the net deferred tax asset balance will be realized.

In the third quarter of 1993, Grace recorded the effects of the Omnibus Budget Reconciliation Act of 1993 (OBRA), which was enacted in August 1993. Among other things, OBRA increased the highest U.S. Federal corporate tax rate to 35%, effective January 1, 1993. However, neither this increase in the U.S. Federal corporate tax rate (from 34%), nor the other provisions of OBRA, had a material effect on Grace's results of operations.

The 1992 effective tax rate increased to 43.1% (before the above provision for the valuation allowance) as compared with 39.6% in 1991, largely due to the additional costs of repatriating to the U.S. a higher level of earnings of foreign subsidiaries and an increase in state income taxes.

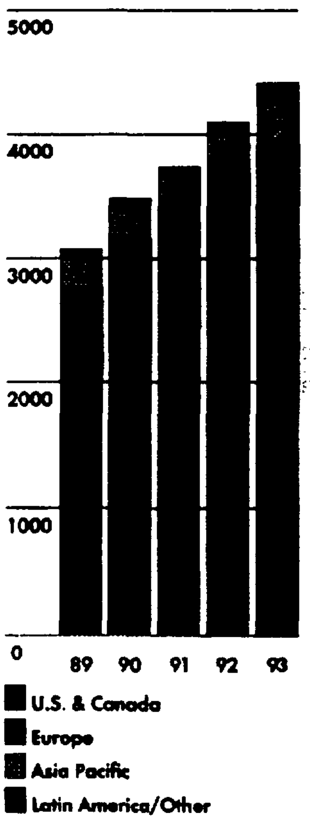
See Note 5 to the Consolidated Financial Statements for further information on income taxes.

Loss from Discontinued Operations

In 1993, Grace restated its financial statements to reflect the classification of certain businesses as discontinued operations. See Note 6 to the Consolidated Financial Statements for further information.

Financial Condition

Worldwide Sales & Revenues
(excludes divested businesses)
($ millions)



Liquidity and Capital Resources

During 1993, the net pretax cash flow provided by Grace's continuing operating activities was $301.6 million versus $358.9 million in 1992, primarily due to the use of $44.1 million of net cash to repurchase accounts receivable in 1993, as compared to the receipt of $96.8 million of net proceeds from the sale of accounts receivable in 1992, and a net cash outflow of $103.1 million relating to asbestos in 1993 (see below for further discussion), compared with a net cash outflow of $70.3 million in 1992. Also, in 1993 cash flow provided by operating activities includes $67.9 million in proceeds from the settlement of interest rate hedge agreements. After giving effect to discontinued operations and payments of income taxes, the net cash provided by operating activities was $243.1 million in 1993.

Investing activities used $151.9 million of cash in 1993, largely reflecting capital expenditures and business acquisitions and investments, primarily in the health care and water treatment businesses. During 1993, Grace acquired 100% of the outstanding stock of Home Intensive Care, Inc. for approximately $129 million (inclusive of related costs). These investing activities were offset by net proceeds of $464.8 million from divestments (mainly those of Grace Energy's oil and gas operations). Management anticipates that the level of capital expenditures in 1994 will increase to approximately $350 million as compared to the $309.6 million of capital spending in 1993. Capital spending is expected to be concentrated on Grace's core businesses.

Net cash used for financing activities in 1993 was $105.9 million, primarily reflecting the payment of $128.4 million of dividends. Total debt was approximately $1.7 billion at year-end 1993, a decrease of $113.1 million from year-end 1992. Grace's total debt as a percentage of total capital (debt ratio) decreased from 54.1% at year-end 1992 to 52.9% at year-end 1993, primarily as a result of the reduction in total debt.

In January 1993, Grace sold $300 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.

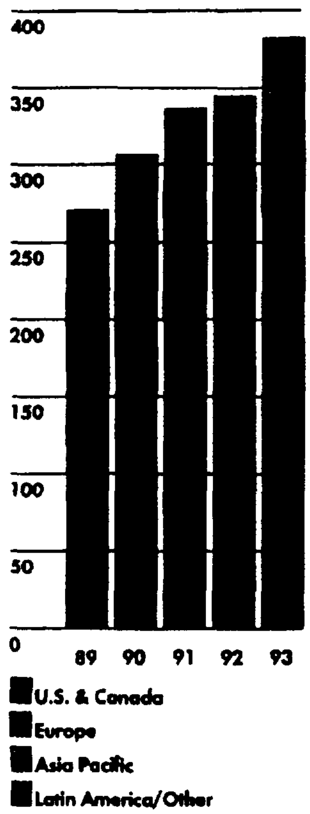
In the third quarter of 1993, Grace completed the redemption in full of its outstanding Liquid Yield Option Notes due 2006 (LYONs) and 6¼% Convertible Subordinate Debentures Due 2002. Of the $1,012.5 million principal amount at maturity of LYONs outstanding, approximately 31% ($309.6 million) was converted into 2.8 million shares of common stock; the remaining LYONs ($702.9 million) were redeemed for approximately $258 million in cash. Substantially all of the $150 million principal amount of the 6¼% Convertible Debentures due 2002 outstanding immediately prior to redemption was redeemed for cash (equal to the principal amount outstanding).

Grace expects to satisfy its 1994 cash requirements from the following sources: (1) funds generated by operations, (2) proceeds from the sales 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.

Asbestos-Related Matters

As reported in Note 2 to the Consolidated Financial Statements, Grace is a defendant in lawsuits relating to previously sold asbestos-containing products. In 1993, Grace paid $103.1 million in connection with the

Worldwide After-Tax Operating Income
(excludes divested businesses)
($ millions)



defense and disposition of property damage and personal injury litigation related to asbestos, net of amounts received in 1993 from settlements with certain of Grace's insurance carriers. As more fully discussed above in "Review of Operations: Overview," Grace recorded a net noncash charge of $159 million (pretax) in 1993 to reflect anticipated additional legal expenses and other uncertainties related to Grace's asbestos lawsuits and claims. The balance sheet at year-end 1993 includes a receivable due from insurance carriers, subject to litigation, of $962.3 million. Grace has also recorded a receivable of approximately $114 million for amounts to be received pursuant to settlement agreements previously entered into with certain insurance carriers. While Grace cannot precisely estimate the amounts to be paid in 1994 in respect of asbestos-related lawsuits and claims, Grace expects that it will be required to expend approximately $50 million in 1994 to defend and dispose of such lawsuits and claims (after giving effect to payments to be received from certain insurance carriers, as discussed above and in Note 2 to the Consolidated Financial Statements). As indicated therein, the amounts reflected in the Consolidated Financial Statements with respect to the probable cost of disposing of pending asbestos lawsuits and claims and probable recoveries from insurance carriers represent estimates; neither the outcomes of such lawsuits and claims nor the outcomes of Grace's continuing litigations with certain of its insurance carriers can be predicted with certainty.

Environmental Matters

Grace incurs costs related to environmental protection due to laws and regulations, Grace's commitment to industry initiatives such as Responsible Care® (the Chemical Manufacturers Association program) and its own internal standards. Worldwide expenses of continuing operations related to the operation and maintenance of environmental facilities and disposal of hazardous and nonhazardous wastes totalled $45 million, $56 million and $38 million in 1993, 1992 and 1991, respectively. In addition, worldwide capital expenditures for continuing operations relating to environmental protection in 1993 totalled $20 million, compared with $18 million and $17 million in 1992 and 1991, respectively.

Grace has also incurred costs to remediate previously contaminated sites. These costs were $44 million, $35 million and $18 million in 1993, 1992 and 1991, respectively. These amounts were charged against previously established reserves for estimated expenses for environmental spending, which were identified and charged to income in prior years.

Grace accrues for anticipated costs associated with investigatory and remediation efforts in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," which governs probability and the ability to reasonably estimate future costs. During 1993, 1992 and 1991, there were periodic provisions recorded for environmental and plant closure expenses, which include the costs of future investigatory and remediation activities. At year-end 1993, Grace's accruals for environmental remediation totalled approximately $160 million. These reserves do not take into account any discounting for future expenditures or possible future insurance recoveries. The liabilities are reassessed whenever environmental circumstances become better defined and/or remediation efforts and their costs can be better estimated. Annual environmental-related cash outlays are expected to total $44 million in 1994 and $35 million in 1995. Expenditures have been funded from internal sources of cash and are not expected to have a significant effect on liquidity.

Management's Responsibility for Financial Reporting

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

For many years, management has maintained internal control systems to assist it 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 regularly 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 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 consolidated 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 considered necessary by the independent accountants for purposes of supporting their opinion as set forth in their report.

B.J. Smith.

B. J. Smith
Executive Vice President
and Chief Financial Officer

Report of Independent Accountants

Price Waterhouse
1177 Avenue of the Americas
New York, NY 10036

February 8, 1994

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

In our opinion, the consolidated financial statements appearing on pages 26 through 44 of this report present fairly, in all material respects, the financial position of W. R. Grace & Co. and subsidiaries at December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, 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 16, 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	1993	1992	1991
Sales and revenues	**$4,408.4**	$4,337.0	$4,386.6
Other income (Note 4)	**42.5**	69.9	55.7
Total	**4,450.9**	4,406.9	4,442.3
Cost of goods sold and operating expenses	**2,596.8**	2,601.5	2,649.2
Selling, general and administrative expenses	**1,029.7**	1,028.0	982.5
Depreciation and amortization	**227.7**	224.9	232.9
Interest expense (Note 9)	**81.5**	90.0	115.4
Research and development expenses	**135.0**	130.0	128.1
Provision relating to asbestos-related insurance coverage (Note 2)	**159.0**	–	–
Provision relating to a fumed silica plant (Note 8)	**–**	140.0	–
Total	**4,229.7**	4,214.4	4,108.1
Income from continuing operations before income taxes	**221.2**	192.5	334.2
Provision for income taxes (Note 5)	**86.8**	134.8	132.5
Income from continuing operations	**134.4**	57.7	201.7
(Loss)/income from discontinued operations (Note 6)	**(108.4)**	(162.2)	16.9
Income/(loss) before cumulative effect of accounting changes	**26.0**	(104.5)	218.6
Cumulative effect of accounting changes (Notes 5 and 16)	**–**	(190.0)	–
Net income/(loss)	**$ 26.0**	$ (294.5)	$ 218.6
Earnings/(loss) per share:			
Continuing operations	**$ 1.46**	$ .64	$ 2.31
Cumulative effect of accounting changes	**$ –**	$ (2.12)	$ –
Net earnings/(loss)	**$ .28**	$ (3.29)	$ 2.50
Fully diluted earnings per share:			
Continuing operations	**$ 1.45**	$ .62	$ 2.23
Cumulative effect of accounting changes	**$ –**	$ –[1]	$ –
Net earnings	**$ .28**	$ –[1]	$ 2.40

The Notes to Consolidated Financial Statements, pages 30 to 44, are integral parts of these statements

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

Consolidated Statement of Cash Flows

Dollars in millions	**1993**	1992	1991
Operating Activities			
Income from continuing operations before income taxes	**$221.2**	$192.5	$334.2
Reconciliation to cash provided by operating activities:			
Depreciation and amortization	**227.7**	224.9	232.9
Provision relating to asbestos-related insurance coverage	**159.0**	–	–
Provision relating to a fumed silica plant	**–**	140.0	–
Changes in assets and liabilities, excluding businesses acquired/divested and foreign exchange effect:			
(Increase)/decrease in notes and accounts receivable, net	**(103.2)**	48.4	171.2
Increase in inventories	**(50.5)**	(2.3)	(30.5)
Proceeds from settlements of interest rate hedge agreements	**67.9**	3.2	–
Net expenditures for asbestos-related insurance coverage	**(103.1)**	(70.3)	(54.9)
Increase in accounts payable	**50.1**	29.5	11.9
Other	**(167.5)**	(207.0)	(106.3)
Net pretax cash provided by operating activities of continuing operations	**301.6**	358.9	558.5
Net pretax cash provided by operating activities of discontinued operations	**44.2**	178.3	161.3
Net pretax cash provided by operating activities	**345.8**	537.2	719.8
Income taxes paid	**(102.7)**	(98.9)	(117.5)
Net cash provided by operating activities	**243.1**	438.3	602.3
Investing Activities			
Capital expenditures	**(309.6)**	(398.4)	(447.0)
Businesses acquired in purchase transactions, net of cash acquired	**(306.6)**	(61.2)	(131.0)
Increase in net investment in discontinued operations	**(43.1)**	(101.5)	(55.9)
Net proceeds from divestments	**464.8**	221.2	366.4
Net proceeds from sale/leaseback transactions	**27.2**	–	–
Other	**15.4**	2.2	(60.1)
Net cash used for investing activities	**(151.9)**	(337.7)	(327.6)
Financing Activities[1]			
Dividends paid	**(128.4)**	(125.9)	(122.5)
Repayments of borrowings having original maturities in excess of three months	**(512.6)**	(274.0)	(695.6)
Increase in borrowings having original maturities in excess of three months	**373.0**	355.7	319.7
Net increase/(repayments) in borrowings having original maturities of less than three months	**155.7**	(508.0)	271.3
Sale of limited partnership interest	**–**	297.0	–
Other	**6.4**	13.8	45.7
Net cash used for financing activities	**(105.9)**	(241.4)	(181.4)
Effect of exchange rate changes on cash and cash equivalents	**(0.5)**	(3.5)	(2.2)
(Decrease)/increase in cash and cash equivalents	**(15.2)**	(144.3)	91.1
Cash and cash equivalents, beginning of year	**62.8**	207.1	116.0
Cash and cash equivalents, end of year	**$ 47.6**	$ 62.8	$207.1

The Notes to Consolidated Financial Statements, pages 30 to 44, are integral parts of these statements.

[1]See Note 9 to the Consolidated Financial Statements for supplemental information relating to noncash financing activities.

Consolidated Balance Sheet

Dollars in millions, except par value December 31.	1993	1992
Assets		
Current Assets		
Cash and cash equivalents	**$ 47.6**	$ 62.8
Notes and accounts receivable, net (Note 7)	**657.4**	690.4
Inventories (Note 7)	**441.0**	592.9
Net assets of discontinued operations, current (Note 6)	**761.3**	606.3
Deferred income taxes (Note 5)	**31.8**	96.8
Other current assets	**36.2**	42.2
Total Current Assets	**1,975.3**	2,091.4
Properties and equipment, net (Note 8)	**1,454.1**	1,707.9
Net assets of discontinued operations, noncurrent	**–**	108.5
Goodwill, less accumulated amortization of $53.2 (1992–$50.1)	**481.6**	298.6
Asbestos-related insurance receivable (Note 2)	**962.3**	358.3
Other assets (Note 7)	**1,235.3**	1,033.9
Total Assets	**$6,108.6**	$5,598.6
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term debt (Note 9)	**$ 532.6**	$ 464.7
Accounts payable	**414.6**	423.6
Income taxes (Note 5)	**126.5**	158.1
Other current liabilities	**621.9**	593.2
Minority interests, current (Note 12)	**297.0**	–
Total Current Liabilities	**1,992.6**	1,639.6
Long-term debt (Note 9)	**1,173.5**	1,354.5
Other noncurrent liabilities	**613.8**	666.1
Deferred income taxes (Note 5)	**97.4**	96.4
Liability for asbestos-related litigation (Note 2)	**713.7**	–
Minority interests, noncurrent (Note 12)	**–**	297.0
Total Liabilities	**4,591.0**	4,053.6
Commitments and Contingencies (Notes 2, 9 and 11)		
Shareholders' Equity (Note 13)		
Preferred stocks, $100 par value	**7.4**	7.5
Common stock, $1.00 par value; 300,000,000 shares authorized; outstanding at December 31: 1993–93,465,000; 1992–89,892,000	**93.5**	89.9
Paid in capital	**287.8**	151.4
Retained earnings	**1,196.2**	1,298.6
Cumulative translation adjustments	**(67.3)**	(2.4)
Total Shareholders' Equity	**1,517.6**	1,545.0
Total Liabilities and Shareholders' Equity	**$6,108.6**	$5,598.6

The Notes to Consolidated Financial Statements, pages 30 to 44, are integral parts of these statements.

Consolidated Statement of Shareholders' Equity

Dollars in millions	1993	1992	1991
Preferred Stocks			
Balance, beginning of year	$ 7.5	$ 7.5	$ 7.5
Other	(.1)	–	–
Balance, end of year	7.4	7.5	7.5
Common Stock			
Balance, beginning of year	89.9	88.6	86.1
Conversion of notes and debentures	2.8	–	–
Stock options and awards	.7	1.3	2.5
Acquisition	.1	–	–
Balance, end of year	93.5	89.9	88.6
Paid in Capital			
Balance, beginning of year	151.4	120.1	61.6
Conversion of notes and debentures	109.7	–	–
Stock options and awards	22.9	31.1	58.4
Acquisition	3.7	–	–
Other	.1	.2	.1
Balance, end of year	287.8	151.4	120.1
Retained Earnings			
Balance, beginning of year	1,298.6	1,719.0	1,622.9
Net income/(loss)	26.0	(294.5)	218.6
Dividends paid	(128.4)	(125.9)	(122.5)
Balance, end of year	1,196.2	1,298.6	1,719.0
Cumulative Translation Adjustments			
Balance, beginning of year	(2.4)	90.0	134.4
Translation adjustments	(64.9)	(92.4)	(44.4)
Balance, end of year	(67.3)	(2.4)	90.0
Total Shareholders' Equity	$1,517.6	$1,545.0	$2,025.2

The Notes to Consolidated Financial Statements, pages 30 to 44, are integral parts of these statements.

Notes to Consolidated Financial Statements
Dollars in millions, except per share amounts

1. Summary of Significant Accounting and Financial Reporting Policies

Principles of Consolidation The consolidated financial statements include the accounts of W. R. Grace & Co. and all majority-owned companies (collectively Grace). Intercompany transactions and balances are eliminated in consolidation. 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 maturities of three months or less when purchased. The recorded amount approximates fair value because of the short maturities of these investments.

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 accumulated 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 any proceeds from disposal, is charged or credited to income.

Goodwill and Other Amortization Goodwill arises from certain purchase transactions and is amortized using the straight-line method over appropriate periods not exceeding 40 years. Patient relationships (see Note 7) are amortized using the straight-line method over 17 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 of income taxes.

Foreign Currency Translation Foreign currency transactions and financial statements (except for those relating to countries with highly inflationary economies) are translated into U.S. dollars at current exchange rates, except that revenues, costs and expenses are translated at average exchange rates during each reporting period. The financial statements of subsidiaries located in countries with highly inflationary economies must be remeasured as if the functional currency were the U.S. dollar. The remeasurement creates translation adjustments that are reflected in net income. 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.

Financial Instruments Grace enters into interest rate swaps, options and caps, and foreign currency contracts to manage exposure to fluctuations in interest and foreign currency exchange rates.

The differentials paid or received on interest rate agreements are accrued and recognized as adjustments to interest expense; gains and losses realized upon settlement of these agreements are deferred and amortized to interest expense over a period relevant to the agreement if the underlying hedged instrument remains outstanding, or immediately if the underlying hedged instrument is settled. Premiums paid on caps are amortized to interest expense over the term of the cap.

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 and Related Insurance Litigation

Grace is a defendant in lawsuits relating to previously sold asbestos-containing products and anticipates that it will be named as a defendant in additional asbestos-related lawsuits in the future At December 31, 1993, Grace was a defendant in approximately 38,100 asbestos-related lawsuits representing approximately 56,700 claims (versus approximately 30,900 lawsuits and 53,000 claims at December 31, 1992). Of the lawsuits pending at December 31, 1993, 92 (105 at December 31, 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 involved claims for personal injury. In most of these lawsuits, Grace is one of many defendants.

Property Damage Litigation

Through December 31, 1993, 120 asbestos property damage cases had been dismissed with respect to Grace without payment of any damages or settlement amounts; judgments were entered in favor of Grace in twelve cases; in six cases (four of which are on appeal), Grace was held liable for a total of $68.3; and 131 property damage suits and claims had been settled by Grace for a total of $300.0. Grace has recorded a receivable for the insurance proceeds it expects to receive in connection with these adverse verdicts and settlements, as well as for defense costs initially paid by Grace. (See "Insurance Litigation" below.) On September 1, 1993, the U.S. Court of Appeals for the Second Circuit issued a decision regarding the availability of insurance coverage with respect to Grace's asbestos property damage litigation and claims. In January 1994, the Court granted Grace's petition for a re-hearing concerning such decision.

Included in the asbestos property damage lawsuits pending against Grace and others at year-end 1993 are the following purported class actions: (1) a Pennsylvania state court action, certified in 1992, covering all commercial buildings in the U.S. leased in whole or in part to the U.S. government on or after May 30, 1986; (2) an action, certified by the U.S. Court of Appeals for the Fourth Circuit in September 1993 and pending in a U.S. District Court in South Carolina, covering all public and private colleges and universities in the U.S. whose buildings contain asbestos materials; (3) an action, brought in 1983 in a U.S. District Court in Pennsylvania, on behalf of all public and private elementary and secondary schools in the U.S. that contain asbestos materials, which has been scheduled for trial in late 1994 on a limited number of issues; and (4) an action filed in a South Carolina state court in 1992 on behalf of all entities that own, in whole or in part, any building containing asbestos materials manufactured by Grace or one of the other named defendants, other than buildings subject to the class action lawsuits described above, as well as any building owned by the federal or any state government.

Personal Injury Litigation

Through December 31, 1993, approximately 7,000 asbestos personal injury lawsuits involving 17,900 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 11,300 such suits involving 13,400 claims had been settled for a total of $52.2.

In January 1993, the U.S. 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.

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 type, size and utilization and difficulty of abatement, if necessary, 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, 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 a 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 the class actions and uncertainty with respect to the class certification in the national elementary and secondary schools class action (see "Property Damage Litigation" above) 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, 1993 can be disposed of for a total amount estimated at $813.7 (inclusive of legal fees and expenses), of which Grace has recorded $713.7 as a noncurrent liability and $100.0 as a current liability. This compares to the estimated liability (current and noncurrent) of $848.0 at September 30, 1993, reflecting payments made in the fourth quarter of 1993. In addition, Grace has recorded a receivable of $962.3 for the insurance proceeds it expects to receive in reimbursement for prior payments and estimated future payments to dispose of asbestos-related litigation. This compares to the receivable of $644.0 at September 30, 1993, which reflected a $300.0 after-tax provision recorded in the third quarter of 1993 related to the Second Circuit Court of Appeals decision, while the fourth quarter 1993 activity included the partial reversal of such provision, as well as insurance proceeds received during the quarter. (See "Insurance Litigation" below.)

Grace has also settled coverage disputes with certain insurance carriers. These settlements provide for future payments of $114.0 and have been recorded as notes receivable. Further, Grace continues to seek 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, as discussed below.

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 is triggered by the "discovery of damage" during the policy period.

On September 1, 1993, the U.S. Court of Appeals for the Second Circuit issued a decision regarding the availability of insurance coverage with respect to Grace's asbestos litigation and claims. The Court of Appeals reversed the District Court's ruling as to a "discovery of damage" trigger for asbestos property damage claims and instead adopted a trigger based on the date of installation of asbestos-containing materials. As a result of this decision, Grace recorded an after-tax provision of $300.0 during the third quarter of 1993 to reflect the reduction in insurance coverage for its asbestos property damage lawsuits and claims. In January 1994, the U.S. Court of Appeals for the Second Circuit granted Grace's petition for a re-hearing concerning the September 1, 1993 decision. In view of the Court's action, during the fourth quarter of 1993, Grace reversed $200.0 of the after-tax provision recorded in the third quarter.

In December 1991, the Circuit Court for Jackson County, Mississippi 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 1993, Grace received $74.6 under settlements with insurance carriers, in reimbursement for monies previously expended by Grace in connection with asbestos-related litigation; as mentioned above, these settlements also provide for future reimbursements of $114.0. In early 1994, Grace settled with two additional insurance carriers and received approximately $88.8 under such settlements. Prior to 1993, Grace received payments totalling $97.7 from insurance carriers, the majority of 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.

Grace continues to be involved in litigation with certain of its insurance carriers, including an affiliated group of carriers that had agreed to a settlement and had made a series of payments under that agreement in 1993. The group of carriers subsequently notified Grace that it would no longer honor the agreement (which had not been executed) due to the September 1, 1993 U.S. Court of Appeals decision discussed above. Grace believes that the settlement agreement (which involves approximately $200.0 of the asbestos-related receivable of $962.3 at December 31, 1993) is binding and initiated action to enforce the settlement agreement. In January 1994, the U.S. District Court for the Eastern District of Texas held the agreement to be enforceable. The affiliated group of carriers is expected to appeal this ruling to the U.S. Court of Appeals for the Fifth Circuit.

For the period October 20, 1962 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 23-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 $1.4 billion. 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 after giving effect to the provision recorded in 1993. 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.

3. Acquisitions, Divestments and Strategic Restructuring

Acquisitions

Businesses acquired in 1993 consisted primarily of health care and water treatment businesses. Grace acquired Home Intensive Care, Inc. in the second quarter of 1993 for approximately $129.0 in cash (inclusive of related costs) and acquired other health care businesses during 1993 for an aggregate of approximately $115.0 in cash and $3.8 in common stock. Grace also acquired Latin America's largest water treatment business in the first quarter of 1993 for approximately $57.6 in cash.

In July 1992, Grace completed the purchase of the common stock of Grace Energy Corporation (Grace Energy) not owned by Grace for $77.3 in cash. See Note 6 for a discussion of 1993 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 cash.

In 1991, Grace purchased the 25% minority interest in Grace Cocoa for $74.6 in cash 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 in cash plus related debt repayments.

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.

Divestments

In 1993, Grace completed the sale of substantially all of the oil and gas operations of Grace Energy, along with certain corporate investments; see Note 6 for further information. Other non-core businesses divested during 1993 included a 50% interest in a Japanese chemical business and a food industry hygiene services business for approximately $31.4 and $11.2, respectively.

In December 1992, Grace sold its organic chemicals business and related net assets for approximately $100.0 in cash plus non-voting 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; see Note 6 for further information.

Strategic Restructuring

The 1991 net gain on strategic restructuring of $6.1 (see Note 4) includes gains of $108.8, inclusive of cumulative translation gains of $37.9, on the disposition of certain non-core businesses and investments. Offsetting these gains were expenses related to the relocation of Grace's corporate headquarters from New York to Florida, provisions for litigation and certain environmental and plant closure expenses and a reserve for the costs of restructuring activities.

4. Other Income

	1993	1992	1991
Interest	**$30.4**	$12.5	$12.8
Net gain on strategic restructuring	**–**	–	6.1
Equity in earnings of affiliated companies	**1.0**	3.4	2.2
Other, net	**11.1**	54.0	34.6
	$42.5	$69.9	$55.7

Other, net in 1993 represents principally the gain on the sale of a 50% interest in a Japanese chemical business (see Note 3), offset by provisions for environmental and plant closure expenses. Interest income in 1993 includes $21.9 relating to the settlement of prior years' Federal income tax returns.

5. Income Taxes

Effective January 1, 1992, Grace adopted SFAS No. 109, "Accounting for Income Taxes," which applies an asset and liability approach requiring the recognition of deferred tax assets and liabilities with respect to the expected future tax consequences of events that have been recorded in the consolidated financial statements and tax returns. If it is more likely than not that all or a portion of a deferred tax asset will not be realized, a valuation allowance must be recognized. As permitted under SFAS No. 109, Grace elected not to restate prior periods' consolidated financial statements to give effect to SFAS No. 109. 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 1992 financial statements was not material.

In the third quarter of 1993, Grace recorded the effects of the Omnibus Budget Reconciliation Act of 1993 (OBRA), which was enacted in August 1993. Among other things, OBRA increased the highest U.S. Federal corporate tax rate to 35%, effective January 1, 1993. However, neither this increase in the U.S. Federal corporate tax rate (from 34%), nor the other provisions of OBRA, had a material effect on Grace's results of operations.

The components of income/(loss) from continuing operations before income taxes are as follows:

	1993	1992	1991
Domestic	**$125.4**	$206.4	$124.2
Foreign	**95.8**	(13.9)	210.0
	$221.2	$192.5	$334.2

The provision/(benefit) for income taxes allocated to continuing operations consisted of:

	1993	1992	1991
Federal income taxes:			
Current	**$ 53.6**	$ 75.6	$ 41.3
Deferred	**(28.7)**	(20.2)	(5.0)
State and local income taxes – current	**19.1**	16.5	15.3
Foreign income taxes:			
Current	**44.4**	57.6	68.4
Deferred	**(1.6)**	5.3	12.5
	$ 86.8	$134.8	$132.5

At December 31, 1993 and 1992, the deferred tax assets and liabilities consisted of the following items:

	1993	1992
Research and development expenses	**$112.2**	$106.7
Provision relating to asbestos-related expenses	**7.8**	–
Postretirement benefits other than pensions	**92.1**	94.1
Net operating loss carryforwards	**42.6**	52.2
Reserves not yet deductible for tax purposes	**113.6**	26.8
Tax credit carryforwards	**84.9**	95.8
Pension and insurance reserves	**26.2**	23.0
Capitalized inventory costs and inventory reserve	**19.4**	17.7
State deferred taxes	**25.2**	21.4
Other	**46.6**	62.3
Total deferred tax assets	**570.6**	500.0
Depreciation and amortization	**141.5**	141.6
Prepaid pension cost	**87.7**	71.4
Other	**4.0**	6.4
Total deferred tax liabilities	**233.2**	219.4
Deferred tax assets valuation allowance	**125.7**	143.1
Net deferred tax assets	**$211.7**	$137.5

In connection with the adoption of SFAS No. 109 effective January 1, 1992, Grace recognized a valuation allowance of $88.4, which was adjusted in 1992 and 1993. The valuation allowance relates to the uncertainty as to the realization of certain deferred tax assets, including U.S. tax credit carryforwards, state and local net operating loss carryforwards and net deferred tax assets, and net operating loss carryforwards in certain foreign jurisdictions. Based upon anticipated future results, Grace has concluded, after consideration of the valuation allowance, that it is more likely than not that the net deferred tax asset balance will be realized.

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

At December 31, 1993, there are $59.9 of tax credit carryforwards with expiration periods through 1998 and $25.0 of tax credit carryforwards with no expiration period. Additionally, there are state and local and foreign net operating loss carryforwards with a tax effect of $47.1 and various expiration periods.

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

	1993	1992	1991
U.S. Federal corporate tax rate	**35.0%**	34.0%	34.0%
Increase/(decrease) in tax rate resulting from:			
U.S. and foreign taxes on foreign operations	**7.3**	10.8	6.6
Utilization of general business credits	**(2.9)**	–	(2.7)
State and local income taxes, net of Federal income tax benefit	**5.6**	5.6	3.0
Valuation allowance for deferred tax assets	**–**	26.3	–
Impact of U.S. and foreign tax rate changes on deferred taxes	**(3.3)**	–	–
Other, net	**(2.5)**	(6.7)	(1.3)
Effective tax rate	**39.2%**	70.0%	39.6%

U.S. and foreign taxes have not been provided on approximately $444.0 of undistributed earnings of certain foreign subsidiaries, as such earnings are being retained indefinitely by such subsidiaries for reinvestment. The distribution of these earnings would result in additional foreign withholding taxes of approximately $26.3 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 upon such a distribution.

6. Discontinued Operations

Cocoa, Battery Separators and Engineered Materials and Systems

In the second quarter of 1993, Grace classified as discontinued operations its cocoa and battery separators businesses; certain engineered materials businesses, principally its printing products, electromagnetic radiation control and material technology businesses (collectively EMS); and other non-core businesses pending their divestment. A provision of $105.0 (net of an applicable tax benefit of $22.3) was recorded in the second quarter of 1993, which includes the loss expected on the divestment of these businesses, their anticipated net operating results and a $15.7 provision for interest expense allocated to the discontinued operations through their expected dates of divestment.

Grace Energy

During the first and second quarters of 1993, Grace sold substantially all the oil and gas operations of Grace Energy, which was classified as a discontinued operation in 1992, for net cash proceeds of $386.0, which was consistent with prior estimates. The loss from discontinued operations in 1992 included a provision of $155.0 (net of an applicable tax benefit of $81.8) relating to the losses expected on the divestment of Grace Energy's operations. Grace is pursuing the divestment of Colowyo, a partnership wholly owned by Grace Energy, and expects to conclude such a transaction in 1994. Grace is in the process of liquidating the remaining miscellaneous assets and liabilities of Grace Energy's oil and gas operations.

Grace Distribution and Other

As mentioned above, in the second quarter of 1993, Grace classified as discontinued operations certain non-core businesses, which include its animal genetics and Caribbean fertilizer operations, the operating results and net assets of which are included under "Other" in the following tables. In 1992, Grace classified as discontinued operations certain corporate investments, including Grace's minority interests in Canonie Environmental Services Corp. and Grace-Sierra Horticultural Products Company. In December 1993, Grace completed the sale of these minority interests for total proceeds of $41.3. Grace is pursuing the sale of the remaining non-core businesses and corporate investments and expects to conclude such transactions in 1994.

The loss from discontinued operations in 1992 included an after-tax provision of $12.1 relating to the loss associated with the sale of Grace's remaining Mexican-style restaurant operation. In March 1992, Grace completed the sale of Grace Distribution for $97.8 in cash and notes.

Operating results of Grace's discontinued operations subsequent to their classification as such have been consistent with amounts originally estimated and are recorded against established reserves. Operating results prior to classification as discontinued operations and sales and revenues for the three years ended December 31, 1993, 1992 and 1991 were as follows:

	1993	1992	1991
Cocoa			
Sales and revenues	**$ 635.8**	$ 683.5	$705.0
(Loss)/income from operations before taxes[1]	**$ (5.6)**	$ 1.8	$ 28.6
Income tax benefit/(provision)	**1.0**	.4	(11.8)
(Loss)/income from discontinued operations	**$ (4.6)**	$ 2.2	$ 16.8
Battery Separators and EMS			
Sales and revenues	**$ 387.9**	$ 413.6	$401.7
Income from operations before taxes[1]	**$ 4.7**	$ 29.1	$ 23.7
Income tax (provision)	**(2.1)**	(10.1)	(8.0)
Income from discontinued operations	**$ 2.6**	$ 19.0	$ 15.7
Grace Energy			
Sales and revenues	**$ 234.8**	$ 515.0	$479.2
(Loss) from operations before taxes[1]	**–**	$ (11.1)	$ (25.6)
Income tax benefit	**–**	6.6	9.7
(Loss) from discontinued operations	**–**	$ (4.5)	$ (15.9)
Grace Distribution			
Sales and revenues	**–**	$ 178.0	$780.4
(Loss) from operations before taxes[1]	**–**	$ (2.8)	$ (.1)
Income tax benefit	**–**	.9	.1
(Loss) from discontinued operations	**–**	$ (1.9)	$ –
Other			
Sales and revenues	**$ 69.7**	$ 96.5	$ 102.4
(Loss) from operations before taxes[1]	**$ (1.7)**	$ (13.4)	$ (2.7)
Income tax benefit	**0.3**	3.5	3.0
(Loss)/income from discontinued operations	**$ (1.4)**	$ (9.9)	$ .3
Total operating results of discontinued operations	**$ (3.4)**	$ 4.9	$ 16.9
Net pretax (loss) on disposals of operations	**(127.3)**	(255.1)	–
Income tax benefit on disposals of operations	**22.3**	88.0	–
Total (loss)/income from discontinued operations	**$(108.4)**	$(162.2)	$ 16.9

[1] Reflects an allocation of interest expense based on (a) a ratio of the net assets of the businesses classified as discontinued operations in the second quarter of 1993 as compared to Grace's total capital and (b) Grace's incremental borrowing rate applied to both the expected proceeds from the divestment of Grace Energy and to the net assets of Grace Distribution through the dates of their respective sales, assuming that amounts received from the divestment of these businesses are used to reduce debt. The above operating results for the periods prior to classification as discontinued operations include interest expense allocations of $2.5, $38.6 and $67.6 for 1993, 1992 and 1991, respectively.

For financial reporting purposes, the assets, liabilities, results of operations and cash flows of Grace Cocoa Associates, L.P. (LP) are included in Grace's consolidated financial statements as a component of discontinued operations, and the outside investors' interest in LP is reflected as a minority interest in the Consolidated Balance Sheet. See Note 12 for a further discussion of LP.

Net assets of Grace's discontinued operations (excluding intercompany assets) at December 31, 1993 were as follows:

	Cocoa	**Battery Separators and EMS**	**Grace Energy**	**Other**	**Total**
Current assets	$ 218.6	$ 114.3	$ 14.8	$ 54.4	$ 402.1
Properties and equipment, net	170.3	157.2	134.0	38.8	500.3
Investments in and advances to affiliated companies	–	4.8	4.1	40.2	49.1
Other noncurrent assets	41.8	25.4	11.4	47.0	125.6
Total assets	$430.7	$301.7	$164.3	$180.4	$ 1,077.1
Current liabilities	$127.4	$ 38.9	$ 14.9	$ 23.1	$ 204.3
Other noncurrent liabilities	63.7	28.7	19.7	(.6)	111.5
Total liabilities	$ 191.1	$ 67.6	$ 34.6	$ 22.5	$ 315.8
Net assets	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

7. Other Balance Sheet Items

	1993	1992
Notes and Accounts Receivable		
Trade receivables, less allowances of $49.7 (1992 – $38.3)	**$ 545.7**	$ 598.3
Other receivables, less allowances of $.6 (1992 – $1.0)	**111.7**	92.1
	$ 657.4	$ 690.4
Inventories		
Raw and packaging materials	**$ 111.4**	$ 179.3
In process	**59.9**	76.2
Finished products	**243.3**	324.7
General merchandise	**67.0**	59.8
Less: Adjustment of certain inventories to a last-in/first-out (LIFO) basis	**(40.6)**	(47.1)
	$ 441.0	$ 592.9
Other Assets		
Deferred income taxes	**$ 277.3**	$ 137.1
Prepaid pension costs	**224.2**	229.2
Patient relationships, less accumulated amortization of $96.5 (1992 – $78.5)	**196.4**	184.8
Long-term receivables, less allowances of $13.4 (1992 – $8.4)	**177.0**	103.5
Deferred charges	**110.4**	108.1
Long-term investments	**104.4**	68.2
Investments in and advances to affiliated companies	**51.4**	115.8
Patents and licenses	**33.9**	25.7
Other	**60.3**	61.5
	$1,235.3	$1,033.9

During 1993 and 1992, Grace entered into agreements to sell up to $270.0 and $345.0, respectively, of interests in designated pools of trade receivables. At December 31, 1993 and 1992, $263.8 and $307.9, respectively, had been received pursuant to such sales, which amounts are reflected as reductions to trade accounts receivable. Included in the trade receivables sold at December 31, 1992 are $50.0 of trade receivables, the sale of which has 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 29.0% and 22.9% of inventories at December 31, 1993 and 1992, respectively. Liquidation of prior years' LIFO inventory layers in 1993, 1992 and 1991 did not materially affect cost of goods sold in any of these years.

8. Properties and Equipment

	1993	1992
Land	**$ 51.3**	$ 59.2
Buildings	**636.1**	801.3
Machinery, equipment and other	**1,842.5**	2,199.1
Projects under construction	**247.9**	231.4
Properties and equipment, gross	**2,777.8**	3,291.0
Accumulated depreciation and amortization	**(1,323.7)**	(1,583.1)
Properties and equipment, net	**$1,454.1**	$1,707.9

Interest costs have been incurred in connection with the financing of certain assets prior to placing them in service. Interest costs capitalized in 1993, 1992 and 1991 were $7.4, $20.4 and $21.4, respectively.

Depreciation and amortization expense relating to properties and equipment amounted to $189.2, $194.9 and $203.4 in 1993, 1992 and 1991, respectively.

Grace's rental expense for operating leases amounted to $63.8, $80.0 and $67.7 in 1993, 1992 and 1991, respectively. See Note 11 for information regarding contingent rentals.

At December 31, 1993, minimum future payments for operating leases were:

1994	$ 59.4
1995	50.2
1996	41.9
1997	35.4
1998	28.9
Later years	75.5
Total minimum lease payments	$291.3

The above minimum lease payments include sublease income of $12.1 per year for 1994 through 1998 and a total of $53.6 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 entire net book value of the facility 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. As of December 31, 1993, Grace substantially completed the shutdown of this facility and believes the amounts recorded are adequate to cover remaining contingencies.

9. Debt

	1993	1992
Short-Term Debt		
Commercial paper (3.6% and 4.1% weighted average interest rate at year-end 1993 and 1992, respectively)[1]	**$ 167.4**	$ 25.0
Bank borrowings (4.3% weighted average interest rate at year-end 1992)[1]	**—**	170.6
Current maturities of long-term debt	**9.1**	50.7
Other short-term borrowings[2]	**356.1**	218.4
	$ 532.6	$ 464.7
Long-Term Debt		
Commercial paper (3.6% weighted average interest rate at year-end 1993)[1]	**$ 30.8**	—
Bank borrowings (3.6% and 4.3% weighted average interest rate at year-end 1993 and 1992, respectively)[1]	**479.6**	$ 510.0
7.4% Notes Due 2000[3]	**300.0**	—
7.75% Notes Due 2002[4]	**150.0**	150.0
6.5% Notes Due 1995[5]	**150.0**	150.0
Sundry indebtedness with various maturities through 2003	**72.2**	87.4
Liquid Yield Option Notes (LYONs)[6]	**—**	351.2
6.25% Convertible Subordinate Debentures Due 2002[7]	**—**	150.0
Industrial revenue bonds with various maturities through 2007	**—**	6.6
	1,182.6	1,405.2
Less amounts due within one year included in short-term debt	**9.1**	50.7
	$1,173.5	$1,354.5
Full-year weighted average interest rate on total debt	**5.5%**	6.7%

[1]Under its bank revolving credit agreement, Grace 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, approximately $715.0 is available under a 364-day facility expiring September 1, 1994, and the remainder is available under a three-year facility expiring September 1, 1995. At December 31, 1993 and 1992, borrowings of $63.9 and $250.0, respectively, were outstanding under the revolving credit agreement and are included in long-term bank borrowings above. At December 31, 1993, $613.9 was reserved to support commercial paper and other bank borrowings outstanding, leaving net unused credit facilities of $547.2. Grace's ability to borrow the maximum amounts available under these facilities is subject to compliance with certain covenants, which include minimum net worth requirements and an interest coverage ratio.

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

[3]During the first quarter of 1993, Grace sold at par $300.0 of 7.4% Notes Due 2000. Interest is payable semiannually and the Notes may not be redeemed prior to maturity.

[4]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.

[5]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 par, to yield 6.59%. Interest is payable semiannually and the Notes may not be redeemed prior to maturity.

[6]Grace redeemed in full all of its outstanding Liquid Yield Option Notes (LYONs) ($1,012.5 principal amount at maturity; $371.1 carrying value) on July 30, 1993. In connection with the redemption, approximately 31% of the LYONs (approximately $309.6 principal amount, $113.5 carrying value) were converted into 2.8 million shares of W. R. Grace & Co. common stock. The remainder of the LYONs were redeemed for $257.6 in cash.

[7]Grace redeemed in full all of its outstanding 6.25% Convertible Subordinate Debentures Due 2002 (6.25% Debentures) on September 15, 1993. The 6.25% Debentures were convertible into common stock of W. R. Grace & Co. at a conversion price

Payment of substantially all of Grace's borrowings may be accelerated, and its principal borrowing agreements terminated, upon the occurrence of a default under certain other Grace borrowings.

Scheduled maturities of debt outstanding at December 31, 1993 are: 1994–$9.1; 1995–$166.3; 1996–$13.9; 1997–$6.1, and 1998–$4.4.

Interest expense for 1993, 1992 and 1991 amounted to $81.5, $90.0 and $115.4, respectively. Interest payments made in 1993, 1992 and 1991 amounted to $102.5, $166.8 and $263.9, respectively. By managing its interest rate exposure through interest rate derivative agreements, Grace reduced interest expense for the years ended December 31, 1993 and 1992 by $20.3 and $4.7, respectively. See Note 10 for a further discussion of interest rate hedge agreements.

During the fourth quarter of 1993, Grace filed a registration statement with the Securities and Exchange Commission covering $750.0 of debt and/or equity securities that may be sold from time to time; the registration statement became effective in January 1994.

10. Financial Instruments

Interest Rate Swaps

Grace enters into interest rate hedge agreements to manage interest costs and risks associated with changing interest rates; most of these agreements effectively convert underlying fixed-rate debt into variable-rate debt based on LIBOR. At December 31, 1993 and 1992, the notional principal amount of these agreements totalled $1,250.0 and $1,035.0, respectively. At December 31, 1993, Grace would have been required to pay $25.8 to settle these agreements, representing the excess of carrying value over fair value, based on estimates received from financial institutions. The fair value at December 31, 1992 was not material. Due to previously settled agreements, Grace has unamortized gains of $56.3 and $4.9 as of December 31, 1993 and 1992, respectively, which are reflected as adjustments to interest expense over appropriate periods relevant to the respective financial instruments.

Foreign Currency Contracts

Grace enters into a variety of short-term currency swaps, foreign exchange contracts and options to manage its exposure to fluctuations in foreign currency exchange rates. These contracts generally involve the exchange of one currency for another at a future date. At December 31, 1993, Grace had a notional principal amount of approximately $34.9 in contracts to buy or sell foreign currency in the future. The carrying value at December 31, 1993 and 1992, which approximated fair value based on exchange rates at December 31, 1993 and 1992, was not significant.

Other Financial Instruments

At December 31, 1993 and 1992, the carrying value of financial instruments such as cash, short-term investments, trade receivables and payables and short-term debt approximated their fair values, based on the short-term maturities of these instruments. Additionally, the carrying value of both long-term investments and receivables approximated fair values. Fair value is determined based on expected future cash flows, discounted at market interest rates, and other appropriate valuation methodologies. At December 31, 1993 and 1992, the fair value of long-term debt was $1,216.4 and $1,400.9, respectively. Both periods include approximately $510.0 of borrowings supported by the revolver agreement, for which the carrying value approximated fair value. The fair value of debt is determined by obtaining quotes from financial institutions.

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 hedge agreements and currency exchange contracts 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 due to credit risk is remote. The notional amount of the instruments discussed above reflected the extent of involvement in the instruments, but did not represent its exposure to market risk. Considerable judgment is required to develop the estimates of fair value; thus, the estimates provided above are not necessarily indicative of the amounts that could be realized in a current market exchange.

11. Commitments and Contingent Liabilities

Grace is the named tenant or guarantor with respect to certain lease obligations of previously divested businesses. The leases, some of which extend to 2015, have future minimum lease payments aggregating $68.4. Grace is also the named tenant or guarantor with respect to lease obligations having future minimum lease payments of $43.7, as to which Channel Home Centers, Inc., a previously divested business, has been released in bankruptcy; offsetting this is $39.7 of future minimum rental income from subtenants. Grace continues to attempt to sublease the remaining properties and believes its ultimate exposure is not material.

Grace is the named tenant with respect to lease obligations with future minimum lease payments of $19.5 that have been assigned to Hermans, a previously divested business currently operating under Chapter 11 of the Federal Bankruptcy Code. Hermans has advised Grace that it intends to continue to occupy premises under leases with future minimum payments of $17.9 and is negotiating termination agreements as to the remainder. Grace believes its ultimate exposure under these leases is not material, as Hermans is performing on its current lease obligations and expects to emerge from bankruptcy as a viable company. Additionally, Grace is fully indemnified by other parties for any losses it may incur under these leases.

In 1992 and 1993, Grace provided The Restaurant Enterprises Group, Inc. (REG) with various forms of financial support, including a letter of credit support facility to assist REG in meeting certain liquidity and other financial requirements. During 1993, REG was reorganized, and in January 1994 the letter of credit was canceled and Grace received $42.8 in exchange for all of the REG securities held by Grace. The reorganized REG (now named Family Restaurants, Inc.) has agreed to indemnify Grace with respect to leases entered into by REG's subsidiaries under which Grace remains contingently liable. At December 31, 1993, these leases have future minimum lease payments of $72.4. Grace believes any risk of loss from these contingent liabilities is remote.

Grace is subject to loss contingencies resulting from environmental laws and regulations, which include obligations to remove or mitigate the effects on the environment of the disposal or release of certain wastes and other substances at various sites. Grace accrues for anticipated costs associated with investigatory and remediation efforts where an assessment has indicated that a loss is probable and can be reasonably estimated. At December 31, 1993, Grace's accrued liability for environmental remediation totalled approximately $160.0.

The measurement of the liability is evaluated quarterly based on currently available information, including the progress of remedial investigation at each site, the current status of discussions with regulatory authorities regarding the method and extent of remediation at each site, and the extent of apportionment of costs among other potentially responsible parties. As some of these matters are decided (the outcome of which is subject to various uncertainties) and/or new sites are assessed and costs can be reasonably estimated, Grace will review and analyze the need for additional accruals.

12. Minority Interests

In December 1992, 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 partnership 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 as a component of discontinued operations and the outside investors' interest in LP is reflected as a minority interest.

13. Shareholders' Equity

The weighted average number of shares of common stock outstanding during 1993 was 91,461,000 (1992–89,543,000; 1991–87,236,000).

W. R. Grace & Co. is authorized to issue 300,000,000 shares of common stock. Of the common stock unissued at December 31, 1993, approximately 8,767,000 shares may be issued or delivered upon the exercise of stock options or grant of share awards in connection with stock incentives such as stock options. In addition, at December 31, 1993, 102,232,000 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, 1993			Par Value of Shares Outstanding		
	Authorized and Issued	In Treasury	Outstanding	**1993**	1992	1991
6% Cumulative[1]	40,000	3,536	36,464	**$3.6**	$3.6	$3.6
8% Cumulative Class A[2]	50,000	33,644	16,356	**1.6**	1.7	1.7
8% Noncumulative Class B[2]	40,000	18,415	21,585	**2.2**	2.2	2.2
				$7.4	$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 1993, 1992 and 1991.

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

14. Stock Incentive Plans

Changes in outstanding common stock options are summarized below:

	1993		1992		1991	
	Number of Shares	**Average Exercise Price**	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Balance at beginning of year	**6,365,187**	**$35.09**	6,112,248	$32.01	7,172,775	$24.91
Options granted	**1,461,425**	**38.00**	1,445,300	37.77	2,901,793	39.27
	7,826,612		7,557,548		10,074,568	
Options exercised	**(683,255)**	**25.89**	(1,132,863)	25.29	(2,052,421)	23.48
Options terminated or canceled	**(178,053)**	**40.13**	(59,498)	27.97	(1,909,899)	25.54
Balance at end of year	**6,965,304**	**36.48**	6,365,187	35.09	6,112,248	32.01

At December 31, 1993, options covering 5,056,256 shares (1992–4,025,840, 1991–3,690,088) were exercisable and 1,804,122 shares (1992–3,087,994, 1991–4,637,368) were available for additional 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 new options covering an equal number of shares 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 until 1996, at which time they become exercisable in five annual installments.

15. 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 55% of U.S. and non-U.S. plan assets at December 31, 1993 were common stocks, with the remainder primarily fixed income securities.

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

	1993		1992		1991	
	U.S.	**Non-U.S.**	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost on benefits earned during the year	**$ 17.6**	**$ 9.5**	$ 11.1	$ 9.4	$ 13.6	$13.4
Interest cost on benefits earned in prior years	**36.3**	**17.1**	31.7	16.5	30.9	16.3
Actual return on plan assets	**(108.2)**	**(56.7)**	(20.9)	(30.6)	(83.6)	(34.3)
Deferred gain/(loss) on plan assets	**58.1**	**36.0**	(30.5)	9.5	33.2	12.9
Amortization of net gains and prior service costs	**(5.3)**	**(1.7)**	(8.4)	(5.5)	(7.7)	(2.9)
Net pension (benefit)/cost	**$ (1.5)**	**$ 4.2**	$(17.0)	$ (.7)	$(13.6)	$ 5.4

The funded status of these plans was as follows:

	1993		1992	
	U.S.	**Non-U.S.**	U.S.	Non-U.S.
Actuarial present value of benefit obligation:				
Vested	**$614.2**	**$172.6**	$522.3	$163.6
Accumulated benefit obligation	**$620.0**	**$182.2**	$527.7	$ 176.1
Total projected benefit obligation	**$691.4**	**$263.4**	$596.4	$240.4
Plan assets at fair value	**836.4**	**270.1**	767.9	288.5
Plan assets in excess of projected benefit obligation	**145.0**	**6.7**	171.5	48.1
Unamortized net gain at initial adoption	**(96.1)**	**(6.4)**	(108.6)	(14.3)
Unamortized prior service cost	**34.8**	**4.2**	19.4	4.2
Unrecognized net gain/(loss)	**47.6**	**.9**	54.2	(21.0)
Prepaid pension cost	**$131.3**	**$ 5.4**(1)	$136.5	$ 17.0(1)

(1)*Includes $71.4 in 1993 and $80.7 in 1992 of prepaid pension costs.*

The following significant assumptions were used in 1993, 1992 and 1991:

	1993		1992		1991	
	U.S.	**Non-U.S.**	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate at December 31,	**7.5%**	**4.5- 8.0%**	8.0%	6.0-12.0%	9.0%	6.0-13.0%
Expected long-term rate of return	**9.0**	**6.0-10.5**	9.0	6.0-11.0	9.0	6.0-11.0
Rate of compensation increase	**5.5**	**3.5- 7.5**	6.0	3.5 - 7.5	6.0	3.5- 7.5

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 and $10.9 in 1992 and 1991, respectively. In addition, Grace settled certain pension obligations of one of its non-U.S. plans, resulting in gains of $.6, $.7 and $11.8 in 1993, 1992 and 1991, respectively.

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.

16. 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 various levels of benefits to employees (depending on their date of hire) 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 continues to pay the costs of postretirement benefits as they are incurred.

Included in noncurrent liabilities as of December 31, 1993 and 1992 are the following:

	1993	1992
Accumulated postretirement benefit obligation:		
Retirees	**$168.9**	$151.0
Fully eligible participants	**36.9**	21.5
Active ineligible participants	**38.3**	45.1
Accumulated postretirement benefit obligation	**244.1**	217.6
Unrecognized net loss	**(40.7)**	(17.6)
Unrecognized prior service benefit	**52.9**	75.2
Accrued postretirement benefit obligation	**$256.3**	$275.2

Net periodic postretirement benefit cost for the years ended December 31, 1993 and 1992 is comprised of the following components:

	1993	1992
Service cost	**$ 2.2**	$ 3.8
Interest cost on accumulated postretirement benefit obligation	**13.2**	15.6
Amortization of net loss	**.2**	–
Amortization of prior service benefit	**(4.5)**	(1.9)
Net periodic postretirement benefit cost	**$11.1**	$17.5

The cost of these benefits (cash basis) to Grace's continuing operations was approximately $5.6 for 1991. As a result of classifying certain operations as discontinued, Grace recognized reductions in the accrued postretirement benefit obligation of approximately $16.6 and $23.5 in 1993 and 1992, respectively, which are reflected in the reserve for discontinued operations.

During 1992, Grace's retiree medical plans were amended to increase cost sharing by employees retiring after January 1, 1993. This amendment decreased the accumulated postretirement benefit obligation by $52.9 at December 31, 1993 and will be amortized over an average remaining future service life of approximately 13 years.

Medical care cost trend rates were projected at 11.7% in 1993, declining to 5.0% through 2003 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 $1.6 and the accumulated postretirement benefit obligation by $16.5. The discount rates at December 31, 1993 and 1992 were 7.5% and 8.0%, respectively.

In November 1992, the Financial Accounting Standards Board issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits," which requires accrual accounting for non-accumulating postemployment benefits. Grace's primary postemployment obligation is for disabled workers' medical benefits. These are currently included in accrued postretirement costs under SFAS No. 106. The adoption of SFAS No. 112 is not expected to have a material effect on Grace's results of operations or financial position.

17. Industry and Geographic Segments

Industry Segment Information[1]		Specialty Chemicals	Health Care	Other[2]	Total
Sales and Revenues	**1993**	**$2,895**	**$1,513**	**$ -**	**$4,408**
	1992	3,062	1,275	-	4,337
	1991	3,078	1,060	249	4,387
Pretax Operating Profit	**1993**	**392**	**247**	**(418)[4]**	**221**
	1992	259[3]	176	(242)[4]	193
	1991	409	143	(218)[4]	334
Identifiable Assets	**1993**	**2,115**	**1,442**	**1,791**	**5,348[5]**
	1992	2,012	1,095	927	4,034[5]
	1991	2,260	1,016	750	4,026[5]
Capital Expenditures	**1993**	**209**	**80**	**21**	**310[5]**
	1992	224	52	34	310[5]
	1991	216	46	52	314[5]
Depreciation and Amortization	**1993**	**138**	**78**	**12**	**228**
	1992	151	65	9	225
	1991	154	61	18	233

Geographic Segment Information[1]		United States	Canada	Europe	Other	Unallocated Corporate Items[2]	Total
Sales and Revenues	**1993**	**$2,855**	**$124**	**$ 932**	**$497**	**$ -**	**$4,408**
	1992	2,721	131	1,081	404	-	4,337
	1991	2,455	136	1,186	361	249	4,387
Pretax Operating Profit	**1993**	**460**	**7**	**93**	**79**	**(418)[4]**	**221**
	1992	387	1	(32)[3]	79	(242)[4]	193
	1991	313	10	152	77	(218)[4]	334
Identifiable Assets	**1993**	**2,327**	**82**	**753**	**395**	**1,791**	**5,348[5]**
	1992	1,977	75	772	283	927	4,034[5]
	1991	1,915	86	969	306	750	4,026[5]

[1]Certain amounts have been restated to conform to the 1993 presentation.
[2]Includes divested specialty businesses and unallocated corporate items.
[3]Includes a provision of $140 relating to a fumed silica plant in Belgium.
[4]Unallocated corporate items include:

	1993	1992	1991
Interest expense	**$ (82)**	$ (90)	$ (115)
General corporate overhead expenses	**(63)**	(64)	(63)
General corporate research expenses	**(64)**	(62)	(56)
Provision relating to asbestos-related insurance coverage	**(159)**	-	-
Net gain on strategic restructuring	**-**	-	6
Other (expenses)/income, net	**(50)**	(26)	10
Total	**$(418)**	$(242)	$(218)

[5]Excludes assets and capital expenditures of discontinued operations as follows:

	1993	1992	1991
Identifiable assets	**$5,348**	$4,034	$4,026
Discontinued operations	**761**	1,565	1,981
Total Assets	**$6,109**	$5,599	$6,007
Capital expenditures	**$ 310**	$ 310	$ 314
Discontinued operations	**-**	88	133
Total Capital Expenditures	**$ 310**	$ 398	$ 447

Quarterly Summary
Unaudited–dollars in millions, except per share

Quarter Ended	March 31	June 30	September 30	December 31
1993[1]				
Sales and revenues	**$986.2**	**$1,094.1**	**$1,136.1**	**$1,192.0**
Cost of goods sold and operating expenses	**(593.8)**	**(648.5)**	**(664.3)**	**(690.2)**
Income/(loss) from continuing operations	**31.7**	**53.9**	**(236.4)**[4]	**285.2**[5]
Loss from discontinued operations	**(3.4)**	**(105.0)**	**–**	**–**
Net income/(loss)	**28.3**	**(51.1)**	**(236.4)**	**285.2**
Earnings/(loss) per share:[2]				
Continuing operations	**$ .35**	**$ .60**	**$ (2.56)**	**$ 3.05**
Net earnings/(loss)	**.31**	**(.57)**	**(2.56)**	**3.05**
Fully diluted earnings per share:				
Continuing operations	**$ .34**	**$ .56**	**$ –**[6]	**$ 3.03**
Net earnings	**.30**	**–**[6]	**–**[6]	**3.03**
Dividends declared per common share	**$ .35**	**$ .35**	**$ .35**	**$ .35**
Market price of common stock:[3]				
High	**$ 40⅛**	**$ 40⅝**	**$ 41¼**	**$ 40⅝**
Low	**36¾**	**38½**	**34⅝**	**34¾**
Close	**38½**	**40½**	**34⅝**	**40⅝**
1992[1]				
Sales and revenues	$940.3	$1,061.6	$ 1,114.2	$1,220.9
Cost of goods sold and operating expenses	(566.1)	(609.2)	(649.2)	(777.0)
Income/(loss) from continuing operations	17.0	51.1	(84.5)[7]	74.1
(Loss)/income from discontinued operations	(14.1)	(152.3)	2.4	1.8
Cumulative effect of accounting changes	(190.0)	–	–	–
Net (loss)/income	(187.1)	(101.2)	(82.1)	75.9
Earnings/(loss) per share:[2]				
Continuing operations	$ .19	$ .57	$ (.94)	$ .82
Cumulative effect of accounting changes	(2.12)	–	–	–
Net (loss)/earnings	(2.10)	(1.13)	(.92)	.84
Fully diluted earnings per share:				
Continuing operations	$ .18	$ .54	$ –[6]	$ .75
Net earnings	–[6]	–[6]	–[6]	.77
Dividends declared per common share	$ .35	$ .35	$ .35	$ .35
Market price of common stock:[3]				
High	$ 45	$ 38½	$ 38½	$ 40¾
Low	37¾	33⅜	32	34
Close	40¾	34	37⅝	40¼

[1]Amounts have been restated to conform to the year-end 1993 presentation.
[2]Per share results for the four quarters differ from full-year per share results as a separate computation of earnings per share is made for each quarter presented. The difference in 1993 is principally due to the conversion in the third quarter of outstanding LYONs into approximately 2.8 million shares of common stock; see Note 9 to the Consolidated Financial Statements.
[3]Principal market: New York Stock Exchange.
[4]Includes a provision of $300.0 relating to asbestos-related insurance coverage.
[5]Includes a $200.0 reversal of the $300.0 provision relating to asbestos-related insurance coverage.
[6]Not presented as the effect is anti-dilutive.
[7]Includes a provision of $140.0 relating to a fumed silica plant in Belgium.

Quarterly Statistics
Unaudited–dollars in millions

Quarter Ended	March 31	June 30	September 30	December 31
1993[1]				
Sales and Revenues				
Specialty Chemicals	**$648.1**	**$ 729.9**	**$ 734.7**	**$ 782.9**
Health Care	**338.1**	**364.2**	**401.4**	**409.1**
Total	**$986.2**	**$1,094.1**	**$1,136.1**	**$1,192.0**
Operating Income After Taxes[2]				
Specialty Chemicals	**$ 39.6**	**$ 58.8**	**$ 60.5**	**$ 80.6**
Health Care	**27.9**	**35.1**	**36.9**	**42.3**
Total	**$ 67.5**	**$ 93.9**	**$ 97.4**	**$ 122.9**
1992[1]				
Sales and Revenues[3]				
Specialty Chemicals	$599.7	$ 687.9	$ 723.2	$ 809.0
Health Care	289.0	309.0	332.3	344.9
Total	$888.7	$ 996.9	$1,055.5	$ 1,153.9
Operating Income After Taxes[2]				
Specialty Chemicals	$ 33.9	$ 59.7	$ 62.0[4]	$ 83.6
Health Care	20.6	25.6	27.8	31.7
Total	$ 54.5	$ 85.3	$ 89.8	$ 115.3

[1]Amounts have been restated to conform to the year-end 1993 presentation.
[2]Excludes divested businesses and, in 1993, a $100.0 provision for asbestos-related insurance coverage. Amounts are computed before the allocation of corporate research, corporate overhead and corporate interest. For this table, taxes are computed substantially on a separate return basis for each unit.
[3]Excludes sales of divested businesses; therefore, the total does not agree with sales and revenues in the Consolidated Statement of Operations.
[4]Excludes a provision of $140.0 relating to a fumed silica plant in Belgium.

Worldwide Operations
Dollars in millions

	Sales and Revenues[1]			Operating Income After Taxes[1][2]		
	1993	1992	1991	**1993**[3]	1992	1991
United States/Canada						
Specialty Chemicals	**$1,555**	$1,455	$1,407	**$141**	$124	$120
Health Care	**1,424**	1,211	1,029	**128**	92	78
Total	**2,979**	2,666	2,436	**269**	216	198
Europe						
Specialty Chemicals	**852**	967	915	**46**	65[4]	87
Health Care	**80**	58	31	**14**	14	5
Total	**932**	1,025	946	**60**	79	92
Asia Pacific						
Specialty Chemicals	**307**	278	265	**40**	36	37
Health Care	**8**	6	–	**–**	–	–
Total	**315**	284	265	**40**	36	37
Latin America/Other						
Specialty Chemicals	**181**	120	95	**13**	14	9
Health Care	**1**	–	–	**–**	–	–
Total	**182**	120	95	**13**	14	9
Subtotal	**4,408**	4,095	3,742	**382**	345	336
Divested Businesses	**–**	242	645	**–**	16	10
Total Continuing Operations	**$4,408**	$4,337	$4,387	**$382**	$361	$346

[1]Certain 1992 and 1991 amounts have been restated to conform to the 1993 presentation.
[2]Computed before 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.
[3]Excludes a $100 provision for asbestos-related insurance coverage
[4]Excludes a provision of $140 relating to 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		
	1993	1992	1991	**1993**	1992	1991	**1993**	1992	1991
Operating Group									
Specialty Chemicals	**$209**	$200	$179	**$1,049**	$ 975	$ 941	**$135**	$131	$126
Health Care	**80**	52	46	**277**	221	205	**46**	38	36
Subtotal	**289**	252	225	**1,326**	1,196	1,146	**181**	169	162
General Corporate	**21**	34	45	**128**	102	92	**8**	8	7
Total Continuing Operations	**310**	286	270	**1,454**	1,298	1,238	**189**	177	169
Divested Businesses	**–**	24	44	**–**	4	213	**–**	18	34
Discontinued Operations	**–**	88	133	**–**	406	1,107	**–**	–	–
Total	**$310**	$398	$447	**$1,454**	$1,708	$2,558	**$189**	$195	$203
Geographic Location									
United States and Canada	**$195**	$156	$153	**$ 854**	$ 757	$ 696	**$117**	$108	$107
Europe	**68**	80	56	**351**	342	346	**49**	49	45
Other Areas	**26**	16	16	**121**	97	104	**15**	12	10
Subtotal	**289**	252	225	**1,326**	1,196	1,146	**181**	169	162
General Corporate	**21**	34	45	**128**	102	92	**8**	8	7
Total Continuing Operations	**310**	286	270	**1,454**	1,298	1,238	**189**	177	169
Divested Businesses	**–**	24	44	**–**	4	213	**–**	18	34
Discontinued Operations	**–**	88	133	**–**	406	1,107	**–**	–	–
Total	**$310**	$398	$447	**$1,454**	$1,708	$2,558	**$189**	$195	$203

[1]1992 and 1991 amounts have been restated to conform to the 1993 presentation

Financial Summary
Dollars in millions, except per share amounts

	1993	1992	1991	1990	1989
Statement of Operations					
Sales and revenues	**$4,408.4**	$4,337.0	$4,386.6	$4,309.7	$3,820.3
Cost of goods sold and operating expenses	**2,596.8**	2,601.5	2,649.2	2,693.5	2,430.7
Depreciation and amortization	**227.7**	224.9	232.9	227.2	199.4
Interest expense	**81.5**	90.0	115.4	137.0	121.0
Research and development expenses	**135.0**	130.0	128.1	125.4	105.0
Income from continuing operations before income taxes	**221.2**[1]	192.5[2]	334.2	272.1	207.8
Provision for income taxes	**86.8**	134.8	132.5	97.5	61.3
Income from continuing operations	**134.4**	57.7	201.7	174.6	145.9
(Loss)/income from discontinued operations	**(108.4)**	(162.2)	16.9	28.2	107.3
Cumulative effect of accounting changes	**–**	(190.0)	–	–	–
Net income/(loss)	**26.0**	(294.5)	218.6	202.8	253.2
Financial Position					
Current assets	**$1,975.3**	$2,091.4	$1,990.0	$2,380.1	$2,166.3
Current liabilities	**1,992.6**	1,639.6	1,622.1	1,680.1	1,589.1
Properties and equipment, net	**1,454.1**	1,707.9	2,558.2	2,462.1	2,220.0
Total assets	**6,108.6**	5,598.6	6,007.1	6,226.5	5,619.1
Total debt	**1,706.1**	1,819.2	2,259.4	2,285.9	2,016.7
Shareholders' equity – common stock	**1,510.2**	1,537.5	2,017.7	1,905.0	1,722.9
Data Per Common Share					
Earnings from continuing operations	**$ 1.46**	$ .64	$ 2.31	$ 2.03	$ 1.71
Cumulative effect of accounting changes	**–**	(2.12)	–	–	–
Earnings/(loss)	**.28**	(3.29)	2.50	2.36	2.97
Dividends	**1.40**	1.40	1.40	1.40	1.40
Book value	**16.16**	17.10	22.77	22.14	20.16
Average common shares outstanding *(thousands)*	**91,461**	89,543	87,236	85,879	85,193
Other Statistics					
Dividends paid on common stock	**$ 127.9**	$ 125.4	$ 122.0	$ 120.2	$ 119.2
Capital expenditures	**309.6**	398.4	447.0	513.7	484.6
% Total debt to total capital	**52.9%**	54.1%	52.7%	54.4%	53.8%
Common shareholders of record	**19,358**	20,869	21,949	23,327	26,457
Common stock price range	**41¼–34⅝**	45–32	40¾–23⅜	33⅝–17	39⅛–25⅛
Number of employees – continuing operations *(thousands)*	**34.0**	32.8	32.9	34.2	33.2

[1]Includes a provision of $159.0 relating to asbestos-related insurance coverage.
[2]Includes a provision of $140.0 relating to a fumed silica plant in Belgium.

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Corporate Responsibility: Messrs. Holmes, Yunich; Mrs. Vance*; Dr. Frick
Nominating: Messrs. Duffy, Macauley, Milliken*, Wood Prince; Mrs. Vance; Dr. Dacey

*Chair

Shareholder Information

Annual & Quarterly SEC Reports
Copies of Grace's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q may be obtained by writing to the attention of: Annual/Quarterly Report Fulfillment, W. R. Grace & Co., One Town Center Road, Boca Raton, FL 33486-1010 or calling (407)362-1380.

Annual Meeting of Shareholders
Tuesday, May 10, 1994, 10:30 a.m.
Boca Raton Marriott-Crocker Center
5150 Town Center Circle
Boca Raton, Florida

Shareholder Assistance
Information regarding shareholder accounts, dividend payments, stock transfer and related matters should be directed to our transfer agent as follows:

Chemical Bank
P. O. Box 3068
New York, NY 10116-3068
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