SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1995 Commission file number 1-3720

W. R. GRACE & CO.

Incorporated under the Laws of the State of New York

I.R.S. Employer Identification No. 13-3461988

ONE TOWN CENTER ROAD, BOCA RATON, FLORIDA 33486-1010
407/362-2000
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $1 par value Common Stock Purchase Rights	New York Stock Exchange, Inc. Chicago Stock Exchange, Incorporated
7-3/4% Notes Due 2002 (issued by W. R. Grace & Co.-Conn., a wholly owned subsidiary) and related Guarantees	New York Stock Exchange, Inc.

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

None

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

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

The aggregate market value of W. R. Grace & Co. voting stock held by nonaffiliates was approximately $6.0 billion at February 1, 1996.

At March 1, 1996, 98,038,423 shares of W. R. Grace & Co. Common Stock, $1 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Although sales and revenues tend to be slightly higher in the fourth quarter, seasonality is generally not significant to Grace Packaging. As a result of product introductions, marketing programs and improvements in global economic conditions, worldwide demand for Grace Packaging products grew at a rapid pace in 1994 and 1995, placing pressure on existing capacity. To address this matter, Grace Packaging has added capacity in all regions (including a shrink films manufacturing plant in Kuantan, Malaysia, that is expected to become operational in 1996).

Catalysts and Other Silica-Based Products. This business ("Grace Davison") is composed of three principal product groups: refinery catalysts, polyolefin catalysts, and silica and zeolite adsorbents. These products apply silica, alumina and zeolite technology and are designed and manufactured to meet the varying specifications of such diverse customers as major oil refiners, plastics and chemical manufacturers and consumer products companies. Grace Davison's technological expertise provides a competitive edge, allowing Grace Davison to quickly design products that meet customer specifications, as well as to develop new products that expand its existing technology. For example, Grace estimates that 95% of its 1995 fluid cracking catalyst sales were attributable to products introduced in the last five years.

Refinery catalysts include (a) fluid cracking catalysts used by petroleum refiners to convert crude oil into more valuable transportation fuels, such as gasoline and jet and diesel fuel, as well as other petroleum-based products, and (b) hydroprocessing catalysts that remove certain impurities (such as nitrogen, sulfur and heavy metals) from crude oil prior to the use of fluid cracking catalysts. Oil refining is a highly specialized discipline, demanding that products be tailored to meet local variations in crude oil and the refinery's changing operational needs. Grace Davison regularly works with most of the approximately 360 refineries in the world, helping to find the most appropriate catalyst formulations for the refiners' changing needs. Competition is based on technology, product performance, customer service and price. Grace believes it is one of the world leaders in refinery catalysts and the largest supplier of fluid cracking catalysts in North America and Europe.

Grace Davison polyolefin catalysts and catalyst supports are essential components used in manufacturing nearly half of all high density and linear low density polyethylene resins, which are used in products such as plastic film, high-performance pipe and household containers. The polyolefin catalyst business is technology-intensive and focused on providing products specifically formulated to meet end-user applications. Manufacturers generally compete on a worldwide basis, and competition has intensified recently due to evolving technologies, particularly the use of metallocenes.

Silica and zeolite adsorbents are used in a wide variety of industrial and consumer applications. Silicas are used in coatings as flatting agents (i.e., to reduce gloss), in plastics to improve handling, in toothpastes as thickeners and cleaners, in food to carry flavors and prevent caking, and in the purification of edible oils. Zeolite adsorbents are used between the two panes of insulated glass to adsorb moisture and in process applications to separate certain chemicals from mixtures. Competition is based on product performance, customer service and price. Grace Davison is planning to expand its silica business in the Asia Pacific region with a new plant in Kuantan, Malaysia, to open in 1996.

Grace Davison's sales and revenues were $687 million in 1995, $610 million in 1994 and $572 million in 1993; approximately 52% of Grace Davison's 1995 sales and revenues were generated in North America, 37% in Europe, 10% in Asia Pacific and 1% in Latin America. At year-end 1995, Grace Davison employed approximately 2,700 people worldwide in nine facilities (six in the United States and one each in Canada, Germany and Brazil).

Most raw materials used in the manufacture of Grace Davison products are available from multiple sources and, in some instances, are produced or supplied by Grace. Because of the diverse applications of products using Grace Davison technology and the geographic areas in which such products are used, seasonality does not have a significant effect on Grace Davison's businesses.

Construction Products. Grace Construction Products ("Grace Construction") is a leading supplier of specialty materials to the worldwide construction industry. Grace Construction's products strengthen concrete, control corrosion, prevent water damage and protect structural steel against collapse due to fire. These include concrete admixtures, cement additives, waterproofing systems and fireproofing materials. In North America, Grace Construction also manufactures and distributes masonry block additives and products and vermiculite products used in construction and other industrial applications. Grace Construction's products are sold to a broad customer base, including cement manufacturers, ready-mixed and prestressed concrete producers, specialty subcontractors and applicators, masonry block manufacturers, building materials distributors and other industrial manufacturers.

Grace Construction competes globally with several large construction materials suppliers and regionally and locally with numerous smaller competitors. Competition is based largely on price, product performance, proprietary technology and technical support and service. Grace Construction's customers are frequently local contractors and cement manufacturers; consequently, local suppliers are often able to compete effectively.

Grace Construction's 1995 sales and revenues totaled $397 million (66% in North America, 17% in each of Europe and Asia Pacific and less than 1% in Latin America), versus $387 million and $333 million in 1994 and 1993, respectively. At year end 1995, Grace Construction employed approximately 1,900 people at 57 production facilities (27 in North America, 11 in Southeast Asia, 7 in Australia/New Zealand, 7 in Europe, 4 in Latin America and 1 in Japan) and 70 sales offices worldwide.

The raw materials used for manufacturing Grace Construction products are primarily commodities obtained from multiple sources, including commodity chemical producers, petroleum companies and paper manufacturers. In most instances, there are at least two alternative suppliers for each of the principal raw materials used by Grace Construction. However, the worldwide supply of calcium lignin, a wood pulping by-product used as a raw material in the production of concrete admixtures, has been decreasing as paper mills convert to new manufacturing processes. Grace Construction has secured short-term supplies of calcium lignin and is exploring new technologies to replace it in the future.

The construction business is seasonal, influenced by weather conditions, and cyclical, in response to economic conditions and construction demand. Grace Construction seeks to increase profitability and minimize the impact of cyclical downturns in regional economies by introducing technically advanced, value-added products, expanding geographically and developing business opportunities in renovation construction markets. In addition, Grace Construction has implemented a lower cost structure by consolidating manufacturing operations in North America and through an extensive restructuring plan in Europe.

Container and Specialty Polymer Products. Grace's container and specialty polymers business ("Grace Container") consists primarily of four product lines: container sealants, closure sealants, coatings for metal packaging, and specialty polymers. Container sealants are applied to food and beverage cans, as well as other rigid containers (such as industrial product containers and aerosol cans), to ensure a hermetic seal between the lid and the can body. Closure sealants are used to seal pry-off and twist-off metal crowns, as well as roll-on pilfer proof and plastic closures, for the glass/plastic container markets (primarily in beverage and food applications). Coatings are used in the manufacture of cans and closures to protect the metal against corrosion, to protect the contents against the influences of metal, to ensure proper adhesion of sealing compounds to metal surfaces, and to provide base coats for inks and for decorative purposes. Formulated engineered polymers are used in printed circuit board and component assembly in the electronics, electrical, automotive and defense industries, including surface mount and conductive adhesives, capacitor coatings, light-emitting diode encapsulants and conformal coatings. Grace Container is expanding its product offering through new technologies such as its oxygen-scavenging compound, which combines with closure sealants to extend shelf life by eliminating oxygen, and oxygen's effect on taste, from sealed beer and other beverage bottles.

Grace Container sales and revenues were $357 million, $325 million and $306 million in 1995, 1994 and 1993, respectively. Its products are marketed internationally, with 34% of 1995 sales and revenues in Europe, 28% in each of North America and Asia Pacific and 10% in Latin America. At year-end 1995, Grace Container employed approximately 1,600 people at 30 production facilities (9 in Asia Pacific and 7 in each of North America, Europe and Latin America) and 57 sales offices worldwide. Competition is based on providing high-quality customer service at all customer sites, as well as on price and product quality and reliability. Although the raw materials used in Grace Container's operations, including resins, rubber and latices, are generally available from multiple sources, the prices of these raw materials experienced rapid escalation throughout most of 1995, negatively impacting Grace Container's gross margins; improvements are expected in 1996 as raw materials prices started to ease during the latter part of 1995. Although demand for container packaging and sealant products tends to increase slightly during the second and third quarters, the impact of such seasonality is not significant to Grace Container.

Water Treatment. Grace's water treatment and process chemicals business ("Grace Dearborn") consists of water treatment and paper industry services business lines, which market the following products: (a) water treatment chemicals and support equipment to prevent corrosion, scale and microbiological growth in industrial utility waters, heating, cooling and steam generation applications, and industrial wastewater applications for clarification, sludge de-watering, odor control and water recycling; (b) process chemicals and support equipment to optimize and protect processing systems for the production of pulp and paper, refined petroleum products and petrochemicals, sugar and alcohol; (c) chemicals for the protection and cleaning of industrial cooking and sterilization equipment for canned foods; (d) paint detackification products to remove paint sludge from water wash paint spray systems; (e) chemicals and equipment for the treatment of process waters in the mining and processing of metal ores; and (f) chemicals and other products useful in servicing and maintaining vessels used in salt and fresh water. Grace Dearborn also provides consulting services related to its products and equipment.

Grace Dearborn sales and revenues for 1995 totaled $399 million (41% in Europe, 37% in North America, 19% in Latin America and 3% in Asia Pacific). Sales and revenues for 1994 and 1993 were $363 million and $330 million, respectively. At year-end 1995, Grace Dearborn employed approximately 2,500 people at 23 manufacturing facilities (6 in each of Latin America and Asia Pacific, 5 in Europe, 4 in North America and 2 in South Africa) and 122 sales offices.

The raw materials used in Grace Dearborn's business lines are readily available from multiple sources, generally at stable prices. The paper industry services business is affected by the cyclicality of the global paper market. The water treatment services business responds to (but is not adversely affected by) seasonal fluctuations, concentrating on boiler treatment in colder seasons and cooling system treatment in warmer seasons. The effects of seasonality are diminished by the geographic diversity of the markets served by Grace Dearborn. Grace Dearborn competes globally with several large companies and regionally and locally with numerous smaller companies. Competition is based primarily on technical service and product performance.

In March 1996, Grace announced that it had entered into a definitive agreement to sell its Dearborn water treatment and process chemicals business to Betz Laboratories, Inc. for $632 million. The transaction is expected to close in the second quarter of 1996.

Thermal and Emission Control Systems. Grace's thermal and emission control systems business ("Grace TEC Systems") is a developmental business that consists of four principal product groups: web processing products, industrial emission control products, mobile emission control products and specialty catalysts. These products are designed to customer specifications and are sold to a variety of industrial customers.

Web processing products, consisting primarily of air flotation dryers and auxiliary equipment, are sold principally to the graphic arts, coating and converting markets. The industrial emission control products group manufactures volatile organic compound control equipment, including thermal, catalytic and regenerative oxidation systems. Demand for this equipment is driven principally by government regulations. The mobile emission control products group sells washcoat materials and specialty substrates. Washcoat materials are used by catalyst manufacturers to enhance the performance of catalytic converters sold to automotive original equipment manufacturers. Specialty catalysts are used to control volatile organic compounds, nitrogen oxides and carbon monoxide from a variety of sources.

Competition for Grace TEC Systems' products is based primarily on system design, materials, technology, customer service, product performance and price.

DISCONTINUED OPERATIONS

In 1993 Grace classified its then remaining noncore businesses as discontinued operations, and in 1995 Grace classified its health care business as a discontinued operation. As discussed above (see "Strategic Restructuring and Other Growth Initiatives"), Grace has completed the sale and monetization of a substantial portion of its noncore businesses (although Grace remains subject to certain liabilities relating to those businesses). Grace's health care and cocoa businesses are the principal discontinued operations that have not yet been divested. Grace is actively pursuing the disposition of these two businesses and its other remaining discontinued operations and expects to complete their disposition in 1996. Following is a description of Grace's health care and cocoa businesses; see Notes 3, 5, 7, 12 and 13 to the Consolidated Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Financial Supplement, and "Strategic Restructuring and Other Growth Initiatives" above, for additional information.

Health Care. Grace's health care business is conducted primarily through NMC, which provides kidney dialysis services; manufactures and distributes products and equipment for dialysis treatment; performs clinical laboratory testing and other medical services; and provides home infusion, home respiratory therapy and home health services.

NMC is the largest United States provider of kidney dialysis and related services to patients suffering from chronic kidney disease and has been actively expanding this business overseas. At December 31, 1995, NMC operated and/or managed 681 outpatient dialysis centers (574 in North America, 62 in Europe, 33 in Latin America and 12 in Asia Pacific); these centers, substantially all of which are leased, average approximately 5,600 square feet in size. NMC also provides inpatient acute dialysis services under contracts with hospitals in the United States (526 at December 31, 1995) and furnishes dialysis equipment and supplies to patients who elect home treatment. At December 31, 1995, NMC was treating approximately 42,900 patients in the United States and 7,900 patients in other countries. Revenues from kidney dialysis services were $1.5 billion in 1995, $1.3 billion in 1994 and $1 billion in 1993.

Since 1991, Grace has made numerous acquisitions relating to its health care business. These acquisitions, totaling $857 million plus 115,621 shares of the Company's Common Stock over the 1991-1995 period, included a United States provider of alternate-site infusion therapy and dialysis health care services, a United States provider of home infusion therapy services, regional United States providers of home infusion therapy services and home support nursing services, and numerous dialysis centers located primarily in the United States.

NMC manufactures disposable bloodlines, dialysis concentrates, artificial kidneys (dialyzers) and dialysis machines for use in its dialysis centers and for sale to unaffiliated dialysis providers and home patients; distributes dialysis supplies and equipment and other medical products and supplies manufactured by others; and provides laboratory services for dialysis and other patients in the United States and Portugal.

NMC also provides infusion and respiratory therapies and home health services to patients in their homes through a network of 105 United States locations (104 leased and 1 owned) in 34 states. Infusion therapy consists of the intravenous delivery of an expanding range of medications and nutritional preparations, such as chemotherapy, total parenteral nutrition, antibiotic therapy and drugs for pain management. Respiratory therapy consists of the delivery of oxygen and aerosolized drugs and the use of monitors, nebulizers and ventilators. In addition, NMC provides other home health services through 21 locations.

NMC provides various ancillary medications and services to patients suffering from end-stage renal disease ("ESRD") at its dialysis centers, the most significant of which is the administration of erythropoietin ("EPO"). EPO is used to treat anemia, a medical complication frequently experienced by ESRD patients, and is administered to most of NMC's dialysis patients. Revenues from EPO accounted for approximately 13% of NMC's revenues in 1995. EPO is produced by a single manufacturer, and any interruption of supply could adversely affect NMC's business and results of operations.

NMC's United States business is dependent on the continuation of Medicare and other third-party insurance coverage for dialysis and home care services and products. At such time as Medicare becomes a patient's primary payor for dialysis (generally, three months following commencement of treatment or, in the case of patients covered by employer-sponsored health insurance, 21 months after commencement of treatment) and/or home care products and services, Medicare currently reimburses suppliers of such services and products for approximately 80% of established fees or reasonable charges; the remaining 20% is paid by the patient and/or a non-Medicare insurance carrier. NMC estimates that, in 1995, Medicare, Medicaid and other governmental health care programs accounted for approximately 60% of NMC's revenues. The reimbursement rates under such programs, as well as the scope of their coverage, are subject to legislative change as a result of deficit reduction and other measures.

Because in most cases the prices of dialysis services and products in the United States are directly or indirectly regulated by Medicare or other government payors, competition for patients is based primarily on quality and accessibility of service and referrals from physicians and hospitals. In addition, some states limit competition under laws that restrict the number of dialysis facilities within a geographic area based on need, as determined by state agencies. Competition in the home care business is also based on quality of service as well as price, and, where state laws do not impose limits on competition, there are no significant barriers to entering this business. Further, the rapid growth of managed care (a combination of financial incentives and management controls intended to direct patients to efficient providers in cost-effective settings) has resulted in greater emphasis on service costs for patients insured by third parties; therefore, cost efficiency is also a key element of competition in this market. Based upon its knowledge and understanding of the health care industry in general and of other providers of kidney dialysis and infusion therapy, as well as information obtained from publicly available sources, NMC believes that it is among the most cost-efficient of the companies in its field and that it is the leading United States supplier of dialysis services and a leading United States provider of infusion and respiratory therapies.

In most countries other than the United States where NMC provides dialysis services, prices and the opening of new facilities are directly or indirectly regulated by governments, and competition is based primarily on the quality and availability of service and relationships with referring physicians.

NMC believes there are adequate sources of supply for the raw materials and products used in its health care services and medical products businesses. At year-end 1995, NMC employed approximately 18,900 people full-time at its facilities worldwide.

On February 4, 1996, Grace and Fresenius AG announced that they had entered into an agreement pursuant to which NMC would combine with Fresenius' worldwide dialysis business. See "Strategic Restructuring and Other Growth Initiatives" above for additional information.

See "Legal Proceedings" below for information concerning certain lawsuits and government investigations and proceedings relating to NMC and Note 7 to Grace's Consolidated Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Financial Supplement for additional information concerning NMC.

Grace Cocoa. Grace's cocoa and chocolate business ("Grace Cocoa") produces high-quality intermediate cocoa and chocolate products for sale as ingredients to the bakery, confectionery, dairy and beverage industries. Cocoa liquor, cocoa butter and cocoa powder are sold internationally; coatings and intermediate chocolate products are sold to the European market; and intermediate chocolate products, primarily coatings and cookie drops, are sold to the North American market. Grace Cocoa competes primarily on the basis of superior service, product quality and reliability. Sales of cocoa and chocolate products were $798 million in 1995, $718 million in 1994 and $636 million in 1993. At year-end 1995, Grace Cocoa employed approximately 1,700 people at 9 production facilities (4 in each of Europe and North America and 1 in Asia Pacific) and 5 other offices worldwide.

See "Strategic Restructuring and Other Growth Initiatives" above and Notes 7 and 13 to Grace's Consolidated Financial Statements for additional information concerning Grace Cocoa.

RESEARCH ACTIVITIES

Grace engages in research and development programs directed toward the development of new products and processes and the improvement of, and development of new uses for, existing products and processes. Research is carried out by product line laboratories in North America, Europe, Asia and Latin America and by the Corporate Research Division in Columbia, Maryland. The Research Division's activities focus on Grace's core product lines and include research in specialty polymers; water treatment; catalysis; construction materials; photopolymers; specialty packaging; and process engineering, principally involving the development of technologies to manufacture chemical specialties.

Research and development expenses relating to continuing operations amounted to $121 million in 1995, $107 million in 1994 and $112 million in 1993 (including expenses incurred in funding external research projects). The amount of research and development expenses relating to government- and customer-sponsored projects (as opposed to projects sponsored by Grace) is not material.

See "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Financial Supplement for additional information.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

In constructing and operating its facilities, Grace incurs capital and operating expenditures relating to the protection of the environment, as well as costs to remediate properties. The following table sets forth Grace's expenditures in the past three years, and its estimated expenditures in 1996 and 1997, for (a) the operation and maintenance of environmental facilities and the disposal of hazardous and nonhazardous wastes with respect to continuing operations; (b) capital improvements to environmental control facilities relating to continuing operations; and (c) the remediation of sites:

	(a) Operation of Facilities and Waste Disposal	(b) Capital Improvements	(c) Remediation
		(in millions)	
1993	$41	$19	$44
1994	36	22	31
1995	44	15	31
1996 (est.)	45	20	30
1997 (est.)	47	17	20

Such expenditures have not had, and are not expected to have, a material effect on Grace's other capital expenditures or on its earnings or competitive position. See Note 12 to the Consolidated Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Financial Supplement.

With the goal of continuously improving its environment, health and safety ("EHS") performance, Grace established its Commitment to Care(TM) initiative (based on the Responsible Care(R) program of the Chemical Manufacturers Association) in 1994 as the program under which all Grace EHS activities are to be implemented.

To the extent applicable, Commitment to Care extends the basic elements of Responsible Care to all Grace locations worldwide, embracing specific objectives in the key areas of product stewardship, employee health and safety, community awareness and emergency response, distribution, process safety and pollution prevention.

In 1995 (following completion of the first year of the implementation of the Commitment to Care program), Grace conducted a survey of facilities worldwide to determine the program's results. The survey showed significant progress toward Grace's goal of implementing the program in all Grace facilities.

See Item 3 of this Report for information concerning environmental proceedings to which Grace is a party and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Financial Supplement for additional information concerning environmental matters.

ITEM 2. PROPERTIES.

Grace operates manufacturing and other types of plants and facilities (including office and other service facilities) throughout the world, some of which are shared by two or more of Grace's product lines. Grace considers its major operating properties to be in good operating condition and suitable for their current use. Although Grace believes that, after taking planned expansion into account, the productive capacity of its plants and other facilities is generally adequate for current operations and foreseeable growth, it conducts ongoing, long-range forecasting of its capital requirements to assure that additional capacity will be available when and as needed (see information regarding Grace's capital expenditures in "Management's Discussion and Analysis of Results of Operations and Financial Condition" and on page F-27 of the Financial Supplement). Accordingly, Grace does not anticipate that its operations or income will be materially affected by the absence of available capacity.

Additional information regarding Grace's properties is set forth in Item 1 above and in Notes 1, 9 and 12 to the Consolidated Financial Statements in the Financial Supplement.

ITEM 3. LEGAL PROCEEDINGS.

Asbestos 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. Grace was a defendant in approximately 40,800 asbestos-related lawsuits at year-end 1995 (47 involving claims for property damage and the remainder involving approximately 92,400 claims for personal injury), as compared to approximately 38,700 lawsuits at year-end 1994 (65 involving claims for property damage and the remainder involving approximately 67,900 claims for personal injury). In most of these lawsuits, Grace is one of many defendants.

The plaintiffs in property damage 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. Through year-end 1995, 129 asbestos property damage cases were dismissed with respect to Grace without payment of any damages or settlement amounts; judgments were entered in favor of Grace in 10 cases (excluding cases settled following appeals of judgments in favor of Grace and a case in which the plaintiff was granted a new trial on appeal); Grace was held liable for a total of $74.7 million in 7 cases (2 of which are on appeal); and 177 property damage suits and claims were settled for a total of $421.8 million.

Included in the asbestos property damage lawsuits pending against Grace and others at year-end 1995 were the following class actions: (1) a Pennsylvania state court action (Prince George Center, Inc. v. U.S. Gypsum Company, et al., Court of Common Pleas of Philadelphia County), certified in 1992, covering all commercial buildings in the United States leased in whole or in part to the United States government on or after May 30, 1986; (2) an action, conditionally certified by the United States Court of Appeals for the Fourth Circuit in 1993 and pending in the United States District Court for the District of South Carolina, covering all public and private colleges and universities in the United States whose buildings contain asbestos materials (Central Wesleyan College, et al. v. W. R. Grace, et al.); and (3) a purported class action (Anderson Memorial Hospital, et al. v. W. R. Grace & Co., et al.), filed in 1992 in the Court of Common Pleas for Hampton County, South Carolina, 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 and any building owned by the federal or any state government. In December 1995, Grace entered into an agreement to settle the claims under Prince George Center, Inc. v. U.S. Gypsum Company, et al. The terms of the settlement agreement (which is subject to judicial review and approval after class members have an opportunity to be heard) are not expected to have a significant effect on Grace's consolidated results of operations or financial position. In July

1994, the claims of most class members in Anderson Memorial Hospital, et al., v. W. R. Grace & Co., et al. were dismissed due to a ruling that a South Carolina statute prohibits nonresidents from pursuing claims in the South Carolina state courts with respect to buildings located outside the state. The plaintiffs have requested that the court reconsider its decision. In August 1994, Grace entered into an agreement to settle In re: Asbestos School Litigation, a nationwide class action brought in 1983 in the United States District Court for the Eastern District of Pennsylvania on behalf of all public and private elementary and secondary schools in the United States that contain friable asbestos materials (other than schools that "opted out" of the class). The terms of the settlement agreement (which were approved by the District Court in September 1995) are not expected to have a significant effect on Grace's consolidated results of operations or financial position.

The remaining asbestos lawsuits pending at year-end 1995 involved claims for personal injury. Through year-end 1995, approximately 10,100 personal injury lawsuits involving 24,500 claims were 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 23,700 such suits involving 29,600 claims were disposed of for a total of $109 million (see "Insurance Litigation" below). However, as a result of various trends (including the insolvency of other former asbestos producers and cross-claims by co-defendants in asbestos personal injury lawsuits), the costs incurred in disposing of such lawsuits in the past may not be indicative of the costs of disposing of such lawsuits in the future.

In 1991, the Judicial Panel on Multi District Litigation consolidated in the United States District Court for the Eastern District of Pennsylvania, for pre-trial purposes, all asbestos personal injury cases pending in the federal courts, including approximately 7,000 cases then pending against Grace; 3,600 new cases involving 7,200 claims against Grace have subsequently been added to the consolidated cases. To date, no action has been taken by the court handling the consolidated cases that would indicate whether the consolidation will affect Grace's cost of disposing of these cases or its defense costs.

Grace's ultimate exposure with respect to 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. As discussed below under "Insurance Litigation," a May 1994 decision of the U.S. Court of Appeals for the Second Circuit limited the amount of insurance coverage available with respect to property damage lawsuits and claims. Because Grace's insurance covers both property damage and personal injury lawsuits and claims, the May 1994 decision has had the concomitant effect of reducing the insurance coverage available with respect to Grace's asbestos personal injury lawsuits and claims. However, in Grace's opinion, it is probable that recoveries from its insurance carriers, along with other funds, will be available to satisfy the property damage and personal injury lawsuits and claims pending at year-end 1995, as well as personal injury lawsuits and claims expected to be filed through 1998. Consequently, Grace believes that the resolution of its asbestos related litigation will not have a material adverse effect on its consolidated results of operations or financial position. See "Insurance Litigation" below and Note 2 to the Consolidated Financial Statements in the Financial Supplement for additional information.

Environmental Proceedings. Grace (together with other companies) has been designated a "potentially responsible party" ("PRP") by the United States Environmental Protection Agency ("EPA") with respect to absorbing the costs of investigating and remediating pollution at various sites. At year-end 1995, proceedings were pending with respect to approximately 30 sites as to which Grace has been designated a PRP. Federal law provides that all PRPs may be held jointly and severally liable for the costs of investigating and remediating a site. Grace is also conducting investigatory and remediation activities at sites under the jurisdiction of state and/or local authorities.

In addition, in 1989, Hatco Corporation ("Hatco"), which purchased the assets of a Grace chemical business in 1978, instituted a lawsuit against Grace in the United States District Court for the District of New Jersey (Hatco Corporation v. W. R. Grace & Co.-Conn.) seeking recovery of cleanup costs for waste allegedly generated at a New Jersey facility during the period of Grace's ownership. Grace subsequently filed a lawsuit against its insurance carriers seeking indemnity against any damages assessed against Grace in the underlying lawsuit, as well as defense costs. In decisions rendered during 1993, the District Court ruled that Grace is responsible for a substantial portion of Hatco's costs. In July 1995, the United States Court of Appeals for the Third Circuit reversed the decisions of the District Court and remanded the lawsuit to the District Court for further proceedings. Specifically, the Court of Appeals (a) reversed the District Court's ruling that Grace is responsible for a substantial portion of Hatco's costs and (b) ruled that in the remand proceeding the burden of proof would be on Hatco to establish that it had not released Grace from the asserted liabilities. In an earlier decision, the District Court had resolved, in a manner favorable to Grace, certain legal issues regarding Grace's right to insurance coverage; however, the ultimate liability of Grace's insurance carriers will be determined at trial, should a trial be necessary after the remand proceedings described above. Remediation costs, and Grace's share, if any, of such costs, will be determined once ongoing site investigations are completed and a remediation plan is approved by the State of New Jersey. As a result of the above factors, the amount that Grace may be required to pay to Hatco, if any (which Grace expects will be partially offset by recoveries from insurance carriers), cannot be reliably estimated at this time.

In November 1995, Grace received a letter from the United States Department of Energy ("DOE") inquiring as to Grace's willingness to contribute to the continued cleanup of a former Grace property located in Wayne, New Jersey. The letter asserted that Grace has a legal duty to pay for the site's cleanup and that the total cost of cleanup may exceed $100 million. The operations conducted by Grace at the Wayne site (from 1955 to 1970) included work done on radioactive materials under contract with the United States government for the "Manhattan Project" and with the United States Atomic Energy Commission. In 1975, the United States Nuclear Regulatory Commission inspected the site, concluded that it was decontaminated in accordance with applicable regulations and released it for unrestricted use. In 1984, pursuant to a request from the DOE, Grace transferred the Wayne property to the DOE and made a cash payment as a contribution towards the DOE's cleanup efforts at the site, which was acknowledged by the DOE as fulfilling any obligation Grace had to contribute to DOE's cleanup effort. As a result of these transactions, Grace believes it has no further obligation to contribute to the DOE's cleanup activities.

In March 1993, an action was filed in the United States District Court for the Southern District of Texas against Grace Drilling Company, a subsidiary of the Company the business and assets of which have since been sold, and several other defendants, for alleged violations of the Clean Water Act and the Rivers and Harbors Act (U.S. v. Fina Oil and Chemical Co., et al.). The government alleges that seagrasses and seabeds around a drilling rig operated by Fina Oil and Chemical Co. were damaged in connection with the placing, servicing and removal of the rig. The government is seeking injunctive relief requiring the defendants to restore the damaged areas and to compensate for temporary loss of the seagrass habitat, as well as civil penalties of up to $25,000 per day of violation and attorneys' fees.

Grace is also a party to other proceedings involving federal, state and/or local government agencies and private parties regarding Grace's compliance with environmental laws and regulations. These proceedings are not expected to result in significant sanctions or in any material liability. As a voluntary participant in the EPA Toxic Substances Control Act Compliance Audit Program, Grace agreed to undertake a corporate-wide audit of compliance with Section 8 of such Act and to pay a stipulated civil penalty for each study or report that EPA alleges should have been, but was not, submitted to the EPA as required under such Section. Although final review of the audit is not complete, Grace believes it will be required to pay the EPA penalties aggregating from $250,000 to $400,000 for information discovered in the course of the audit. In addition, Grace has voluntarily reported to the EPA violations of certain notification and related requirements under such Act, and penalties may be assessed against Grace in connection therewith; however, the amount of such penalties cannot be determined at this time.

Grace believes that the liabilities for environmental remediation costs that have been recorded in the Consolidated Financial Statements are adequate. In addition, Grace is presently involved in litigation with its insurance carriers seeking to hold them responsible for certain amounts for which Grace may be held liable with respect to such costs. The outcome of such litigation, as well as the amounts of any recoveries that Grace may receive in connection therewith, is presently uncertain. For further information, see Note 12 to the Consolidated Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Financial Supplement.

Insurance Litigation. Grace is involved in litigation with certain insurance carriers with respect to asbestos-related claims and environmental liabilities. Its asbestos-related insurance actions consist of a case styled Maryland Casualty Co. v. W. R. Grace & Co., pending in the United States District Court for the Southern District of New York; Dayton Independent School District v. United States Mineral Products Company, et al., pending in the United States District Court for the Eastern District of Texas; Independent School District No. 197, et al. v. W. R. Grace & Co. and Accident & Casualty Insurance Co., et al., pending in the First Judicial District in Minnesota; The County of Hennepin v. Central National Insurance Company, et al., pending in the Fourth Judicial District in Minnesota; Ecolab, Inc. v. Central National Insurance Co., pending in the District Court for Ramsey County, Minnesota; and American Employers' Insurance Co., American Re-Insurance Co., Commercial Union Insurance Co., and Unigard Security Insurance Co. v. W. R. Grace & Co., Continental Casualty Co., and Maryland Casualty Co., which is pending in the New York state courts. Grace's insurance actions relating to environmental liabilities consist of

Maryland Casualty Co. v. W. R. Grace & Co., pending in the United States District Court for the Southern District of New York; and Hatco Corp. v. W. R. Grace & Co.-Conn., pending in the United States District Court for the District of New Jersey. The relief sought by Grace in these actions would provide insurance to partially offset Grace's estimated exposure with respect to the actions' subject matter, including amounts previously expended by Grace to defend claims and satisfy judgments and settlements (see Note 2 to the Consolidated Financial Statements in the Financial Supplement). The factual bases underlying these actions are the nature of the underlying asbestos-related and environmental claims, the language of the insurance policies sold by the carriers to Grace and the drafting history of those policies.

In 1991 (in an asbestos-related case involving Maryland Casualty Co.), the United States District Court for the Southern District of New York determined that coverage for property damage is triggered by the "discovery of damage" during the period covered by the relevant policy. In September 1993, the United States Court of Appeals for the Second Circuit reversed the District Court's ruling as to a "discovery of damage" trigger for such claims and, instead, ruled that coverage for these claims is triggered based on the date of installation of asbestos-containing materials. In January 1994, the United States Court of Appeals for the Second Circuit granted Grace's petition for a rehearing concerning the September 1993 decision, and in May 1994, the Court issued a new decision confirming its September 1993 decision. As a result, Grace recorded net noncash charges totaling $300 million after taxes in 1993 and 1994 to reflect the reduction in asbestos property damage insurance coverage. Subsequently, the Second Circuit refused to rehear its decision, and the United States Supreme Court denied Grace's petition for a writ of certiorari with respect to that decision.

In 1991 and 1994, a Mississippi court held that certain of Grace's excess insurance carriers are obligated to defend and indemnify Grace, determining that, for purposes of insurance coverage, damage to buildings from asbestos-containing products occurs at the time such products are put in place and that the damage continues as long as the building contains the products (referred to as a "continuous trigger"); Grace subsequently settled with each of the insurance carriers, and an appeal of the Mississippi court's decision was dismissed. In 1992, the Minnesota court referred to above reached a similar decision in interpreting Grace's insurance policies. In January 1994, the Minnesota court entered judgment against certain of Grace's carriers in the amount of $14.2 million, but that judgment was reversed by the Minnesota Court of Appeals in January 1995. After the Minnesota Supreme Court denied review of this decision, the parties agreed to settlements in 1995 and early 1996.

Prior to 1993, Grace received payments totaling $97.7 million from insurance carriers, the majority of which represented the aggregate remaining obligations owed to Grace by those carriers for primary-level insurance coverage written for the period June 30, 1962 through June 30, 1987. In 1993 and 1994, Grace settled with insurance carriers for a total of $300.2 million (portions of which were paid or will be paid in subsequent years) in reimbursement for amounts expended by Grace in connection with asbestos-related litigation. In 1995, Grace settled with a primary-level insurer for $100 million, and with other insurers for a total of $200.3 million, including future payments of approximately $70 million. As a result of these settlements, insurance litigations were dismissed as to the primary-level product liability insurance coverage previously sold by the relevant insurers to Grace; however, litigations continue as to certain excess-level carriers.

In a 1995 settlement included in the amounts set forth above, Grace settled with an affiliated group of excess-level carriers that had agreed to a settlement in 1993, had made a series of payments under that agreement and had subsequently notified Grace that it would no longer honor the agreement. Pursuant to the 1995 settlement, the group of carriers paid Grace $44 million in 1995, and agreed to make additional payments totaling $60.2 million in 1996 and 1997. Pursuant to a settlement with another group of carriers, Grace received $26.8 million in 1995 and $9.7 million in early 1996. Grace will also continue to receive payments under these agreements based on future cash outflows for asbestos-related litigation and claims; such payments are estimated to represent approximately $237.3 million of the asbestos-related receivable of $321.2 million at December 31, 1995.

See Note 2 to the Consolidated Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Financial Supplement for additional information.

Fumed Silica Plant Litigation. In 1993, Grace initiated legal action in the Belgian courts against the Flemish government to recover losses resulting from the closing of Grace's fumed silica plant in Puurs, Belgium. Grace is seeking damages in excess of four billion Belgian francs (approximately $135.5 million at the December 29, 1995 exchange rate), plus interest and lost profits. This claim was dismissed at the trial court level and is now being appealed by Grace. The trial court also determined that Grace should repay approximately 239 million Belgian francs (approximately $8.1 million at the December 29, 1995 exchange rate) plus interest to the Flemish government for previously received investment grants; this decision is also being appealed by Grace. Also pending is an arbitration involving the engineering company that was responsible for the design and construction of the fumed silica plant. The outcome of this proceeding may affect the action filed against the Flemish government.

Shareholder Litigation. Commencing in March 1995, five lawsuits were brought against the Company and members of its Board of Directors (as well as J. P. Bolduc, who resigned as President and Chief Executive Officer and a director of the Company in March 1995) in New York State Supreme Court, New York County. These lawsuits were consolidated in the case entitled Weiser, et al. v. Grace, et al. The consolidated amended complaint in this lawsuit, which purports to be a derivative action (i.e., an action brought on behalf of the Company), alleges, among other things, that the individual defendants breached their fiduciary duties to the Company (a) by providing J. Peter Grace, Jr. (the Chairman and a director of the Company until his death in April 1995) with certain compensation arrangements upon his voluntary retirement as the Company's Chief Executive Officer in 1992 and (b) by approving Mr. Bolduc's severance arrangements, and that Messrs. Grace and Bolduc breached their fiduciary duties by accepting such benefits and payments. The lawsuit seeks unspecified damages, the cancellation of all allegedly improper agreements, the cancellation of the non-employee director retirement plan, the return of all remuneration paid to the present and former directors who are defendants while they were in breach of their fiduciary duties to the Company, an award of attorneys' and experts' fees and costs and such other relief as the Court may deem appropriate.

In March 1996, two purported shareholder derivative class actions were filed in New York State Supreme Court, New York County, against the Company and Albert J. Costello, the Company's Chairman, President and Chief Executive Officer, alleging that the defendants breached their fiduciary duties to the Company's shareholders by failing to investigate and consider fully a proposal by Hercules, Incorporated to acquire or merge with Grace (Izes, etc. v. W. R. Grace & Company, et al. and Polikoff, etc. v. W. R. Grace & Company, et al.). The lawsuits seek injunctive relief ordering defendants to carry out their fiduciary duties by considering and evaluating such proposal, unspecified monetary damages, costs and counsel fees and such other relief as the Court deems proper.

Securities and Exchange Commission Investigation. The Company has been notified that the Securities and Exchange Commission has issued a formal order of investigation with respect to the

Company's prior disclosures regarding benefits and retirement arrangements provided to J. Peter Grace, Jr., and certain matters relating to J. Peter Grace III, a son of J. Peter Grace, Jr. The Company is cooperating fully with the investigation.

NMC - OIG Investigation. On October 17, 1995, NMC received five investigative subpoenas from the Office of the Inspector General of the United States Department of Health and Human Services ("OIG"). The subpoenas call for the production of extensive documents relating to various aspects of NMC's business. A letter accompanying the subpoenas stated that they had been issued in conjunction with an investigation being conducted by the OIG, the United States Attorney for the District of Massachusetts and others, concerning possible violations of federal laws relating to health care payments and reimbursements. The five subpoenas cover the following areas: (a) NMC's corporate management, personnel and employees, organizational structure, financial information and internal communications; (b) NMC's dialysis services business, principally medical director contracts and compensation; (c) NMC's treatment of credit balances resulting from overpayments received under the Medicare ESRD program and its payment of supplemental medical insurance premiums on behalf of indigent patients; (d) NMC's LifeChem laboratory business, including documents relating to testing procedures, marketing, customers competition and certain overpayments totaling approximately $4.9 million that were received by LifeChem from the Medicare program with respect to laboratory services rendered between 1989 and 1993; and (e) NMC's Homecare Division and, in particular, information concerning the intradialytic parenteral nutrition ("IDPN") business, including billing practices related to various services, equipment and supplies and payments made to third parties as compensation for administering IDPN therapy.

NMC is cooperating with the OIG investigation and has made, and is expected to continue to make, extensive production of documents and information in response to the subpoenas. The results of the investigation and its impact, if any, cannot be predicted at this time. In the event that a U.S. government agency believes that any wrongdoing has occurred, civil and/or criminal proceedings could be instituted, and if any such proceedings were to be instituted and the outcome were unfavorable, NMC could be subject to fines, penalties and damages or could become excluded from government reimbursement programs. Any such result could have a material adverse effect on NMC's financial position or the results of operations of NMC and Grace.

Under the terms of the proposed transaction with Fresenius AG described above under "Strategic Restructuring and Other Growth

Initiatives," any liability arising as a result of the OIG investigation would remain the responsibility of NMC.

NMC - OBRA 93 Litigation. The Omnibus Budget Reconciliation Act of 1993 ("OBRA 93") affected the payment of benefits under Medicare and employer health plans for certain eligible ESRD patients. In July 1994, the Health Care Financing Administration ("HCFA") issued an instruction to Medicare claims processors to the effect that Medicare benefits for the patients affected by OBRA 93 would be subject to a new 18-month "coordination of benefits" period. This instruction had a positive impact on NMC's dialysis revenues because, during the 18-month coordination of benefits period, the patient's employer health plan was responsible for payment, which was generally at a rate higher than that provided under Medicare.

In April 1995, HCFA issued a new instruction, reversing its original instruction in a manner that would substantially diminish the positive effect of the initial instruction on NMC's dialysis business. Under the new instruction, no 18-month coordination of benefits period would arise, and Medicare would remain the primary payor. HCFA further proposed that its new instruction be effective retroactive to August 1993, the effective date of OBRA 93. Consequently, NMC may be required to refund payments received from employer health plans for services provided after August 1993 under HCFA's original instruction and to re-bill Medicare for the same services, which would result in a cumulative reduction of net revenues to NMC totaling approximately $120 million as of December 31, 1995. Effective July 1, 1995, NMC ceased to recognize the incremental revenue realized under the original instruction, which has resulted in a material reduction in NMC's operating earnings in comparison to prior periods in which NMC recognized such incremental revenue. However, NMC continued to bill the employer health plans as primary payors through December 31, 1995, at which time NMC commenced billing Medicare for the patients affected by OBRA 93.

In May 1995, NMC filed suit in the United States District Court for the District of Columbia seeking a declaratory judgment with respect to HCFA's instructions relating to OBRA 93 (National Medical Care, Inc., et al. v. Shalala). In June 1995, the court granted NMC's motion for a preliminary injunction to preclude HCFA from retroactively enforcing its new instruction. The litigation is continuing with respect to NMC's request to permanently enjoin HCFA's new instruction, both retroactively and prospectively. While there can be no assurance that a permanent injunction will be issued, NMC believes that it will ultimately prevail in its claim that the retroactive reversal by HCFA of its original instruction

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relating to OBRA 93 was impermissible under applicable law. If HCFA's revised instruction is upheld, NMC's business, financial position and results of operations would be materially adversely affected, particularly if the revised instruction is applied retroactively.

NMC - IDPN Proceedings. NMC administers IDPN therapy to chronic dialysis patients who suffer from severe gastrointestinal malfunctions. Since late 1993, Medicare claims processors have applied medical coverage interpretations in a manner that has sharply reduced the number of IDPN claims approved for payment as compared to prior periods. NMC believes that the reduction in IDPN claims currently being paid by Medicare represents an unauthorized policy coverage change. Accordingly, NMC and other IDPN providers are pursuing various administrative and legal remedies, including administrative appeals, to address this reduction. In November 1995, NMC filed a complaint in the United States District Court for the Middle District of Pennsylvania (NMC Homecare, Inc. v. Shalala) seeking a declaratory judgment and injunctive relief to prevent the implementation of this policy coverage change.

NMC management believes that its IDPN claims are consistent with published Medicare coverage guidelines and ultimately will be approved for payment. Such claims represent substantial accounts receivable of NMC, amounting to $93 million as of December 31, 1995, and currently increasing at the rate of approximately $5 million per month. If NMC is unable to collect its IDPN receivable, or if IDPN coverage is reduced or eliminated, depending on the amount of the receivable that is not collected and/or the nature of the coverage change, NMC's business, financial position and results of operations could be materially adversely affected.

As previously reported, in May 1995 the Medicare claims processors circulated a draft coverage policy which, if implemented in the form proposed, would have limited or precluded continued coverage of parenteral and enteral nutrition ("PEN") therapies, including IDPN therapy. In March 1996, NMC received a copy of a revised final version of the new coverage policy, which is expected to become effective for services billed on and after July 1, 1996. While the new policy permits continued coverage of IDPN and other PEN therapies, and while the potential impact of the new policy is subject to further analysis, NMC believes that the new policy would make it substantially more difficult to qualify patients for future coverage by, among other things, requiring certain patients to undergo onerous and/or invasive tests in order to qualify for coverage. NMC, together with other interested parties, plans to seek to effect certain changes in the new policy, and NMC is considering changes to its patient qualification procedures in order to comply with the policy. However, if NMC is unable to achieve changes in the new policy, if physicians and patients fail to accept the new qualification procedures and/or if patients fail to qualify under such procedures, the policy could significantly reduce the number of patients eligible for Medicare coverage of IDPN and other PEN therapies, which would have a material adverse effect on NMC's financial position and results of operations.

NMC Import Alerts. In 1993, the United States Food and Drug Administration ("FDA") issued import alerts with respect to (a) hemodialysis bloodlines manufactured at NMC's facility in Reynosa, Mexico and (b) hemodialyzers manufactured in NMC's Dublin, Ireland facility. Products subject to FDA import alerts may not enter the United States 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 that the importation of bloodlines and hemodialyzers could resume upon certification by NMC that the relevant facility complies with FDA regulations and successful completion of an FDA inspection to verify such compliance. The consent decree also required NMC to certify, and be inspected for, compliance with applicable FDA manufacturing requirements at all of its United States manufacturing facilities.

NMC submitted all required certifications for its United States and non-United States facilities in accordance with the timetable specified in the consent decree, and the bloodline import alert was lifted in March 1994. The Dublin hemodialyzer import alert was lifted in December 1995. No fines or penalties have been imposed on NMC as a result of the FDA's actions or in connection with the consent decree.

NMC - Grand Jury Investigations. NMC has received multiple subpoenas from a federal grand jury in the District of New Jersey investigating, among other things, (a) NMC's efforts to persuade the United States Food and Drug Administration to lift a January 1991 import hold issued with respect to NMC's Dublin, Ireland facility, (b) whether NMC sold defective products, (c) the manner in which NMC handled customer complaints and (d) the development of a new dialyzer product line. Grace has also received two subpoenas relating to this investigation. NMC and Grace have made extensive document production in response to these subpoenas and have fully cooperated with the grand jury in response to these subpoenas. In February 1996, the United States Attorney for the District of New Jersey notified NMC that it is a target of the New Jersey grand jury investigation, insofar as it relates to possible violations of federal criminal law in connection with efforts to affect the January 1991 import hold referred to above; the material element of the import hold was lifted in 1992.

In addition, in December 1994, a subsidiary of NMC received a subpoena from a federal grand jury in the Eastern District of Virginia investigating the contractual relationships between subsidiaries of NMC that provide dialysis services and third parties that provide medical directorship and related services to those subsidiaries. NMC has made document production in response to this subpoena.

The outcome of these investigations and their impact, if any, on NMC's business, financial condition and results of operations cannot be predicted at this time.

Shareholder Actions relating to NMC. In 1995, nine purported class action lawsuits were brought against the Company and certain of its officers and directors in various federal courts. These lawsuits are being consolidated in the case entitled Murphy, et al. v. W. R. Grace & Co., et al., which is pending in the United States District Court for the Southern District of New York. The first amended class action complaint in this lawsuit, which purports to be a class action on behalf of all persons and entities who purchased the Company's publicly traded securities during the period from March 13, 1995 through October 17, 1995, generally alleges that the defendants concealed information, and issued misleading public statements and reports, concerning NMC's financial position and business prospects, a proposed spin-off of NMC and the matters that are the subject of the investigations described above in "NMC - OIG Investigation" and "NMC - Grand Jury Investigations," in violation of federal securities laws. The lawsuit seeks unspecified damages, attorneys' and experts' fees and costs and such other relief as the Court deems proper.

In October 1995, a purported derivative lawsuit was filed in the United States District Court for the Southern District of Florida, Northern Division, against the Company, certain of its directors and its former President and Chief Executive Officer, alleging that such individuals breached their fiduciary duties by failing to properly supervise the activities of NMC in the conduct of its business (Bennett v. Bolduc, et al.). In December 1995, the plaintiff in this action filed a new action, based on similar allegations, in the United States District Court for the Southern District of New York (Bennett v. Bolduc, et al.). The Florida action has been dismissed in favor of the action filed in the Southern District of New York. A second action making similar allegations was filed in October 1995 in New York State Supreme Court, New York County (Bauer v. Bolduc, et al.). The Company has been advised that this action will be dismissed or stayed in favor of the Bennett action, which has been consolidated, for discovery purposes only, with the Murphy action described above. The complaint in the Bennett action seeks unspecified damages, attorneys' and experts' fees and costs and such other relief as the Court deems proper.

In February 1996, a purported class action was filed in New York State Supreme Court, New York County, against the Company, certain of its directors and a former director, alleging that the defendants breached their fiduciary duties in connection with the Company's agreement to combine NMC with Fresenius AG's worldwide dialysis business, as described in Item 1 above under "Strategic Restructuring and Other Growth Initiatives" (Rosman v. W. R. Grace & Co., et al.). The lawsuit seeks injunctive relief ordering defendants to carry out their fiduciary duties and preventing or rescinding the transaction or any related transactions with Fresenius AG, unspecified monetary damages, an award of attorneys' and experts' fees and costs and such other relief as the Court may deem just and proper.

See Note 7 to the Consolidated Financial Statements for additional information concerning litigation involving NMC.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

This Item is inapplicable, as no matters were submitted to a vote of the Company's security holders during the fourth quarter of 1995.

EXECUTIVE OFFICERS

The Company's current executive officers are listed below. Executive officers are elected to serve until the following annual meeting of the Company's Board of Directors; the next such meeting is scheduled to be held on May 10, 1996.

Name and Age	Office	First Elected
R. H. Beber (62)	Executive Vice President and General Counsel	05/10/93 09/01/91
Robert J. Bettacchi (53)	Vice President	02/01/90
Albert J. Costello (60)	Chairman President and Chief Executive Officer	05/10/95 05/01/95
Larry Ellberger (48)	Senior Vice President	07/06/95

Constantine L. Hampers (63)	Executive Vice President	06/06/91
Peter D. Houchin (48)	Senior Vice President and Chief Financial Officer	08/03/95
James R. Hyde (57)	Senior Vice President	07/06/95
J. Gary Kaenzig, Jr. (51)	Senior Vice President	10/05/95
Donald H. Kohnken (61)	Executive Vice President	12/07/89
Fred Lemperenr (58)	Senior Vice President	02/06/92
Ian Priestnell (51)	Vice President	02/06/92

All the above executive officers have been actively engaged in Grace's business for the past five years, other than Mr. Costello, who served as chairman of the board and chief executive officer of American Cyanamid Company from April 1993 to December 1994 and as president of American Cyanamid Company from 1991 through March 1993; Mr. Ellberger, who was a corporate vice president and director of corporate development and planning from October 1991 until 1995, and prior to that vice president, industrial and performance products division, of American Cyanamid Company; and Mr. Houchin, who was chief executive officer of Gulfstream Land & Development prior to joining Grace in October 1991.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Except as provided below, the information called for by this Item appears in the Financial Supplement under the heading "Financial Summary" opposite the caption "Other Statistics - Common shareholders of record" (page F-28); under the heading "Quarterly Summary and Statistical Information - Unaudited" opposite the captions "Dividends declared per common share" and "Market price of common stock" (page F-26); and in Note 14 to the Consolidated Financial Statements (page F-22).

Each share of the Company's Common Stock has an attendant Common Stock Purchase Right ("Right"). The Rights are not and will not become exercisable unless and until certain events occur (as described below). Until such events occur, the Rights will automatically trade with the Common Stock and separate certificates for

Document	Where Incorporated
Proxy Statement for Annual Meeting to be held May 10, 1996 (specified portions)	Part III

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PART I

ITEM 1. BUSINESS.

INTRODUCTION

W. R. Grace & Co., through its subsidiaries, is primarily engaged in the packaging and specialty chemicals businesses on a worldwide basis. It has classified its other businesses as discontinued operations, the most significant of which are its health care and cocoa businesses.

As used in this Report, the term "Company" refers to W. R. Grace & Co., a New York corporation, and the term "Grace" refers to the Company and/or one or more of its subsidiaries. Grace's principal executive offices are located at One Town Center Road, Boca Raton, Florida 33486-1010, and its telephone number is 407/362-2000. At year-end 1995, Grace had approximately 21,200 full-time employees worldwide in its continuing operations (approximately 21,100 in discontinued operations).

Grace's Consolidated Financial Statements for the three years in the period ended December 31, 1995 ("Consolidated Financial Statements"), and certain other financial information included in the Company's 1995 Annual Report to Shareholders, are set forth in the Financial Supplement to this Report and incorporated by reference herein.

Information concerning the sales and revenues, pretax operating income and identifiable assets of Grace's continuing operations by geographic area for 1995, 1994 and 1993 is contained in Note 18 to the Consolidated Financial Statements in the Financial Supplement.

STRATEGIC RESTRUCTURING AND OTHER GROWTH INITIATIVES

Recent Strategic Initiatives. In mid-1995, Grace announced and began implementing plans to enhance shareholder value by strengthening its balance sheet and reducing costs. These objectives are being achieved through (a) the pending dispositions of Grace's health care business and water treatment and process chemicals business (discussed below); (b) the anticipated use of the proceeds from these transactions to substantially reduce indebtedness, to repurchase up to 20% of the Company's Common Stock, and to invest in Grace's core businesses; (c) a worldwide restructuring program to streamline processes and thereby reduce expenses by $100 million annually (with further actions being taken to improve margins); and (d) the implementation of rigorous controls on working capital and capital spending. These plans are designed to make Grace a high-performance, high-value company focused on the strengths of its packaging and specialty chemicals businesses.

Grace's core businesses are now packaging, catalysts and other silica-based products, construction products, and container and specialty polymer products. Each of these businesses is a market leader, offers high value added products, employs leading technology and has global reach. In these businesses, Grace provides highly differentiated and superior products and services through investments in research and development, facilities that enable Grace to take advantage of expanding global market opportunities, and technology platforms capable of providing multiple products to satisfy customers' specific needs. Moreover, Grace has focused research and development spending on core businesses, fostered an exchange of technology among its product lines, and increased the level of process development directed at streamlining operations.

In June 1995, the Company announced that its Board of Directors had approved a plan to spin off National Medical Care, Inc., Grace's principal health care subsidiary ("NMC"); as a result, Grace classified its health care business as a discontinued operation in the second quarter of 1995. Following NMC's receipt in October 1995 of five investigative subpoenas from the Office of the Inspector General of the United States Department of Health and Human Services (see "Legal Proceedings" below), the completion of the spin-off of NMC, originally expected in the 1995 fourth quarter, was delayed.

In February 1996, Grace and Fresenius AG ("Fresenius") entered into a definitive agreement to combine NMC with Fresenius' worldwide dialysis business ("FWD") to create Fresenius Medical Care ("FMC"). As a result of the combination, FMC would acquire NMC, which would remain responsible for all liabilities arising out of the investigations of NMC, discussed below. However, Grace would retain certain health care assets, primarily a bioseparation sciences business and a health care services company (classified as discontinued operations), as well as other assets (including cash and marketable securities).

The combination would follow a borrowing of approximately $2.3 billion by NMC, a tax-free distribution of the proceeds by NMC to Grace, and a tax-free distribution by the Company, with respect to each share of its Common Stock, of one share of a newly formed corporation holding all of Grace's businesses (principally its specialty chemicals businesses) other than NMC. As a result of the separation of Grace's specialty chemicals businesses from NMC and the subsequent combination of NMC and FWD, the holders of the Company's Common Stock would own 100% of the specialty chemicals company and 44.8% of FMC, and Fresenius and other shareholders would own 55.2% of FMC. The holders of the Company's Common Stock would also own preferred stock, the value of which would be linked to the performance of FMC. Completion of the various transactions is subject to customary conditions, including the approval of the shareholders of the Company and Fresenius; United States, German and European regulatory actions; and obtaining financing on satisfactory terms. Commitments for financing have been received (which commitments are subject to various conditions and have not been entered into), and it is expected that the various transactions will be completed by the third quarter of 1996.

In March 1996, Grace announced that it had entered into a definitive agreement to sell its Dearborn water treatment and process chemicals business to Betz Laboratories, Inc. for $632 million. The transaction is expected to close in the second quarter of 1996.

1991 Strategy; Sale and Monetization of Noncore Businesses; Other Actions. The strategic initiatives described above reflect the further development of a corporate strategy announced in 1991. The major components of the strategy were to (a) focus on core businesses to accelerate profitable growth; (b) upgrade financial performance, principally by selling or monetizing noncore businesses, managing debt levels consistent with profitable growth opportunities, and reducing overhead; and (c) integrate corporate and operating unit functions through global product line management.

Pursuant to this strategy, during the 1991-1995 period Grace disposed of most of its noncore businesses and investments, including its oil and gas, coal and energy services businesses; its printing products business; its specialty textiles business; its book, video and software distribution businesses; its remaining agricultural businesses; and various chemical businesses, including its organic chemicals and automotive materials businesses. Gross proceeds from these and other divestments totaled $2.15 billion in the 1991-1995 period. In 1992, Grace also monetized a portion of its cocoa and chocolate business by selling a 21% limited partnership interest in Grace Cocoa Associates, L.P., which owns this business and other assets, resulting in Grace's receipt of approximately $300 million in cash. Grace is actively pursuing the disposition of its cocoa business; during the fourth quarter of 1995, Grace revised the divestment plan for this business, focusing on the improvement of operating cash flow through the adoption of new strategies and a new global organizational structure, while simultaneously positioning the business for sale. As a result of these actions, Grace expects to complete the disposition of this business during 1996.

As part of its 1991 corporate strategy, Grace also reorganized the management of its core businesses on the basis of global product lines. As a result of this reorganization, Grace is able to serve its multinational customers in all global regions, as well as tailor its product offerings to meet local preferences.

Strategic Acquisitions and Other Growth Initiatives. To focus on core business growth, Grace has made strategic acquisitions directly related to its core businesses, totaling $190.4 million in the 1991-1995 period, including acquisitions intended to expand those businesses outside the United States. In 1992, Grace acquired the North American food service packaging business of Du Pont Canada. In 1993, Grace acquired the Katalistics fluid cracking catalyst additive business previously owned by a joint venture between Union Carbide Corporation and AlliedSignal Inc. In 1993, Grace also formed a 51%-owned joint venture with a large chemical and industrial concern headquartered in Volgograd, Russia, to produce flexible packaging for sale throughout the Commonwealth of Independent States; the joint venture began production in the third quarter of 1994.

In 1994, Grace acquired the Schur Multiflex group of European flexible packaging businesses; construction chemicals businesses; and a small pollution control equipment producer. In addition, during 1994 Grace formed a 51%-owned joint venture with an Indian company to supply water treatment products and services in India.

In 1995, Grace formed a 51%-owned joint venture in Malaysia to produce rigid plastic packaging products for sale throughout Southeast Asia; a 68%-owned joint venture with a Chinese packaging company to manufacture shrink films for sausage casings and to market Grace's packaging products and systems in China; a 51%-owned joint venture with a Russian company to produce container and closure sealants for sale throughout the Commonwealth of Independent States; and a 50%-owned joint venture with Engelhard Corporation to manufacture and market metal-based catalytic converters to the automotive industry. In early 1996, Grace agreed to form a joint venture to produce and market coatings, closures and can-sealing compounds in India.

Although Grace intends to emphasize internal growth, it may also effect acquisitions, joint ventures and strategic alliances that afford synergies or other benefits necessary to fulfill strategic objectives of a core business (such as a key technology or opportunities for geographic expansion) or that provide a combination of a close fit with a core business with the potential for exceptional returns.

See Notes 3, 5, 7, 12, 13 and 19 to the Consolidated Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Financial Supplement for additional information.

DESCRIPTION OF BUSINESS

Grace's continuing operations consist principally of the development, manufacture and sale of packaging and specialty chemical products and systems. These products and systems serve highly specialized markets and represent an important or critical component (but a relatively small portion of the cost) of the end products in which they are used. Accordingly, competition tends to be based primarily on technological capability, customer service, product quality and, to a lesser extent, price.

Grace's products and systems are marketed primarily through direct sales organizations. Through direct regular contact with its customers, Grace gains an in-depth knowledge of their businesses and anticipates and caters to their needs. Grace is often involved in the design of customers' production processes and thereafter serves as a supplier for such processes.

The following is a description of the products and services provided by each of Grace's businesses.

Packaging. Grace's packaging business ("Grace Packaging") provides high-performance total packaging systems on a worldwide basis, competing principally by providing superior quality products and services for specialized customer needs. The principal products and services provided by Grace Packaging are (a) flexible plastic packaging systems (including material, equipment and services) for a broad range of perishable foods such as fresh, smoked and processed meat products, cheese, poultry, prepared foods (including soups and sauces for restaurants and institutions), baked goods and produce; (b) shrink films used in packaging a variety of nonfood consumer and industrial products; (c) foam trays for supermarkets and poultry and other food processors; and (d) rigid plastic containers for dairy and other food and nonfood products. Grace Packaging competes through three product groups: flexible packaging (marketed extensively under the Cryovac(R) registered trademark), Formpac(TM) foam trays and Omicron(TM) rigid plastic containers.

The Cryovac packaging products group developed and introduced flexible plastic vacuum shrink packaging to the food processing industry in the late 1940s, contributing to expanded food distribution and marketing by providing superior protection against decay-inducing bacteria and moisture loss. The market for Cryovac products has since expanded into the retail food market, and Cryovac packaging technology has also been introduced in nonfood applications for consumer merchandising of housewares, toys and compact discs, as well as for electronic and medical products.

Cryovac flexible packaging products include shrink bags, shrink films, laminated films and films for medical bags and equipment. Shrink bags are multi-layered plastic bags that mold themselves to the exact shape of the product, forming a clear "second skin." Using sophisticated coextrusion technology, Cryovac shrink bags maximize barrier properties, optics, abuse resistance, shrinkability and seal strength. Cryovac shrink films are multi-layered shrinkable plastic films used to package a variety of food and nonfood consumer goods to protect against damage, preserve freshness and enhance marketability. Cryovac laminates are multi-layered, nonshrinkable and normally high-barrier flexible materials used for packaging perishable foods, shelf-stable products (nonrefrigerated foods, such as syrups, toppings and tomato paste) and various nonfood products.

Grace's flexible packaging products differentiate themselves from competitive products by offering a combination of the following core competencies: (a) proprietary film processing technology; (b) resin technology, permitting the production of materials suited to specific customer needs; (c) packaging and food science expertise, providing better understanding of the interaction between packaging materials and packaged products; (d) complete systems support capability, providing a single source for customer needs; (e) a talented employee base that strives to anticipate, meet and exceed customer expectations; and (f) an effective sales and distribution network.

Today, Grace Packaging is recognized as a worldwide leader in flexible packaging technology. Grace's technological leadership has spurred Grace Packaging's growth in several markets: in the rapidly expanding packaged fresh-cut produce market, Grace produces films that permit oxygen to pass through at various rates, thereby matching the varying respiration rates of different vegetables and permitting longer shelf life, in the fresh meat market, Grace's case-ready program reduces supermarkets' in-store production costs by allowing meat processors to centrally package meat products suitable for display; in the bone-in pork market, Grace's TBG(TM) packaging products have revolutionized the distribution of large subprimal cuts of pork by adding a film patch to certain sections of a high-abuse barrier bag to prevent bone punctures; and in the processed meats and poultry markets. Cryovac cook-in bags and laminates withstand high cooking temperatures, reducing the potential for contamination and retaining product shape, clarity and weight.

Formpac manufactures and sells polystyrene foam prepackaging trays used by supermarkets and grocery stores to protect and display fresh meat, poultry and produce, as well as foam food service items such as hinged-lid containers used in institutional environments, by carry out restaurants and by supermarkets for sale to retail customers. Formpac manufactures foam trays in a two-stage process consisting of the extrusion and thermoforming of polystyrene foam sheets. Although the majority of Formpac's customers are located in the eastern two-thirds of the United States, Formpac's proprietary technology has also been successfully used in certain packaging applications outside of the United States. Competition is based on service, price and product quality.

Grace Packaging's Omicron business group produces rigid plastic packaging applications (primarily tubs for dairy products such as margarine and yogurt) in Australia. Omicron products use proprietary thermoforming technology, involving the controlled thinning and shaping of hot plastic sheets to increase strength and rigidity while minimizing weight. Grace is expanding the Omicron business into Southeast Asia through a 51%-owned joint venture formed in 1995 to produce rigid plastic packaging products in Malaysia.

Grace Packaging's sales and revenues were $1.7 billion in 1995, $1.4 billion in 1994 and $1.3 billion in 1993. Approximately 51% of Grace Packaging's 1995 sales and revenues were generated in North America, 30% in Europe, 11% in Asia Pacific and the remainder in Latin America. At year-end 1995, Grace Packaging employed approximately 9,900 people in 28 production facilities (9 in North America, 8 in Europe, 6 in Asia Pacific and 5 in Latin America) and 79 sales offices, serving approximately 24,000 customers.

Resins are the principal raw materials used by Grace Packaging. Although prices for ethylene-based resins can be volatile, there is currently an adequate worldwide supply of resins at generally stable prices. Further, Grace Packaging has typically been able to increase the sales prices of its products in response to increases in the prices of resins and other raw materials. In most cases, multiple sources of resins and other raw materials exist, with at least one source located in most global regions.