

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, 1996 Commission file number 1-12139

W. R. GRACE & CO.

Incorporated under the Laws of the State of Delaware I.R.S. Employer Identification No. 65-0654331

ONE TOWN CENTER ROAD, BOCA RATON, FLORIDA 33486-1010  
561/362-2000

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

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Common Stock, \$.01 par value	New York Stock Exchange, Inc.
Preferred Stock Purchase Rights	
7-3/4% Notes Due 2002	New York Stock Exchange, Inc.
(issued by W. R. Grace & Co.-Conn.,	
a wholly owned subsidiary) and	
related Guarantees	

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

None

Indicate by check mark whether the registrant (including its predecessor) (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

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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. X

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The aggregate market value of W. R. Grace & Co. voting stock held by nonaffiliates was approximately \$3.8 billion at January 31, 1997.

At February 28, 1997, 74,048,314 shares of W. R. Grace & Co. Common Stock, \$.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document -----	Where Incorporated -----
Proxy Statement for Annual Meeting to be held May 9, 1997 (specified portions)	Part III

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## PART I

## ITEM 1. BUSINESS.

## INTRODUCTION AND OVERVIEW

W. R. Grace & Co., through its subsidiaries, is one of the world's leading packaging and specialty chemicals companies. Grace's core businesses are packaging, catalysts and other silica-based products, and construction products. It began operating these core businesses in 1954, when it acquired both the Dewey and Almy Chemical Company and the Davison Chemical Company. Grace believes that each of its core businesses is an industry leader, offers high value-added products, employs leading technology, and has a global presence. Grace's products and systems serve highly specialized market segments; accordingly, competition tends to be based primarily on technological capability, customer service, product quality, and, to a lesser extent, price. These products and systems also generally represent an important component (but a relatively small portion of the cost) of the end products or processes in which they are used. Grace believes that it provides highly differentiated, superior products and services through investments in research and development, facilities that enable Grace to take advantage of expanding global opportunities, and technology platforms capable of providing multiple products to anticipate and satisfy customer needs.

As used in this Report, the term "Company" refers to W. R. Grace & Co., a Delaware corporation, and the term "Grace" refers to the Company and/or one or more of its subsidiaries and, in certain cases, their respective predecessors. Grace's principal executive offices are located at One Town Center Road, Boca Raton, Florida 33486-1010, and its telephone number is 561/362-2000. At year-end 1996, Grace had approximately 17,400 full-time employees worldwide in its continuing operations.

Grace's Consolidated Financial Statements for the three years in the period ended December 31, 1996 ("Consolidated Financial Statements"), and certain other financial information included in the Company's 1996 Annual Report to Shareholders, are set forth in the Financial Supplement to this Report and incorporated by reference in this Report.

Information concerning the sales and revenues, pretax operating income and identifiable assets of Grace's continuing operations by geographic area for 1996, 1995 and 1994 is contained in Note 17 to the Consolidated Financial Statements.

**STRATEGIC OBJECTIVES AND ACTIONS.** Grace's principal strategic objective has been, and will continue to be, to increase shareholder value. In recent years, Grace has sought to achieve this objective by (a) focusing on core businesses to accelerate profitable growth; (b) upgrading financial performance, principally by disposing of noncore businesses, strengthening the balance sheet and reducing overhead; and (c) integrating

corporate and operating unit functions through global product line management. In particular, since mid-1995, Grace has:

- - disposed of noncore businesses, including National Medical Care, Inc. ("NMC"), its principal health care business (in a transaction valued at \$4.5 billion), as well as Grace's water treatment and process chemicals business for \$636 million, its cocoa business for approximately \$470 million, the transgenic plant business of its Agracetus subsidiary for \$150 million, and its Amicon separations science business for \$125 million, in each case consisting of cash plus debt assumed by the buyer;
- - used the proceeds from these and other transactions to repurchase stock, reduce indebtedness, and, to a lesser extent, invest in core businesses;
- - streamlined processes and thereby reduced expenses by approximately \$100 million annually (with further actions being taken to improve margins);
- - strengthened controls on working capital and capital spending; and
- - focused its research and development spending on core businesses.

In addition, in the early 1990s, the management structure of Grace was reorganized on the basis of global product lines (as distinguished from regional product management). As a result of this reorganization, Grace believes that it is better able to serve its multinational customers in all global regions, as well as to tailor its product offerings to meet local preferences. Grace is completing the disposition of its remaining noncore businesses. In February 1997, Grace entered into an agreement to sell its specialty polymers business for \$147 million in cash, and it expects to dispose of its thermal and emission control systems business (see "Discontinued Operations" below) in 1997.

To focus on core business growth, Grace has made strategic acquisitions, totaling \$103 million in the 1994-1996 period, directly related to its core businesses, and has entered into a number of strategic alliances intended to further expand these businesses internationally. In 1994, Grace acquired construction chemicals businesses with operations in North America, Europe and Asia Pacific. In 1995, Grace formed a 68%-owned joint venture with a Chinese packaging company, primarily to manufacture shrink films for sausage casings in China, as well as a 51%-owned joint venture with a Russian company to produce container and closure sealants for sale throughout the Commonwealth of Independent States. In 1996, Grace formed a joint venture to market coatings and sealants in India and formed another joint venture to manufacture and market cement additives and concrete admixtures in Turkey. Also in 1996, Grace acquired a U.S. manufacturer of flexible plastic packaging materials for the retail pre-cut produce market segment, a Mexican producer of can coatings and closure sealants for the rigid container industry, and a construction chemicals business in Australia.

From 1994 through 1996, Grace's capital expenditures for its core packaging and specialty chemicals businesses totaled \$1.15 billion (including \$389.5 million in 1996). These expenditures were directed towards the expansion of existing facilities as well as

the construction of new facilities. Grace anticipates that its capital expenditures for 1997 will approximate \$300 million, all of which will be directed towards its core businesses.

In the future, Grace intends to continue its emphasis on internal growth, primarily through new product development and geographic expansion. In addition, 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 an opportunity for geographic expansion) or that provide a combination of a close fit with a core business and the potential for exceptional returns.

PROJECTIONS AND OTHER FORWARD-LOOKING INFORMATION. This Report contains, and other communications by Grace may contain, projections or other "forward-looking" information. Like any other business, Grace is subject to risks and other uncertainties that could cause its actual results to differ materially from any such projections or that could cause other forward-looking information to prove incorrect. In addition to general economic conditions and conditions in the industries in which Grace competes and the markets it serves, Grace is subject to risks and uncertainties that could cause its projections and other forward-looking information to prove incorrect, including the following:

- - technological breakthroughs rendering a product, a class of products or a line of business obsolete;
- - an inability to adapt to continuing technological improvements by competitors or customers;
- - incidents (including outbreaks such as those experienced in 1996 with E. coli bacteria and "mad cow disease") that cause declines in the consumption of beef or other foods or products served by Grace's packaging business;
- - a decline in worldwide oil consumption or the development of new methods of oil refining;
- - increases in prices of raw materials, such as resins and polyethylene;
- - a reversal of the current trend towards more processing of food products (particularly meats, cheeses and produce) outside of the supermarket;
- - an inability to gain customer acceptance, or slower than anticipated acceptance, of new products or product enhancements (particularly in the construction industry);
- - changes in environmental regulations or societal pressures that make Grace's businesses more costly or that change the types of products used, especially packaging products and oil products;
- - slower than anticipated economic advances in less developed countries;
- - a decrease in the use of structural steel in buildings;
- - underutilization of Grace's manufacturing and production plants as a result of slower than anticipated growth, especially in light of recent significant capital expenditures; and

- - the acquisition (through theft or other means) and use by others of Grace's proprietary formulas and other know-how (particularly in Grace's container business).

See Notes 1, 3, 4, 6, 7, 11, 12 and 18 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.

#### PRODUCTS AND MARKETS

CHEMICAL INDUSTRY OVERVIEW. Specialty chemicals, such as those produced by Grace, are high value-added products used as intermediates in a wide variety of products; they are produced in relatively small volumes and must satisfy well-defined performance requirements and specifications. Specialty chemicals are often critical components of the end products in which they are used; consequently, they are tailored to customer needs, which generally results in a close relationship between the specialty chemicals producer and the customer. Rapid response to changing customer needs and reliability of product and supply are important competitive factors in the specialty chemicals business.

Grace's management believes that, in the specialty chemicals business, technological leadership (resulting from continuous innovation through research and development), combined with product differentiation and superior customer service, lead to high operating margins. Grace believes that its core businesses are characterized by market features that reward the higher research and development and customer service costs associated with its strategy.

PACKAGING. Grace's packaging and container business ("Grace Packaging") provides high-performance systems on a worldwide basis, competing principally by providing superior-quality products and services for specialized customer needs. Its principal packaging products and services compete through three product groups: flexible packaging (marketed extensively under the Cryovac(R) registered trademark), Formpac(TM) foam trays and Omicron(TM) rigid plastic containers. Grace Packaging's container business, operated until 1996 as a separate Grace business unit, competes primarily through three product lines: container sealants, closure sealants, and coatings for metal packaging. Grace believes that the combination of its packaging and container businesses will enable it to capitalize on the complementary technological, marketing and product development strengths of each business.

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. Today, Cryovac flexible plastic packaging systems (including material, equipment and services) are used for a broad range of perishable foods such as fresh, smoked and processed meat products, cheese, fish, poultry, prepared foods (including soups and sauces for restaurants and institutions), baked goods and produce. Cryovac packaging technology also is used in nonfood applications for consumer merchandising of such products as 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 and industrial products 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. The Cryovac line also includes sterilized medical bags and films for use with medical products.

Grace Packaging differentiates its flexible packaging products 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) effective sales and distribution networks. In addition, Grace Packaging's systems can be adapted to support customers' changing marketing goals.

Technological leadership is a key competitive factor in the packaging business, and Grace Packaging is recognized as a worldwide leader in flexible packaging technology. Management expects that technological leadership will continue to spur Grace Packaging's growth in several market segments. For fresh meat, Grace Packaging's case-ready program reduces supermarkets' in-store production costs by allowing meat processors to centrally package meat products suitable for display. For bone-in pork, Grace Packaging's TBG(TM) boneguard packaging products have revolutionized the distribution of large subprimal cuts by adding a film patch to certain sections of a high-abuse barrier bag to prevent bone punctures. For processed meats and poultry, Cryovac cook-in bags and laminates withstand high cooking temperatures, reducing the potential for contamination while retaining product shape, clarity and weight. For fresh-cut produce, Grace Packaging 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. Grace Packaging's technological leadership was further enhanced by the 1996 acquisition of Cypress Packaging, Inc., a leader in the retail fresh-cut produce packaging market. Because technological innovations by competitors could adversely affect its business, Grace Packaging intends to continue to focus research and development expenditures on maintaining technological leadership in flexible packaging.

Grace Packaging has continued to expand its flexible packaging business in growing markets around the world. In 1993, Grace formed a 51%-owned joint venture to produce flexible packaging in the Commonwealth of Independent States, and in 1995 Grace formed a 68%-owned joint venture in China, primarily to manufacture shrink films for sausage casings.

Grace Packaging's container business group consists primarily of three product lines: container sealants, closure sealants, and coatings for metal packaging. Container sealants are applied to food and beverage cans, as well as to other rigid containers (such as industrial product containers and aerosol cans), to ensure a hermetic seal between the lid and the body of the container. 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 and plastic container markets (primarily in beverage and food applications). Coatings are used in the manufacture of cans and closures to protect 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. These products are sold principally to third parties that manufacture containers or perform canning and bottling for food and beverage companies. Grace Packaging is expanding its container product offering and is seeking to improve sales growth 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 Packaging also is expanding its container business in developing regions through a 51%-owned joint venture to produce container and closure sealants in the Commonwealth of Independent States and a 51%-owned joint venture to market coatings and sealants in India. Competition is based on providing high-quality customer service at customer sites, as well as on price and product quality and reliability. In addition, because of the relative concentration of the canning and bottling market, maintaining relationships with leading container manufacturers, canners and bottlers, and assisting them as they install new production equipment and reengineer processes, are key elements for success.

Grace Packaging's Formpac business group manufactures and sells polystyrene foam prepackaging trays used by supermarkets and grocery stores, and by poultry and other meat processors, to protect and display fresh meat, poultry and produce. It also manufactures and sells 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 U.S., Formpac's proprietary technology also has been successfully used in certain packaging applications outside of the U.S. Competition is based on service, price and product quality.

Grace Packaging's Omicron business group produces rigid plastic packaging products (primarily plastic 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.

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 typically has been able to increase the sales prices of its products in response to increases in the prices of resins and other raw materials. However, to the extent that resin prices increase and Grace Packaging cannot pass on the increases to its customers, such price increases may have an adverse impact on Grace's profitability. In most cases, multiple sources of resins and other raw materials exist, with at least one source located in most global regions.

Grace Packaging's sales and revenues were \$2.01 billion in 1996, \$1.97 billion in 1995 and \$1.67 billion in 1994. Sales of shrink bags accounted for 24% of the total sales and revenues of Grace's continuing operations in 1996, and 22% in each of 1995 and 1994. Approximately 46% of Grace Packaging's 1996 sales and revenues were generated in North America, 31% in Europe, 14% in Asia Pacific and the remainder in Latin America. Grace Packaging estimates that approximately 80% of its 1996 sales were to the food industry (particularly meat and poultry processors) and the beverage industry. Although sales and revenues tend to be slightly higher in the fourth quarter, seasonality is generally not significant to Grace Packaging.

At year-end 1996, Grace Packaging employed approximately 11,500 people in 45 production facilities (13 in Europe, 12 in each of North America and Asia Pacific and 8 in Latin America) and 89 sales offices, serving approximately 28,000 customers, no one of which accounted for more than 3% of Grace Packaging's 1996 sales and revenues. Grace Packaging's principal U.S. manufacturing facilities are located at Simpsonville, South Carolina, Iowa Park, Texas, Seneca, South Carolina, Cedar Rapids, Iowa, Reading, Pennsylvania, and Indianapolis, Indiana. Its principal European manufacturing facilities are located at Epernon, France, St. Neots, United Kingdom, Passirana, Italy, and Hamburg and Flensburg, Germany, and it has major manufacturing facilities located in Australia, Japan, Brazil, Mexico, Canada and Argentina. Grace Packaging also has recently constructed a manufacturing facility in Kuantan, Malaysia that has become its principal shrink films manufacturing facility in Asia. Grace Packaging distributes its products in over

100 countries through direct sales organizations and distributors, using a network of distribution facilities located near its manufacturing facilities and major customer concentrations.

In Grace Packaging's business, the failure to have capacity sufficient to meet customer needs, or the inability to manufacture in geographic markets in which customers expand, could damage customer relationships and/or result in a loss of business. 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 the plant in Kuantan, Malaysia, referred to above). As a result, capacity is generally sufficient to meet market demand currently and, taking planned capacity expansion into account, for the foreseeable future.

**CATALYSTS AND OTHER SILICA-BASED PRODUCTS.** Grace's Davison unit ("Grace Davison"), founded in 1832, is composed of two primary product groups: (a) catalysts and (b) silica products and adsorbents. These products principally 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 believes that its technological expertise provides a competitive edge, allowing it to quickly design products that meet changing customer specifications, and to develop new products that expand its existing technology. For example, Grace Davison estimates that a substantial portion of its 1996 fluid cracking catalyst sales was attributable to products introduced in the last five years.

Grace Davison produces refinery catalysts, including (a) fluid cracking catalysts used by petroleum refiners to convert crude oil into more valuable transportation fuels (such as gasoline and jet and diesel fuels), 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 works regularly with most of the approximately 360 refineries in the world, helping to find the most appropriate catalyst formulations for the refiners' changing needs. Grace Davison's business has benefited in recent years, in part, from the use by refiners of heavier crude oils, and could be adversely affected by an increase in the availability of lighter crude oil, which generally requires less fluid cracking catalysts to refine. Competition in the refinery catalyst business is based on technology, product performance, customer service and price. Grace Davison believes it is one of the world leaders in refinery catalysts and the largest supplier of fluid cracking catalysts in the world.

Grace Davison's polyolefin catalysts and catalyst supports are essential components used in manufacturing nearly half of all high density and linear low density

polyethylene resins produced worldwide; these resins 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 recently intensified due to evolving technologies, particularly the use of metallocenes. Grace believes that metallocenes represent a revolutionary development in the making of plastics, allowing plastics manufacturers to design polymers with exact performance characteristics. Grace Davison is continuing its work on the development and commercialization of metallocene catalysts.

Silica products and zeolite adsorbents produced by Grace Davison are used in a wide variety of industrial and consumer applications. For example, silicas are used in coatings as flattening agents (i.e., to reduce gloss), in plastics to improve handling, in toothpastes as thickeners and cleaners, in foods 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 are used in process applications to separate certain chemicals from mixtures. Competition is based on product performance, customer service and price.

Grace Davison's sales and revenues were \$732 million in 1996, \$687 million in 1995 and \$610 million in 1994; approximately 50% of Grace Davison's 1996 sales and revenues were generated in North America, 36% in Europe, 12% in Asia Pacific and 2% in Latin America. Sales of fluid cracking catalysts accounted for 11% of the total sales and revenues of Grace's continuing operations in 1996, and 10% in each of 1995 and 1994. At year-end 1996, Grace Davison employed approximately 2,700 people worldwide in 10 facilities (6 in the U.S. and 1 each in Canada, Germany, Brazil and Malaysia). Grace Davison's principal U.S. manufacturing facilities are located in Baltimore, Maryland and Lake Charles, Louisiana; its principal European manufacturing facility is located in Worms, Germany. Grace Davison has a direct selling force and distributes its products directly to over 19,000 customers, the largest of which accounted for approximately 6% of Grace Davison's 1996 sales and revenues.

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 Davison. 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's construction products business ("Grace Construction") is a leading supplier of specialty materials to the nonresidential (commercial and government) construction industry and, to a lesser extent, the residential construction industry. Grace Construction's products fall into three main groups: (a) concrete admixtures, cement additives and masonry products (principally chemicals that add

strength, control corrosion, reduce the amount of water required or modify setting time); (b) products that prevent water damage to structures (such as water- and ice-proofing products for residential use and waterproofing systems for commercial structures); and (c) substances that protect structural steel against collapse due to fire. In North America, Grace Construction also manufactures and distributes vermiculite products used in construction and other industrial applications.

In recent years, Grace Construction has introduced new products and product enhancements. These new products and enhancements include an admixture that reduces concrete shrinkage and prevents cracking; a product that enables contractors to pour and "work" concrete in colder temperatures; an admixture that inhibits corrosion and prolongs the life of concrete structures; new roof underlayments that provide added protection from ice and wind-driven rain; and enhancements to fireproofing products that make Grace Construction's fireproofing systems more price-competitive for smaller jobs. In addition to customer acceptance of these and other product introductions, Grace Construction's growth strategy is dependent on the advancement of less developed economies (since, as economies develop, they typically use more ready-mix concrete, which allows for the application of more concrete admixtures).

Grace Construction's products are sold to an extremely broad range of customers, including cement manufacturers, ready-mix and pre-stressed concrete producers, local contractors, specialty subcontractors and applicators, masonry block manufacturers, building materials distributors and other industrial manufacturers, as well as construction specifiers, such as architects and structural engineers. For some of these customer groups (such as contractors), cost and ease of application are the key factors in making purchasing decisions; for others (such as architects and structural engineers), product performance and adaptability are the critical factors. In view of this diversity, and because Grace Construction's business requires intensive sales and customer service efforts, Grace Construction maintains a separate sales and technical support force for each of its product groups. These sales and support forces sell products under global contracts, under U.S. or regional contracts and on a job-by-job basis. Consequently, Grace Construction competes globally with several large construction materials suppliers and regionally and locally with numerous smaller competitors. In recent years, the cement manufacturing business and the contracting business have experienced substantial consolidation, particularly in markets outside the U.S. Competition is based largely on technical support and service, product performance, adaptability of the product and price.

Grace Construction's 1996 sales and revenues totaled \$435 million (64% in North America, 19% in Asia Pacific, 17% in Europe and less than 1% in Latin America), versus \$397 million in 1995 and \$387 million in 1994. At year-end 1996, Grace Construction employed approximately 1,900 people at 56 production facilities (26 in North America, 11 in Southeast Asia, 7 in each of Australia/New Zealand and Europe, 4 in Latin America, and 1 in Japan) and 76 sales offices worldwide. Grace Construction's capital expenditures

tend to be relatively lower, and sales and marketing expenditures tend to be relatively higher, than those of Grace's other core businesses.

The construction business is cyclical, in response to economic conditions and construction demand. The construction market has experienced slow but steady growth through 1996 from a cyclical low in 1991. During this time, the management of Grace Construction has focused its efforts on streamlining its range of products and reducing costs. For example, during this period, Grace Construction implemented a lower cost structure by consolidating manufacturing plants for its North American fireproofing operations and streamlining its management structure and consolidating research efforts in its European waterproofing operations. The construction business is also seasonal due to weather conditions. Grace Construction seeks to increase profitability and minimize the impact of cyclical and seasonal downturns in regional economies by introducing technically advanced, value-added products, expanding geographically, and developing business opportunities in renovation construction markets. However, there is no assurance that these initiatives will succeed, and the cyclical and seasonality of the construction business could affect Grace Construction's business and results of operations.

The raw materials used for manufacturing Grace Construction products are primarily commodities that can be 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. The worldwide supply of calcium lignin, a wood pulping by-product used as a raw material in the production of concrete admixtures, had been decreasing as paper mills converted to new manufacturing processes. In 1996, additional supplies of calcium lignin became available, alleviating the shortage. However, there is no assurance that the additional supplies will remain available in sufficient quantities or at satisfactory prices.

#### DISCONTINUED OPERATIONS

Grace's thermal and emission control systems business ("Grace TEC Systems") is Grace's principal discontinued operation that has not yet been divested. Grace TEC Systems manufactures air flotation dryers and volatile organic compound control systems. These products are sold principally to the graphic arts, web coating and paper converting markets. Competition for Grace TEC Systems' products is based primarily on system design, materials, technology, customer service, product performance and price. Grace TEC Systems employed approximately 700 people at year-end 1996 and had sales of \$103 million in 1996, \$113 million in 1995 and \$90 million in 1994. Grace is actively pursuing the disposition of this business and its other remaining discontinued operations.

See "Strategic Objectives and Actions" above, "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Note 6 to Grace's

Consolidated Financial Statements for additional information concerning Grace's discontinued operations.

#### RESEARCH ACTIVITIES

Grace engages in research and development programs for its core businesses. These programs are 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 includes research in catalysis, construction materials, specialty packaging and process engineering, principally involving the development of technologies to manufacture chemical specialties. Grace's research and development strategy is to develop technology platforms on which new products will be based, while focusing development efforts in each business unit on the improvement of existing products and/or the adaptation of existing products to customer needs.

Research and development expenses relating to continuing operations amounted to \$94 million in 1996, \$112 million in 1995 and \$100 million in 1994 (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.

#### PATENTS AND OTHER INTELLECTUAL PROPERTY MATTERS

Grace relies on numerous patents and patent applications, as well as know-how and other proprietary information. As competition in the markets in which Grace does business is often based on technological superiority and innovation, with new products being introduced frequently, the ability to achieve technological innovations and obtain patent or other intellectual property protection is important. There can be no assurance that Grace's patents, patent applications or other intellectual property will provide sufficient proprietary protection. Other companies may independently develop similar systems or processes that circumvent patents issued to Grace, or may acquire patent rights within the fields of Grace's businesses. Grace's competitors may also develop technologies, systems or processes that are more effective than those developed by Grace, or that render Grace's technology, systems or processes less competitive or obsolete. Any such events could have an adverse effect on Grace.

## ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

Manufacturers of specialty chemical products, including Grace, are subject to stringent regulations under numerous federal, state and local environmental, health and safety laws and regulations relating to the generation, storage, handling, discharge and disposition of hazardous wastes and other materials. Grace has expended substantial funds in order to comply with such laws and regulations and expects to continue to do so in the future. The following table sets forth Grace's expenditures in the past three years, and its estimated expenditures in 1997 and 1998, for (a) the operation and maintenance of environmental facilities and the disposal of wastes with respect to continuing operations; (b) capital expenditures for environmental control facilities relating to continuing operations; and (c) site remediation:

	(a) Operation of Facilities and Waste Disposal -----	(b) Capital Expenditures -----	(c) Site Remediation -----
	(\$ in millions)		
1994	\$35	\$22	\$31
1995	43	15	31
1996	45	17	20
1997 (est.)	45	13	23
1998 (est.)	47	12	26

Additional material environmental costs may arise as a result of future legislation or other developments. Grace's earnings, competitive position and other capital expenditures have not been, and are not expected to be, materially adversely affected by compliance with environmental requirements. See Note 11 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.

See Item 3 below 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. Accordingly, Grace does not anticipate that its operations or income will be materially affected by the absence of available capacity. See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and page F-25 of the Financial Supplement for information regarding Grace's capital expenditures.

Additional information regarding Grace's properties is set forth in Item 1 above and in Notes 1, 8 and 11 to the Consolidated Financial Statements.

#### ITEM 3. LEGAL PROCEEDINGS.

**ASBESTOS LITIGATION.** Grace is a defendant in property damage and personal injury 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 41,500 asbestos-related lawsuits at year-end 1996 (31 involving claims for property damage and the remainder involving approximately 91,500 claims for personal injury), as compared to approximately 40,800 lawsuits at year-end 1995 (47 involving claims for property damage and the remainder involving approximately 92,400 claims for personal injury). In most of these lawsuits, Grace is one of many defendants.

The plaintiffs in property damage lawsuits generally seek to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. Through 1996, 135 asbestos property damage cases were dismissed without payment of any damages or settlement amounts; judgments were entered in favor of Grace in 9 cases (excluding cases settled following appeals of judgments in favor of Grace); judgments were entered in favor of the plaintiffs in 7 cases



for a total of \$60.3 million (none of which is on appeal); and 186 property damage cases were settled for a total of \$450.5 million.

Included in the asbestos property damage cases pending against Grace and others at year-end 1996 were the following class actions: (a) an action, conditionally certified by the U.S. Court of Appeals for the Fourth Circuit in 1993 and pending in the U.S. District Court for the District of South Carolina, covering all public and private colleges and universities in the U.S. whose buildings contain asbestos materials (CENTRAL WESLEYAN COLLEGE, ET AL. V. W. R. GRACE, ET AL.); and (b) 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 lawsuit described above and any building owned by the federal or any state government. 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 December 1995, Grace entered into an agreement to settle the claims under PRINCE GEORGE CENTER, INC. V. U.S. GYPSUM COMPANY, ET AL., a class action 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. The terms of the settlement agreement (which were approved by the Court of Common Pleas of Philadelphia County in July 1996) are not expected to have a significant effect on Grace's consolidated results of operations or financial position.

Through year-end 1996, approximately 11,800 personal injury lawsuits involving 27,400 claims were dismissed without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved), and approximately 30,500 such suits involving 66,200 claims were disposed of for a total of \$186 million (see "Insurance Litigation" below).

In 1991, the Judicial Panel on Multi-District Litigation consolidated in the U.S. District Court for the Eastern District of Pennsylvania, for pre-trial purposes, all asbestos personal injury cases pending in the U.S. 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 previously purchased insurance policies with respect to its asbestos-related lawsuits and claims. Grace has settled with and been paid by its primary insurance carriers with respect to both property damage and personal injury cases and claims. With one minor exception, Grace also has settled with its excess insurance carriers that wrote

policies available for property damage cases; those settlements involve amounts paid and to be paid to Grace. In addition, Grace has settled with many excess insurance carriers that wrote policies available for personal injury claims. Grace is currently in litigation with certain remaining excess insurance carriers whose policies generally represent layers of coverage Grace has not yet reached. Such policies are believed by Grace to be available for asbestos-related personal injury lawsuits. Insurance coverage for asbestos-related liabilities has not been commercially available since 1985.

Grace's aggregate accrual for asbestos liabilities at December 31, 1996 was \$994.1 million; this amount reflects all asbestos-related property damage and personal injury cases and claims then pending (except for one property damage case as to which liability is not yet estimable because Grace has not yet been able to obtain sufficient information through discovery proceedings), as well as personal injury claims expected to be filed through 2001. Grace's ultimate exposure with respect to its asbestos-related cases 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. At December 31, 1996, Grace had recorded a receivable of \$331.3 million, the amount Grace estimated to be the probable recovery from its insurance carriers with respect to pending and projected asbestos cases and claims. A May 1994 decision of the U.S. Court of Appeals for the Second Circuit limited the amount of insurance coverage available to Grace with respect to property damage cases. Because Grace's insurance covers both property damage and personal injury cases 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 claims. However, in Grace's opinion (which is not based on a formal opinion of counsel), it is probable that recoveries from its insurance carriers, along with other funds, will be available to satisfy the property damage and personal injury cases and claims pending at year-end 1996, as well as personal injury claims expected to be filed in the foreseeable future. Consequently, Grace believes that the resolution of its asbestos-related litigation will not have a material adverse effect on its consolidated financial position.

See "Insurance Litigation" below and Note 2 to the Consolidated Financial Statements for additional information.

ENVIRONMENTAL PROCEEDINGS. Grace (together with certain other companies) has been designated a "potentially responsible party" ("PRP") by the U.S. Environmental Protection Agency ("EPA") with respect to absorbing the costs of investigating and remediating pollution at various sites. At year-end 1996, 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 also is conducting investigatory and remediation activities at sites under the jurisdiction of state and/or local authorities.

In November 1995, Grace received a letter from the U.S. 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 cleanup and that the total cost of the 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 U.S. government. In 1975, the U.S. 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, while preserving the rights and liabilities of the parties under other existing applicable laws. Grace believes that the resolution of the DOE's claim will not have a material adverse effect on its consolidated financial position.

In March 1993, an action was filed in the U.S. District Court for the Southern District of Texas against Grace Drilling Company, a subsidiary of Grace, 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 alleged 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. In February 1997, the U.S. District Court approved a decree under which Grace agreed to pay \$700,000 in penalties and \$1.6 million towards a restoration project to settle this action, all of which is expected to be paid by Grace's insurance carriers on its behalf.

Grace is a party to additional 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. However, Grace may incur material liability in connection with future actions of governmental agencies and/or private parties relating to past or future practices of Grace with respect to the generation, storage, handling, discharge or disposition of hazardous wastes and other materials.

Grace believes that the liabilities for environmental remediation costs, including costs relating to environmental proceedings, 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. However, Grace believes that the resolution of pending environmental proceedings will not have a material adverse effect on its consolidated financial position, results of operations or liquidity. For further information, see "Environmental,

Health and Safety Matters" under Item 1 above and "Management's Discussion and Analysis of Results of Operations and Financial Condition."

INSURANCE LITIGATION. Grace is involved in litigation with certain of its insurance carriers with respect to asbestos-related insurance claims and environmental liabilities. The relief sought by Grace in these actions would provide insurance that would partially offset Grace's estimated exposure with respect to amounts previously expended, and that may be expended in the future, by Grace to defend claims, satisfy judgments and fund settlements. Grace has settled all of its asbestos-related insurance coverage actions, with the exception of MARYLAND CASUALTY CO. V. W. R. GRACE & CO., pending in the U.S. District Court for the Southern District of New York. In April 1996, as a result of rulings in this action favorable to Grace with respect to its asbestos-related property damage liabilities, the insurers agreed to the entry of summary judgment in favor of Grace; however, the insurers have stated that they intend to appeal the District Court's rulings. The District Court has not yet addressed Grace's claims for insurance coverage for its asbestos-related personal injury liabilities. Grace's only environmental insurance coverage action is pending in the U.S. District Court for the Southern District of New York and is also styled MARYLAND CASUALTY CO. V. W. R. GRACE & CO. See Note 2 to the Consolidated Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition" for additional information.

Prior to 1993, Grace received from insurance carriers asbestos-related payments totaling \$97.7 million, 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. In 1996, Grace settled with additional excess-level insurers for a total of \$110.5 million (including \$19.2 million to be received over the next five years) with respect to both products liability and other coverage. As a result of these settlements, Grace's asbestos-related insurance claims have been dismissed as to the primary-level product liability insurance coverage previously sold by the relevant insurers to Grace, as well as to many of Grace's excess-level liability insurers. However, litigation continues in New York federal court as to certain excess-level carriers that have not settled.

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 \$126.1 million at the December 31, 1996 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 \$7.5 million at the December 31, 1996 exchange rate), plus interest, to the Flemish government for previously received investment grants; this decision is also being appealed by Grace. In July 1996, Grace received a favorable arbitration ruling, under which the engineering company responsible for the design and construction of the fumed silica plant was ordered to pay damages to Grace; the damage award is not material to Grace.

U.S. JUSTICE DEPARTMENT LAWSUIT. The U.S. Justice Department has intervened in a QUI TAM lawsuit, originally filed in June 1995, pending in the U.S. District Court for the Northern District of California (UNITED STATES EX REL. ROBERT COSTA AND RONALD THORNBURG, ET AL., V. BAKER & TAYLOR, INC., ET AL.). The complaint in this lawsuit alleges that Baker & Taylor Books, a book wholesaler sold by Grace in 1992, overcharged public schools, libraries and federal agencies during the last ten years, including the period during which Baker & Taylor Books was owned by Grace. Grace, Baker & Taylor, Inc. (the entity that currently operates Baker & Taylor Books) and one of the current shareholders of Baker & Taylor, Inc. have been named as defendants. The lawsuit seeks unspecified damages, punitive damages and civil penalties, as well as attorneys' fees and expenses and such other relief as the Court may deem proper. At this time, Grace is unable to determine the liability, if any, to which it may be subject as a result of this lawsuit.

SHAREHOLDER LITIGATION. W. R. Grace & Co., a New York corporation subsequently renamed Fresenius National Medical Care Holdings, Inc. ("Grace New York"), and members of the Grace New York Board of Directors (as well as J. P. Bolduc, who resigned as president and chief executive officer and a director of Grace New York in March 1995) are defendants in a case entitled WEISER, ET AL. V. GRACE, ET AL. pending in New York State Supreme Court, New York County. The consolidated amended complaint in this lawsuit, which purports to be a derivative action (I.E., an action brought on behalf of Grace New York), alleges, among other things, that the individual defendants breached their fiduciary duties to Grace New York (a) by providing J. Peter Grace, Jr. (the chairman and a director of Grace New York until his death in April 1995) with certain compensation arrangements upon his voluntary retirement as Grace New York'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 a retirement plan for nonemployee directors, the return of all remuneration paid to the directors who are defendants while they were in breach of their fiduciary duties to Grace New York, attorneys' and experts' fees and costs, and such other relief as the Court deems proper. A motion to intervene in the case by the California Public Employees' Retirement System was granted by the Court in September 1996. Under the terms of the Distribution Agreement ("Distribution Agreement") entered into in connection with the NMC transaction described in "Strategic Objectives and Actions" above and in Note 1 to the Consolidated Financial Statements, Grace remains financially responsible for any liabilities incurred by Grace New York and others as a result of this

lawsuit, including the fees and disbursements of counsel for Grace and, subject to certain conditions, counsel for the individual defendants (including certain current and former directors of the Company). The discussions of the Distribution Agreement appearing above and in the following paragraphs do not purport to be complete and are qualified in their entirety by reference to the Distribution Agreement, which was filed as an exhibit to the Joint Proxy Statement-Prospectus of Grace New York dated August 2, 1996.

In March 1996, two purported shareholder derivative class actions were filed in New York State Supreme Court, New York County, against Grace New York and Albert J. Costello, Grace's Chairman, President and Chief Executive Officer (and who previously held those offices with Grace New York), alleging that the defendants breached their fiduciary duties to Grace New York's shareholders by failing to investigate and consider fully a proposal by Hercules, Incorporated to acquire or merge with Grace New York (IZES, ETC. V. W. R. GRACE & COMPANY, ET AL. and POLIKOFF, ETC. V. W. R. GRACE & COMPANY, ET AL.). On December 23, 1996, the parties stipulated to the dismissal of these actions without prejudice and without costs. No consideration was paid in connection with the dismissals.

SECURITIES AND EXCHANGE COMMISSION INVESTIGATIONS. Grace New York was previously notified that the Securities and Exchange Commission ("Commission") had issued a formal order of investigation with respect to Grace New York'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. Grace is cooperating with the investigation. The outcome of this investigation and its impact, if any, on Grace cannot be predicted at this time.

In April 1996, Grace New York received a formal order of investigation issued by the Commission directing an investigation into, among other things, whether Grace New York violated the federal securities laws by filing periodic reports with the Commission that contained false and misleading financial information. Pursuant to this formal order of investigation, Grace and others have received subpoenas from the Southeast Regional Office of the Commission requiring the production of documents relating principally to reserves (net of applicable taxes) established by Grace New York and NMC during the period from January 1, 1990 to the date of the subpoena. Grace believes that all financial statements filed by Grace New York with the Commission during that period, the financial statements of NMC included in its Form 10 Registration Statement filed with the Commission on September 25, 1995, and the Consolidated Financial Statements (all of which financial statements, other than unaudited quarterly financial statements, were covered by unqualified opinions issued by Price Waterhouse LLP, independent certified public accountants), have been fairly stated, in all material respects, in conformity with generally accepted accounting principles. Grace is cooperating with the investigation. The outcome of this investigation and its impact, if any, on Grace cannot be predicted at this time.

Under the terms of the Distribution Agreement, Grace remains financially responsible for any liabilities incurred by Grace New York and others as a result of the investigations described above, including the fees and disbursements of counsel for Grace and, subject to certain conditions, counsel for certain former directors and officers of the Company.

SHAREHOLDER ACTIONS RELATING TO NMC. Grace New York and certain of its former officers and directors are defendants in a lawsuit entitled MURPHY, ET AL. V. W. R. GRACE & CO., ET AL., which is pending in the U.S. 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 Grace New York'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 investigations of NMC by the Office of the Inspector General of the U.S. Department of Health and Human Services, 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.

Grace New York, certain of its former directors and its former president and chief executive officer are also defendants in a purported derivative action pending in the U.S. District Court for the Southern District of New York (BENNETT V. BOLDOC, ET AL.), alleging that such individuals breached their fiduciary duties by failing to properly supervise the activities of NMC in the conduct of its business. The BENNETT action seeks unspecified damages, attorneys' and experts' fees and costs, and such other relief as the Court deems proper.

Under the terms of the Distribution Agreement, Grace remains financially responsible for any liabilities incurred by Grace New York and others as a result of the lawsuits described above, including the fees and disbursements of counsel for Grace and, subject to certain conditions, counsel for the individual defendants (including certain current and former directors and officers of the Company).

In February 1996, a purported class action was filed in New York State Supreme Court, New York County, against Grace New York and certain of its current and former directors, alleging that the defendants breached their fiduciary duties, principally by failing to provide internal financial data concerning NMC to Vivra Incorporated and by failing to negotiate with Baxter International, Inc. in connection with a business combination involving NMC (ROSMAN V. W. R. GRACE, ET AL. 96-102347). On December 19, 1996, the parties stipulated to the dismissal of this action without prejudice and without costs. No consideration was paid in connection with the dismissal.

See Note 6 to the Consolidated Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition" for additional information concerning certain litigation and proceedings 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 1996.

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 9, 1997.

Name and Age -----	Office -----	First Elected -----
R. H. Beber (63)	Executive Vice President and General Counsel	05/10/93 09/01/91
Robert J. Bettacchi (54)	Vice President	02/01/90
Albert J. Costello (61)	Chairman, President and Chief Executive Officer	05/10/95 05/01/95
Larry Ellberger (49)	Senior Vice President and Chief Financial Officer	07/06/95 11/14/96
James R. Hyde (58)	Senior Vice President	07/06/95
J. Gary Kaenzig, Jr. (52)	Senior Vice President	10/05/95

All the above executive officers have been actively engaged in Grace's business for the past five years, other than Messrs. Costello and Ellberger. Mr. Costello 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 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.



## 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-26); 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-25); and in Note 13 to the Consolidated Financial Statements (page F-20).

Each share of the Company's Common Stock, \$.01 par value ("Common Stock"), has an attendant Preferred Stock Purchase Right ("Right"). The Rights are not and will not become exercisable unless and until certain events occur (as described below). Until such events occur, the Rights will automatically trade with the Common Stock, and separate certificates for the Rights will not be distributed. The Rights will become exercisable on the earlier to occur of (a) 10 days after a person or group ("Acquiring Person") has acquired beneficial ownership of 20% or more of the then outstanding shares of Common Stock or (b) 10 business days (or such later date as may be fixed by the Company's Board of Directors) after an Acquiring Person commences (or announces the intention to commence) a tender offer or exchange offer that would result in such Acquiring Person becoming the beneficial owner of 20% or more of the then outstanding shares of Common Stock. Holders of Rights, as such, have no rights as stockholders of the Company; consequently, such holders have no rights to vote or receive dividends, among other things.

When the Rights become exercisable, each Right will initially entitle the holder to buy from the Company one hundredth of a share of the Company's Series A Junior Participating Preferred Stock, \$.01 par value ("Junior Preferred Stock"), for \$200, subject to adjustment ("exercise price"). If, at any time after the Rights become exercisable, the Company is acquired in a merger or other business combination or 50% or more of the Company's consolidated assets or earning power is sold, each Right will entitle the holder to buy a number of shares of common stock of the acquiring company having a market value equal to twice the exercise price. Alternatively, each Right not owned by an Acquiring Person would become exercisable for Common Stock having a market value equal to twice the exercise price.

Shares of Junior Preferred Stock that may be purchased upon exercise of the Rights will not be redeemable. Each share of Junior Preferred Stock will be entitled to a minimum preferential quarterly dividend payment of \$1.00 per share but will be entitled to an aggregate dividend equal to 100 times the dividend declared per share of Common

Stock whenever such dividend is declared. In the event of liquidation, holders of Junior Preferred Stock will be entitled to a minimum preferential liquidation payment of \$100 per share but will be entitled to an aggregate payment equal to 100 times the payment made per share of Common Stock. Each share of Junior Preferred Stock will have 100 votes, voting together with the Common Stock. Finally, in the event of any merger, consolidation or other transaction in which the Common Stock is exchanged, each share of Junior Preferred Stock will be entitled to receive an amount equal to 100 times the amount received per share of Common Stock. These rights are protected by customary antidilution provisions.

Because of the nature of the dividend, liquidation and voting rights of the Junior Preferred Stock, the value of the one-hundredth interest in a share of Junior Preferred Stock that may be purchased upon exercise of each Right should approximate the value of one share of Common Stock.

At any time after any person or group becomes an Acquiring Person, and prior to the acquisition by such Acquiring Person of 50% or more of the outstanding shares of Common Stock, the Company's Board of Directors may exchange the Rights (other than Rights owned by such person or group, which will become void after such person becomes an Acquiring Person) for Common Stock or Junior Preferred Stock, in whole or in part, at an exchange ratio of one share of Common Stock, or one hundredth of a share of Junior Preferred Stock (or of a share of another series of the Company's Preferred Stock having equivalent rights, preferences and privileges), per Right (subject to adjustment).

At any time prior to the acquisition by a person or group of beneficial ownership of 20% or more of the outstanding shares of Common Stock, the Company's Board of Directors may redeem the Rights in whole, but not in part, at a price of \$.01 per Right.

The terms of the Rights may be amended by the Company's Board of Directors without the consent of the holders of the Rights, including an amendment to lower (a) the threshold at which a person becomes an Acquiring Person and (b) the percentage of Common Stock proposed to be acquired in a tender or exchange offer that would cause the Rights to become exercisable, to not less than the greater of (a) the sum of .001% plus the largest percentage of the Company's outstanding Common Stock then known to the Company to be beneficially owned by any person or group and (b) 10%, except that, from and after such time as any person or group becomes an Acquiring Person, no such amendment may adversely affect the interests of the holders of the Rights.

The Rights will expire in September 2006, unless this expiration date is extended or unless the Rights are earlier redeemed or exchanged by the Company.

The foregoing summary of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, which was filed as an exhibit to the Company's Form 8-K filed on October 10, 1996.

ITEM 6. SELECTED FINANCIAL DATA.

The information called for by this Item appears under the heading "Financial Summary" (page F-26 of the Financial Supplement) and in Notes 5, 6, 9 and 16 to the Consolidated Financial Statements (pages F-13, F-15, F-18 and F-23 of the Financial Supplement). In addition, Exhibit 12 to this Report (page F-35 of the Financial Supplement) contains the ratio of earnings to fixed charges and combined fixed charges and preferred stock dividends for Grace for the years 1992-1996.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information called for by this Item appears on pages F-27 to F-32 of the Financial Supplement.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See the Index to Consolidated Financial Statements and Financial Statement Schedule and Exhibits on page F-1 of the Financial Supplement.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

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

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Except for information regarding the Company's executive officers (see page 22), the information called for by this Item is incorporated in this Report by reference to the definitive Proxy Statement for the Company's 1997 Annual Meeting of Shareholders, except for information not deemed to be "soliciting material" or "filed" with the Commission,

information subject to Regulations 14A or 14C under the Securities Exchange Act of 1934 ("Exchange Act") or information subject to the liabilities of Section 18 of the Exchange Act.

ITEM 11. EXECUTIVE COMPENSATION.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information called for by Items 11, 12 and 13 is incorporated in this Report by reference to the definitive Proxy Statement for the Company's 1997 Annual Meeting of Shareholders, except for information not deemed to be "soliciting material" or "filed" with the Commission, information subject to Regulations 14A or 14C under the Exchange Act or information subject to the liabilities of Section 18 of the Exchange Act.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

FINANCIAL STATEMENTS AND SCHEDULES. See the Index to Consolidated Financial Statements and Financial Statement Schedule and Exhibits on page F-1 of the Financial Supplement.

REPORTS ON FORM 8-K. The Company filed the following Reports on Form 8-K during the fourth quarter of 1996 and the beginning of 1997:

Date of Filing -----	Disclosure(s) -----
October 10, 1996	Distribution of all of the shares of the Company's outstanding common stock to the holders of the common stock of Grace New York, on a one-for-one basis.
November 8, 1996	Announcement of 1996 third quarter results.

November 21, 1996	Announcement of the election of Larry Ellberger as chief financial officer.
November 22, 1996	Announcement that Grace had entered into a definitive agreement to sell its Amicon separations science business to Millipore Corporation.
January 8, 1997	Announcement that Grace had entered into a definitive agreement to sell its worldwide cocoa business to Archer-Daniels-Midland Company; announcement of the completion of the sale of Grace's Amicon separations science business to Millipore Corporation; and announcement of the release of W. R. Grace & Co.-Conn., the Company's principal operating subsidiary, from guarantees of certain borrowings by National Medical Care, Inc., a former subsidiary.
February 14, 1997	Announcement of 1996 fourth quarter and full year results.
March 4, 1997	Announcement of the completion of the sale of Grace's worldwide cocoa business to Archer-Daniels-Midland Company; announcement that Grace had entered into a definitive agreement to sell its specialty polymers business to National Starch and Chemical Company; and announcement that Grace had agreed in principle to acquire Schurpack, Inc.
March 12, 1997	Announcement of the release of additional components of Grace's 1996 financial statements, including a consolidated balance sheet and a consolidated statement of cash flows

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

Exhibit  
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Where Located  
-----

Amended and Restated Certificate of  
Incorporation of W. R. Grace & Co

Exhibit 4.1 to Form 8-K  
(filed 10/10/96)

Amended and Restated By-laws of W. R. Grace & Co.	Exhibit 4.2 to Form 8-K (filed 10/10/96)
Rights Agreement by and between W. R. Grace & Co. and The Chase Manhattan Bank, as Rights Agent	Exhibit 4.3 to Form 8-K (filed 10/10/96)
Indenture dated as of September 29, 1992 among W. R. Grace & Co.-Conn., W. R. Grace & Co. and Bankers Trust Company	Exhibit 4.2 to Form 10-K (filed 3/26/93)
Supplemental Indenture dated as of September 24, 1996, among W. R. Grace & Co.-Conn., W. R. Grace & Co., Grace Holding, Inc., and Bankers Trust Company, to Indenture dated as of September 29, 1992	Exhibit 4.4 to Form 8-K (filed 10/10/96)
Indenture dated as of January 28, 1993 among W. R. Grace & Co.-Conn., W. R. Grace & Co. and The Bank of New York (successor to NationsBank of Georgia, N.A.)	Exhibit 4.4 to Form 10-K (filed 3/26/93)
Supplemental Indenture dated as of September 24, 1996, among W. R. Grace & Co.-Conn., W. R. Grace & Co., Grace Holding, Inc., and The Bank of New York, to Indenture dated as of January 28, 1993	Exhibit 4.5 to Form 8-K (filed 10/10/96)
364-Day Credit Agreement, dated as of May 17, 1996, among W. R. Grace & Co.-Conn., W. R. Grace & Co., Grace Holding, Inc., the several banks parties thereto, NationsBank, N.A. (South), as documentation agent, and Chemical Bank, as administrative agent, for such banks	Exhibit 4.4 to Registration Statement on Form S-1 (filed 8/2/96)
Amended and Restated Credit Agreement, dated as of May 17, 1996, among W. R. Grace & Co.-Conn., W. R. Grace & Co., Grace Holding, Inc., the several banks parties thereto and Chemical Bank, as administrative agent for such banks	Exhibit 4.5 to Registration Statement on Form S-1 (filed 8/2/96)
W. R. Grace & Co. 1996 Stock Incentive Plan	Filed herewith*
W. R. Grace & Co. 1996 Stock Retainer Plan for Nonemployee Directors	Exhibit 10.2 to Form 8-K (filed 10/10/96)*

W. R. Grace & Co. Supplemental Executive Retirement Plan, as amended	Filed herewith*
W. R. Grace & Co. Executive Salary Protection Plan, as amended	Filed herewith*
W. R. Grace & Co. 1981 Stock Incentive Plan, as amended	Exhibit 10.3 to Form 8-K (filed 10/10/96)*
W. R. Grace & Co. 1986 Stock Incentive Plan, as amended	Exhibit 10.4 to Form 8-K (filed 10/10/96)*
W. R. Grace & Co. 1989 Stock Incentive Plan, as amended	Exhibit 10.5 to Form 8-K (filed 10/10/96)*
W. R. Grace & Co. 1994 Stock Incentive Plan, as amended	Exhibit 10.6 to Form 8-K (filed 10/10/96)*
Forms of Stock Option Agreements	Exhibit 10(h) to Form 10-K (filed 3/28/92)*
Information concerning W. R. Grace & Co. Incentive Compensation Program, Deferred Compensation Program and Long-Term Incentive Program	Pages 7-12 and 28-33 of Proxy Statement (filed 4/10/96)*
Form of Long-Term Incentive Program Award	Exhibit 10.13 to Registration Statement on Form S-1 (filed 8/2/96)*
Form of Stock Option Agreement	Exhibit 10.14 to Registration Statement on Form S-1 (filed 8/2/96)*
W. R. Grace & Co. Retirement Plan for Outside Directors, as amended	Filed herewith*
Employment Agreement dated as of April 1, 1991 between W. R. Grace & Co.-Conn. and Constantine L. Hampers, as amended	Exhibit 10(x) to Form 10-K (filed 3/28/92)*
Letter Agreement dated as of March 29, 1996 between W. R. Grace & Co. and Constantine L. Hampers	Exhibit 10.1 to Form 10-Q (filed 5/15/96)*
Letter Agreement dated June 14, 1996 between W. R. Grace & Co. and Constantine L. Hampers	Exhibit 10.35 to Registration Statement on Form S-1 (filed 8/2/96)*

Form of Executive Severance Agreement between W. R. Grace & Co. and officers elected prior to May 1996	Exhibit 10.22 to Registration Statement on Form S-1 (filed 8/2/96)*
Form of Executive Severance Agreement between W. R. Grace & Co. and officers elected in or after May 1996	Exhibit 10.23 to Registration Statement on Form S-1 (filed 8/2/96)*
Consulting Agreement dated June 1, 1992 between W. R. Grace & Co. and Kamsky Associates, Inc.	Exhibit 10.29 to Form 10-K (filed 3/26/93)*
Incentive Compensation Agreement dated June 1, 1992 between National Medical Care, Inc. and Kamsky Associates, Inc.	Exhibit 10.30 to Form 10-K (filed 3/26/93)*
Consulting Agreement dated as of December 1993 between National Medical Care, Inc. and Virginia A. Kamsky	Exhibit 10.23 to Form 10-K (filed 3/31/95)*
Amendment to Consulting Agreement, dated as of May 1, 1995, among National Medical Care, Inc., Virginia A. Kamsky and Southeast Asia Markets, Inc.	Exhibit 10.1 to Form 10-Q (filed 5/12/95)*
Employment Agreement dated as of May 1, 1995 between W. R. Grace & Co. and Albert J. Costello	Exhibit 10.1 to Form 10-Q (filed 8/14/95)*
Amendment dated August 9, 1996 to Employment Agreement, dated as of May 1, 1995, between W. R. Grace & Co. and Albert Costello	Exhibit 10.7 to Form 8-K (filed 10/10/96)*
Option Agreement between W. R. Grace & Co. and Albert J. Costello, dated May 1, 1995, as amended	Exhibit 10.8 to Form 8-K (filed 10/10/96)*
Option Agreement between W. R. Grace & Co. and Albert J. Costello, dated March 6, 1996	Exhibit 10.37 to Registration Statement on Form S-1 (filed 8/2/96)*
Agreement dated September 23, 1996 between W. R. Grace & Co. and Donald H. Kohnken	Exhibit 10.9 to Form 8-K (filed 10/10/96)*
Employment Agreement dated May 15, 1995 between W. R. Grace & Co. and Larry Ellberger	Filed herewith*



Restricted Stock Award Agreement dated June 6, 1995 between W. R. Grace & Co. and Larry Ellberger, as amended by letter agreement dated August 26, 1996 between Larry Ellberger and W. R. Grace & Co.	Filed herewith*
Letter Agreement dated December 10, 1996 between W. R. Grace & Co. and Larry Ellberger	Filed herewith*
Bridge Loan Promissory Note dated July 31, 1992 of Fred and Jacqueline Lempereur, payable to W. R. Grace & Co.-Conn.	Filed herewith*
Employee Relocation Loan Agreement dated July 31, 1992 between W. R. Grace & Co.-Conn. and Fred and Jacqueline Lempereur	Filed herewith*
Employment Agreement dated August 17, 1992 between Grace Specialty Chemicals Co. and Fred Lempereur	Filed herewith*
Letter Agreement dated January 10, 1997 between W. R. Grace & Co. and Fred Lempereur	Filed herewith*
Distribution Agreement by and among W. R. Grace & Co., a New York corporation subsequently renamed Fresenius National Medical Care Holdings, Inc., W. R. Grace & Co.-Conn., and Fresenius AG dated February 4, 1996	Exhibit 2 to Form 8-K (filed 2/6/96)
Form of Indemnification Agreement between W. R. Grace & Co. and certain directors	Exhibit 10.39 to Registration Statement on Form S-1 (filed 8/2/96)*
Form of Indemnification Agreement between W. R. Grace & Co. and certain officers and directors	Filed herewith*
Weighted Average Number of Shares and Earnings Used in Per Share Computations	Filed herewith (in Financial Supplement to Form 10-K)
Computation of Ratio of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends	Filed herewith (in Financial Supplement to Form 10-K)
Selected Portions of the 1996 Annual Report to Shareholders of W. R. Grace & Co.	Filed herewith (in Financial Supplement to Form 10-K)

List of Subsidiaries of W. R. Grace & Co.

Filed herewith

Consent of Independent Accountants

Filed herewith (in Financial  
Supplement to Form 10-K)

Powers of Attorney

Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

W. R. GRACE & CO.

By /s/ L. Ellberger  
 -----  
 L. Ellberger  
 (Senior Vice President and  
 Chief Financial Officer)

Date: March 28, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 28, 1997.

Signature -----	Title -----
A. J. Costello*	President and Director (Principal Executive Officer)
J. F. Akers*	}
H. Brown*	}
C. Cheng*	} Directors
H. A. Eckmann*	}
M. A. Fox*	}
J. W. Frick*	}
/s/ L. Ellberger ----- (L. Ellberger)	Senior Vice President (Principal Financial Officer)
/s/ K. A. Browne ----- (K. A. Browne)	Vice President and Controller (Principal Accounting Officer)

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

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

FINANCIAL SUPPLEMENT

W. R. GRACE & CO.  
ANNUAL REPORT ON FORM 10-K  
FOR THE YEAR ENDED DECEMBER 31, 1996

FINANCIAL SUPPLEMENT  
to  
Annual Report on Form 10-K for the Year Ended December 31, 1996  
  
W. R. GRACE & CO. AND SUBSIDIARIES

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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON  
FINANCIAL STATEMENT SCHEDULE

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

Our audits of the consolidated financial statements referred to in our report dated February 3, 1997 appearing on page 27 of the 1996 Annual Report to Shareholders of W. R. Grace & Co. (which report and consolidated financial statements are included in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed on page F-1 in the Index to Consolidated Financial Statements and Financial Statement Schedule and Exhibits of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICE WATERHOUSE LLP

PRICE WATERHOUSE LLP  
Ft. Lauderdale, Florida  
February 3, 1997

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectuses constituting parts of the Registration Statements on Form S-8 (Nos. 333-13637, 333-13639, 333-13641, 333-13643, 333-14101, 333-13645, 333-13647 and 333-16401) of W. R. Grace & Co. of our report dated February 3, 1997 appearing on page 27 of the 1996 Annual Report to Shareholders, which report is included at page F-3 of this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears above.

/s/ PRICE WATERHOUSE LLP

PRICE WATERHOUSE LLP  
Ft. Lauderdale, Florida  
March 28, 1997

## 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.

Management maintains internal control systems to assist it in fulfilling its responsibility for financial reporting, including selection of personnel; segregation of duties; business, accounting and reporting policies and procedures; and an 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 their benefits.

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 certified public 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 recommends the selection of independent certified public accountants to the Board of Directors. Grace's management, internal auditors and independent certified public accountants have direct and confidential access to the Audit Committee at all times.

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

Albert J. Costello  
Chairman, President and  
Chief Executive Officer

Larry Ellberger  
Senior Vice President and  
Chief Financial Officer

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

PRICE WATERHOUSE LLP  
One East Broward Boulevard  
Ft. Lauderdale, FL 33301

February 3, 1997

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF W. R. GRACE & CO.

In our opinion, the consolidated financial statements appearing on pages F-4 through F-24 of this report present fairly, in all material respects, the financial position of W. R. Grace & Co. and subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of 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.

Price Waterhouse LLP

CONSOLIDATED FINANCIAL STATEMENTS

W. R. Grace & Co. and Subsidiaries

CONSOLIDATED STATEMENT OF OPERATIONS

Dollars in millions, except per share amounts	1996	1995	1994
Sales and revenues .....	\$3,454.1	\$3,552.6	\$3,128.5
Other income .....	38.9	41.2	42.0
<b>TOTAL .....</b>	<b>3,493.0</b>	<b>3,593.8</b>	<b>3,170.5</b>
Cost of goods sold and operating expenses .....	2,071.0	2,151.2	1,832.6
Selling, general and administrative expenses .....	713.3	913.7	785.9
Depreciation and amortization .....	184.4	186.1	164.6
Interest expense and related financing costs .....	71.6	71.3	49.5
Research and development expenses .....	93.9	111.6	99.6
Restructuring costs and asset impairments .....	107.5	169.0	--
Provision relating to asbestos-related liabilities and insurance coverage .....	229.1	275.0	316.0
Gain on sales of businesses .....	(326.4)	--	--
<b>TOTAL .....</b>	<b>3,144.4</b>	<b>3,877.9</b>	<b>3,248.2</b>
Income/(loss) from continuing operations before income taxes .....	348.6	(284.1)	(77.7)
Provision for/(benefit from) income taxes .....	134.8	(104.5)	(42.6)
<b>INCOME/(LOSS) FROM CONTINUING OPERATIONS .....</b>	<b>213.8</b>	<b>(179.6)</b>	<b>(35.1)</b>
Income/(loss) from discontinued operations .....	2,643.9	(146.3)	118.4
<b>NET INCOME/(LOSS) .....</b>	<b>\$2,857.7</b>	<b>\$ (325.9)</b>	<b>\$ 83.3</b>
Earnings/(loss) per share:			
Continuing operations .....	\$ 2.32	\$ (1.87)	\$ (.38)
Net earnings/(loss) .....	\$ 31.06	\$ (3.40)	\$ .88

The Notes to Consolidated Financial Statements, pages F-8 to F-24, are integral parts of these statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

Dollars in millions	1996	1995	1994
<b>OPERATING ACTIVITIES</b>			
Income/(loss) from continuing operations before income taxes	\$ 348.6	\$ (284.1)	\$ (77.7)
Reconciliation to cash provided by operating activities:			
Depreciation and amortization	184.4	186.1	164.6
Provision relating to asbestos-related liabilities and insurance coverage	229.1	275.0	316.0
Provision relating to restructuring costs and asset impairments	107.5	169.0	--
Gain on sales of businesses	(326.4)	--	--
Changes in assets and liabilities, excluding effect of businesses acquired/divested and foreign currency exchange:			
Increase in notes and accounts receivable, net	(126.4)	(44.7)	(159.5)
Decrease/(increase) in inventories	51.9	(62.1)	(43.4)
Proceeds from asbestos-related insurance settlements	184.5	257.3	138.6
Payments made for asbestos-related litigation settlements, judgments and defense costs	(186.6)	(160.3)	(198.6)
(Decrease)/increase in accounts payable	(36.4)	(48.3)	10.3
Other	(74.6)	(40.6)	74.5
<b>NET PRETAX CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS</b>	<b>355.6</b>	<b>247.3</b>	<b>224.8</b>
Net pretax cash provided by operating activities of discontinued operations	38.5	96.6	314.7
<b>NET PRETAX CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>394.1</b>	<b>343.9</b>	<b>539.5</b>
Income taxes paid	(170.8)	(236.9)	(86.0)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>223.3</b>	<b>107.0</b>	<b>453.5</b>
<b>INVESTING ACTIVITIES (1)</b>			
Capital expenditures	(456.6)	(537.6)	(444.6)
Businesses acquired in purchase transactions, net of cash acquired and debt assumed	(32.1)	(37.4)	(276.9)
Net investing activities of discontinued operations	(192.9)	(295.2)	(32.9)
Net proceeds from divestments	2,720.3	56.7	583.9
Proceeds from disposals of assets	36.6	17.9	34.0
Other	(2.4)	(6.0)	34.9
<b>NET CASH PROVIDED BY/(USED FOR) INVESTING ACTIVITIES</b>	<b>2,072.9</b>	<b>(801.6)</b>	<b>(101.6)</b>
<b>FINANCING ACTIVITIES (1)</b>			
Dividends paid	(46.0)	(112.6)	(132.0)
Repayments of borrowings having original maturities in excess of three months	(196.1)	(68.1)	(141.2)
Increase in borrowings having original maturities in excess of three months	.6	148.5	535.1
Net (repayments of)/increase in borrowings having original maturities of three months or less	(344.3)	414.9	(605.8)
Stock options exercised	70.7	164.1	21.1
Net financing activities of discontinued operations	(136.7)	120.8	.2
Purchase of treasury stock	(1,319.3)	(12.1)	--
Repurchase of limited partnership interest	(297.0)	--	--
Other	.3	.2	(.2)
<b>NET CASH (USED FOR)/PROVIDED BY FINANCING ACTIVITIES</b>	<b>(2,267.8)</b>	<b>655.7</b>	<b>(322.8)</b>
Effect of exchange rate changes on cash and cash equivalents	(.7)	1.2	1.6
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>27.7</b>	<b>(37.7)</b>	<b>30.7</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>40.6</b>	<b>78.3</b>	<b>47.6</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 68.3</b>	<b>\$ 40.6</b>	<b>\$ 78.3</b>

The Notes to Consolidated Financial Statements, pages F-8 to F-24, are integral parts of these statements.

(1) See Notes 1 and 6 for supplemental information relating to noncash investing and financing activities.

CONSOLIDATED BALANCE SHEET

Dollars in millions, except par value	December 31,	1996	1995
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents .....		\$ 68.3	\$ 40.6
Notes and accounts receivable, net .....		831.4	596.8
Inventories .....		376.1	491.9
Net assets of discontinued operations .....		297.4	323.7
Deferred income taxes .....		183.9	206.1
Other current assets .....		17.8	22.2
		-----	-----
TOTAL CURRENT ASSETS .....		1,774.9	1,681.3
Properties and equipment, net .....		1,871.3	1,736.1
Goodwill, less accumulated amortization of \$18.6 (1995 - \$20.6) .....		40.6	111.8
Net assets of discontinued operations - health care .....		--	1,435.3
Asbestos-related insurance receivable .....		296.3	321.2
Deferred income taxes .....		309.2	386.6
Other assets .....		653.5	688.3
		-----	-----
TOTAL ASSETS .....		\$4,945.8	\$6,360.6
		=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Short-term debt .....		\$ 315.2	\$ 638.3
Accounts payable .....		274.7	339.2
Income taxes .....		123.3	103.3
Other current liabilities .....		773.9	836.4
Minority interest .....		--	297.0
		-----	-----
TOTAL CURRENT LIABILITIES .....		1,487.1	2,214.2
Long-term debt .....		1,073.0	1,295.5
Other liabilities .....		850.7	852.0
Deferred income taxes .....		43.5	44.8
Noncurrent liability for asbestos-related litigation .....		859.1	722.3
		-----	-----
TOTAL LIABILITIES .....		4,313.4	5,128.8
		-----	-----
<b>COMMITMENTS AND CONTINGENCIES (Notes 2, 6, 9 and 11)</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Preferred stock, par value \$.01 and \$100, respectively .....		--	7.4
Common stock, par value \$.01 and \$1, respectively; 300,000,000 shares authorized; outstanding at December 31: 1996 - 78,493,000; 1995 - 97,375,000 .....		.8	97.4
Paid in capital .....		524.1	459.8
Retained earnings .....		172.6	709.0
Cumulative translation adjustments .....		(64.6)	(39.4)
Treasury stock, at cost; December 31: 1996 - 10,000; 1995 - 53,000 common shares .....		(.5)	(2.4)
		-----	-----
TOTAL SHAREHOLDERS' EQUITY .....		632.4	1,231.8
		-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY .....		\$4,945.8	\$6,360.6
		=====	=====

The Notes to Consolidated Financial Statements, pages F-8 to F-24, are integral parts of these statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Dollars in millions	1996	1995	1994
<b>PREFERRED STOCKS</b>			
Balance, beginning of year	\$ 7.4	\$ 7.4	\$ 7.4
Retirement of preferred stocks	(7.4)	--	--
<b>BALANCE, END OF YEAR</b>	<b>--</b>	<b>7.4</b>	<b>7.4</b>
<b>COMMON STOCK</b>			
Balance, beginning of year	97.4	94.1	93.5
Shares issued under stock incentive plans	1.4	3.3	.6
Retirement of treasury stock	(9.9)	--	--
Change in par value of common stock	(88.1)	--	--
<b>BALANCE, END OF YEAR</b>	<b>.8</b>	<b>97.4</b>	<b>94.1</b>
<b>PAID IN CAPITAL</b>			
Balance, beginning of year	459.8	308.8	287.8
Shares issued under stock incentive plans	98.5	151.1	20.5
Retirement of treasury stock	(122.3)	--	--
Change in par value of common stock	88.1	--	--
Other	--	(.1)	.5
<b>BALANCE, END OF YEAR</b>	<b>524.1</b>	<b>459.8</b>	<b>308.8</b>
<b>RETAINED EARNINGS</b>			
Balance, beginning of year	709.0	1,147.5	1,196.2
Net income/(loss)	2,857.7	(325.9)	83.3
Dividends paid	(46.0)	(112.6)	(132.0)
Dividend of common equity interest in health care business	(2,172.3)	--	--
Retirement of preferred stock	7.4	--	--
Retirement of treasury stock	(1,183.2)	--	--
<b>BALANCE, END OF YEAR</b>	<b>172.6</b>	<b>709.0</b>	<b>1,147.5</b>
<b>CUMULATIVE TRANSLATION ADJUSTMENTS</b>			
Balance, beginning of year	(39.4)	(53.3)	(67.3)
Translation adjustments	(25.2)	13.9	14.0
<b>BALANCE, END OF YEAR</b>	<b>(64.6)</b>	<b>(39.4)</b>	<b>(53.3)</b>
<b>TREASURY STOCK</b>			
Balance, beginning of year	(2.4)	--	--
Purchase of common stock	(1,319.3)	(12.1)	--
Shares issued under stock incentive plans	5.8	9.7	--
Retirement of treasury stock	1,315.4	--	--
<b>BALANCE, END OF YEAR</b>	<b>(.5)</b>	<b>(2.4)</b>	<b>--</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 632.4</b>	<b>\$ 1,231.8</b>	<b>\$1,504.5</b>

The Notes to Consolidated Financial Statements, pages F-8 to F-24, are integral parts of these statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in millions, except per share amounts

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES

W. R. Grace & Co., through its subsidiaries, is primarily engaged in the packaging and specialty chemicals businesses on a worldwide basis. As used in these notes, the term "Company" refers to Grace New York (as defined below) through September 27, 1996, and thereafter to W. R. Grace & Co., a Delaware corporation. The term "Grace" refers to the Company and/or one or more of its subsidiaries.

**REORGANIZATION** On September 28, 1996, W. R. Grace & Co., a New York corporation subsequently renamed Fresenius National Medical Care Holdings, Inc. (Grace New York), distributed all of the Company's outstanding common stock (which has a par value of \$.01 per share) to the holders of Grace New York common stock (which had a par value of \$1.00 per share) on a one-for-one basis. As a result of the distribution, Grace New York's principal remaining asset was the outstanding capital stock of National Medical Care, Inc. (NMC), a health care company that was classified as a discontinued operation in the second quarter of 1995. On September 29, 1996, a wholly owned subsidiary of Fresenius Medical Care AG (FMC), a German corporation, merged with and into Grace New York, resulting in the combination of NMC with the worldwide dialysis business of Fresenius AG (Fresenius), a German health care corporation and the principal shareholder of FMC.

The Grace New York preferred stock issued and outstanding at the time of the above distribution remained outstanding shares of Grace New York, and the treasury shares held by Grace New York at the time of the distribution were retained by Grace New York. Accordingly, the distribution was treated as a retirement of preferred stocks and a retirement of treasury stock within the Consolidated Statement of Shareholders' Equity for the year ended December 31, 1996.

For further information, see the Grace New York Joint Proxy Statement-Prospectus dated August 2, 1996 (Joint Proxy Statement-Prospectus), the Company's Prospectus dated August 2, 1996 (Prospectus), and Notes 6 and 13.

**PRINCIPLES OF CONSOLIDATION** The consolidated financial statements include the accounts of Grace and majority-owned companies. 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 prior years' consolidated financial statements and related notes have been reclassified to conform to the current year's presentation and as required with respect to discontinued operations.

**USE OF ESTIMATES** The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities (including contingent assets and liabilities) at the date of the consolidated financial statements and the reported revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

**CASH EQUIVALENTS** Cash equivalents consist of highly liquid instruments with maturities of three months or less when purchased. The recorded amounts approximate fair value because of the short maturities of these investments.

**INVENTORIES** Inventories are stated at the lower of cost or market. The methods used to determine cost include first-in/first-out and, for substantially all U.S. chemical inventories, last-in/first-out. Market values for raw materials are based on current cost and, for other inventory classifications, net realizable value.

**PROPERTIES AND EQUIPMENT** Properties and equipment are stated at the lower of cost or fair value. Depreciation of properties and equipment is generally computed using the straight-line method over the estimated useful life of the asset. Interest is capitalized in connection with major project expenditures and amortized, generally on a straight-line basis, over the estimated useful life of the asset. 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** Goodwill arises from certain purchase transactions and is amortized using the straight-line method over appropriate periods not exceeding 40 years.

**RESEARCH AND DEVELOPMENT COSTS** Research and development costs are charged to expense as incurred.

**IMPAIRMENT** In 1995, Grace adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." In accordance with this statement, Grace reviews long-lived assets and related goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable.

**INCOME TAXES** Grace uses 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 are remeasured as if the functional currency was the U.S. dollar. The remeasurement creates translation adjustments that are reflected in net income.

**FINANCIAL INSTRUMENTS** Grace enters into interest rate swap agreements and foreign exchange forward and option contracts to manage exposure to fluctuations in interest and foreign currency exchange rates. Grace does not hold or issue derivative financial instruments for trading purposes.

The cash differentials paid or received under interest rate swap agreements are accrued and recognized as adjustments to interest expense. The related amounts payable to or receivable from the counterparties are included in other current liabilities or notes and accounts receivable, net. Cash flows related to interest rate swap agreements are classified within operating activities in the Consolidated Statement of Cash Flows, consistent with the interest payments on the underlying debt. The fair values of interest rate swap agreements are not recognized in the Consolidated Financial Statements, as these agreements modify the interest rate basis (i.e., whether fixed or floating rate) of debt instruments of similar face amounts and tenor.

Gains or losses resulting from the settlement prior to maturity of interest rate swap agreements are either deferred (recorded as other liabilities or other assets) and amortized to interest expense and related financing costs over a period relevant to the agreement (if the underlying debt remains outstanding) or recognized immediately (if the underlying debt has been repaid or retired).

Grace enters into foreign currency forward and option contracts to hedge transactions and firm commitments denominated in foreign currencies and, from time to time, net investments in foreign subsidiaries. Gains or losses on hedges of transactional exposures are recorded as adjustments to gains or losses on the underlying transactions. Gains or losses on hedges of foreign currency-denominated firm commitments are deferred and recorded as part of the basis in the transaction in the period in which the transaction is consummated. Gains and losses on forward contracts that hedge net investments in foreign subsidiaries are recorded in the cumulative translation adjustments account in shareholders' equity. Cash flows related to foreign currency forward and option contracts are classified within operating activities in the Consolidated Statement of Cash Flows.

**OTHER INCOME** Other income consists of interest income, equity in earnings of affiliated companies, gains on sales of investments and other items.

**EARNINGS PER SHARE** Earnings per share are computed on the basis of the weighted average number of common shares outstanding.

## 2. ASBESTOS AND RELATED INSURANCE LITIGATION

Grace is a defendant in property damage and personal injury 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 41,500 asbestos-related lawsuits at December 31, 1996 (31 involving claims for property damage and the remainder involving approximately 91,500 claims for personal injury), as compared to approximately 40,800 lawsuits at December 31, 1995 (47 involving claims for property damage and the remainder involving approximately 92,400 claims for personal injury).

### PROPERTY DAMAGE LITIGATION

The plaintiffs in property damage lawsuits generally seek to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. Each property damage case is unique in that the age, type, size and use of the building, and the difficulty of asbestos 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 cases in the future. Information regarding product identification, the amount of product in 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 meaningful guidance as to the range of potential costs. Some of this information is not yet available in the property damage cases currently pending against Grace. Accordingly, it is not possible to estimate with precision the costs of defending against and disposing of these cases. In accordance with SFAS No. 5, Grace has recorded an accrual for all existing property damage cases for which sufficient information is available to form a range of estimated exposure. At December 31, 1996 and 1995, estimates were not accrued for one and four cases, respectively, due to insufficient information. Grace believes that the number of property damage cases to be filed in the future and the costs associated with these filings are not estimable.



Through December 31, 1996, 135 asbestos property damage cases were dismissed without payment of any damages or settlement amounts; judgments were entered in favor of Grace in nine cases (excluding cases settled following appeals of judgments in favor of Grace); judgments were entered in favor of the plaintiffs in seven cases for a total of \$60.3 (none of which is on appeal); and 186 property damage cases were settled for a total of \$450.5. Property damage case activity for 1996 and 1995 is as follows:

December 31,	1996	1995
Cases outstanding, beginning of year .....	47	65
New cases filed .....	1	5
Settlements .....	(9)	(18)
Dismissals .....	(5)	(4)
Judgments, net .....	(3)	(1)
	--	--
Cases outstanding, end of year .....	31	47
	==	==

#### PERSONAL INJURY LITIGATION

Personal injury claims are generally similar to each other (differing primarily in the type of asbestos-related illness allegedly suffered by the plaintiff). However, Grace's estimated liability for such claims is influenced by numerous variables, including the solvency of other former asbestos producers, cross-claims by co-defendants, the rate at which new claims are filed, the jurisdiction in which the filings are made, and the defense and disposition costs associated with these claims.

Through December 31, 1996, approximately 11,800 asbestos personal injury lawsuits involving 27,400 claims were dismissed without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved), and approximately 30,500 lawsuits involving 66,200 claims were disposed of for a total of \$186.0. Personal injury claim activity for 1996 and 1995 is as follows:

December 31,	1996	1995
Claims outstanding, beginning of year .....	92,436	67,889
New Claims .....	30,274	34,306
Claims under amended complaints (1) .....	8,298	2,120
Settlements .....	(36,630)	(9,585)
Dismissals .....	(2,866)	(2,288)
Judgments, net .....	(1)	(6)
	-----	-----
Claims outstanding, end of year .....	91,511	92,436
	=====	=====

- (1) Of the 8,298 claims shown, approximately 1,500 were filed under amended complaints in 1996. The remaining claims relate to disputed filings that were submitted to local counsel in prior years but were not reported to Grace until 1996, when a majority of such claims was settled.

#### ASBESTOS-RELATED LIABILITY

Subject to the factors discussed above, Grace estimates that its probable liability is as follows with respect to the defense and disposition of asbestos property damage and personal injury cases and claims at December 31, 1996 and 1995:

December 31,	1996(1)	1995(2)
Current liability for asbestos-related litigation (3) .....	\$135.0	\$100.0
Noncurrent liability for asbestos-related litigation .....	859.1	722.3
	-----	-----
Total asbestos-related liability (4) .....	\$994.1	\$822.3
	=====	=====

- (1) Reflects property damage and personal injury cases and claims pending at December 31, 1996, as well as personal injury claims expected to be filed through 2001. See discussion below.
- (2) Reflects property damage and personal injury cases and claims pending at

December 31, 1995, as well as personal injury claims expected to be filed through 1998. See discussion below.

- (3) Included in "other current liabilities" in the Consolidated Balance Sheet.
- (4) Excludes one property damage case at December 31, 1996 as to which the liability is not yet estimable because Grace has not yet been able to obtain sufficient information through discovery proceedings.

Prior to 1995, Grace recorded noncash charges to reflect its estimate of the costs of defending against and disposing of the asbestos property damage and personal injury cases and claims then pending. In the fourth quarter of 1995, Grace determined that it had adequate experience to reasonably estimate the costs of defending against and disposing of asbestos personal injury claims to be filed during the three-year period 1996-1998 and recorded a noncash charge of \$260.0 (\$169.0 after-tax), primarily to reflect such anticipated filings. Based on certain developments during 1996, Grace determined in the 1996 fourth quarter that it had adequate experience to reasonably estimate the costs of defending against and disposing of asbestos personal injury claims to be filed during the five-year period 1997-2001 and recorded a noncash charge of \$348.4 (\$226.4 after-tax), primarily to reflect such anticipated filings. The 1996 provision also reflects increases in the estimated costs of defending against and disposing of personal injury claims pending at year-end 1996, and the 1995 provision also reflects increases in the estimated costs of defending against and disposing of certain property damage cases pending at year-end 1995 and personal injury claims filed during 1995. However, as discussed above, these estimates are



not necessarily indicative of actual costs. Based on the factors discussed above, Grace does not believe that it can reasonably estimate the number and defense and disposition costs of personal injury claims that may be brought against Grace after 2001. The accruals recorded for future cases and claims are not discounted to their present values; further, the actual cash payments related to future cases and claims are expected to continue beyond 2001.

#### ASBESTOS-RELATED INSURANCE RECEIVABLE

Grace previously purchased insurance policies with respect to its asbestos-related lawsuits and claims. The following tables display the activity in Grace's notes receivable and asbestos-related insurance receivable accounts during 1996 and 1995:

	1996	1995
<b>NOTES RECEIVABLE</b>		
Notes receivable from insurance carriers, beginning of year, net of discount of \$11.6 in 1996 (1995 - \$15.0) ..	\$118.4	\$ 187.0
Proceeds from asbestos-related insurance settlements .....	(93.3)	(127.0)
Current year asbestos-related insurance settlements .....	19.2	55.0
Current year amortization, net .....	4.2	3.4
Notes receivable from insurance carriers at year-end, net of discount of \$7.4 (1995 - \$11.6) (1) .....	\$ 48.5	\$ 118.4
<b>INSURANCE RECEIVABLE</b>		
Asbestos-related insurance receivable, beginning of year .....	\$321.2	\$ 512.6
Proceeds from asbestos-related insurance settlements .....	(91.2)	(130.3)
Adjustments to asbestos-related insurance receivable (2) .....	119.3	(15.0)
Transfers from asbestos-related insurance receivable to notes receivable from insurance carriers .....	(19.2)	(55.0)
Other .....	1.2	8.9
Asbestos-related insurance receivable, end of year (1) .....	\$331.3	\$ 321.2
Total amounts due from insurance carriers .....	\$379.8	\$ 439.6
	=====	=====

- (1) See Note 7 for classification between current portion (classified in "notes and accounts receivable, net") and noncurrent portion (classified in "other assets") in the Consolidated Balance Sheet.
- (2) Reflects noncash adjustments to receivable in conjunction with increases in asbestos-related liability and lower than estimated proceeds from settlements with insurance carriers caused by reduced coverage available for certain years. See discussion below.

Notes receivable from insurance carriers represent amounts due from insurance carriers in reimbursement for amounts previously paid by Grace in defending and disposing of asbestos cases and claims; payments under these notes will be received through 2001. These notes do not bear stated interest rates and, therefore, have been discounted using a weighted average interest rate of 6.7% (which Grace estimates as its borrowing rate for the terms of the notes). Installments due in 1997 are classified as "current" in the Consolidated Balance Sheet.

The asbestos-related insurance receivable at December 31, 1996 predominantly represents amounts expected to be received from carriers under settlement agreements in reimbursement for defense and disposition costs to be paid by Grace in the future in connection with property damage and personal injury cases and claims pending at year-end 1996 and personal injury claims expected to be filed through 2001 (through 1998 as of December 31, 1995).

In the fourth quarter of 1996, Grace recorded a noncash pretax benefit of \$119.3 (\$77.5 after-tax), primarily representing the additional insurance proceeds Grace expects to receive in reimbursement for the cash outflows associated with personal injury claims expected to be filed against Grace through 2001.

As a result of fourth quarter 1995 insurance settlements and a reassessment of its insurance receivable, Grace recorded a noncash net pretax charge of \$15.0 (\$9.7 after-tax) during the fourth quarter of 1995. This charge reflected a reduction in the receivable, primarily due to lower than estimated proceeds from settlements with insurance carriers (caused by the reduced coverage available for certain years) and a discount on notes receivable received in connection with prior settlements, partially offset by an increase in expected future reimbursements of costs to defend against and dispose of property damage cases pending at year-end 1995 and personal injury claims to be filed through 1998.

Certain of Grace's insurance carriers have become insolvent. From time to time, Grace has been successful in collecting funds from insolvent carriers. However, since recovery from these carriers is not probable, Grace has not accrued a related receivable.

#### INSURANCE LITIGATION

Grace has settled with and been paid by its primary insurance carriers with respect to both property damage and personal injury cases and claims. With one minor exception, Grace has also settled with its excess insurance carriers that wrote policies available for property damage cases; those settlements involve amounts paid and to be paid to Grace. In addition, Grace has settled with many excess insurance carriers that wrote policies available for personal injury claims. Grace is currently in litigation with certain remaining excess insurance carriers whose policies generally represent layers of coverage Grace has not yet reached and, therefore, are not reflected in the asbestos-related insurance receivable referred to above. Such policies are believed by Grace to be available for asbestos-related personal injury lawsuits. Insurance coverage for asbestos-related liabilities has not been commercially available since 1985.



In September 1993 the U.S. Court of Appeals for the Second Circuit ruled that, under New York law (which governs a significant portion of the policies that provide Grace's asbestos-related insurance coverage), coverage for asbestos property damage cases is triggered based on the date of installation of asbestos-containing materials. This decision was initially reversed in the fourth quarter of 1993 but subsequently confirmed in the second quarter of 1994. As a result of this decision (which had the effect of reducing the amount of insurance coverage available to Grace with respect to asbestos lawsuits) Grace recorded a noncash pretax charge of \$316.0 (\$200.0 after-tax) in the second quarter of 1994.

Grace's ultimate exposure with respect to its asbestos-related cases 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 Grace's opinion, it is probable that recoveries from its insurance carriers (including amounts reflected in the receivable discussed above), along with other funds, will be available to satisfy the property damage and personal injury cases and claims pending at December 31, 1996, as well as personal injury claims expected to be filed in the foreseeable future. Consequently, Grace believes that the resolution of its asbestos-related litigation will not have a material adverse effect on its consolidated financial position.

### 3. ACQUISITIONS AND DIVESTMENTS

#### ACQUISITIONS

During 1996, Grace acquired a manufacturer of flexible packaging, a producer of can coatings and closure sealants for the rigid container industry, and kidney dialysis centers purchased by NMC prior to disposition, for a total of \$122.1 in cash. In 1995, Grace made acquisitions totaling \$260.8, all of which involved cash purchases of kidney dialysis centers and medical imaging facilities by NMC. Acquisitions in the first quarter of 1995, prior to the classification of NMC as a discontinued operation (see Note 6), totaled \$41.1. Acquisitions by NMC after the first quarter of 1995 are presented as an investing activity and are included in net investing activities of discontinued operations in the Consolidated Statement of Cash Flows for 1996 and 1995.

In 1994, Grace made acquisitions totaling \$351.7, primarily in health care. These include the purchases of Home Nutritional Services, Inc. for \$131.8 in cash and kidney dialysis centers and other health care businesses for an aggregate of \$145.3 in cash. 1994 acquisitions also included construction chemicals businesses and a European flexible packaging business.

#### DIVESTMENTS

During 1996, Grace completed divestments for gross proceeds totaling \$5,394.0 (inclusive of debt assumed by buyers). In addition to the disposition of NMC (see Notes 1 and 6), Grace sold its water treatment and process chemicals business to Betz Laboratories, Inc. for cash proceeds of \$636.4 (subject to adjustment), the final \$100.0 of which was paid in January 1997, plus the assumption of certain liabilities. Sales and revenues of the water treatment and process chemicals business for the six months ended June 30, 1996 and for the years ended December 31, 1995 and 1994 were \$201.2, \$398.5 and \$363.4, respectively; its financial position and results of operations were not significant for those periods. The divestment of this business and Grace's biopesticides business resulted in a pretax gain of \$326.4, and an after-tax gain of \$210.1 (\$2.28 per common share), in continuing operations. In 1996 Grace also divested its worldwide separations science business (Amicon) and the transgenic plant business of its Agracetus subsidiary. These businesses had previously been classified as discontinued operations.

In 1995, Grace realized gross proceeds of \$58.8 (inclusive of debt assumed by the buyers) from divestments, including payments received in connection with divestments completed in prior years. The operations divested consisted of three small units of Grace's construction products business, the composite materials business, Grace's transportation services business and various investments.

In 1994, Grace realized gross proceeds of \$646.2 (inclusive of debt assumed by the buyers) from divestments, including payments received in connection with divestments completed in prior years. Substantially all of the businesses divested during 1994 had previously been classified as discontinued operations. Divestment proceeds in 1994 included \$42.8 received for Grace's remaining interest in The Restaurant Enterprises Group, Inc. (REG).

See Note 6 for a discussion of divestment activity related to discontinued operations.

### 4. RESTRUCTURING COSTS AND ASSET IMPAIRMENTS

#### RESTRUCTURING COSTS

Grace recorded restructuring charges of \$75.4 in 1996 and \$129.8 in 1995 (\$49.0 and \$85.1 after-tax, respectively). Grace began implementing a worldwide program in 1995 to streamline processes and reduce general and administrative expenses, factory administration costs and noncore corporate research and development expenses. Under this program, Grace has implemented, and expects to further implement, additional cost reductions and efficiency improvements, as it further evaluates and reengineers its operations. In connection with these actions, Grace recorded pretax charges of \$53.7 and \$21.7 in the second and fourth quarters of 1996, respectively. These charges primarily relate to headcount reductions, the restructuring of Grace's European packaging operations (in areas such as working capital management, manufacturing and sales) and the further restructuring of Grace's corporate research activities, certain of which are now conducted at product line



The components of the 1996 and 1995 restructuring charges, spending and other activity during 1995 and 1996, and the remaining reserve balances at December 31, 1996, were as follows:

	Employee Termination Benefits	Plant/Office Closures	Asset Write-downs	Other Costs	Total
Restructuring provisions recorded in 1995 .....	\$ 74.3	\$13.4	\$ 18.6	\$ 23.5	\$129.8
Cash payments during 1995 .....	(13.0)	(3.5)	--	(3.1)	(19.6)
Noncash activity .....	--	--	(4.3)	(1.5)	(5.8)
Restructuring reserve at December 31, 1995 ..	\$ 61.3	\$ 9.9	\$ 14.3	\$ 18.9	\$104.4
Restructuring provisions recorded in 1996 .....	69.3	6.1	--	--	75.4
Cash payments during 1996 .....	(57.8)	(.6)	--	(16.0)	(74.4)
Noncash activity .....	--	--	(14.3)	--	(14.3)
Restructuring reserve at December 31, 1996 ..	\$ 72.8	\$15.4	\$ --	\$ 2.9	\$ 91.1

Employee termination benefits primarily represent severance pay and other benefits (including benefits under long-term incentive programs paid over time) associated with the elimination of approximately 1,300 positions worldwide, with more than 60% of the eliminated positions coming from worldwide corporate staff functions and the restructuring of Grace's worldwide packaging operations. Through December 31, 1996, approximately 800 positions had been eliminated worldwide.

#### ASSET IMPAIRMENTS

During 1996 and 1995, Grace determined that, due to various events and changes in circumstances (including the worldwide restructuring programs described above), certain long-lived assets and related goodwill were impaired. As a result, in the fourth quarters of 1996 and 1995, Grace recorded noncash pretax charges of \$32.1 and \$39.2, respectively (\$20.9 and \$26.6 after-tax, respectively), the majority of which related to assets that will continue to be held and used in Grace's packaging and specialty chemicals businesses. The components of the 1996 and 1995 charges were (a) goodwill and other intangibles of \$11.1 and \$4.7, respectively; (b) properties and equipment of \$9.0 and \$20.0, respectively; (c) long-term investments of \$6.7 and \$8.6, respectively; and (d) other assets of \$5.3 and \$5.9, respectively. Grace determined the amounts of the charges based on various valuation techniques, including discounted cash flow, replacement cost and net realizable value for assets to be disposed of, as prescribed by SFAS No. 121.

#### 5. INCOME TAXES

Grace applies SFAS No. 109, "Accounting for Income Taxes," which specifies 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 deferred tax assets will not be realized, a valuation allowance is provided against such deferred tax assets.

The components of income/(loss) from continuing operations before income taxes and the related provision for/(benefit from) income taxes are as follows:

CONTINUING OPERATIONS	1996	1995	1994
Income/(loss) from continuing operations before income taxes:			
Domestic .....	\$101.5	\$(401.1)	\$(174.4)
Foreign .....	247.1	117.0	96.7
	\$348.6	\$(284.1)	\$( 77.7)
	=====	=====	=====
Provision for/(benefit from) income taxes:			
Federal - current .....	\$ 7.6	\$ 37.8	\$( 77.2)
Federal - deferred .....	35.1	(154.3)	( 7.2)
State and local - current .....	1.4	1.5	2.3
Foreign - current .....	54.3	61.4	44.6
Foreign - deferred .....	36.4	(50.9)	(5.1)
	\$134.8	\$(104.5)	\$( 42.6)
	=====	=====	=====



The components of income/(loss) from consolidated operations before income taxes and the related provision for/(benefit from) income taxes are as follows:

----- CONSOLIDATED OPERATIONS -----	1996	1995	1994
Income/(loss) from consolidated operations before income taxes:			
Domestic .....	\$2,847.1	\$(480.5)	\$ 44.3
Foreign .....	259.4	72.7	94.8
	<u>\$3,106.5</u>	<u>\$(407.8)</u>	<u>\$139.1</u>
Provision for/(benefit from) income taxes:			
Federal - current .....	\$ 75.6	\$ 105.6	\$ 25.3
Federal - deferred .....	57.0	(226.3)	(34.8)
State and local - current .....	18.9	21.7	21.8
Foreign - current .....	60.9	68.5	49.1
Foreign - deferred .....	36.4	(51.4)	(5.6)
	<u>\$ 248.8</u>	<u>\$ (81.9)</u>	<u>\$ 55.8</u>

At December 31, 1996 and 1995, deferred tax assets and liabilities consisted of the following items:

----- NET DEFERRED TAX ASSETS -----	1996	1995
Provision relating to asbestos-related expenses, net ..	\$240.4	\$219.4
Reserves not yet deductible for tax purposes .....	167.8	223.6
Research and development expenses .....	102.7	115.8
Postretirement benefits other than pensions .....	95.2	88.9
State deferred taxes .....	70.1	70.1
Foreign net operating loss carryforwards .....	37.0	47.1
Pension and insurance reserves .....	31.9	35.2
Tax credit carryforwards .....	31.9	27.2
Capitalized inventory costs and inventory reserves ....	11.0	11.9
Other .....	39.8	43.9
	<u>827.8</u>	<u>883.1</u>
Depreciation and amortization .....	154.0	112.6
Prepaid pension cost .....	76.8	104.8
Other .....	75.0	20.1
	<u>305.8</u>	<u>237.5</u>
Valuation allowance for deferred tax assets .....	72.4	97.7
	<u>\$449.6</u>	<u>\$547.9</u>

The valuation allowance shown above arises from uncertainty as to the realization of certain deferred tax assets, primarily state and local net operating loss carryforwards and net deferred tax assets. Tax planning strategies during 1996 enabled Grace to reverse the valuation allowance on tax credit carryforwards during the year. Based upon anticipated future results, Grace has concluded that it is more likely than not that the remaining balance of the net deferred tax assets, after consideration of the valuation allowance, will be realized.

At December 31, 1996, there were \$31.9 of tax credit carryforwards with expiration dates through 2001. Additionally, there were foreign net operating loss carryforwards with a tax benefit of \$37.0 having various expiration dates.

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

-----	1996	1995	1994
U.S. federal corporate tax rate .....	35.0%	(35.0)%	(35.0)%
Increase/(decrease) in tax rate resulting from:			
Nontaxable income/nondeductible expenses .....	(1.6)	(.7)	(1.4)

Basis difference on sale of investment .....	--	--	(10.5)
U.S. state and local income taxes, net of U.S. federal income tax benefit ..	.4	.2	1.5
U.S. and foreign taxes on foreign operations .....	4.8	9.8	.3
General business credits .....	--	(.5)	(9.1)
Valuation allowance for deferred tax assets .....	--	(14.4)	--
Other, net .....	.1	3.8	(.6)
	-----	-----	-----
Effective tax rate .....	38.7%	(36.8)%	(54.8)%
	=====	=====	=====
-----			



U.S. state and local and foreign taxes have not been provided on approximately \$236.4 of undistributed earnings of certain foreign subsidiaries, as such earnings are expected to be retained indefinitely by such subsidiaries for reinvestment. The distribution of these earnings would result in additional foreign withholding taxes of approximately \$22.5 and additional U.S. federal income taxes to the extent they are not offset by foreign tax credits. It is not practicable to estimate the total tax liability that would be incurred upon such a distribution.

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 6. DISCONTINUED OPERATIONS  
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HEALTH CARE

NMC

As discussed in Note 1, Grace New York completed the distribution of the Company's common stock and the combination of NMC with the worldwide dialysis business of Fresenius in September 1996. Prior to the completion of these transactions, Grace received a tax-free distribution from NMC of approximately \$2,300 (consisting of cash and the assumption of debt). As part of these transactions, for each Grace New York common share outstanding at the close of trading on September 27, 1996, Grace New York shareholders received one share of a new class of Grace New York preferred stock and 1.04909 American Depositary Shares (ADS), each representing one-third of an ordinary share of FMC (which ADSs collectively represent approximately 44.8% of FMC's common equity).

The distribution of approximately \$2,300, along with the 44.8% common equity interest in FMC, valued at approximately \$2,200 (based upon the number of ADSs and their initial price per share on September 30, 1996), resulted in a transaction valued at approximately \$4,500. That amount, less Grace New York's investment in NMC and transaction costs, resulted in a tax-free gain to Grace of approximately \$2,500, in discontinued operations. The 44.8% common equity interest in FMC is reflected as a dividend of approximately \$2,200 within the Consolidated Statement of Shareholders' Equity.

In connection with these transactions, NMC borrowed approximately \$2,500 under a stand-alone credit agreement, primarily to fund the distribution to Grace. Grace guaranteed \$950.0 of this borrowing, but the guarantee was released as to \$800.0 in November 1996 and the balance in December 1996.

Under the terms of the transactions, NMC will remain responsible for all liabilities, if any, resulting from the previously reported investigation by the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services and certain related matters. In July 1996, an agreement was entered into with the U.S. government under which, subject to certain conditions and limitations, (a) FMC and Grace New York guaranteed the payment of the obligations, if any, of NMC to the U.S. government in respect of the OIG investigation and another proceeding; (b) Grace guaranteed the obligations of FMC under the foregoing guarantee with respect to acts and transactions that took place prior to the consummation of the transaction (but only if such obligations become due and payable and remain uncollected for 120 days); and (c) NMC delivered a standby letter of credit in the principal amount of \$150.0 in favor of the U.S. government to support its payment of such obligations.

See Notes 7 and 20 to the consolidated financial statements included in the Prospectus, and "Business of Fresenius Medical Care -- Regulatory and Legal Matters -- Legal and Regulatory Proceedings -- OIG Investigation" and "-- OIG Agreements" in the Joint Proxy Statement-Prospectus, for additional information.

Amicon

On December 31, 1996, Grace completed the sale of Amicon, resulting in a pretax gain of \$70.4 and an after-tax gain of \$40.0 (\$0.44 per common share of the Company). The sale price was \$125.0 (inclusive of debt assumed), subject to a post-closing working capital adjustment; \$6.5 was paid at closing and the balance was paid in January 1997.

COCOA

Grace's cocoa business was classified as a discontinued operation in 1993. During the fourth quarter of 1995, Grace revised the divestment plan for the business. The revised plan focused on the improvement of operating cash flow through the adoption of new strategies and a new global organizational structure, while better positioning the business for outright sale. As a result of this revised divestment plan, Grace recorded an additional provision of \$151.3 (net of an applicable tax effect of \$48.7) related to the cocoa business and other remaining discontinued operations. In December 1996, Grace announced that it had entered into a definitive agreement to sell the cocoa business to Archer-Daniels-Midland Company. As a result, in the fourth quarter of 1996, Grace reassessed its estimated loss on the divestment of the business and reversed previously recorded provisions of \$31.9 (net of an applicable tax effect of \$18.1), within income from discontinued operations. The divestment of the cocoa business was completed in February 1997 with Grace receiving \$470.0 (inclusive of debt assumed by the buyer), subject to adjustment.

OTHER

In the fourth quarter of 1996, Grace classified its thermal and emission control systems business (TEC Systems) as a discontinued operation. In connection with classifying TEC Systems as a discontinued operation, Grace recorded a provision of \$4.6 (net of an applicable tax benefit of \$2.4) related to TEC Systems' anticipated net operating results through the expected date of divestment, as well as the loss anticipated on the divestment.

In May 1996, Grace completed the sale of the transgenic plant business of its Agracetus subsidiary to the Monsanto Company for \$150.0, resulting in a pretax gain of \$129.0 (\$79.4 after-tax, or \$0.86 per common share of the Company). Additionally, in March 1996, Grace sold its microwave business for gross proceeds of \$3.9.

In February 1995, Grace sold its composite materials business for gross proceeds of \$3.0. During 1994, Grace sold its battery separators business and a portion of its engineered materials and systems businesses for gross proceeds of \$316.2, approximating prior estimates. Grace also sold its animal genetics and Caribbean fertilizer operations in 1994 for proceeds of \$44.1. In 1994, Grace also sold substantially all of its interests in Colowyo Coal Company (Colowyo) for proceeds of \$218.3, including \$192.8 of proceeds from a nonrecourse financing secured by a portion of the revenues from certain long-term coal contracts. Grace retained a limited partnership interest in Colowyo, entitling it to share in the revenues from these coal contracts.

These businesses were classified as discontinued operations in 1993 (other than TEC Systems in 1996 and Colowyo in 1992).

#### RESULTS OF DISCONTINUED OPERATIONS

Losses from Grace's discontinued operations (other than its discontinued health care operations and TEC Systems), subsequent to their classification as such were \$11.6 in 1996, \$45.2 in 1995 and \$14.2 in 1994. These amounts have been charged against established reserves as adjusted in 1996 and 1995. Results of Grace's discontinued operations that have not been charged against previously established reserves are as follows:

	1996	1995	1994
<b>HEALTH CARE (THROUGH 1996 THIRD QUARTER)</b>			
Sales and revenues .....	\$1,666.9	\$2,076.8	\$1,875.1
Income from operations before taxes(1) .....	\$ 60.3	\$ 104.6	\$ 227.1
Income tax provision .....	35.5	82.6	102.4
Income from discontinued health care operations .....	\$ 24.8	\$ 22.0	\$ 124.7
<b>TEC SYSTEMS (PRIOR TO CLASSIFICATION AS A DISCONTINUED OPERATION AT DECEMBER 31, 1996)</b>			
Sales and revenues .....	\$ 102.5	\$ 112.9	\$ 89.7
Loss from operations before taxes .....	\$ (18.5)	\$ (28.3)	\$ (10.3)
Income tax benefit .....	(7.2)	(11.3)	(4.0)
Loss from discontinued TEC Systems operations .....	\$ (11.3)	\$ (17.0)	\$ (6.3)
Total operating results .....	\$ 13.5	\$ 5.0	\$ 118.4
GAIN/(NET LOSS) ON DISPOSITIONS OF BUSINESSES .....	2,716.1	(200.0)	--
PROVISION FOR/(BENEFIT FROM) INCOME TAXES ON DISPOSITIONS OF BUSINESSES .....	85.7	(48.7)	--
TOTAL INCOME/(LOSS) FROM DISCONTINUED OPERATIONS .....	\$2,643.9	\$ (146.3)	\$ 118.4

(1) Reflects an allocation of interest expense based on the ratio of the net assets of the health care businesses as compared to Grace's total capital. The above operating results include interest expense allocations of \$76.3, \$93.5 and \$60.4 for 1996, 1995 and 1994, respectively.

For financial reporting purposes, the assets, liabilities, results of operations and cash flows of Grace Cocoa Associates, L.P. (LP) are included in the Consolidated Financial Statements as a component of discontinued operations, and the outside investors' former interests in LP (at December 31, 1995) are reflected as a minority interest in the Consolidated Balance Sheet. Grace purchased the minority interest during the fourth quarter of 1996 in anticipation of the sale of the cocoa business.

The net assets of Grace's remaining discontinued operations (excluding intercompany assets) at December 31, 1996 are as follows:

	COCOA	OTHER	TOTAL
Current assets .....	\$312.3	\$48.2	\$360.5
Properties and equipment, net .....	185.8	21.4	207.2
Investments in and advances to affiliated companies ..	--	12.1	12.1
Other assets .....	59.2	5.9	65.1
Total assets .....	\$557.3	\$87.6	\$644.9
Current liabilities .....	\$241.3	\$21.5	\$262.8
Other liabilities .....	81.1	3.6	84.7

Total liabilities .....	\$322.4	\$25.1	\$347.5
	-----	-----	-----
Net assets .....	\$234.9	\$62.5	\$297.4
	=====	=====	=====

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## 7. OTHER BALANCE SHEET ITEMS

	1996	1995
<b>NOTES AND ACCOUNTS RECEIVABLE, NET</b>		
Trade receivables, less allowances of \$11.3 (1995 - \$12.8)	\$501.7	\$488.5
Notes receivable from dispositions of businesses	215.6	--
Asbestos-related insurance receivable - current	35.0	--
Notes receivable from insurance carriers - current, net of discounts of \$2.5 (1995 - \$4.3)	17.2	62.0
Other receivables, less allowances of \$.2 (1995 - \$.1)	61.9	46.3
	<u>\$831.4</u>	<u>\$596.8</u>
<b>INVENTORIES</b>		
Raw and packaging materials	\$100.9	\$137.1
In process	67.6	78.0
Finished products	179.0	248.6
General merchandise	73.4	76.6
Less: Adjustment of certain inventories to a last-in/first-out (LIFO) basis	(44.8)	(48.4)
	<u>\$376.1</u>	<u>\$491.9</u>
<b>OTHER ASSETS</b>		
Prepaid pension costs	\$275.1	\$245.8
Long-term receivables, less allowances of \$42.7 (1995 - \$24.7)	152.9	146.5
Deferred charges	102.4	106.9
Long-term investments	57.4	69.4
Notes receivable from insurance carriers - noncurrent, net of discounts of \$4.9 (1995 - \$7.3)	31.3	56.4
Patents and licenses	15.8	34.0
Investments in and advances to affiliated companies	9.5	17.4
Other	9.1	11.9
	<u>\$653.5</u>	<u>\$688.3</u>

In 1995, Grace entered into agreements to sell up to \$300.0 of interests in designated pools of trade receivables (\$180.0 pertaining to NMC). At December 31, 1995, \$295.8 had been received pursuant to such sales (\$179.8 pertaining to NMC); these amounts were reflected as reductions to trade accounts receivable. Under the terms of these agreements, new interests in trade receivables were sold as collections reduced previously sold trade receivables. While only interests in designated pools of trade receivables were sold, the entire designated pools were available as the sole recourse with respect to the interests sold. There was no further recourse to Grace, nor was Grace required to repurchase any of the trade receivables in the pools. The costs related to such sales were expensed as incurred and recorded as interest expense and related financing costs. There were no gains or losses on these transactions. These agreements were terminated as to Grace in connection with the NMC transaction discussed in Note 6.

Inventories valued at LIFO cost comprised 26.6% and 21.6% of total inventories at December 31, 1996 and 1995, respectively. The liquidation of prior years' LIFO inventory layers in 1996, 1995 and 1994 did not materially affect the cost of goods sold in any of these years.

## 8. PROPERTIES AND EQUIPMENT

	1996	1995
Land	\$ 51.5	\$ 44.1
Buildings	622.6	595.5
Machinery, equipment and other	2,088.1	1,967.1
Projects under construction	545.7	548.2
	<u>3,307.9</u>	<u>3,154.9</u>
Properties and equipment, gross		
Accumulated depreciation and amortization	(1,436.6)	(1,418.8)
	<u>\$ 1,871.3</u>	<u>\$ 1,736.1</u>

Interest costs are incurred in connection with the financing of certain assets prior to placing them in service. Interest costs capitalized in 1996, 1995 and 1994 were \$23.5, \$21.3 and \$9.4, respectively.

Depreciation and lease amortization expense relating to properties and equipment amounted to \$179.7, \$179.5 and \$157.9 in 1996, 1995 and 1994,

respectively.

Grace's rental expense for operating leases amounted to \$25.6, \$25.7 and \$28.8 in 1996, 1995 and 1994, respectively. See Note 11 for information regarding contingent rentals.

At December 31, 1996, minimum future payments for operating leases are:

1997 .....	\$ 26.3
1998 .....	22.3
1999 .....	18.8
2000 .....	17.1
2001 .....	11.4
Later years .....	20.8
Total minimum lease payments ..	\$116.7
	=====

The above minimum lease payments reflect anticipated sublease income of \$12.3 per year for 1997 through 2001 and a total of \$17.5 in later years.

## 9. DEBT

	1996	1995
<b>SHORT-TERM DEBT</b>		
Bank borrowings (6.1% and 6.2% weighted average interest rates at year-end 1996 and 1995, respectively) (1) ...	\$ 178.7	\$ 295.3
Current maturities of long-term debt .....	105.5	22.2
Other short-term borrowings (2) .....	31.0	320.8
	\$ 315.2	\$ 638.3
	=====	=====
<b>LONG-TERM DEBT</b>		
Commercial paper (5.8% and 6.2% weighted average interest rates at year-end 1996 and 1995, respectively) (1) ..	\$ 77.8	\$ 45.7
Bank borrowings (6.1% and 6.2% weighted average interest rates at year-end 1996 and 1995, respectively) (1) ...	272.2	304.3
8.0% Notes Due 2004 (3) .....	276.0	300.0
7.4% Notes Due 2000 (3) .....	248.7	287.0
7.75% Notes Due 2002 (3) .....	119.0	131.0
Term Loan Agreement (6.3% weighted average interest rate at year-end 1996 and 1995) (4) .....	--	30.0
Medium-Term Notes, Series A (6.9% weighted average interest rate at year-end 1996 and 1995) (5) .....	113.5	128.5
Sundry indebtedness with various maturities through 2002 .....	71.3	91.2
	1,178.5	1,317.7
Less current maturities of long-term debt .....	105.5	22.2
	\$1,073.0	\$1,295.5
	=====	=====
Full-year weighted average interest rate on total debt (6) .....	7.3%	7.8%

- (1) Under bank revolving credit agreements in effect at year-end 1996, Grace may borrow up to \$1,000.0 at interest rates based upon the prevailing prime, federal funds and/or Eurodollar rates. Of that amount, \$650.0 is available under short-term facilities expiring on May 16, 1997, unless extended, and \$350.0 is available under a long-term facility expiring in September 1999. These agreements also support the issuance of commercial paper and bank borrowings, \$528.7 of which was outstanding at December 31, 1996 (included in both short-term debt and long-term debt above). At December 31, 1996, the aggregate amount of net unused and unreserved borrowings under short-term and long-term facilities was \$471.3. Grace's ability to borrow under its existing facilities is subject to compliance with various covenants, including covenants requiring maintenance of total debt to total capitalization and interest coverage ratios.
- (2) Represents borrowings under various lines of credit and other miscellaneous borrowings, primarily of non-U.S. subsidiaries.
- (3) During the third quarter of 1994, Grace sold \$300.0 of 8.0% notes due 2004 at an initial public offering price of 99.794% of par, to yield 8.03%. During the first quarter of 1993, Grace sold at par \$300.0 of 7.4% notes due 2000. During 1992, Grace sold at par \$150.0 of 7.75% notes due 2002. Interest on all three series of notes is payable semiannually, and the notes may not be redeemed prior to maturity; however, Grace has repurchased notes from time to time in response to unsolicited offers.
- (4) During the second quarter of 1995, Grace entered into a three-year term loan agreement maturing on April 24, 1998. The agreement provided for interest at a Eurodollar floating rate, payable semiannually. Grace's borrowings under this agreement were repaid in October 1996 with proceeds from the NMC transaction discussed in Note 6, and the agreement was terminated.
- (5) The Medium-Term Notes (MTNs) bear interest at either fixed or floating rates and have maturity dates through July 19, 1999. Interest on each fixed-rate MTN is payable semiannually, and interest on each floating-rate MTN is payable either monthly or quarterly, depending on the issue.
- (6) Computation includes interest expense allocated to discontinued operations.

Scheduled maturities of long-term debt outstanding at December 31, 1996 are: 1997 - \$105.5; 1998 - \$9.0; 1999 - \$350.5; 2000 - \$316.9; 2001 - \$.5; and thereafter - \$396.1. Payment of a majority of Grace's borrowings may be accelerated, and its principal borrowing agreements terminated, upon the occurrence of a default under other Grace borrowings.

Total interest expense and financing costs, including amounts allocated to discontinued operations, were \$147.9 for 1996, \$164.8 for 1995 and \$109.9 for 1994. Including amounts allocated to discontinued operations, interest payments made in 1996, 1995 and 1994, excluding related financing costs, amounted to \$154.4, \$183.1 and \$101.8, respectively.

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10. FINANCIAL INSTRUMENTS

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DEBT AND INTEREST RATE SWAP AGREEMENTS

Grace's debt and interest rate management objective is to reduce the cost of borrowing over the long term. This debt management strategy emphasizes maintaining borrowing liquidity by developing and maintaining access to a variety of long-term and short-term capital markets. Grace's interest rate profile is managed separately by using interest rate swap agreements to modify the rate profile of the underlying debt. Most of Grace's interest rate swap agreements currently have the effect of converting fixed-rate term debt into variable-rate debt based on LIBOR. Grace enters into only standard swap agreements that have readily quantifiable impacts on interest cost and are characterized by broad market liquidity. The maturities and notional amounts of interest rate swap agreements generally match the underlying debt, resulting in changes in the fair value of these interest rate swap agreements being substantially offset by changes in the fair value of the debt. Grace does not use derivative financial instruments (interest rate or foreign currency) for trading purposes and is not a party to leveraged instruments.

At December 31, 1996 and 1995, the notional amounts of interest rate swap agreements that convert fixed-rate debt to variable-rate were \$505.5 and \$1,157.5, respectively, and the notional amounts of interest rate swap agreements that convert variable-rate debt to fixed-rate were \$36.0 and \$626.0, respectively. Notional amounts are used in calculating the amounts paid or received under interest rate swap agreements but do not represent assets or liabilities of Grace or provide a meaningful estimate of risk.

During 1996 and 1995, Grace realized negative cash flows from interest rate swap agreements of \$13.5 and \$16.5, respectively. In addition, interest expense was reduced by \$8.9 and \$11.1 in 1996 and 1995, respectively, due to the amortization of deferred gains on interest rate agreements. Unamortized net gains as of December 31, 1996 and 1995 were \$22.8 and \$31.7, respectively.

FAIR VALUE OF INTEREST RATE SWAP AGREEMENTS, DEBT AND OTHER FINANCIAL INSTRUMENTS

At December 31, 1996 and 1995, Grace would have been required to pay net amounts of \$34.7 and \$32.5, respectively, to terminate its interest rate swap agreements. At those dates, the fair values of Grace's long-term debt were \$1,207.1 and \$1,361.1, respectively (as compared to recorded values of \$1,178.5 and \$1,317.7, respectively). Fair value is determined based on expected future cash flows (discounted at market interest rates), quotes from financial institutions and other appropriate valuation methodologies. At December 31, 1996 and 1995, the recorded values of other 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 and floating rate characteristics of these instruments.

FOREIGN CURRENCY CONTRACTS

Grace conducts business in a wide variety of currencies and consequently enters into foreign exchange forward and option contracts 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, 1996 and 1995, Grace had notional amounts of approximately \$50.2 and \$45.5, respectively, in contracts to buy or sell foreign currencies in the future.

CREDIT RISK

Grace is exposed to credit risk to the extent of potential nonperformance by counterparties to financial instruments. The counterparties to Grace's interest rate swap agreements and foreign exchange contracts comprise a diversified group of major financial institutions, all of which are rated investment grade. Credit risk is further reduced by bilateral netting agreements between Grace and its counterparties. At December 31, 1996, Grace's credit exposure was not significant and was limited to the fair values of these instruments; Grace believes the risk of incurring losses due to credit risk is remote.

MARKET RISK

Exposure to market risk on financial instruments results from fluctuations in interest and currency rates during the periods in which the contracts are outstanding. The mark-to-market valuations of interest rate and foreign exchange agreements and associated underlying exposures are closely monitored at all times. Grace uses portfolio sensitivities and stress tests to monitor risk. Overall financial strategies and the effects of using derivatives are reviewed periodically.

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11. COMMITMENTS AND CONTINGENT LIABILITIES

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ENVIRONMENTAL

Grace is subject to loss contingencies resulting from environmental laws and regulations. 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. These accruals do not take into account any discounting for the time value of money. At December 31, 1996, Grace's liability for environmental investigatory and remediation costs related to continuing and discontinued operations totaled \$256.4, as compared to \$280.3 at December 31, 1995. These amounts reflect provisions of \$77.0 (\$50.0 after-tax) recorded in the fourth quarter of 1995 and \$40.0 (\$26.0 after-tax) recorded in the first quarter of 1994, which are reflected in the Consolidated Statement of Operations as





part of cost of goods sold and operating expenses. The 1995 provision related principally to increased cost estimates associated with five former manufacturing sites. Grace is in litigation with certain excess insurance carriers regarding the applicability of the carriers' policies to environmental remediation costs; given the uncertainties inherent in this litigation, Grace has not recorded a receivable with respect to such insurance coverage (except in one instance where a settlement with a carrier has been reached).

Grace made cash payments of \$20.3 in 1996, \$31.3 in 1995 and \$30.8 in 1994 to remediate environmentally impaired sites. These amounts have been charged against previously established reserves. Grace's environmental liabilities are reassessed whenever circumstances become better defined and/or remediation efforts and their costs can be better estimated. These liabilities are currently evaluated quarterly, based on 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 apportionment of costs among potentially responsible parties. As some of these issues are decided (the outcomes of which are subject to uncertainties) and/or new sites are assessed and costs can be reasonably estimated, Grace will continue to review and analyze the need for adjustments to the recorded accruals. However, Grace believes that it is adequately reserved for all probable and estimable environmental exposures. Grace's classification of its environmental reserves between current and noncurrent liabilities is considered appropriate in relation to expected future cash outlays.

#### CONTINGENT RENTALS

Grace is the named tenant or guarantor with respect to leases entered into by previously divested businesses. These leases, some of which extend through the year 2017, have future minimum lease payments aggregating \$203.1, offset by \$201.8 of anticipated future minimum rental income from existing tenants and subtenants. In addition, Grace is liable for other expenses (primarily property taxes) relating to the above leases; these expenses are paid by tenants and subtenants. Grace believes that the risk of significant loss from these lease obligations is remote. However, a significant portion of the rental income and other expenses is payable by tenants and subtenants that have filed for bankruptcy protection or are otherwise experiencing financial difficulties. Further, Grace may incur losses as a result of unforeseen developments that can not be reasonably estimated.

#### 12. MINORITY INTEREST

Minority interest in the Consolidated Financial Statements as of December 31, 1995 consisted of a limited partnership interest in LP (see Note 6). Four Grace entities served as general partners of LP, and its sole limited partner acquired its interest in exchange for a \$300.0 cash capital contribution (\$297.0 of which was funded by outside investors). In November 1996, Grace purchased the limited partnership interest. For financial reporting purposes, the assets, liabilities, results of operations and cash flows of LP were included in Grace's Consolidated Financial Statements as a component of discontinued operations and the limited partnership interest was reflected as a minority interest. At December 31, 1995, the assets of LP consisted of Grace's worldwide cocoa business and long-term notes and demand notes due from or guaranteed by Grace. Grace sold its cocoa business in February 1997.

#### 13. SHAREHOLDERS' EQUITY

Under its Certificate of Incorporation, the Company is authorized to issue 300,000,000 shares of common stock, \$.01 par value. Of the common stock unissued at December 31, 1996, approximately 13,190,000 shares were reserved for issuance pursuant to stock options and other stock incentives. The Certificate of Incorporation also authorizes 53,000,000 shares of preferred stock, \$.01 par value, none of which has been issued. 3,000,000 of such shares have been designated Series A Junior Participating Preferred Stock and are reserved for issuance in connection with the Company's Preferred Stock Purchase Rights (Rights). A Right trades together with each outstanding share of common stock and entitles the holder to purchase one hundredth of a share of Series A Junior Participating Preferred Stock under certain circumstances and subject to certain conditions. 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.

Grace New York initiated a share repurchase program in April 1996. Through September 27, 1996, Grace New York acquired 9,864,800 shares of its common stock under this program for \$727.1, or an average price of approximately \$73.70 per share. From September 28, 1996 (see Note 1) through December 31, 1996, the Company acquired 11,193,700 shares of its common stock for \$592.2, or an average purchase price of \$52.90 per share. Prior to year-end 1996, the Company retired substantially all of these shares of treasury stock using the cost method. The weighted average number of shares of common stock outstanding during 1996 was 91,976,000 (1995 - 95,822,000; 1994 - 93,936,000).

Dividends paid on the Grace New York preferred stocks issued and outstanding prior to the NMC transaction, as discussed in Notes 1 and 6, amounted to \$.4 in 1996 and \$.5 in each of 1995 and 1994.

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14. STOCK INCENTIVE PLANS

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Each stock option granted under the Company's stock incentive plans has an exercise price equal to the fair market value of the Company's common stock on the date of grant. Options become exercisable at the time or times determined by the Compensation Committee of the Company's Board of Directors and may have terms of up to ten years and one month. In connection with the transactions described in Notes 1 and 6, the number of shares covered by outstanding options and the exercise prices of such options were adjusted to preserve their economic value. The following table sets forth information relating to such options, as so adjusted:

	1996		1995		1994	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Balance at beginning of year, as adjusted ..	8,833,450	\$26.06	11,819,009	\$24.53	10,813,635	\$23.50
Options granted .....	1,009,818	51.47	2,645,693	30.05	2,109,692	27.23
	9,843,268		14,464,702		12,923,327	
Options exercised .....	(3,331,555)	24.56	(5,513,119)	24.67	(941,504)	18.81
Options terminated or canceled .....	(371,947)	28.21	(118,133)	27.23	(162,814)	24.05
	6,139,766	30.92	8,833,450	26.06	11,819,009	24.53
	=====		=====		=====	

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At December 31, 1996, options covering 3,994,828 shares (1995 - 6,477,637; 1994 - 8,746,414) were exercisable and 6,975,000 shares (1995 - 2,970,186; 1994 - 5,506,863) were available for additional grants. Currently outstanding options expire on various dates through October 2006.

The Company has adopted SFAS No. 123, "Accounting for Stock-Based Compensation." As permitted by SFAS No. 123, the Company continues to follow the measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and does not recognize compensation expense for its stock-based incentive plans. Had compensation cost for the Company's stock-based incentive compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the methodology prescribed by SFAS No. 123, the Company's net income and earnings per share for 1996 and 1995 would have been reduced to the pro forma amounts indicated below.

	1996	1995
Net income/(loss):		
As reported .....	\$2,857.7	\$(325.9)
Pro forma .....	\$2,854.0	\$(334.3)
Earnings/(loss) per share:		
As reported .....	\$ 31.06	\$ (3.40)
Pro forma .....	\$ 31.02	\$ (3.49)

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These pro forma amounts may not be indicative of future pro forma income and earnings per share.

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model, with the following historical weighted average assumptions applied to grants in 1996 and 1995:

	1996	1995
Dividend yields .....	1%	3%
Expected volatility .....	26%	25%
Risk-free interest rates ..	6%	7%
Expected life (in years) ..	4	4

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Based upon the above assumptions, the weighted-average fair value of options granted during 1996 and 1995 was \$14.00 and \$7.00, respectively.



## 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 U.S. federal laws and regulations. Non-U.S. pension plans are funded under a variety of methods as required under differing local laws and customs and, therefore, cannot be summarized. Approximately 60% of U.S. and non-U.S. plan assets at December 31, 1996 were common stocks, with the remainder primarily fixed-income securities.

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

	1996		1995		1994	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost on benefits earned during the year .....	\$ 15.2	\$ 10.7	\$ 14.6	\$10.5	\$19.8	\$13.4
Interest cost on benefits earned in prior years .....	55.5	23.1	50.6	21.4	46.9	19.3
Actual (return)/loss on plan assets .....	(98.2)	(39.1)	(132.3)	(52.0)	16.9	10.6
Deferred loss/(gain) on plan assets .....	30.4	8.2	71.1	26.2	(84.6)	(37.4)
Amortization of net loss/(gains) and prior service costs ..	.1	(.3)	(.8)	(.8)	(7.1)	(1.6)
Net curtailment and settlement gain(1) .....	(1.3)	(2.4)	--	--	--	--
Net pension cost/(benefit) .....	\$ 1.7	\$ 0.2	\$ 3.2	\$ 5.3	\$(8.1)	\$ 4.3

(1) As a result of selling its water treatment and process chemicals business in 1996, Grace's U.S. and non-U.S. plans recognized curtailment gains of \$1.3 and \$6.3, respectively.

The funded status of these plans was as follows:

	U.S.				Non-U.S.			
	ASSETS EXCEED ACCUMULATED BENEFITS		ACCUMULATED BENEFITS EXCEED ASSETS		ASSETS EXCEED ACCUMULATED BENEFITS		ACCUMULATED BENEFITS EXCEED ASSETS	
	1996	1995	1996	1995	1996	1995	1996	1995
Actuarial present value of benefit obligation:								
Vested .....	\$655.4	\$679.6	\$55.6	\$52.0	\$161.8	\$133.5	\$75.2	\$67.5
Accumulated benefit obligation .....	\$659.3	\$680.4	\$55.7	\$52.0	\$162.5	\$133.9	\$82.8	\$75.1
Total projected benefit obligation .....	\$680.8	\$710.0	\$57.0	\$55.7	\$183.2	\$189.4	\$103.3	\$92.4
Plan assets at fair value .....	822.2	795.8	--	--	313.4	302.5	6.1	7.3
Plan assets in excess of/(less than) projected benefit obligation .....	141.4	85.8	(57.0)	(55.7)	130.2	113.1	(97.2)	(85.1)
Unamortized net (gain)/loss at initial adoption ..	(60.4)	(73.7)	4.2	4.9	(4.7)	(6.3)	3.8	4.5
Unamortized prior service cost .....	34.3	41.7	13.7	16.3	4.1	3.6	--	--
Unrecognized net loss/(gain) .....	47.5	97.6	8.9	8.6	(17.3)	(16.0)	15.0	(3.2)
Prepaid/(accrued) pension cost .....	\$162.8	\$151.4	\$(30.2)	\$(25.9)	\$112.3	\$94.4	\$(78.4)	\$(83.8)

The following significant assumptions were used in 1996, 1995 and 1994:

	1996		1995		1994	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate at December 31, .....	8.0%	3.4 - 8.7%	7.3%	5.1 - 11.6%	8.5%	5.0 - 12.0%
Expected long-term rate of return ..	9.0	6.0 - 10.5	9.0%	6.0 - 10.5	9.0	6.0 - 10.5
Rate of compensation increase .....	4.5	2.5 - 7.5	4.5	4.0 - 7.5	5.5	4.0 - 7.5



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 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 dates of hire) who retire from Grace after age 55 with at least 10 years of service. The plans are currently unfunded.

Grace applies 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. Grace pays the costs of postretirement benefits as they are incurred.

Included in other liabilities as of December 31, 1996 and 1995 are the following:

	1996	1995
Accumulated postretirement benefit obligation:		
Retirees .....	\$199.9	\$209.0
Fully eligible participants .....	6.4	15.2
Active ineligible participants .....	43.7	34.4
	-----	-----
	250.0	258.6
Unrecognized net loss .....	(39.9)	(54.9)
Unrecognized prior service benefit .....	32.8	44.3
	-----	-----
Accrued postretirement benefit obligation .....	\$242.9	\$248.0
	=====	=====

Net periodic postretirement benefit cost for 1996, 1995 and 1994 is comprised of the following components:

	1996	1995	1994
Service cost .....	\$ 1.9	\$ 1.6	\$ 2.1
Interest cost on accumulated postretirement benefit obligation ..	19.0	18.3	16.2
Amortization of net loss .....	1.9	.2	1.2
Amortization of prior service benefit .....	(3.7)	(4.3)	(4.3)
Curtailement gain .....	(.9)	--	--
	-----	-----	-----
Net periodic postretirement benefit cost .....	\$ 18.2	\$ 15.8	\$ 15.2
	=====	=====	=====

During 1996, Grace's retiree medical plans were amended to enhance benefits to retirees effective January 1, 1997. This amendment, including a previous plan amendment, decreased the accumulated postretirement benefit obligation by \$32.8 at December 31, 1996 and will be amortized over an average remaining future service life of approximately 10 years.

Medical care cost trend rates were projected at 9.2% in 1996, declining to 6.0% through 2001 and remaining level thereafter. An increase of one percentage point in each year's assumed medical care cost trend rate, holding all other assumptions constant, would increase the annual net periodic postretirement benefit cost by \$2.3 and the accumulated postretirement benefit obligation by \$19.9. The discount rates at December 31, 1996, 1995 and 1994 were 8.0%, 7.3% and 8.5%, respectively.

Effective January 1, 1994, Grace adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," which requires accrual accounting for nonaccumulating 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 did not have a material effect on Grace's results of operations or financial position.

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17. GEOGRAPHIC AREA INFORMATION

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The table below presents information related to Grace's continuing operations by geographic region for the years 1996 -1994.

		United States and Canada	Europe	Asia Pacific	Latin America	Total
Sales and revenues .....	1996	\$1,690	\$1,056	\$468	\$240	\$3,454
	1995	1,735	1,120	445	253	3,553
	1994	1,606	939	366	218	3,129
Pretax operating income/(loss) (1) (2) ..	1996	(33)	52	53	29	101
	1995	(186)	44	61	9	(72)
	1994	(190)	69	55	20	(46)
Identifiable assets (3) .....	1996	1,963	879	505	203	3,550
	1995	2,132	998	411	246	3,787
	1994	1,879	905	308	208	3,300

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Pretax operating income and identifiable assets are reconciled below to income/(loss) from continuing operations before income taxes and total assets, respectively, as presented in the Consolidated Statement of Operations and the Consolidated Balance Sheet.

	1996	1995	1994
Pretax operating income (1) .....	\$ 101	\$ (72)	\$ (46)
Gain on sales of businesses .....	326	--	--
Interest expense and related financing costs (2) .....	(72)	(71)	(50)
Corporate restructuring costs and asset impairments/other activities ..	(18)	(122)	--
Provision for corporate governance .....	--	(30)	--
Gain on sale of remaining interest in REG .....	--	--	27
Other income/(expenses), net (2) .....	12	11	(9)
Income/(loss) from continuing operations before income taxes .....	\$ 349	\$ (284)	\$ (78)
	=====	=====	=====
Identifiable assets (3) .....	\$3,550	\$3,787	\$3,300
General corporate assets (4) .....	1,099	815	860
Net assets of discontinued operations .....	297	1,759	2,071
Total assets .....	\$4,946	\$6,361	\$6,231
	=====	=====	=====

-----

- (1) Includes (a) 1996, 1995 and 1994 pretax provisions of \$229, \$275 and \$316, respectively, relating to asbestos-related liabilities and insurance coverage (see Note 2); and (b) 1996 and 1995 pretax charges of \$90 and \$87, respectively, relating to restructuring costs, asset impairments and other costs (see Note 4).
- (2) Corporate interest and financing costs and nonallocable expenses are not reflected in pretax operating income because significant financing decisions are centralized at the corporate level. Other income/(expenses), net includes interest income relating to the settlement of prior years' federal income tax returns of \$7.5 and \$9.8 in 1996 and 1995, respectively.
- (3) Includes asbestos-related receivables and settlements due from insurance carriers, net of discounts, of \$331 and \$49, respectively, in 1996; \$321 and \$118, respectively, in 1995; and \$513 and \$187, respectively, in 1994.
- (4) General corporate assets consist principally of deferred tax assets, prepaid pension costs and corporate receivables and investments. At December 31, 1996, general corporate assets include \$215.6 of receivables from the sales of Amicon and Grace's water treatment and process chemicals business.
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18. SUBSEQUENT EVENT

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In February 1997, Grace announced that it had entered into an agreement to sell its specialty polymers business to National Starch and Chemical Company for \$147.0, subject to adjustment. The transaction is expected to be completed in the second quarter of 1997.



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 QUARTERLY SUMMARY AND STATISTICAL INFORMATION  
 Unaudited - dollars in millions, except per share  
 =====

QUARTER ENDED	March 31	June 30	September 30	December 31
-----				
1996				
Sales and revenues .....	\$ 862	\$ 920	\$ 821	\$ 851
Cost of goods sold and operating expenses ..	512	549	503	507
Net income/(loss) .....	63	334	2,518	(57)
Earnings/(loss) per share:				
Net earnings/(loss) .....	\$ .65	\$3.45	\$27.66	\$ (.70)
Dividends declared per common share .....	\$.125	\$.125	\$.125	\$.125
Market price of common stock: (1)				
High .....	\$ 52 3/16	\$ 53 5/16	\$ 52	\$ 56 1/4
Low .....	34 3/4	45 5/8	33 1/16	46 1/4
Close .....	50 5/8	45 5/8	52	51 3/4
-----				
1995				
Sales and revenues .....	\$ 830	\$ 901	\$ 916	\$ 906
Cost of goods sold and operating expenses ..	482	527	542	600
Net income/(loss) .....	47	79	22	(474)
Earnings/(loss) per share:				
Net earnings/(loss) .....	\$ .50	\$ .83	\$ .22	\$ (4.87)
Dividends declared per common share .....	\$.35	\$.35	\$.35	\$.125
Market price of common stock: (1)				
High .....	\$ 35 1/8	\$ 41 15/16	\$ 45 7/8	\$ 42 11/16
Low .....	24 13/16	33 1/16	39 5/8	35 1/4
Close .....	34 5/16	39 9/16	43	38 1/16

(1) Principal market: New York Stock Exchange. The stock prices for 1995 and the first nine months of 1996 have been adjusted so that they are on a basis comparable to the stock prices following the disposition of NMC.

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 CAPITAL EXPENDITURES, NET FIXED ASSETS AND DEPRECIATION AND LEASE AMORTIZATION Dollars in millions  
 =====

	Capital Expenditures (1)			Net Fixed Assets			Depreciation and Lease Amortization (2)		
	1996	1995	1994	1996	1995	1994	1996	1995	1994
-----									
Operating units .....	\$397	\$455	\$327	\$1,691	\$1,565	\$1,249	\$164	\$163	\$142
General corporate .....	57	49	30	180	155	144	16	17	16
Total continuing operations	454	504	357	1,871	1,720	1,393	180	180	158
Discontinued operations .....	3	34	88	--	16	337	--	--	--
Total .....	\$457	\$538	\$445	\$1,871	\$1,736	\$1,730	\$180	\$180	\$158
=====									
GEOGRAPHIC LOCATION									
United States and Canada .....	\$186	\$242	\$200	\$941	\$854	\$702	\$82	\$82	\$75
Europe .....	83	100	75	403	440	381	58	60	51
Other areas .....	128	113	52	347	271	166	24	21	16
Subtotal .....	397	455	327	1,691	1,565	1,249	164	163	142
General corporate .....	57	49	30	180	155	144	16	17	16
Total continuing operations	454	504	357	1,871	1,720	1,393	180	180	158
Discontinued operations .....	3	34	88	--	16	337	--	--	--
Total .....	\$457	\$538	\$445	\$1,871	\$1,736	\$1,730	\$180	\$180	\$158
=====									

(1) Excludes capital expenditures of discontinued operations subsequent to their classification as such.

(2) Certain 1995 and 1994 amounts have been reclassified to conform to the 1996 presentation.

## FINANCIAL SUMMARY (1) Dollars in millions, except per share amounts

	1996	1995	1994
<b>STATEMENT OF OPERATIONS</b>			
Sales and revenues	\$3,454.1	\$3,552.6	\$3,128.5
Cost of goods sold and operating expenses	2,071.0	2,151.2	1,832.6
Depreciation and amortization	184.4	186.1	164.6
Interest expense and related financing costs	71.6	71.3	49.5
Research and development expenses	93.9	111.6	99.6
Income/(loss) from continuing operations before income taxes	348.6	(284.1)	(77.7)
Provision for/(benefit from) income taxes	134.8	(104.5)	(42.6)
Income from continuing operations before special items (2)	222.5	205.7	163.9
Income/(loss) from continuing operations	213.8	(179.6)	(35.1)
Income/(loss) from discontinued operations (3)	2,643.9	(146.3)	118.4
Cumulative effect of accounting changes	--	--	--
Net income/(loss)	2,857.7	(325.9)	83.3
<b>FINANCIAL POSITION</b>			
Current assets	\$1,774.9	\$1,681.3	\$2,228.9
Current liabilities	1,487.1	2,214.2	2,231.5
Properties and equipment, net	1,871.3	1,736.1	1,730.1
Total assets	4,945.8	6,360.6	6,230.6
Total debt	1,388.2	1,933.8	1,529.7
Shareholders' equity - common stock	632.4	1,224.4	1,497.1
<b>DATA PER COMMON SHARE</b>			
Earnings from continuing operations before special items (2)	\$ 2.41	\$ 2.14	\$ 1.74
Earnings/(loss) from continuing operations	2.32	(1.87)	(.38)
Cumulative effect of accounting changes	--	--	--
Net earnings/(loss)	31.06	(3.40)	.88
Dividends	.50	1.175	1.40
Book value	8.06	12.57	15.91
Average common shares outstanding (thousands)	91,976	95,822	93,936
<b>OTHER STATISTICS</b>			
Dividends paid on common stock	\$ 45.6	\$ 112.1	\$ 131.5
Capital expenditures	456.6	537.6	444.6
Common shareholders of record	17,415	19,496	18,501
Common stock price range (4)	56 1/4 - 33 1/16	45 7/8 - 24 13/16	29 15/16 - 23 3/16
Number of employees - continuing operations (thousands)	17.4	20.3	19.9

## FINANCIAL SUMMARY (1) Dollars in millions, except per share amounts

	1993	1992
<b>STATEMENT OF OPERATIONS</b>		
Sales and revenues	\$2,824.7	\$2,985.2
Cost of goods sold and operating expenses	1,692.9	1,814.0
Depreciation and amortization	153.9	164.6
Interest expense and related financing costs	43.0	49.4
Research and development expenses	100.8	99.5
Income/(loss) from continuing operations before income taxes	44.5	91.9
Provision for/(benefit from) income taxes	16.4	84.1
Income from continuing operations before special items (2)	128.1	152.8
Income/(loss) from continuing operations	28.1	7.7
Income/(loss) from discontinued operations (3)	(2.1)	(112.2)
Cumulative effect of accounting changes	--	(190.0)
Net income/(loss)	26.0	(294.5)
<b>FINANCIAL POSITION</b>		
Current assets	\$2,077.6	\$2,091.4
Current liabilities	1,992.6	1,639.6
Properties and equipment, net	1,454.1	1,707.9
Total assets	6,108.6	5,598.6
Total debt	1,706.1	1,819.2
Shareholders' equity - common stock	1,510.2	1,537.5
<b>DATA PER COMMON SHARE</b>		
Earnings from continuing operations before special items (2)	\$ 1.39	\$ 1.70
Earnings/(loss) from continuing operations	.30	.08
Cumulative effect of accounting changes	--	(2.12)
Net earnings/(loss)	.28	(3.29)
Dividends	1.40	1.40
Book value	16.16	17.10
Average common shares outstanding (thousands)	91,461	89,543
<b>OTHER STATISTICS</b>		
Dividends paid on common stock	\$ 127.9	\$ 125.4
Capital expenditures	309.6	398.4
Common shareholders of record	19,358	20,869
Common stock price range (4)	26 9/16 - 22 5/16	29 - 20 5/8
Number of employees - continuing operations (thousands)	19.8	19.4

- (1) Certain prior-year amounts have been reclassified to conform to the 1996 presentation.
- (2) Income from continuing operations before special items reconciles to income/(loss) from continuing operations as follows:

	1996	1995	1994	1993	1992
Income from continuing operations before special items ....	\$222.5	\$ 205.7	\$ 163.9	\$ 128.1	\$ 152.8
Special items (after-tax):					
Gain on sales of businesses .....	210.1	--	--	--	--
Restructuring costs and asset impairments/other activities	(69.9)	(138.0)	--	--	--
Provisions relating to asbestos-related liabilities and insurance coverage .....	(148.9)	(178.7)	(200.0)	(100.0)	--
Provision for corporate governance .....	--	(18.6)	--	--	--
Provisions for environmental liabilities at former manufacturing sites .....	--	(50.0)	(26.0)	--	--
Gain on sale of remaining interest in REG .....	--	--	27.0	--	--
Provision relating to fumed silica plant .....	--	--	--	--	(140.0)
Postretirement benefits prior to plan amendments .....	--	--	--	--	(5.1)
Income/(loss) from continuing operations .....	\$213.8	\$ (179.6)	\$ (35.1)	\$ 28.1	\$ 7.7

The special items included in the foregoing table also have been excluded in determining earnings per common share from continuing operations before special items.

- (3) Comprised of income from operations of \$13.5, \$5.0 and \$118.4 in 1996, 1995 and 1994, respectively. 1996 also includes (a) the gain of \$2,603.1 on the dispositions of NMC, Amicon and Agracetus and (b) a \$31.9 reversal of a previously recorded provision for Grace's cocoa business, partially offset by (c) the charge of \$4.6 recorded in connection with the classification of TEC Systems as a discontinued operation. 1995 includes a provision of \$151.3 relating to Grace's remaining discontinued operations, primarily Grace's cocoa business.
- (4) The stock prices for 1995 - 1992 and the first nine months of 1996 have been adjusted so that they are on a basis comparable to the stock prices following the disposition of NMC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

REVIEW OF OPERATIONS  
OVERVIEW

Sales and revenues decreased 3% in 1996 versus 1995, and increased 14% in 1995 over 1994. Excluding divested businesses from all periods, sales and revenues increased 3% in 1996 over 1995 and 14% in 1995 over 1994.

Pretax income/(loss) from continuing operations was \$348.6 million in 1996, \$(284.1) million in 1995 and \$(77.7) million in 1994. As noted in the table below, pretax income/(loss) from continuing operations for all three years was affected by various special items. Grace's 1996 pretax operating income before special items of \$419.4 million increased 14% over 1995, and 1995 pretax operating income before special items of \$367.4 million increased 19% over 1994. Excluding divested businesses, pretax operating income before special items increased 12% in 1996 over 1995 and 20% in 1995 over 1994.

For all periods presented, pretax operating results have been restated to reflect the classification of certain businesses as discontinued operations.

W. R. GRACE & CO. AND SUBSIDIARIES PRETAX OPERATING RESULTS - CONTINUING OPERATIONS	(Dollars in millions)		
	1996	1995	1994
Sales and revenues, before divested businesses	\$3,252.2	\$ 3,150.9	\$2,758.7
Sales and revenues of divested businesses (1)	201.9	401.7	369.8
Sales and revenues	\$3,454.1	\$ 3,552.6	\$3,128.5
Operating income before special items and divested businesses	\$ 417.4	\$ 374.0	\$ 311.7
Operating income of divested businesses (1)	2.0	(6.6)	(1.9)
Operating income before special items (2)	\$ 419.4	\$ 367.4	\$ 309.8
Special items:			
Gain on sales of businesses	326.4	--	--
Restructuring costs and asset impairments/other activities	(107.5)	(209.5)	--
Provisions relating to asbestos-related liabilities and insurance coverage	(229.1)	(275.0)	(316.0)
Provision for corporate governance	--	(30.0)	--
Provisions for environmental liabilities at former manufacturing sites	--	(77.0)	(40.0)
Gain on sale of remaining interest in REG	--	--	27.0
Operating income/(loss) from continuing operations	\$ 409.2	\$ (224.1)	\$ (19.2)
Other income/(expenses) (3):			
Interest expense and related financing costs	(71.6)	(71.3)	(49.5)
Other income/(expenses), net	11.0	11.3	(9.0)
Income/(loss) from continuing operations	\$ 348.6	\$ (284.1)	\$ (77.7)

- (1) Primarily reflects Grace's water treatment and process chemicals business, divested in June 1996.
- (2) Reflects the allocation of general corporate overhead, general corporate research expenses and certain other income and expense items that can be identified with continuing operations.
- (3) Corporate interest and financing costs and nonallocable expenses are not reflected in pretax operating income from continuing operations because significant financing decisions are centralized at the corporate level. Other income/(expenses), net includes interest income relating to the settlement of prior years' federal income tax returns of \$7.5 million in 1996 and \$9.8 million in 1995.

W. R. GRACE & CO. AND SUBSIDIARIES (excluding divested businesses) SALES AND REVENUES	(Dollars in millions)			Percentage Change	
	1996	1995	1994	'96 vs. '95	'95 vs. '94
Packaging	\$1,735.4	\$1,692.1	\$1,417.5	2.6 %	19.4 %
Container	274.7	279.9	252.9	(1.9)	10.7
Total Packaging	\$2,010.1	\$1,972.0	\$1,670.4	1.9	18.1
Catalysts and other silica-based products	732.2	699.9	615.1	4.6	13.8
Construction	435.0	397.2	387.1	9.5	2.6
Other (1)	74.9	81.8	86.1	(8.4)	(5.0)
Sales and revenues	\$3,252.2	\$3,150.9	\$2,758.7	3.2 %	14.2 %

SALES AND REVENUES ESTIMATED VARIANCE ANALYSIS	1996 AS A PERCENTAGE OF 1995				1995 as a Percentage of 1994			
	VOLUME	PRICE/MIX	TRANSLATION	TOTAL	Volume	Price/Mix	Translation	Total
Packaging	3.9 %	(1.0)%	(.3)%	2.6 %	10.2 %	6.0 %	3.2 %	19.4 %

Container .....	1.0	(.3)	(2.6)	(1.9)	4.9	.8	5.0	10.7
Total Packaging .....	3.4	(.9)	(.6)	1.9	9.4	5.2	3.5	18.1
Catalysts and other silica-based products ..	7.2	(1.3)	(1.3)	4.6	4.7	4.7	4.4	13.8
Construction .....	8.8	.9	(.2)	9.5	.4	1.1	1.1	2.6
Other (1) .....	(5.9)	.1	(2.6)	(8.4)	(8.2)	(.8)	4.0	(5.0)
Sales and revenues .....	4.7 %	(.8)%	(.7)%	3.2 %	9.7 %	1.7 %	2.8 %	14.2 %

(1) Primarily reflects Grace's specialty polymers business, which is expected to be divested in 1997.

## SALES AND REVENUES

As noted in the preceding table, sales and revenues (excluding divested businesses) increased 3% in 1996 over 1995, reflecting a favorable volume variance estimated at 5% (with increased volumes in all core product lines), offset by unfavorable price/product mix and currency translation variances estimated at 1% each. The following is a discussion of the sales and revenues of Grace's product lines.

## PACKAGING

1996 sales increased 3% over 1995, a year in which sales increased 19% over 1994. 1996 laminate sales increased in all regions, particularly in Latin America and Asia Pacific due to market share growth, and in North America primarily due to a strong fourth quarter in the rollstock and processed and prepared foods market segments. 1996 sales growth in bags was modest overall. Sales volumes in bags increased in Latin America due to economic improvement in Argentina, increased cattle slaughter rates in Uruguay and higher per capita beef consumption in Brazil. Growth in North American bag sales, due to continued penetration of TBG (total boneguard) bags in the fresh red meat segment, was partially offset by lower volumes in the meat producing and processing industries, as higher corn prices led to reductions in beef herds, which in turn drove down volumes. Sales of bags in Asia Pacific and Europe were flat, as the negative effects of reduced beef consumption due to consumer fears associated with the outbreak of E. coli bacteria and the publicity surrounding bovine spongiform encephalopathy in the United Kingdom --- commonly referred to as "mad cow disease" --- were partially offset by the positive effects of increased consumption of other fresh red meats, poultry and fish. Film sales in 1996 were flat, as sales growth in Europe was offset by sales declines in North America and Asia Pacific due to continued pricing pressures. The improvement in Europe resulted from growth in demand in the U.K. bakery market segment and higher sales from new product introductions.

## CONTAINER

Sales decreased slightly in 1996 versus 1995, as sales declines in closure compounds (due to lower consumer demand for beverage products in Europe and a decrease in market share in Asia Pacific) were partially offset by volume increases from improved market penetration of can coating products in Latin America (primarily due to the 1996 acquisition of Bayem S.A. de C.V., a Mexican producer of can coatings and closure sealants for the rigid container industry). North American container sales were up slightly due to strong sales of can sealing compounds.

## CATALYSTS AND OTHER SILICA-BASED PRODUCTS

1996 sales of catalysts and other silica-based products benefited from continued expansion into new markets and the introduction of higher-value-added products and new technologies, partially offset by competitive pricing pressures. Volumes increased in all regions, especially in Asia Pacific due to an increase in market share in refinery catalysts. However, in Europe and North America, refinery catalyst sales continued to be negatively impacted by competitive pricing pressures. Polyolefin catalyst sales were positively impacted by the strong resin market, and silica/adsorbent sales benefited from new product applications in Europe and Asia Pacific.

## CONSTRUCTION

Sales increased in all regions and within all product lines, especially in North America, where volumes in concrete and waterproofing products benefited from growth in housing starts and infrastructure projects. Also significantly contributing to the increase was the positive impact of an increase in market share for fire protection and concrete products in Asia Pacific. Sales also have risen due to the introduction of new products.

## OPERATING RESULTS - 1996 COMPARED TO 1995

Pretax operating income before special items (excluding divested businesses) increased 12% in 1996 as compared to 1995, as cost management programs continued to favorably impact results across all regions and product lines. As further discussed below under "Statement of Operations: Restructuring Costs, Asset Impairments and Other Costs," Grace has implemented a worldwide program to streamline processes and reduce general and administrative expenses, factory administration costs and noncore corporate research and development expenses. In addition, North American results in 1996 were positively affected by sales volume increases in construction products and bags and laminates, partially offset by a decline in refinery catalyst sales. European results were favorably impacted by volume increases in construction products and silicas/adsorbents. In Asia Pacific, results declined, reflecting lower pricing and an unfavorable product mix in bags, and volume declines in closure compounds, partially offset by volume increases in construction products and refinery and polyolefin catalysts, as discussed above. Also affecting 1996 results were higher expenses associated with the start-up of new silica and packaging plants in Kuantan, Malaysia. Latin American results were favorably impacted by volume increases in bags and can coating products, as discussed above.

## OPERATING RESULTS - 1995 COMPARED TO 1994

As noted above, sales and revenues (excluding divested businesses) increased 14% in 1995 over 1994, reflecting favorable volume, price/product mix and currency translation variances estimated at 10%, 1% and 3%, respectively. Pretax operating income before special items (excluding divested businesses) increased 20% in 1995 over 1994. Volumes increased in all core product

lines. Packaging volume increases reflected higher sales of bags, films and laminates in all regions, other than laminates in Latin America. Container volume increases resulted from increased sales of can sealing products in Asia Pacific and coating products in Latin

America. Volume increases in catalysts and other silica-based products reflected higher sales in all regions, especially refinery catalysts in Asia Pacific and Europe, and silica/adsorbent products in Europe and Asia Pacific. North American operations experienced reduced profitability in refinery catalysts; refiners continued to experience low margins, as the narrow spread between light and heavy crude oil prices led customers to crack higher-quality light crude (which requires fewer catalysts). Construction products experienced volume increases, primarily in Asia Pacific due to increased construction activity, partially offset by volume decreases in fire protection products in North America (due to a small market share decline) and waterproofing products in North America and Europe (due to higher material costs and a slowdown in the nonresidential construction market). Operating income before taxes also benefited from an economic recovery in Europe that revitalized key markets and the absence of costs incurred in 1994 to streamline European packaging and container operations, partially offset by higher operating costs incurred to increase market share in the Asia Pacific region.

## STATEMENT OF OPERATIONS

## INTEREST EXPENSE AND RELATED FINANCING COSTS

Excluding amounts allocated to discontinued operations, interest expense and related financing costs of \$71.6 million in 1996 were flat versus 1995. Including amounts allocated to discontinued operations, interest expense and related financing costs decreased 10% in 1996 over 1995, to \$147.9 million, primarily due to lower average short-term interest rates.

Grace's debt and interest rate management objectives are to reduce its cost of funding over the long term. To manage the interest profile on its debt, Grace enters into interest rate agreements; during 1996 most of these agreements effectively converted fixed-rate debt into variable-rate debt. These agreements have readily quantifiable impacts on interest cost and are characterized by broad market liquidity.

See "Financial Condition: Liquidity and Capital Resources" below for further information on borrowings and interest rate agreements.

## RESEARCH AND DEVELOPMENT EXPENSES

Research and development spending decreased 16% in 1996 versus 1995. The decrease reflects the positive impact of cost management initiatives, primarily the closing of Grace's corporate research facility, the transfer of core research and development activities to existing product line facilities, and the termination of activities not related to Grace's core packaging and specialty chemicals businesses. Research and development activities include research in specialty packaging, catalysts, construction materials and process engineering.

## RESTRUCTURING COSTS, ASSET IMPAIRMENTS AND OTHER COSTS

## Restructuring Costs

Grace recorded restructuring charges of \$75.4 million in 1996 and \$129.8 million in 1995 (\$49.0 million and \$85.1 million after-tax, respectively). Grace began implementing a worldwide program in 1995 to streamline processes and reduce general and administrative expenses, factory administration costs and noncore corporate research and development expenses. Under this program Grace has implemented, and expects to further implement, additional cost reductions and efficiency improvements, as it further evaluates and reengineers its operations. In connection with these actions, Grace recorded pretax charges of \$53.7 million and \$21.7 million in the second and fourth quarters of 1996, respectively. These charges primarily relate to headcount reductions, the restructuring of Grace's European packaging operations (in areas such as working capital management, manufacturing and sales) and the further restructuring of Grace's corporate research activities, certain of which are now conducted at product line facilities.

The components of the 1996 and 1995 restructuring charges, spending and other activity during 1995 and 1996, and the remaining reserve balances at December 31, 1996, were as follows:

	Employee Termination Benefits	Plant/Office Closures	Asset Write-downs	Other Costs	Total
Restructuring provisions recorded in 1995 ...	\$ 74.3	\$ 13.4	\$ 18.6	\$23.5	\$129.8
Cash payments during 1995 .....	(13.0)	(3.5)	--	(3.1)	(19.6)
Noncash activity .....	--	--	(4.3)	(1.5)	(5.8)
Restructuring reserve at December 31, 1995 ..	\$ 61.3	\$9.9	\$ 14.3	\$18.9	\$104.4
Restructuring provisions recorded in 1996 ...	69.3	6.1	--	--	75.4
Cash payments during 1996 .....	(57.8)	(.6)	--	(16.0)	(74.4)
Noncash activity .....	--	--	(14.3)	--	(14.3)
Restructuring reserve at December 31, 1996 ..	\$ 72.8	\$ 15.4	\$ --	\$ 2.9	\$ 91.1

Employee termination benefits primarily represent severance pay and other benefits (including benefits under long-term incentive programs paid over time) associated with the elimination of approximately 1,300 positions worldwide, with more than 60% of the eliminated positions coming from



worldwide corporate staff functions and the restructuring of Grace's worldwide packaging operations. Through December 31, 1996, approximately 800 positions had been eliminated worldwide.

Grace's estimated annual cost savings under the restructuring programs are expected to total approximately \$140 million when fully realized, with approximately \$100 million being realized annually as a result of the actions taken through the end of 1996. The remaining actions under the programs are expected to be substantially implemented during 1997.

#### Asset Impairments

During 1996 and 1995, Grace determined that, due to various events and changes in circumstances (including the worldwide restructuring programs described above), certain long-lived assets and related goodwill were impaired. As a result, in the fourth quarters of 1996 and 1995, Grace recorded noncash pretax charges of \$32.1 million and \$39.2 million, respectively (\$20.9 million and \$26.6 million after-tax, respectively), the majority of which related to assets that will continue to be held and used in Grace's packaging and specialty chemicals businesses. The components of the 1996 and 1995 charges were (a) goodwill and other intangibles of \$11.1 million and \$4.7 million, respectively; (b) properties and equipment of \$9.0 million and \$20.0 million, respectively; (c) long-term investments of \$6.7 million and \$8.6 million, respectively; and (d) other assets of \$5.3 million and \$5.9 million, respectively. Grace determined the amounts of the charges based on various valuation techniques, including discounted cash flow, replacement cost and net realizable value for assets to be disposed.

#### Other Costs

In the fourth quarter of 1995, Grace recorded pretax charges totaling \$40.5 million (\$25.9 million after-tax) relating to the write-down of corporate assets (\$27.0 million) and working capital assets (\$13.5 million).

#### INCOME TAXES

Grace's effective tax (benefit) rates were 38.7% in 1996, (36.8)% in 1995 and (54.8)% in 1994. Excluding the special items shown in the table under "Review of Operations: Overview" above, Grace's effective tax rates were 38.0%, 33.1% and 34.8% in 1996, 1995 and 1994, respectively. The lower effective tax rate in 1995 compared to 1996 was largely due to the reversal in 1995 of a valuation allowance on foreign net operating losses. The lower effective tax rate in 1995 compared to 1994 was primarily due to the reversal in 1995 of the valuation allowance on foreign net operating losses and lower state income taxes, partially offset by higher taxes on foreign operations.

Grace has provided a valuation allowance relating to uncertainty as to the realization of certain deferred tax assets, primarily state and local net operating loss carryforwards and net deferred tax assets. Tax planning strategies during 1996 enabled Grace to reverse the valuation allowance on tax credit carryforwards during the year. Based on anticipated future results, Grace has concluded that it is more likely than not that the remaining balance of the net deferred tax assets, after consideration of the valuation allowance, will be realized.

#### DISCONTINUED OPERATIONS

##### HEALTH CARE

During 1996, Grace completed the separation of National Medical Care, Inc. (NMC) and sold its separations science business (Amicon). These businesses, representing Grace's principal health care businesses, had been classified as discontinued operations in 1995. 1996 income from discontinued operations of \$2,643.9 million includes income of \$24.8 million (\$60.3 million pretax) from health care operations, a tax-free gain of approximately \$2.5 billion on the NMC transaction, and a gain of \$40.0 million (\$70.4 million pretax) on the sale of Amicon. (Loss)/income from discontinued operations of \$(146.3) million in 1995 and \$118.4 million in 1994 includes income from health care operations of \$22.0 million (\$104.6 million pretax) and \$124.7 million (\$227.1 million pretax), respectively.

##### COCOA

Grace's cocoa business was classified as a discontinued operation in 1993. During the fourth quarter of 1995, Grace revised the divestment plan for the business. The revised plan focused on the improvement of operating cash flow through the adoption of new strategies and a new global organizational structure, while better positioning the business for outright sale. As a result of this revised divestment plan, Grace recorded an additional provision of \$151.3 million (net of an applicable tax effect of \$48.7 million) related to the cocoa business and other remaining discontinued operations. In December 1996, Grace announced that it had entered into a definitive agreement to sell the cocoa business to Archer-Daniels-Midland Company. As a result, in the fourth quarter of 1996, Grace reassessed its estimated loss on the divestment of the business and reversed previously recorded provisions of \$31.9 million (net of an applicable tax effect of \$18.1 million), within income from discontinued operations. The divestment of the cocoa business was completed in February 1997, with Grace receiving \$470.0 million (inclusive of debt assumed by the buyer), subject to adjustment.

##### OTHER

In the fourth quarter of 1996, Grace classified its thermal and emission control systems business (TEC Systems) as a discontinued operation. In connection with classifying TEC Systems as a discontinued operation, Grace recorded a provision of \$4.6 million (net of an applicable tax benefit of \$2.4 million) related to TEC Systems' anticipated net operating results through the expected date of divestment, as well as the loss anticipated on the divestment.

In May 1996, Grace completed the sale of the transgenic plant business of its Agracetus subsidiary to the Monsanto Company for \$150.0 million, resulting in a pretax gain of \$129.0 million (\$79.4 million after-tax, or \$0.86 per common share of the Company). Additionally, in March 1996, Grace sold its microwave business for gross proceeds of \$3.9 million.

In February 1995, Grace sold its composite materials business for gross proceeds of \$3.0 million. During 1994, Grace sold its battery separators business and a portion of its engineered materials and systems businesses for gross proceeds of \$316.2 million, approximating prior estimates. Grace also sold its animal genetics and Caribbean fertilizer operations in 1994 for proceeds of \$44.1 million. In 1994, Grace also sold substantially all of its interests in Colowyo Coal Company (Colowyo) for proceeds of \$218.3 million, including \$192.8 million of proceeds from a nonrecourse financing secured by a portion of the revenues from certain long-term coal contracts. Grace retained a limited partnership interest in Colowyo, entitling it to share in the revenues from these coal contracts.

These businesses were classified as discontinued operations in 1993 (other than TEC Systems in 1996 and Colowyo in 1992).

## FINANCIAL CONDITION

### LIQUIDITY AND CAPITAL RESOURCES

Grace's continuing operating activities provided net pretax cash of \$355.6 million in 1996, versus \$247.3 million in 1995. The improved cash flow from operations in 1996 was offset by the expenditure of \$2.1 million for the defense and disposition of asbestos-related property damage and personal injury litigation, net of amounts received under settlements with insurance carriers, compared to a cash inflow from asbestos-related litigation, net of insurance recoveries, of \$97.0 million in 1995. After giving effect to the net pretax cash provided by operating activities of discontinued operations and payments of income taxes, the net cash provided by operating activities increased \$116.3 million in 1996 versus 1995.

Investing activities provided \$2,072.9 million of cash in 1996, largely reflecting net cash proceeds of \$2,720.3 million from divestments of businesses. This excluded (a) \$100.0 million received in January 1997 on the 1996 sale of the water treatment and process chemicals business; and (b) \$115.6 million received in January 1997 on the 1996 sale of Amicon. Grace made capital expenditures of \$456.6 million in 1996, primarily related to the packaging and catalysts and other silica-based products businesses. Also, net investing activities of discontinued operations for 1996 used \$192.9 million of cash (compared to \$295.2 million in 1995); primarily decreasing as a result of the disposition of NMC in the 1996 third quarter. Grace anticipates total capital expenditures for 1997 to approximate \$300 million, all of which will be directed towards its core businesses.

Net cash used for financing activities in 1996 was \$2,267.8 million, primarily reflecting reductions in debt, the repurchase of stock (discussed below), and the payment of dividends, partially offset by proceeds from the exercise of employee stock options. Total debt was \$1,388.2 million at December 31, 1996, a decrease of \$545.6 million from December 31, 1995. In addition to the reduction of debt, in 1996 Grace terminated agreements to sell up to \$300 million of interests in designated pools of trade receivables, \$180 million of which pertained to NMC. At December 31, 1995, \$295.8 million had been received pursuant to such sales, \$179.8 million of which pertained to NMC.

Grace initiated a program in April 1996 to repurchase 10.0 million shares of its common stock. As of September 27, 1996, Grace had acquired 9,864,800 shares under this program at a cost of \$727.1 million (or an average price of approximately \$73.70 per share, before adjustment for the effect of the NMC transaction on the price per share of Grace stock). Following the NMC transaction, Grace implemented a second program to repurchase up to 20% of the approximately 89.0 million shares then outstanding. Through March 4, 1997, Grace had repurchased 16,019,900 shares at a cost of \$849.1 million (or an average price of approximately \$53.00 per share).

As Grace's balance sheet is restructured to support its core businesses, Grace is targeting a ratio of debt (net of cash and short-term investments) to earnings before interest, taxes, depreciation and amortization (EBITDA) of 1.6 to 2.0. Grace believes this ratio is the appropriate measure of leverage for management purposes because it compares debt to the pretax cash flow available to service debt. Also, it is not subject to distortion (as traditional debt/equity or debt/capital ratios are) following a major share repurchase program such as those Grace has executed. At the targeted debt/EBITDA level of 1.6 to 2.0, Grace benefits from the tax advantages of debt financing on its overall weighted average cost of capital while retaining the financial flexibility to invest in the continued growth of its core businesses. Grace believes it can safely exceed its target leverage range on a short-term basis to meet its investment needs. The cash received and to be received from divestments is being used to reduce debt and repurchase shares to bring the capital structure within the target range. At December 31, 1996, the debt/EBITDA ratio was 2.3, outside the target range primarily due to the timing of the share repurchases ahead of cash divestment proceeds. It is expected that the ratio will be within the target range in 1997.

In May 1996, Grace entered into a revolving credit agreement, expiring May 1997, providing for total borrowings of \$1.85 billion, and terminated three previous agreements providing for total borrowings of \$850 million. During the fourth quarter of 1996, Grace reduced the borrowings available under this new credit agreement to \$650 million, reflecting the completion of the NMC transaction. In addition, Grace continues to have \$350 million available under a separate long-term facility expiring on September 1, 1999. Thus, Grace had committed borrowing facilities totaling \$1.0 billion, of which \$471.3 million was available, at the end of 1996.

In October 1996, Grace announced that it expected to divest four noncore businesses by late 1996 or 1997. The businesses to be sold were Grace's cocoa business, Amicon, TEC Systems and Grace's specialty polymers business. As noted above, in December 1996, Grace completed the sale of Amicon and announced that it had entered into a definitive agreement to sell its cocoa business. In February 1997, Grace completed the sale of the cocoa business and entered into an agreement to sell its specialty polymers business. Grace expects to complete the sale of its specialty polymers business in the second quarter of 1997 and the sale of TEC Systems in 1997.



## ASBESTOS-RELATED MATTERS

Grace is a defendant in lawsuits relating to previously sold asbestos-containing products. In 1996, Grace paid \$2.1 million for the defense and disposition of asbestos-related property damage and personal injury litigation, net of amounts received under settlements with insurance carriers. During the fourth quarter of 1996, Grace recorded a noncash pretax charge of \$229.1 million (\$148.9 million after-tax), primarily to reflect the estimated costs of defending against and disposing of personal injury claims expected to be filed through 2001. The estimated costs used to determine the amount of this charge have not been discounted to their present values, and the time period over which the associated cash is actually expended is likely to extend beyond 2001. The balance sheet at year-end 1996 includes a receivable of \$331.3 million due from insurance carriers. Grace also has recorded notes receivable of \$55.9 million (\$48.5 million after discounts) for amounts to be received from 1997 to 2001 pursuant to settlement agreements previously entered into with insurance carriers.

Although the total amounts to be paid in 1997 with respect to asbestos-related claims (after giving effect to payments to be received from insurance carriers), cannot be precisely estimated, Grace expects that it will be required to expend approximately \$75-\$100 million (pretax) in 1997 to defend against and dispose of such claims (after giving effect to anticipated insurance recoveries). The amounts with respect to the probable cost of defending against and disposing of asbestos-related claims and probable recoveries from insurance carriers represent estimates and are on an undiscounted basis; the outcomes of such claims cannot be predicted with certainty. See Note 2 to the Consolidated Financial Statements for further information concerning asbestos-related lawsuits and claims.

## ENVIRONMENTAL MATTERS

Grace is subject to loss contingencies resulting from environmental laws and regulations. Worldwide expenses of continuing operations related to the operation and maintenance of environmental facilities and the disposal of hazardous and nonhazardous wastes totaled \$44.5 million in 1996, \$42.6 million in 1995 and \$35.0 million in 1994. Such costs are estimated to be \$45.0 million in 1997 and \$47.0 million in 1998. In addition, worldwide capital expenditures for continuing operations relating to environmental protection totaled \$17.1 million in 1996, compared to \$14.9 million and \$21.5 million in 1995 and 1994, respectively. Capital expenditures to comply with environmental initiatives in future years are estimated to be \$13.0 million in 1997 and \$12.0 million in 1998. Grace also has incurred costs to remediate environmentally impaired sites. These costs were \$20.3 million in 1996, \$31.3 million in 1995 and \$30.8 million in 1994. These amounts have been charged against previously established reserves. Future cash outlays for remediation costs are expected to total \$23.0 million in 1997 and \$26.0 million in 1998. Expenditures have been funded from internal sources of cash and are not expected to have a significant effect on liquidity.

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. In the fourth quarter of 1995 and the first quarter of 1994, Grace recorded pretax provisions of \$77.0 million and \$40.0 million (\$50.0 million and \$26.0 million after-tax), respectively. The 1995 provision related principally to increased cost estimates associated with five former manufacturing sites. At December 31, 1996, Grace's liability for environmental investigatory and remediation costs related to continuing and discontinued operations totaled \$256.4 million, as compared to \$280.3 million at December 31, 1995. These accruals do not take into account any discounting for the time value of money. Additionally, Grace is in litigation with certain excess insurance carriers regarding the applicability of the carriers' policies to environmental remediation costs; given the uncertainties inherent in this litigation, Grace has not recorded a receivable with respect to such insurance coverage (except in one instance where a settlement with a carrier has been reached).

Grace's environmental liabilities are reassessed whenever circumstances become better defined and/or remediation efforts and their costs can be better estimated. These liabilities are currently evaluated quarterly, based on 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 apportionment of costs among potentially responsible parties. As some of these issues are decided (the outcomes of which are subject to uncertainties) and/or new sites are assessed and costs can be reasonably estimated, Grace will continue to review and analyze the need for adjustments to the recorded accruals. However, Grace believes that it is adequately reserved for all probable and estimable environmental exposures.

W. R. GRACE & CO. AND SUBSIDIARIES  
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES  
(in millions)

For the Year 1996

Description	Additions (deductions)			Balance at end of period
	Balance at beginning of period	Charged (credited) to costs and expenses	Other, net**	
Valuation and qualifying accounts deducted from assets:				
Allowances for notes and accounts receivable . . . . .	\$ 12.9	\$ 4.9	\$ (6.3)	\$ 11.5
Allowances for long-term receivables . . . . .	\$ 24.7	\$ 3.7	\$ 14.3	\$ 42.7
Securities of divested businesses. . . . .	\$ 3.5	\$ -	\$ 0.4	\$ 3.9
Valuation allowance for deferred tax assets. . . . .	\$ 97.7	\$ (25.3)	\$ -	\$ 72.4
Reserves:				
Foreign employee benefit obligations* . . . . .	\$ 95.3	\$ 6.9	\$ (17.3)	\$ 84.9
Discontinued operations. . . . .	\$ 366.7	\$ (105.7)	\$ (91.8)	\$ 169.2

For the Year 1995

Description	Additions (deductions)			Balance at end of period
	Balance at beginning of period	Charged (credited) to costs and expenses	Other, net**	
Valuation and qualifying accounts deducted from assets:				
Allowances for notes and accounts receivable . . . . .	\$ 95.2	\$ 131.2	\$ (213.5)	\$ 12.9
Allowances for long-term receivables . . . . .	\$ 20.6	\$ 3.7	\$ 0.4	\$ 24.7
Securities of divested businesses. . . . .	\$ 4.9	\$ -	\$ (1.4)	\$ 3.5
Valuation allowance for deferred tax assets. . . . .	\$ 137.0	\$ (32.0)	\$ (7.3)	\$ 97.7
Reserves:				
Foreign employee benefit obligations* . . . . .	\$ 82.5	\$ 10.6	\$ 2.2	\$ 95.3
Discontinued operations. . . . .	\$ 239.3	\$ 127.4	\$ -	\$ 366.7

For the Year 1994

Description	Additions (deductions)			Balance at end of period
	Balance at beginning of period	Charged (credited) to costs and expenses	Other, net**	
Valuation and qualifying accounts deducted from assets:				
Allowances for notes and accounts receivable . . . . .	\$ 50.3	\$ 102.2	\$ (57.3)	\$ 95.2
Allowances for long-term receivables . . . . .	\$ 13.4	\$ 6.9	\$ 0.3	\$ 20.6
Securities of divested businesses. . . . .	\$ 161.2	\$ -	\$ (156.3)	\$ 4.9
Valuation allowance for deferred tax assets. . . . .	\$ 129.7	\$ -	\$ 7.3	\$ 137.0
Reserves:				
Foreign employee benefit obligations* . . . . .	\$ 64.4	\$ 11.6	\$ 6.5	\$ 82.5
Discontinued operations. . . . .	\$ 132.1	\$ 107.2	\$ -	\$ 239.3

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

\*\* Consists of additions and deductions applicable to businesses acquired, disposals of businesses, bad debt write-offs, foreign currency translation, reclassifications (including the deconsolidation of amounts relating to discontinued operations) and miscellaneous other adjustments.





## EXHIBIT 11

W. R. GRACE & CO. AND SUBSIDIARIES  
WEIGHTED AVERAGE NUMBER OF SHARES AND EARNINGS USED IN PER SHARE COMPUTATIONS

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

	(in thousands)		
	1996	1995	1994
	-----	-----	-----
Weighted average number of shares of Common Stock outstanding . . . . .	91,976	95,822	93,936
Additional dilutive effect of outstanding options (as determined by the application of the treasury stock method) . . . . .	2,504	2,189	659
	-----	-----	-----
Weighted average number of shares of Common Stock outstanding assuming full dilution . . . . .	94,480	98,011	94,595
	=====	=====	=====

Income/(loss) used in the computation of earnings/(loss) per share were as follows:

	(in millions, except per share)		
	1996	1995	1994
	-----	-----	-----
Net income/(loss) . . . . .	\$2,857.7	\$(325.9)	\$ 83.3
Dividends paid on preferred stocks . . . . .	(.4)	(.5)	(.5)
	-----	-----	-----
Income/(loss) used in per share computation of earnings and in per share computation of earnings assuming full dilution . . . . .	\$2,857.3	\$(326.4)	\$82.8
	=====	=====	=====
Earnings/(loss) per share . . . . .	\$ 31.06	\$ (3.40)	\$ .88
Earnings/(loss) per share assuming full dilution . . . . .	\$ 30.24	\$ (3.33)	\$ .88

## EXHIBIT 12

W. R. GRACE & CO. AND SUBSIDIARIES  
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND  
 COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS (a)  
 (in millions, except ratios)  
 (Unaudited)

	Years Ended December 31, (c)				
	1996 (d)	1995 (e)	1994 (f)	1993 (g)	1992 (h)
Net income/(loss) from continuing operations . . . . .	\$213.8	\$(179.6)	\$(35.1)	\$ 28.1	\$ 7.7
Add (deduct):					
Provision for/(benefit from) income taxes . . . . .	134.8	(104.5)	(42.6)	16.4	84.1
Income taxes of 50%-owned companies . . . . .	-	-	-	.1	2.1
Equity in unremitted (earnings)/losses of less than 50%-owned companies . . . . .	(.4)	.8	(.6)	(.5)	(2.0)
Interest expense and related financing costs, including amortization of capitalized interest . . . . .	160.8	179.8	138.5	122.7	162.7
Estimated amount of rental expense deemed to represent the interest factor . . . . .	8.4	8.5	10.1	11.3	14.0
(Loss)/income as adjusted . . . . .	<u>\$517.4</u>	<u>\$ (95.0)</u>	<u>\$ 70.3</u>	<u>\$178.1</u>	<u>\$268.6</u>
Combined fixed charges and preferred stock dividends:					
Interest expense and related financing costs, including capitalized interest . . . . .	\$177.1	\$ 195.5	\$143.2	\$122.8	\$176.3
Estimated amount of rental expense deemed to represent the interest factor . . . . .	8.4	8.5	10.1	11.3	14.0
Fixed charges . . . . .	185.5	204.0	153.3	134.1	190.3
Preferred stock dividend requirements (b) . . . . .	.6	.5	.5	.8	.8
Combined fixed charges and preferred stock dividends . . . . .	<u>\$186.1</u>	<u>\$ 204.5</u>	<u>\$153.8</u>	<u>\$134.9</u>	<u>\$191.1</u>
Ratio of earnings to fixed charges . . . . .	<u>2.79</u>	<u>(i)</u>	<u>(i)</u>	<u>1.33</u>	<u>1.41</u>
Ratio of earnings to combined fixed charges and preferred stock dividends . . . . .	<u>2.78</u>	<u>(i)</u>	<u>(i)</u>	<u>1.32</u>	<u>1.41</u>

- (a) Grace's preferred stocks were retired in 1996; see Note 1 to the Consolidated Financial Statements.
- (b) For each period with an income tax provision, the preferred stock dividend requirements have been increased to an amount representing the pretax earnings required to cover such requirements based on Grace's effective tax rate.
- (c) Certain amounts have been restated to conform to the 1996 presentation.
- (d) Includes a pretax gain of \$326.4 on sales of businesses, offset by pretax provisions of \$229.1 for asbestos-related liabilities and insurance coverage and \$107.5 for restructuring costs and asset impairments.
- (e) Includes pretax provisions of \$275.0 for asbestos-related liabilities and insurance coverage; \$209.5 relating to restructuring costs, asset impairments and other activities; \$77.0 for environmental liabilities at former manufacturing sites; and \$30.0 for corporate governance activities.
- (f) Includes a pretax provision of \$316.0 relating to asbestos-related liabilities and insurance coverage.
- (g) Includes a pretax provision of \$159.0 relating to asbestos-related liabilities and insurance coverage.
- (h) Includes a pretax provision of \$140.0 relating to a fumed silica plant in Belgium.
- (i) As a result of the losses incurred for the years ended December 31, 1995 and 1994, Grace was unable to fully cover the indicated fixed charges.

## W. R. Grace &amp; Co.

Annual Report on Form 10-K  
for the Fiscal Year Ended December 31, 1996

## EXHIBIT INDEX

EXHIBIT NO. -----	EXHIBIT -----	WHERE LOCATED -----
3.01	Amended and Restated Certificate of Incorporation of W. R. Grace & Co.	Exhibit 4.1 to Form 8-K (filed 10/10/96)
3.02	Amended and Restated By-laws of W. R. Grace & Co.	Exhibit 4.2 to Form 8-K (filed 10/10/96)
4.01	Rights Agreement by and between W. R. Grace & Co. and The Chase Manhattan Bank, as Rights Agent	Exhibit 4.3 to Form 8-K (filed 10/10/96)
4.02	Indenture dated as of September 29, 1992 among W. R. Grace & Co.-Conn., W. R. Grace & Co. and Bankers Trust Company	Exhibit 4.2 to Form 10-K (filed 3/26/93)
4.03	Supplemental Indenture dated as of September 24, 1996, among W. R. Grace & Co.-Conn., W. R. Grace & Co., Grace Holding, Inc., and Bankers Trust Company, to Indenture dated as of September 29, 1992	Exhibit 4.4 to Form 8-K (filed 10/10/96)

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

EXHIBIT NO. -----	EXHIBIT -----	WHERE LOCATED -----
4.04	Indenture dated as of January 28, 1993 among W. R. Grace & Co.-Conn., W. R. Grace & Co. and Bank of New York (successor to NationsBank of Georgia, N.A.)	Exhibit 4.4 to Form 10-K (filed 3/26/93)
4.05	Supplemental Indenture dated as of September 24, 1996, among W. R. Grace & Co.-Conn., W. R. Grace & Co., Grace Holding, Inc., and Bank of New York, to Indenture dated as of January 28, 1993	Exhibit 4.5 to Form 8-K (filed 10/10/96)
4.06	364-Day Credit Agreement, dated as of May 17, 1996, among W. R. Grace & Co.-Conn., W. R. Grace & Co., Grace Holding, Inc., the several banks parties thereto, NationsBank, N.A. (South), as documentation agent, and Chemical Bank, as administrative agent, for such banks	Exhibit 4.4 to Registration Statement on Form S-1 (filed 8/2/96)
4.07	Amended and Restated Credit Agreement, dated as of May 17, 1996, among W. R. Grace & Co.-Conn., W. R. Grace & Co., Grace Holding, Inc., the several banks parties thereto and Chemical Bank, as administrative agent for such banks	Exhibit 4.5 to Registration Statement on Form S-1 (filed 8/2/96)
10.01	W. R. Grace & Co. 1996 Stock Incentive Plan	Filed herewith*
10.02	W. R. Grace & Co. 1996 Stock Retainer Plan for Nonemployee Directors	Exhibit 10.2 to Form 8-K (filed 10/10/96)*
10.03	W. R. Grace & Co. Supplemental Executive Retirement Plan, as amended	Filed herewith*
10.04	W. R. Grace & Co. Executive Salary Protection Plan, as amended	Filed herewith*

EXHIBIT NO. -----	EXHIBIT -----	WHERE LOCATED -----
10.05	W. R. Grace & Co. 1981 Stock Incentive Plan, as amended	Exhibit 10.3 to Form 8-K (filed 10/10/96)*
10.06	W. R. Grace & Co. 1986 Stock Incentive Plan, as amended	Exhibit 10.4 to Form 8-K (filed 10/10/96)*
10.07	W. R. Grace & Co. 1989 Stock Incentive Plan, as amended	Exhibit 10.5 to Form 8-K (filed 10/10/96)*
10.08	W. R. Grace & Co. 1994 Stock Incentive Plan, as amended	Exhibit 10.6 to Form 8-K (filed 10/10/96)*
10.09	Forms of Stock Option Agreements	Exhibit 10(h) to Form 10-K (filed 3/28/92)*
10.10	Information concerning W. R. Grace & Co. Incentive Compensation Program, Deferred Compensation Program and Long-Term Incentive Program	Pages 7-12 and 28-33 of Proxy Statement (filed 4/10/96)*
10.11	Form of Long-Term Incentive Program Award	Exhibit 10.13 to Registration Statement on Form S-1 (filed 8/2/96)*
10.12	Form of Stock Option Agreement	Exhibit 10.14 to Registration Statement on Form S-1 (filed 8/2/96)*
10.13	W. R. Grace & Co. Retirement Plan for Outside Directors, as amended	Filed herewith*
10.14	Employment Agreement dated as of April 1, 1991 between W. R. Grace & Co.-Conn. and Constantine L. Hampers, as amended	Exhibit 10(x) to Form 10-K (filed 3/28/92)*

EXHIBIT NO. -----	EXHIBIT -----	WHERE LOCATED -----
10.15	Letter Agreement dated as of March 29, 1996 between W. R. Grace & Co. and Constantine L. Hampers	Exhibit 10.1 to Form 10-Q (filed 5/15/96)*
10.16	Letter Agreement dated June 14, 1996 between W. R. Grace & Co. and Constantine L. Hampers	Exhibit 10.35 to Registration Statement on Form S-1 (filed 8/2/96)*
10.17	Form of Executive Severance Agreement between W. R. Grace & Co. and officers elected prior to May 1996	Exhibit 10.22 to Registration Statement on Form S-1 (filed 8/2/96)*
10.18	Form of Executive Severance Agreement between W. R. Grace & Co. and officers elected in or after May 1996	Exhibit 10.23 to Registration Statement on Form S-1 (filed 8/2/96)*
10.19	Consulting Agreement dated June 1, 1992 between W. R. Grace & Co. and Kamsky Associates, Inc.	Exhibit 10.29 to Form 10-K (filed 3/26/93)*
10.20	Incentive Compensation Agreement dated June 1, 1992 between National Medical Care, Inc. and Kamsky Associates, Inc.	Exhibit 10.30 to Form 10-K (filed 3/26/93)*
10.21	Consulting Agreement dated as of December 1993 between National Medical Care, Inc. and Virginia A. Kamsky	Exhibit 10.23 to Form 10-K (filed 3/31/95)*
10.22	Amendment to Consulting Agreement, dated as of May 1, 1995, among National Medical Care, Inc., Virginia A. Kamsky and Southeast Asia Markets, Inc.	Exhibit 10.1 to Form 10-Q (filed 5/12/95)*
10.23	Employment Agreement dated as of May 1, 1995 between W. R. Grace & Co. and Albert J. Costello	Exhibit 10.1 to Form 10-Q (filed 8/14/95)*

EXHIBIT NO. -----	EXHIBIT -----	WHERE LOCATED -----
10.24	Amendment dated August 9, 1996 to Employment Agreement, dated as of May 1, 1995, between W. R. Grace & Co. and Albert Costello	Exhibit 10.7 to Form 8-K (filed 10/10/96)*
10.25	Option Agreement between W. R. Grace & Co. and Albert J. Costello, dated May 1, 1995, as amended	Exhibit 10.8 to Form 8-K (filed 10/10/96)*
10.26	Option Agreement between W. R. Grace & Co. and Albert J. Costello, dated March 6, 1996	Exhibit 10.37 to Registration Statement on Form S-1 (filed 8/2/96)*
10.27	Agreement dated September 23, 1996 between W. R. Grace & Co. and Donald H. Kohnken	Exhibit 10.9 to Form 8-K (filed 10/10/96)*
10.28	Employment Agreement dated May 15, 1995 between W. R. Grace & Co. and Larry Ellberger	Filed herewith*
10.29	Restricted Stock Award Agreement dated June 6, 1995 between W. R. Grace & Co. and Larry Ellberger, as amended by letter agreement dated August 26, 1996 between Larry Ellberger and W. R. Grace & Co.	Filed herewith*
10.30	Letter Agreement dated December 10, 1996 between W. R. Grace & Co. and Larry Ellberger	Filed herewith*
10.31	Bridge Loan Promissory Note dated July 31, 1992 of Fred and Jacqueline Lempereur, payable to W. R. Grace & Co.-Conn.	Filed herewith*
10.32	Employee Relocation Loan Agreement dated July 31, 1992 between W. R. Grace & Co.-Conn. and Fred and Jacqueline Lempereur	Filed herewith*

EXHIBIT NO. -----	EXHIBIT -----	WHERE LOCATED -----
10.33	Employment Agreement dated August 17, 1992 between Grace Specialty Chemicals Co. and Fred Lempereur	Filed herewith*
10.34	Letter Agreement dated January 10, 1997, between W. R. Grace & Co. and Fred Lempereur	Filed herewith*
10.35	Distribution Agreement by and among W. R. Grace & Co., a New York corporation subsequently renamed Fresenius National Medical Care Holdings, Inc., W. R. Grace & Co.-Conn., and Fresenius AG dated February 4, 1996	Exhibit 2 to Form 8-K (filed 2/6/96)
10.36	Form of Indemnification Agreement between W. R. Grace & Co. and certain directors	Exhibit 10.39 to Registration Statement on Form S-1 (filed 8/2/96)*
10.37	Form of Indemnification Agreement between W. R. Grace & Co. and certain officers and directors	Filed herewith*
11	Weighted Average Number of Shares and Earnings Used in Per Share Computations	Filed herewith (in Financial Supplement to Form 10-K)
12	Computation of Ratio of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends	Filed herewith (in Financial Supplement to Form 10-K)
13	Selected Portions of the 1996 Annual Report to Shareholders of W. R. Grace & Co.	Filed herewith (in Financial Supplement to Form 10-K)
21	List of Subsidiaries of W. R. Grace & Co.	Filed herewith
23	Consent of Independent Accountants	Filed herewith (in Financial Supplement to Form 10-K)
24	Powers of Attorney	Filed herewith



## W. R. GRACE &amp; CO.

## 1996 STOCK INCENTIVE PLAN

1. Purposes. The purposes of this Plan are (a) to enable Key Persons to have incentives related to Common Stock, (b) to encourage Key Persons to increase their interest in the growth and prosperity of the Company and to stimulate and sustain constructive and imaginative thinking by Key Persons, (c) to further the identity of interests of Key Persons with the interests of the Company's stockholders, and (d) to induce the service or continued service of Key Persons and to enable the Company to compete with other organizations offering similar or other incentives in obtaining and retaining the services of the most highly qualified individuals.

2. Definitions. When used in this Plan, the following terms shall have the meanings set forth in this section 2.

Board of Directors: The Board of Directors of the Company.

cessation of service (or words of similar import): When a person ceases to be an employee of the Company or a Subsidiary. For purposes of this definition, if an entity that was a Subsidiary ceases to be a Subsidiary, persons who immediately thereafter remain employees of that entity (and are not employees of the Company or an entity that is a Subsidiary) shall be deemed to have ceased service.

Change in Control: Shall be deemed to have occurred if (a) the Company determines that any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, has become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 20% or more of the outstanding Common Stock of the Company; (b) individuals who are "Continuing Directors" (as defined below) cease to constitute a majority of any class of the Board of Directors; (c) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company (a "Corporate Transaction"), in each case, with respect to which the stockholders of the Company immediately prior to such Corporate Transaction do not, immediately after the Corporate Transaction, own more than 60% of the combined voting power of the corporation resulting from such Corporate Transaction; or (d) the stockholders of the Company approve a complete liquidation or dissolution of the Company. Notwithstanding any other provision of this Plan, the distribution of all of the shares of Common Stock of the Company to the shareholders of W. R. Grace & Co., a New York corporation, shall not be deemed a Change in Control.

Change in Control Price: The higher of (a) the highest reported sales price, regular way, as reported in The Wall Street Journal or another newspaper of general circulation,

of a share of Common Stock in any transaction reported on the New York Stock Exchange Composite Tape or other national exchange on which such shares are listed or on NASDAQ during the 60-day period prior to and including the date of a Change in Control or (b) if the Change in Control is the result of a tender or exchange offer or a Corporate Transaction, the highest price per share of Common Stock paid in such tender or exchange offer or Corporate Transaction; provided, however, that in the case of Incentive Stock Options, the Change in Control Price shall be in all cases the Fair Market Value of the Common Stock on the date such Incentive Stock Option is exercised. To the extent that the consideration paid in any Corporate Transaction or other transaction described above consists in whole or in part of securities or other noncash consideration, the value of such securities or other noncash consideration shall be determined in the sole discretion of the Board of Directors.

Code: The Internal Revenue Code of 1986, as amended.

Committee: The Compensation, Employee Benefits and Stock Incentive Committee of the Board of Directors of the Company or any other committee designated by the Board of Directors to administer stock incentive and stock option plans of the Company and the Subsidiaries generally or this Plan specifically.

Common Stock: The common stock of the Company, par value \$.01 per share, or such other class of shares or other securities or property as may be applicable pursuant to the provisions of section 8.

Company: W.R. Grace & Co., a Delaware corporation.

Corporate Transaction: The meaning set forth in the definition of "Change in Control" above.

Exchange Act: The Securities Exchange Act of 1934, as amended.

Exercise Period: The meaning set forth in section 14(b) of this Plan.

Fair Market Value: (a) The mean between the high and low sales prices of a share of Common Stock in New York Stock Exchange composite transactions on the applicable date, as reported in The Wall Street Journal or another newspaper of general circulation, or, if no sales of shares of Common Stock were reported for such date, for the next preceding date for which such sales were so reported, or (b) the fair market value of a share of Common Stock determined in accordance with any other reasonable method approved by the Committee.

**Incentive Stock Option:** A stock option that states that it is an incentive stock option and that is intended to meet the requirements of Section 422 of the Code and the regulations thereunder applicable to incentive stock options, as in effect from time to time.

**issuance (or words of similar import):** The issuance of authorized but unissued Common Stock or the transfer of issued Common Stock held by the Company or a Subsidiary.

**Key Person:** An employee of the Company or a Subsidiary who, in the opinion of the Committee, has contributed or can contribute significantly to the growth and successful operations of the Company or one or more Subsidiaries. The grant of a Stock Incentive to an employee shall be deemed a determination by the Committee that such person is a Key Person.

**Nonstatutory Stock Option:** An Option that is not an Incentive Stock Option.

**Option:** An option granted under this Plan to purchase shares of Common Stock.

**Option Agreement:** An agreement setting forth the terms of an Option.

**Plan:** The 1996 Stock Incentive Plan of the Company herein set forth, as the same may from time to time be amended.

**service:** Service to the Company or a Subsidiary as an employee. "To serve" has a correlative meaning.

**Spread:** The meaning set forth in section 14(b) of this Plan.

**Stock Award:** An issuance of shares of Common Stock or an undertaking (other than an Option) to issue such shares in the future.

**Stock Incentive:** A stock incentive granted under this Plan in one of the forms provided for in section 3.

**Subsidiary:** A corporation (or other form of business association) of which shares (or other ownership interests) having 50% or more of the voting power regularly entitled to vote for directors (or equivalent management rights) are owned, directly or indirectly, by the Company, or any other entity designated as such by the Board of Directors; provided, however, that in the case of an Incentive Stock Option, the term "Subsidiary" shall mean a Subsidiary (as defined by the preceding clause) that is also a "subsidiary corporation" as defined in Section 424(f) of the Code and the regulations thereunder, as in effect from time to time.

3. Grants of Stock Incentives. (a) Subject to the provisions of this Plan, the Committee may at any time and from time to time grant Stock Incentives under this Plan to, and only to, Key Persons.

(b) The Committee may grant a Stock Incentive to be effective at a specified future date or upon the future occurrence of a specified event. For the purposes of this Plan, any such Stock Incentive shall be deemed granted on the date it becomes effective. An agreement or other commitment to grant a Stock Incentive that is to be effective in the future shall not be deemed the grant of a Stock Incentive until the date on which such Stock Incentive becomes effective.

(c) A Stock Incentive may be granted in the form of:

- (i) a Stock Award, or
- (ii) an Option, or
- (iii) a combination of a Stock Award and an Option.

4. Stock Subject to this Plan. (a) Subject to the provisions of paragraph (c) of this section 4 and the provisions of section 8, the maximum number of shares of Common Stock that may be issued pursuant to Stock Incentives granted under this Plan shall not exceed seven million (7,000,000).

(b) Authorized but unissued shares of Common Stock and issued shares of Common Stock held by the Company or a Subsidiary, whether acquired specifically for use under this Plan or otherwise, may be used for purposes of this Plan.

(c) If any shares of Common Stock subject to a Stock Incentive shall not be issued and shall cease to be issuable because of the termination, in whole or in part, of such Stock Incentive or for any other reason, or if any such shares shall, after issuance, be reacquired by the Company or a Subsidiary from the recipient of such Stock Incentive, or from the estate of such recipient, for any reason, such shares shall no longer be charged against the limitation provided for in paragraph (a) of this section 4 and may again be made subject to Stock Incentives.

(d) Of the total number of shares specified in paragraph (a) of this section 4 (subject to adjustment as specified therein), during the term of this Plan as defined in section 9, (i) no more than 10% may be subject to Options granted to any one Key Person and (ii) no more than 15% may be subject to Stock Incentives granted to any one Key Person.

5. Stock Awards. Except as otherwise provided in section 12, Stock Incentives in the form of Stock Awards shall be subject to the following provisions:

(a) For purposes of this Plan, all shares of Common Stock subject to a Stock Award shall be valued at not less than 100% of the Fair Market Value of such shares on the date such Stock Award is granted, regardless of whether or when such shares are issued pursuant to such Stock Award and whether or not such shares are subject to restrictions affecting their value.

(b) Shares of Common Stock subject to a Stock Award may be issued to a Key Person at the time the Stock Award is granted, or at any time subsequent thereto, or in installments from time to time. In the event that any such issuance shall not be made at the time the Stock Award is granted, the Stock Award may provide for the payment to such Key Person, either in cash or shares of Common Stock, of amounts not exceeding the dividends that would have been payable to such Key Person in respect of the number of shares of Common Stock subject to such Stock Award (as adjusted under section 8) if such shares had been issued to such Key Person at the time such Stock Award was granted. Any Stock Award may provide that the value of any shares of Common Stock subject to such Stock Award may be paid in cash, on each date on which shares would otherwise have been issued, in an amount equal to the Fair Market Value on such date of the shares that would otherwise have been issued.

(c) The material terms of each Stock Award shall be determined by the Committee. Each Stock Award shall be evidenced by a written instrument consistent with this Plan. It is intended that a Stock Award would be (i) made contingent upon the attainment of one or more specified performance objectives and/or (ii) subject to restrictions on the sale or other disposition of the Stock Award or the shares subject thereto for a period of three or more years; provided, however, that (x) a Stock Award may include restrictions and limitations in addition to those provided for herein and (y) of the total number of shares specified in paragraph (a) of section 4 (subject to adjustment as specified therein), up to 3% may be subject to Stock Awards not subject to clause (i) or clause (ii) of this sentence.

(d) A Stock Award shall be granted for such lawful consideration as may be provided for therein.

6. Options. Except as otherwise provided in section 12, Stock Incentives in the form of Options shall be subject to the following provisions:

(a) The purchase price per share of Common Stock shall be not less than 100% of the Fair Market Value of a share of Common Stock on the date the Option is granted. The purchase price and any withholding tax that may be due on the exercise of an Option may be paid in cash, or, if so provided in the Option Agreement, (i) in shares of Common Stock (including shares issued pursuant to the Option being exercised and shares issued

pursuant to a Stock Award granted subject to restrictions as provided for in paragraph (c) of section 5), or (ii) in a combination of cash and such shares; provided, however, that no shares of Common Stock delivered in payment of the purchase price may be "immature shares," as determined in accordance with generally accepted accounting principles in effect at the time. Any shares of Common Stock delivered to the Company in payment of the purchase price or withholding tax shall be valued at their Fair Market Value on the date of exercise. No certificate for shares of Common Stock shall be issued upon the exercise of an Option until the purchase price for such shares has been paid in full.

(b) If so provided in the Option Agreement, the Company shall, upon the request of the holder of the Option and at any time and from time to time, cancel all or a portion of the Option then subject to exercise and either (i) pay the holder an amount of money equal to the excess, if any, of the Fair Market Value, at such time or times, of the shares subject to the portion of the Option so canceled over the purchase price for such shares, or (ii) issue shares of Common Stock to the holder with a Fair Market Value, at such time or times, equal to such excess, or (iii) pay such excess by a combination of money and shares.

(c) Each Option may be exercisable in full at the time of grant, or may become exercisable in one or more installments and at such time or times or upon the occurrence of such events, as may be specified in the Option Agreement, as determined by the Committee. Unless otherwise provided in the Option Agreement, an Option, to the extent it is or becomes exercisable, may be exercised at any time in whole or in part until the expiration or termination of such Option.

(d) Each Option shall be exercisable during the life of the holder only by him and, after his death, only by his estate or by a person who acquires the right to exercise the Option by will or the laws of descent and distribution. An Option, to the extent that it shall not have been exercised or canceled, shall terminate as follows after the holder ceases to serve: (i) if the holder shall voluntarily cease to serve without the consent of the Committee or shall have his service terminated for cause, the Option shall terminate immediately upon cessation of service; (ii) if the holder shall cease to serve by reason of death, incapacity or retirement under a retirement plan of the Company or a Subsidiary, the Option shall terminate three years after the date on which he ceased to serve; and (iii) except as provided in the next sentence, in all other cases the Option shall terminate three months after the date on which the holder ceased to serve unless the Committee shall approve a longer period (which approval may be given before or after cessation of service) not to exceed three years. If the holder shall die or become incapacitated during the three-month period (or such longer period as the Committee may approve) referred to in the preceding clause (iii), the Option shall terminate three years after the date on which he ceased to serve. A leave of absence for military or governmental service or other purposes shall not, if approved by the Committee (which approval may be given before or after the leave of absence commences), be deemed a cessation of service within the

meaning of this paragraph (d). Notwithstanding the foregoing provisions of this paragraph (d) or any other provision of this Plan, no Option shall be exercisable after expiration of a period of ten years and one month from the date the Option is granted. Where a Nonstatutory Option is granted for a term of less than ten years and one month, the Committee may, at any time prior to the expiration of the Option, extend its term for a period ending not later than ten years and one month from the date the Option was granted. Such an extension shall not be deemed the grant of a new Option under this Plan.

(e) No Option nor any right thereunder may be assigned or transferred except by will or the laws of descent and distribution and except, in the case of a Nonstatutory Option, pursuant to a qualified domestic relations order (as defined in the Code), unless otherwise provided in the Option Agreement.

(f) An Option may, but need not, be an Incentive Stock Option. All shares of Common Stock that may be made subject to Stock Incentives under this Plan may be made subject to Incentive Stock Options; provided, however, that (i) no Incentive Stock Option may be granted more than ten years after the effective date of this Plan, as provided in section 9; and (ii) the aggregate Fair Market Value (determined as of the time an Incentive Stock Option is granted) of the shares subject to each installment becoming exercisable for the first time in any calendar year under Incentive Stock Options granted on or after January 1, 1987 (under all plans, including this Plan, of his employer corporation and its parent and subsidiary corporations) to the Key Person to whom such Incentive Stock Option is granted shall not exceed \$100,000.

(g) The material terms of each Option shall be determined by the Committee. Each Option shall be evidenced by a written instrument consistent with this Plan, and shall specify whether the Option is an Incentive Stock Option or a Nonstatutory Option. An Option may include restrictions and limitations in addition to those provided for in this Plan.

(h) Options shall be granted for such lawful consideration as may be provided for in the Option.

7. Combination of Stock Awards and Options. Stock Incentives authorized by paragraph (c)(iii) of section 3 in the form of combinations of Stock Awards and Options shall be subject to the following provisions: (a) A Stock Incentive may be a combination of any form of Stock Award and any form of Option; provided, however, that the terms and conditions of such Stock Incentive pertaining to a Stock Award are consistent with section 5 and the terms and conditions of such Stock Incentive pertaining to an Option are consistent with section 6.

(b) Such combination Stock Incentive shall be subject to such other terms and conditions as may be specified therein, including without limitation a provision terminating in

whole or in part a portion thereof upon the exercise in whole or in part of another portion thereof.

(c) The material terms of each combination Stock Incentive shall be determined by the Committee. Each combination Stock Incentive shall be evidenced by a written instrument consistent with this Plan.

8. Adjustment Provisions. (a) In the event that any reclassification, split-up or consolidation of the Common Stock shall be effected, or the outstanding shares of Common Stock are, in connection with a merger or consolidation of the Company or a sale by the Company of all or a part of its assets, exchanged for a different number or class of shares of stock or other securities or property of the Company or for shares of the stock or other securities or property of any other corporation or person, or a record date for determination of holders of Common Stock entitled to receive a dividend payable in Common Stock shall occur, (i) the number, kind and class of shares or other securities or property that may be issued pursuant to Stock Incentives thereafter granted, (ii) the number, kind and class of shares or other securities or property that have not been issued under outstanding Stock Incentives, (iii) the purchase price to be paid per share or other unit under outstanding Stock Incentives, and (iv) the price to be paid per share or other unit by the Company or a Subsidiary for shares or other securities or property issued pursuant to Stock Incentives that are subject to a right of the Company or a Subsidiary to re-acquire such shares or other securities or property, shall in each case be equitably adjusted as determined by the Committee.

(b) In the event that there shall occur any spin-off or other distribution of assets of the Company to its shareholders (including without limitation an extraordinary dividend), (i) the number, kind and class of shares or other securities or property that may be issued pursuant to Stock Incentives thereafter granted, (ii) the number, kind and class of shares or other securities or property that have not been issued under outstanding Stock Incentives, (iii) the purchase price to be paid per share or other unit under outstanding Stock Incentives, and (iv) the price to be paid per share or other unit by the Company or a Subsidiary for shares or other securities or property issued pursuant to Stock Incentives that are subject to a right of the Company or a Subsidiary to re-acquire such shares or other securities or property, shall in each case be equitably adjusted as determined by the Committee.

9. Term. This Plan shall be deemed adopted and shall become effective on the date as of which it is approved by W. R. Grace & Co., a New York corporation, as sole shareholder of the Company. No Stock Incentives shall be granted under this Plan after the tenth anniversary of such date.

10. Administration. (a) This Plan shall be administered by the Committee. No director shall be designated as or continue to be a member of the Committee unless he



shall at the time of designation and at all times during service as a member of the Committee be an "outside director" within the meaning of Section 162(m) of the Code. The Committee shall have full authority to act in the matter of selection of Key Persons and in granting Stock Incentives to them and such other authority as is granted to the Committee by this Plan. Notwithstanding any other provision of this Plan, the Board of Directors may exercise any and all powers of the Committee with respect to this Plan, except to the extent that the possession or exercise of any power by the Board of Directors would cause any Stock Incentive to become subject to, or to lose an exemption from, Section 162(m) of the Code or Section 16(b) of the Exchange Act.

(b) The Committee may establish such rules and regulations, not inconsistent with the provisions of this Plan, as it deems necessary to determine eligibility to be granted Stock Incentives under this Plan and for the proper administration of this Plan, and may amend or revoke any rule or regulation so established. The Committee may make such determinations and interpretations under or in connection with this Plan as it deems necessary or advisable. All such rules, regulations, determinations and interpretations shall be binding and conclusive upon the Company, its Subsidiaries, its shareholders and its directors, officers and employees, and upon their respective legal representatives, beneficiaries, successors and assigns, and upon all other persons claiming under or through any of them.

(c) Members of the Board of Directors and members of the Committee acting under this Plan shall be fully protected in relying in good faith upon the advice of counsel and shall incur no liability in the performance of their duties, except as otherwise provided by applicable law.

11. General Provisions. (a) Nothing in this Plan or in any instrument executed pursuant hereto shall confer upon any person any right to continue in the service of the Company or a Subsidiary, or shall affect the right of the Company or of a Subsidiary to terminate the service of any person with or without cause.

(b) No shares of Common Stock shall be issued pursuant to a Stock Incentive unless and until all legal requirements applicable to the issuance of such shares have, in the opinion of counsel to the Company, been complied with. In connection with any such issuance, the person acquiring the shares shall, if requested by the Company, give assurances, satisfactory to counsel to the Company, in respect of such matters as the Company or a Subsidiary may deem desirable to assure compliance with all applicable legal requirements.

(c) No person (individually or as a member of a group), and no beneficiary or other person claiming under or through him, shall have any right, title or interest in or to any shares of Common Stock allocated or reserved for the purposes of this Plan or subject to

any Stock Incentive except as to such shares of Common Stock, if any, as shall have been issued to him.

(d) In the case of a grant of a Stock Incentive to a Key Person who is employed by a Subsidiary, such grant may provide for the issuance of the shares covered by the Stock Incentive to the Subsidiary, for such consideration as may be provided, upon the condition or understanding that the Subsidiary will transfer the shares to the Key Person in accordance with the terms of the Stock Incentive.

(e) In the event the laws of a country in which the Company or a Subsidiary has employees prescribe certain requirements for Stock Incentives to qualify for advantageous tax treatment under the laws of that country (including, without limitation, laws establishing options analogous to Incentive Stock Options), the Committee, may, for the benefit of such employees, amend, in whole or in part, this Plan and may include in such amendment additional provisions for the purposes of qualifying the amended plan and Stock Incentives granted thereunder under such laws; provided, however, that (i) the terms and conditions of a Stock Incentive granted under such amended plan may not be more favorable to the recipient than would be permitted if such Stock Incentive had been granted under this Plan as herein set forth, (ii) all shares allocated to or utilized for the purposes of such amended plan shall be subject to the limitations of section 4, and (iii) the provisions of the amended plan may restrict but may not extend or amplify the provisions of sections 9 and 13.

(f) The Company or a Subsidiary may make such provisions as either may deem appropriate for the withholding of any taxes that the Company or a Subsidiary determines is required to be withheld in connection with any Stock Incentive.

(g) Nothing in this Plan is intended to be a substitute for, or shall preclude or limit the establishment or continuation of, any other plan, practice or arrangement for the payment of compensation or benefits to directors, officers or employees generally, or to any class or group of such persons, that the Company or any Subsidiary now has or may hereafter put into effect, including, without limitation, any incentive compensation, retirement, pension, group insurance, stock purchase, stock bonus or stock option plan.

12. Acquisitions. If the Company or any Subsidiary should merge or consolidate with, or purchase stock or assets or otherwise acquire the whole or part of the business of, another entity, the Company, upon the approval of the Committee, (a) may assume, in whole or in part and with or without modifications or conditions, any stock incentives granted by the acquired entity to its directors, officers, employees or consultants in their capacities as such, or (b) may grant new Stock Incentives in substitution therefor. Any such assumed or substitute Stock Incentives may contain terms and conditions in consistent with the provisions of this Plan (including the limitations set forth in paragraph (d) of section 4), including additional benefits for the recipient; provided, however, that if such assumed or substitute Stock Incentives are Incentive Stock Options, such terms and

conditions are permitted under the plan of the acquired entity. For the purposes of any applicable plan provision involving time or a date, a substitute Stock Incentive shall be deemed granted as of the date of grant of the original stock incentive.

13. Amendments and Termination. (a) This Plan may be amended or terminated by the Board of Directors upon the recommendation of the Committee; provided, however, that, without the approval of the stockholders of the Company, no amendment shall be made which (i) causes this Plan to cease to comply with applicable law, (ii) permits any person who is not a Key Person to be granted a Stock Incentive (except as otherwise provided in section 12), (iii) amends the provisions of paragraph (d) of section 4, paragraph (a) of section 5 or paragraph (a) or paragraph (f) of section 6 to permit shares to be valued at, or to have a purchase price of, respectively, less than the percentage of Fair Market Value specified therein, (iv) amends section 9 to extend the date set forth therein, or (v) amends this section 13.

(b) No amendment or termination of this Plan shall adversely affect any Stock Incentive theretofore granted, and no amendment of any Stock Incentive granted pursuant to this Plan shall adversely affect such Stock Incentive, without the consent of the holder thereof.

14. Change in Control Provisions. (a) Notwithstanding any other provision of this Plan to the contrary, in the event of a Change in Control:

(i) Any Options outstanding as of the date on which such Change in Control occurs, and which are not then exercisable and vested, shall become fully exercisable and vested to the full extent of the original grant; and

(ii) All restrictions and deferral limitations applicable to Stock Incentives shall lapse, and Stock Incentives shall become free of all restrictions and become fully vested and transferable to the full extent of the original grant.

(b) Notwithstanding any other provision of this Plan, during the 60-day period from and after a Change in Control (the "Exercise Period"), unless the Committee shall determine otherwise at the time of grant, the holder of an Option shall have the right, in lieu of the payment of the purchase price for the shares of Common Stock being purchased under the Option, by giving notice to the Company, to elect (within the Exercise Period) to surrender all or part of the Option to the Company and to receive cash, within 30 days after such notice, in an amount equal to the amount by which the Change in Control Price per share of Common Stock on the date of such election shall exceed the purchase price per share of Common Stock under the Option (the "Spread") multiplied by the number of shares of Common Stock subject to the Option as to which the right subject to this Section 14(b) shall have been exercised.

(c) Notwithstanding any other provision of this Plan, if any right granted pursuant to this Plan to receive cash in respect of a Stock Incentive would make a Change in Control transaction ineligible for pooling-of-interests accounting that, but for the nature of such grant, would otherwise be eligible for such accounting treatment, the Committee shall have the ability to substitute for such cash Common Stock with a Fair Market Value equal to the amount of such cash.

W. R. GRACE & CO.  
SUPPLEMENTAL EXECUTIVE  
RETIREMENT PLAN  
AS AMENDED  
THROUGH  
SEPTEMBER 28, 1996

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AS ADOPTED AND CONTINUED BY  
W. R. GRACE & CO.,  
A DELAWARE CORPORATION,  
EFFECTIVE SEPTEMBER 28, 1996

## W. R. GRACE &amp; CO. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

## Introduction

Effective October 4, 1984, W. R. Grace & Co., a Connecticut corporation ("Grace Connecticut"), adopted a supplemental executive retirement plan which constitutes in part an "excess benefit plan" under section 3(36) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and which constitutes in part an unfunded deferred compensation arrangement for a select group of highly compensated or management employees under section 201(2) of ERISA, for the Eligible Persons described in the Plan.

The W. R. Grace & Co. Supplemental Executive Retirement Plan (the "Plan") was amended effective May 1, 1988 for all Eligible Persons who terminate service on or after such date.

As a result of a corporate reorganization whereby Grace Connecticut became a subsidiary of W. R. Grace & Co., a New York corporation ("Grace New York") (and was renamed "W. R. Grace & Co.-Conn."), Grace Connecticut amended the Plan, effective May 25, 1988, and Grace New York adopted and assumed the sponsorship of the Plan, as amended, as of such date, for the benefit of all Eligible Persons and other persons who, on the immediately preceding date, were participants in the Plan (as maintained by Grace Connecticut) and all other employees of Grace New York or its subsidiaries who on or after May 25, 1988 become Eligible Persons or otherwise covered under the Plan.

Grace New York further amended the Plan, effective as of January 1, 1993.

As a result of a transaction occurring in September 1996, Grace Connecticut became a subsidiary of W. R. Grace & Co., a Delaware corporation ("Grace Delaware"). Effective September 28, 1996, Grace Delaware adopted and assumed the sponsorship of the Plan and amended the Plan as set forth herein.

## Section 1

## Definitions

When used herein, the words and phrases defined hereinafter shall have the following meanings unless a different meaning is clearly required by the context of the Plan.

## 1.01 Affiliate:

Any corporation or trade or business (other than the Company) that is treated under the first sentence of section 414(b) or under section 414(c) of the Code as constituting the same "employer" as the Company, during the period of controlled status thereunder.

## 1.02 Board of Directors:

The Board of Directors of the Company.

## 1.03 Code:

The Internal Revenue Code of 1986, as amended.

## 1.04 Committee:

The Compensation, Employee Benefits and Stock Incentive Committee of the Board of Directors.



- 1.05      **Company:**
- W. R. Grace & Co., a Delaware corporation. After May 25, 1988, and prior to September 28, 1996, the term "Company" meant W. R. Grace & Co., a New York corporation. Prior to May 25, 1988, the term "Company" meant W. R. Grace & Co., a Connecticut corporation.
- 1.06      **Effective Date:**
- October 4, 1984.
- 1.07      **Eligible Person:**
- A person who is described in Section 2 as eligible to receive benefits under the Plan.
- 1.08      **Employee:**
- An Employee of the Company or an Affiliate under the Plan.
- 1.09      **Employing Unit:**
- Any employing unit described in Section 1.14 of the Grace Salaried Plan.

1.10 Grace Salaried Plan:

W. R. Grace & Co. Retirement Plan for Salaried Employees (including the "old plans" and "predecessor plans" defined therein and the plans merged therein). Any reference to a section of the Grace Salaried Plan shall include the corresponding section of any future text thereof.

1.11 Plan:

W. R. Grace & Co. Supplemental Executive Retirement Plan.

1.12 Masculine pronouns used herein shall refer to men or women or both and nouns and pronouns when stated in the singular shall include the plural and when stated in the plural shall include the singular, wherever appropriate.

1.13 Any reference in the Plan to a "Section" shall refer to a Section of the Plan unless otherwise specified.

Section 2

Eligibility and Vesting

2.01 Any Employee who (i) is accruing credited service (as defined in section 4.01 of the Grace Salaried Plan) under the Grace Salaried Plan on or after the Effective Date of the Plan, (ii) has an annual base salary of at least \$75,000 at any time during the period that he is accruing such credited service under the Grace Salaried Plan, and (iii) satisfies the provisions of Section 2.04 shall

be eligible to receive benefits under this Plan in accordance with Section 3 of the Plan.

- 2.02 If so designated by the Board of Directors, (A) an Employee who (i) accrued credited service (as defined in Section 2.01 above) under the Grace Salaried Plan prior to (but not on or after) the Effective Date of the Plan (and whose benefits under the Grace Salaried Plan have not commenced prior to such designation), (ii) has an annual base salary of at least \$75,000 on or after the Effective Date of the Plan while still employed by the Company or an Affiliate, and (iii) satisfies the provisions of Section 2.04, or (B) an Employee who (i) is accruing credited service (as defined in Section 2.01 above) under the Grace Salaried Plan on or after the Effective Date of the Plan, (ii) has an annual base salary of at least \$75,000 at any time after (but not during) the period that he is accruing credited service (as defined in Section 2.01 above) under the Grace Salaried Plan, and (iii) satisfies the provisions of Section 2.04 shall be eligible to receive benefits under the Plan in accordance with Section 3 of the Plan.
- 2.03 If so designated by the Board of Directors, an Employee who (i) is not accruing and never has accrued credited service (as defined in Section 2.01 above) under the Grace Salaried Plan, (ii) is an Employee of the Company or an Affiliate on or after the Effective Date of the Plan, (iii) has an annual base salary of at least \$75,000 at any time while employed by the Company or an Affiliate, and (iv) satisfies the provisions of Section 2.04 shall be eligible to receive benefits under the Plan in accordance with Section 3 of the Plan.
- 2.04 An Eligible Person must terminate service with the Company and its Affiliates on or after the earliest of (i) the date he attains age 55, (ii) the date he

completes at least ten (10) years of vesting service, effective January 1, 1988 (or, effective January 1, 1989, the date he completes at least five (5) years of vesting service) (as defined in Section 1.38 of the Grace Salaried Plan) or (iii) the date as of which he otherwise becomes vested under the Grace Salaried Plan, in order to be eligible to receive benefits, if any, under the Plan. The benefits, if any, provided under the Plan to an Eligible Person shall vest upon the earliest of (i) his attainment of age 55, (ii) his completion of at least ten (10) years of vesting service (effective January 1, 1989, five (5) years of vesting service) (as defined in Section 1.38 of the Grace Salaried Plan) or (iii) the date as of which he otherwise becomes vested under the Grace Salaried Plan. In the event that an Eligible Person terminates service with the Company and its Affiliates prior to the date his benefits become vested in accordance with this Section 2.04, he shall be entitled to no benefits under the Plan. Notwithstanding the foregoing, in the event that an Eligible Person terminates service with the Company and its Affiliates by reason of death prior to the date his benefits become vested in accordance with this Section 2.04, benefits under the Plan will be payable in respect of him to the extent provided in Section 3.05 or Section 3.09.

### Section 3

#### Benefits

- 3.01 The monthly benefit payable to an Eligible Person under the Plan shall be equal to the excess, if any, of
- (a) The amount of the monthly benefit which would be payable to such Eligible Person under the Grace Salaried Plan if the provisions set

forth in the Grace Salaried Plan to comply with the benefit limitations of section 415 of the Code, the compensation limitations of section 401(a)(17) of the Code and any other Code provisions that become effective after December 31, 1988 which similarly limit the amount of retirement benefit that may be accrued under the Grace Salaried Plan were inapplicable, and determined in accordance with the following additional principles:

- (i) credited service (as defined in section 4.01 of the Grace Salaried Plan) shall include any period of employment, or period of disability which satisfies the provisions of section 6 of the Grace Salaried Plan, not otherwise credited under the Grace Salaried Plan, prior to the date he attains age 70 in the case of an Eligible Person who terminates service with the Company and its affiliates prior to January 1, 1988 and any period of employment after the date he attains age 70, in the case of an Eligible Person who terminates service with the Company and its Affiliates after December 31, 1987, with a division of the Company or an Affiliate, which does not participate in the Grace Salaried Plan (other than (A) any period during which the Eligible Person was satisfying the eligibility requirements of the Grace Salaried Plan, (B) any period that an Eligible Person declined to contribute to the Grace Salaried Plan (while eligible to do so), (C) any period that an Eligible Person waived participation in the Grace Salaried Plan, or (D) any period that service was interrupted in the case of authorized leave of absence for a reason other than for disability). Subject to the foregoing, an Eligible

Person will be credited with a month of credited service for any calendar month during any part of which he was employed or disabled as described above; provided, however, that in the event that an Eligible Person terminates service with the Company and all Affiliates during or after such period of employment and is subsequently re-employed by the Company or an Affiliate, any period of such employment or disability prior to such re-employment shall be restored as credited service hereunder, but if an Eligible Person so terminates service (whether or not prior to January 1, 1976) and is not vested to any extent in an employer-derived accrued benefit under the Grace Salaried Plan at the time of such termination and his number of one-year breaks in service (as defined in section 1.22 of the Grace Salaried Plan) following such termination equal or exceed his years of vesting service (as defined in section 1.38 of the Grace Salaried Plan) rendered prior to re-employment, such period shall not be restored as credited service hereunder, and provided further that any credited service hereunder in respect of a period of employment during which the Grace Salaried Plan was contributory shall be reduced by 30% thereof;

- (ii) compensation (as defined in section 1.07 of the Grace Salaried Plan) shall include any amount of (A) incentive compensation (not otherwise included thereunder) which an Eligible Person elected to defer (and hence did not receive on a current basis) at any time after the effective date of the

Grace Salaried Plan, (B) "regular" or base salary (not otherwise included thereunder) which an Eligible Person elected to defer (and hence did not receive on a current basis) with respect to periods after December 31, 1987 and (C) annual compensation in excess of \$200,000 that would otherwise be recognized under the Grace Salaried Plan but for the limitations of Section 401(a)(17) of the Code with respect to periods after December 31, 1988; provided, however, that in the event that an Eligible Person terminates service with the Company and all Affiliates and is subsequently re-employed by the Company or an Affiliate, any such incentive compensation and "regular" or base salary which an Eligible Person elected, prior to such re-employment, to defer and any such annual compensation in excess of \$200,000 shall be credited hereunder only to the extent that the month in which such incentive compensation and "regular" or base salary would otherwise have been paid and the month in which such excess compensation was paid would be restored as credited service under the re-employment rules set forth in Section 3.01(a)(i);

- (iii) in the case of an Eligible Person described in Section 2.03, the provisions of Section 3.01(a) shall be applied as if a monthly benefit were payable to the Eligible Person under the Grace Salaried Plan (even though he was never employed by the Company or an Employing Unit) and as if such Eligible Person were required to satisfy the eligibility provisions of the Grace Salaried Plan.

over

- (b)
  - (i) in the case of an Eligible Person described in Section 2.01 or 2.02, the amount of the monthly benefit actually payable to such Eligible Person under the Grace Salaried Plan (including any increase provided for in section 5.03(6) of the Grace Salaried Plan), and
  - (ii) in the case of an Eligible Person described in Section 2.01, 2.02, or 2.03, the amount deemed payable for purposes of the Plan under any other defined benefit plan (as defined in section 3(35) of ERISA) or defined contribution plan (as defined in section 3(34) of ERISA) maintained by the Company or an Affiliate (except the W. R. Grace & Co. Salaried Employees Savings and Investment Plan and the Dearborn Chemical Company Salaried Employees Savings and Investment Plan), or any deferred compensation agreement or arrangement entered into by such Eligible Person and the Company or an Affiliate, or maintained by the Company or an Affiliate (other than (A) the deferral of incentive compensation referred to in Section 3.01(a)(ii), (B) the Incentive Compensation Plan for Key Employees of El Torito-La Fiesta Restaurants, Inc., (C) the Natural Resources Group Long Term Incentive Plan, (D) the W. R. Grace & Co. Performance Incentive Plan, (E) the Teal Incentive Compensation Plan, (F) any other plan, program, arrangement or contract which by its terms provides that compensation thereunder should not be an offset under the



Plan, and (G) any other agreement or arrangement which the Board of Directors or the Committee determines should not be an offset under the Plan in whole or in part).

- 3.02 In the case of an Eligible Person described in Section 2.01 or 2.02, the calculation of the monthly benefit described in Section 3.01(a) above shall be based upon the same form of benefit, benefit commencement date, and other factors and assumptions actually used to calculate the monthly benefit described in Section 3.01(b)(i) above. If the benefit payable under any other defined benefit plan is aggregated with the benefit payable under the Grace Salaried Plan for purposes of applying the limitations of section 415 of the Code, then the benefit payable under any such defined benefit plan shall be aggregated with the benefit payable under the Grace Salaried Plan in the calculation of Section 3.01(a) and Section 3.01(b)(i) above.
- 3.03 In the case of an Eligible Person described in Section 2.01, 2.02, or 2.03, the amount deemed payable for purposes of the Plan under any defined benefit plan described in Section 3.01(b)(ii) shall be the amount that would be payable thereunder in respect of years of credited service taken into account under Section 3.01(a) in the form of benefit applicable to the Eligible Person under Section 3.01(a) commencing at the age that the benefit under Section 3.01(a) commences. The amount deemed payable under any defined contribution plan described in Section 3.01(b)(ii) shall be the amount that would be payable thereunder at the date that the benefit under Section 3.01(a) commences, multiplied by a fraction whose numerator is the number of years that the Eligible Person participated in such defined contribution plan and that are credited under Section 3.01 (a) concurrently, and whose denominator is the number of years that the Eligible Person participated in such defined

contribution plan, converted to the form of benefit applicable to the Eligible Person under Section 3.01(a) commencing at the age that the benefit under Section 3.01(a) commences using the UP-84 mortality table and an interest rate equal to the rate, as of the first day of the calendar quarter in which the benefit under Section 3.01(a) commences, used by the Pension Benefit Guaranty Corporation to value immediate annuities under trustee pension plans which terminate as of such date. The amount deemed payable under any deferred compensation agreement or arrangement described in Section 3.01(b)(ii) shall be the amount that would be payable thereunder at the date that the benefit under Section 3.01(a) commences, converted to the form of benefit applicable to the Eligible Person under Section 3.01(a) commencing at the age that the benefit under Section 3.01(a) commences using the actuarial assumptions set forth in section 5.06(a) and (b) of the Grace Salaried Plan if the amount payable under such agreement or arrangement is in the form of periodic payments or using the actuarial assumptions applicable in the case of a defined contribution plan if the amount payable under such agreement or arrangement is in the form of a lump sum.

- 3.04 In the case of an Eligible Person described in Section 2.01 or 2.02, the monthly benefit under the Plan shall be payable coincident with the payment of a monthly benefit under the Grace Salaried Plan, provided that no monthly benefit under the Plan shall be payable in respect of any period prior to the Effective Date of the Plan.
- 3.05 In the case of an Eligible Person described in Section 2.01 or 2.02, such Eligible Person's joint annuitant, beneficiary, or surviving spouse referred to in section 7.02 of the Grace Salaried Plan shall become entitled to benefits as provided under Section 3 if such joint annuitant, beneficiary, or surviving

spouse shall become entitled to benefits (in such capacity) under the Grace Salaried Plan. Notwithstanding any provision of the Plan, in the event that an Eligible Person's joint annuitant, beneficiary, or surviving spouse referred to above shall become entitled to benefits (in such capacity) under the Grace Salaried Plan, and the provisions of the Grace Salaried Plan do not preclude such joint annuitant, beneficiary, or surviving spouse from receiving all or part of the benefit provided thereunder for such person, then the Grace Salaried Plan shall pay such benefit to the extent permitted under the Grace Salaried Plan (and no amount duplicating such benefit shall be payable under the Plan).

- 3.06 In the case of an Eligible Person described in Section 2.01 or 2.02, in the event that such an Eligible Person (or his joint annuitant, beneficiary, or surviving spouse referred to in section 7.02 of the Grace Salaried Plan) ceases to receive benefits under the Grace Salaried Plan for any reason, he (or she) shall cease to be eligible to receive benefits under the Plan.
- 3.07 In the case of an Eligible Person described in Section 2.03, the monthly benefit under the Plan shall be based upon the form of benefit, benefit commencement date, and other factors and assumptions which would have been applicable to him under the Grace Salaried Plan if he were a participant in the Grace Salaried Plan (as defined in section 1.24 of the Grace Salaried Plan).
- 3.08 In the case of an Eligible Person described in Section 2.03, the monthly benefit under the Plan shall be payable coincident with the payment of a monthly benefit which would have been made under the Grace Salaried Plan

if he were a participant in the Grace Salaried Plan (as defined in section 1.24 of the Grace Salaried Plan).

- 3.09 In the case of an Eligible Person described in Section 2.03, such Eligible Person's joint annuitant, beneficiary, or surviving spouse referred to in section 7.02 of the Grace Salaried Plan shall become entitled to benefits as provided under Section 3 if such joint annuitant, beneficiary, or surviving spouse would have become entitled to benefits (in such capacity) under the Grace Salaried Plan if such Eligible Person had been a participant in the Grace Salaried Plan (as defined in section 1.24 of the Grace Salaried Plan).
- 3.10 In the case of an Eligible Person described in Section 2.03, in the event that such an Eligible Person (or his joint annuitant, beneficiary, or surviving spouse referred to in section 7.02 of the Grace Salaried Plan) would cease to receive benefits under the Grace Salaried Plan if he were a participant in the Grace Salaried Plan (as defined in section 1.24 of the Grace Salaried Plan), he (or she) shall cease to be eligible to receive benefits under the Plan.
- 3.11 The monthly benefits described in Sections 3.01(a) and 3.01(b)(i) are payable in the form of a straight life annuity commencing as of or after the first day of the month after an Eligible Person attains age 65 (except to the extent that a different form of benefit, or benefit commencement date, or both, is applicable, or would be applicable, to the Eligible Person under the Grace Salaried Plan).
- 3.12 The benefits payable under the Plan shall be paid by the Company or a subsidiary of the Company, as the case may be, out of its general assets and shall not be funded in any manner.

3.13 In the event that an Eligible Person who has terminated service with the Company and its Affiliates elects to defer the commencement of his benefits under the Grace Salaried Plan, he may apply to the Committee for a deferral of his benefits under the Plan in order to prevent constructive receipt of such benefits, provided that the Committee shall in its sole discretion decide whether to grant such application. The grant or denial of any such application shall not alter or limit the provisions of Sections 3.04 and 3.08 of the Plan.

3.14 Notwithstanding any other provision of the Plan, in the event that the service of a "participant" in the Grace Salaried Plan (or an employee described in section 2.01(2) of the Grace Salaried Plan who has not yet completed a "year of service" under the Grace Salaried Plan) is terminated at Company request on account of layoff during the period from October 31, 1986 to January 31, 1987 (or up to April 30, 1987 in case of business necessity), and, as of the date of his Termination of Service, such participant (or such employee) (i) has attained age 50, (ii) earns a base salary of \$75,000 or more, and (iii) is employed on the corporate staff at the main office of W. R. Grace & Co., each such participant or employee shall receive the following monthly benefits, commencing as of the date that his benefits under the Grace Salaried Plan commence (or would commence, if no such benefit is payable, or if section 5.14 of the Grace Salaried Plan applied to him),

(A) a benefit determined with respect to the participant (or employee) under section 5.02(1)(a) of the Grace Salaried Plan based on five years of "credited service" under the Grace Salaried Plan (or the period until his attainment of age 70, if less) payable in the form applicable to such participant or employee in accordance with the terms of the Grace Salaried Plan (without reduction for early commencement);

(B) in the case of such a participant in the Grace Salaried Plan who has attained age 50 (but not age 55) and has less than 10 years of "vesting service" under the Grace Salaried Plan, a benefit equal to the benefit accrued by such participant under section 5.02 of the Grace Salaried Plan which was forfeited by him upon termination of service payable in the form which would have been applicable to such participant in accordance with the terms of the Grace Salaried Plan (without reduction for early commencement); and

(C) a benefit equal to the amount, if any, by which the benefit payable to such participant under the Grace Salaried Plan (without reduction for early commencement) exceeds the benefit actually payable to such participant under the Grace Salaried Plan.

#### Section 4

##### Administration

- 4.01 The Plan shall be administered by the Committee (or its designee) in accordance with its terms and purposes. The Committee (or its designee) shall determine the amount and manner of payment of the benefits under the Plan.
- 4.02 The decisions made and the actions taken by the Committee (and its designee) in the administration of the Plan shall be final and conclusive on all persons, and the Committee, its members, and its designees shall not be subject to liability with respect to the Plan.
- 4.03 The Committee shall have the sole responsibility for the administration of the Plan and shall have the exclusive right to interpret the provisions of the Plan

and to determine any question arising thereunder or in connection with the administration of the Plan, including the remedying of any omissions, inconsistency, or ambiguity, and its decision or action in respect thereof shall be conclusive and binding on all persons.

#### Section 5

##### Amendment and Termination

5.01 The Board of Directors may amend or terminate the Plan with respect to future periods at any time for whatever reason it may deem appropriate. In the event of termination of the Plan, no person shall be entitled to accrue additional benefits under the Plan with respect to any period after the effective date of termination determined by the Board of Directors; provided, however, that any benefits under the Plan accrued prior to the effective date of the termination determined by the Board of Directors shall not be reduced on account of such termination. Notwithstanding the foregoing, the provisions of Section 2.04 shall continue to be applicable to an Eligible Person, unless the Board of Directors elects to waive such provisions in order to vest all Eligible Persons in any such benefits provided under the Plan even if such an Eligible Person terminates service with the Company and its Affiliates prior to the date he attains age 55 or, effective January 1, 1988, prior to the date he completes at least ten (10) years of vesting service (effective January 1, 1989, prior to the date he completes at least five (5) years of vesting service) (as defined in Section 1.38 of the Grace Salaried Plan).

## Section 6

## Miscellaneous

- 6.01 Nothing contained in the Plan shall be construed as a contract of employment between the Company and an Eligible Person, or as a right of any Eligible Person to continue in the employ of the Company or as a limitation of the right of the Company to discharge any Eligible Person, with or without cause.
- 6.02 The benefits payable under the Plan may not be assigned or alienated.
- 6.03 The Plan shall be governed, to the extent provided thereunder, by the Employee Retirement Income Security Act of 1974 and to the extent not preempted, by the laws of the State of New York.



W. R. GRACE & CO.  
EXECUTIVE SALARY PROTECTION PLAN  
AS AMENDED  
THROUGH  
SEPTEMBER 28, 1996

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AS ADOPTED AND CONTINUED BY  
W. R. GRACE & CO.  
A DELAWARE CORPORATION,  
EFFECTIVE SEPTEMBER 28, 1996

W. R. GRACE & CO.  
EXECUTIVE SALARY PROTECTION PLAN

INTRODUCTION

Effective December 2, 1976, W. R. Grace & Co., a Connecticut corporation ("Grace Connecticut"), adopted the W. R. Grace & Co. Executive Salary Protection Plan (the "Plan") for the purpose of providing salary continuation benefits in the event of the death or disability of an Eligible Executive (as described in the Plan) of Grace Connecticut or its subsidiaries.

As a result of a corporate reorganization whereby Grace Connecticut became a subsidiary of W. R. Grace & Co., a New York corporation ("Grace New York") (and was renamed "W. R. Grace & Co.-Conn."), Grace Connecticut amended the Plan, effective May 25, 1988, and Grace New York adopted and assumed the sponsorship of the Plan, as amended, as of such date, for the benefit of all persons who, on the immediately preceding date, were Eligible Executives under the Plan (as maintained by Grace Connecticut) and all other employees of Grace New York or its subsidiaries who on or after May 25, 1988, become Eligible Executives under the terms of the Plan.

As a result of a transaction occurring in September 1996, Grace Connecticut became a subsidiary of W. R. Grace & Co., a Delaware corporation ("Grace Delaware"). Effective September 28, 1996, Grace Delaware adopted and assumed the sponsorship of the Plan and amended the Plan as set forth herein.

W. R. GRACE & CO.  
EXECUTIVE SALARY PROTECTION PLAN

Section 1. Purpose of the Plan

To induce the employment or continued employment of Key Employees and to enable the Company to compete with other corporations offering benefits in obtaining and retaining the services of competent executives, in order that the interests of the Company may be advanced.

Section 2. Definitions

Unless otherwise required by the context, the following terms when used in this Plan shall have the meanings set forth in this section.

(a) "Board of Directors": The Board of Directors of the Company.

(b) "Committee": The Committee designated to administer the ESP Plan pursuant to the provision of Section 3.

(c) "Company": W. R. Grace & Co., a Delaware corporation. After May 25, 1988 and prior to September 28, 1996, the term "Company" meant W. R. Grace & Co., a New York corporation. Prior to May 25, 1988, the term "Company" meant W. R. Grace & Co., a Connecticut corporation, which is referred to herein as "Grace Connecticut".

(d) "Eligible Executive": A Key Employee under the age of 70 who is eligible to participate in the ESP Plan in accordance with standards established by the Committee pursuant to Section 4(a).

(e) "ESP Agreement": An Agreement entered into between the Company and an Eligible Executive pursuant to the provision of Section 4(b), providing for the continuance of the Eligible Executive's Recognized Compensation in the event of death or disability (as determined in accordance with Section 4(b)).

(f) "ESP Plan" or "Plan": The Executive Salary Protection Plan of the Company herein set forth as the same may from time to time be amended.

(g) "Key Employee": An employee of the Company or of a Subsidiary, including an officer or director who is an employee, who in the opinion of the Committee can contribute significantly to the growth and successful operations of the Company or a Subsidiary.

(h) "Officers": The chairman, vice chairmen, president, secretary, treasurer and all executive vice presidents, senior vice presidents, and vice presidents of the Company.

(i) "Recognized Compensation": The base monthly salary of the Eligible Executive as of the time of death or disability (as determined in accordance with Section 4(b)), or at such other time as shall be specified by the Committee; provided that the Committee may specify a fixed amount which may be higher or lower than the Eligible Executive's base monthly salary, and provided further that Recognized Compensation shall not exceed the highest base salary earned by the Eligible Executive during the five years preceding his death or disability (as determined in accordance with Section 4(b)) in any event.

(j) "Subsidiary": A corporation or other form of business association of which shares (or other ownership interests) having 50% or more of the voting power are owned or controlled, directly or indirectly, by the Company.

### Section 3. Administration

(a) The ESP Plan shall be administered by the Compensation, Employee Benefits and Stock Incentive Committee of the Board of Directors; provided that such Committee shall consist of no less than five (5) directors of the Company, and provided further, that no member of the Committee shall be eligible to participate in the Plan while serving on the Committee.

(b) The Committee may establish such rules and regulations, not inconsistent with the provisions of the ESP Plan, as it deems necessary to determine eligibility to participate in the Plan and for the proper administration of the Plan, and may amend or revoke any rule or regulation so established. The Committee may make such determinations and interpretations under or in connection with the Plan as it deems necessary or advisable. All such rules, regulations, determinations and interpretations, subject to the provisions of Section 3.1 of the By-Laws of the Company, shall be binding and conclusive upon the Company, its Subsidiaries, its shareholders and all employees, and upon their respective legal representatives, beneficiaries, successors and assigns and upon all other persons claiming under or through any of them.

(c) Any action required or permitted to be taken by the Committee under this Plan may be taken in accordance with Article III of the By-Laws of the Company even though, because of a vacancy or vacancies as a result of resignations or otherwise, the total number of directors who are then members of the Committee shall be less than five.

(d) Members of the Board of Directors and members of the Committee acting under the ESP Plan shall be fully protected in relying in good faith upon the advice of counsel and shall incur no liability except for gross negligence or willful misconduct in the performance of their duties.

## Section 4. Executive Salary Protection Agreements

(a) Officers, and such other Key Employees as the Committee shall from time to time select, shall be eligible to participate in the ESP Plan. The Committee may require participants in the Plan to meet such standards of health as the Committee may from time to time establish, and, for this purpose, the Committee may require the employee to furnish information as to his physical condition and medical history and to submit to one or more physical examinations.

(b) Upon a Key Employee's qualification as an Eligible Executive, the Company may enter into an agreement with such employee providing for the continued payment of his Recognized Compensation in the event he should die or become disabled before reaching age 70 and while an active employee of the Company or a Subsidiary. An Eligible Executive shall be determined to be disabled for purposes of the ESP Plan if and when he is determined to be disabled pursuant to the W. R. Grace & Co. Long Term Disability Income Plan.

(i) The agreement shall provide for the continuation, in the event of such employee's death (except as otherwise provided in subparagraph (iii) of this paragraph (b)), of his Recognized Compensation for such periods as the Committee may determine, provided that the amounts and the periods do not exceed the following:

- (A) 100% of his Recognized Compensation for the first twelve (12) months following death;
- (B) 50% of his Recognized Compensation for the next one hundred eight (108) months; provided that, in the event the employee dies at age 56 or thereafter, the payments referred to in this clause (B) shall not be continued for more than the following periods:

Age at Death -----	Maximum Number of Monthly Payments -----
56	96
57	84
58	72
59	60
60	54
61	48
62	48
63	48
64	48
65	42

66	36
67	30
68	24
69	18

(ii) The agreement shall also provide for the continuation, in the event that an Eligible Executive shall become disabled, of his Recognized Compensation for such periods as the Committee may determine, provided that the amounts and the periods do not exceed the following:

- (A) 100% of his Recognized Compensation for the first twelve (12) months after he has become disabled;
- (B) 60% of his Recognized Compensation until he attains age 65, provided that in the event he becomes disabled at age 60 or thereafter, the payments referred to in this clause (B) shall not be continued for more than the following periods:

Age at Date of Disability	Number of Months of Compensation After 12 Months at 100%
-----	-----
60	48
61	36
62	30
63	24
64	18
65	12
66	9
67	6
68	3
69	0

The agreement shall further provide that no Eligible Executive shall be entitled to any continuation of Recognized Compensation in accordance with this subparagraph (ii) unless he is a participant in the W. R. Grace & Co. Long Term Disability Income Plan, and that any amounts which may be payable to him in accordance with this subparagraph (ii) shall be reduced by (x) the amount of any benefits payable to him under the W. R. Grace & Co. Long Term Disability Income Plan and under any other disability payment arrangement between him and the Company or a Subsidiary, and any social security benefits payable to him, for any reason, or to any members of his family by reason of his disability, and (y) from and after the date he reaches age 62, any retirement benefits to which he may be entitled under any retirement plan of the Company or a Subsidiary.

(iii) The agreement shall also provide for the continuation, in the event of an Eligible Executive's death while he is receiving payments provided for in subparagraph (ii) of this paragraph (b), of his Recognized Compensation for such periods as the Committee may determine, provided that the amounts and the periods do not exceed the amounts and periods specified in clauses (A) and (B) of subparagraph (i) of this paragraph (b).

(c) The payments provided for in an ESP Agreement (other than payments provided for in accordance with subparagraph (ii) of paragraph (b) of this Section 4) shall be made to the beneficiary or beneficiaries (which may include one or more trusts or other entities) of the employee designated by him in accordance with the provisions of the ESP Agreement, or, if no such designation was effectively made, such payments shall be made to the employee's estate or other person or persons entitled to receive the same under the laws of testate or intestate succession, as the case may be.

(d) All rights of an employee under an ESP Agreement shall terminate (i) upon his reaching age 70, (ii) thirty (30) days following the date upon which he retires or otherwise (except by reason of death or disability) ceases to be an active employee of the Company or a Subsidiary, or (iii) thirty (30) days following the date upon which written notice is given to him that the Committee has determined that he is no longer a Key Employee, whichever is earlier. A leave of absence, if approved by the Committee, shall not be deemed a cessation of employment or a loss of Key Employee status within the meaning of this paragraph.

(e) Subject to compliance with the provisions of this Plan, each ESP Agreement shall contain such other terms and conditions and shall be in such form as the Committee may determine. Without limiting the foregoing, the ESP Agreement may, if so prescribed by the Committee, include a requirement that the employee contribute towards the cost of the benefits provided thereunder.

#### Section 5. Insurance

Upon the determination of the Committee, the Company may procure one or more life insurance policies, including group policies, on the lives of Eligible Executives covered by the ESP Plan or may by other appropriate means provide for the payment of all or part of its obligations under the ESP Plan. All rights and incidents of ownership in any such insurance policies or in any other assets of the Company shall belong to the Company (or, with respect to any such insurance policies procured by Grace Connecticut prior to May 25, 1988, to Grace Connecticut); and no employee (individually or as a member of the group), and no beneficiary or other person claiming under or through him, shall have any right, title or interest in or to any such insurance policies or assets.

## Section 6. General Provisions

(a) Nothing in the ESP Plan nor in any ESP Agreement or instrument executed pursuant hereto shall confer upon any employee any right to continue in the employ of the Company or a Subsidiary, or shall affect the right of the Company or of a Subsidiary to terminate the employment of any employee with or without cause.

(b) No ESP Agreement shall become effective unless and until all legal requirements applicable thereto have, in the opinion of counsel to the Company, been complied with.

(c) The Company or a Subsidiary may make such provisions as it may deem appropriate for the withholding of any taxes which the Company or a Subsidiary determines it is required to withhold in connection with any ESP Agreement, or any contribution or payment thereunder.

(d) Nothing in the ESP Plan is intended to be a substitute for, or shall preclude or limit the establishment or continuation of, any other plan, practice or arrangement for the payment of compensation or fringe benefits to employees generally, or to any class or group of employees, which the Company or any Subsidiary now has or may hereafter lawfully put into effect, including, without limitation, any retirement, pension, group insurance, stock purchase, stock bonus or stock option plan.

(e) The ESP Plan may be amended or terminated by the Board of Directors at any time provided, however, that no such amendment or termination shall adversely affect the rights of an employee under an ESP Agreement unless thirty (30) days' prior written notice thereof is given to the employee, and, provided further, that no such amendment or termination shall adversely affect the rights of a deceased employee under an ESP Agreement except as otherwise provided therein.



W. R. GRACE & CO.  
RETIREMENT PLAN FOR OUTSIDE DIRECTORS  
AS AMENDED  
THROUGH  
SEPTEMBER 28, 1996

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AS ADOPTED AND CONTINUED BY  
W. R. GRACE & CO.,  
A DELAWARE CORPORATION,  
EFFECTIVE SEPTEMBER 28, 1996

## W. R. GRACE &amp; CO. RETIREMENT PLAN FOR OUTSIDE DIRECTORS

## Introduction

W. R. Grace & Co., a Connecticut corporation ("Grace Connecticut"), originally adopted the W. R. Grace & Co. Retirement Plan for Outside Directors (the "Plan"), effective July 1, 1985. The Plan constitutes an unfunded deferred compensation arrangement for the Eligible Persons described in the Plan.

As a result of a corporate reorganization whereby Grace Connecticut became a subsidiary of W. R. Grace & Co., a New York corporation ("Grace New York") (and was renamed "W. R. Grace & Co.-Conn."), Grace Connecticut amended the Plan, effective May 25, 1988, and Grace New York adopted and assumed the sponsorship of the Plan, as amended, as of such date, for the benefit of all Eligible Persons and Outside Directors described in the Plan who, on the immediately preceding date, were participants in the Plan (as maintained by Grace Connecticut) and all Outside Directors of Grace New York who on or after May 25, 1988 become Eligible Persons under the terms of the Plan.

Grace New York further amended the Plan effective as of January 1, 1992.

As a result of a transaction occurring in September 1996, Grace Connecticut became a subsidiary of W. R. Grace & Co., a Delaware corporation ("Grace Delaware"). Effective September 28, 1996, Grace Delaware adopted and assumed the sponsorship of the Plan and amended the Plan as set forth herein.

## Section 1

## Definitions

When used herein, the words and phrases defined hereinafter shall have the following meanings unless a different meaning is clearly required by the context of the Plan.

1.01 Board of Directors:

The Board of Directors of the Company.

1.02 Committee:

The Compensation, Employee Benefits and Stock Incentive Committee of the Board of Directors.

1.03 Company:

W. R. Grace & Co., a Delaware corporation. After May 25, 1988 and prior to September 28, 1996, the term "Company" meant W. R. Grace & Co., a New York corporation. Prior to May 25, 1988, the term "Company" meant W. R. Grace & Co., a Connecticut corporation.

1.04 Director Emeritus:

A former Outside Director designated as such by the Board of Directors.

## 1.05 Effective Date:

July 1, 1985.

## 1.06 Eligible Person:

A person who is described in Section 2 as eligible to receive benefits under the Plan.

## 1.07 Outside Director:

A member of the Board of Directors who is neither an employee nor an officer of the Company or of any subsidiary or affiliate of the Company.

## 1.08 Plan:

W. R. Grace & Co. Retirement Plan for Outside Directors.

## 1.09 Retirement Date:

With respect to any Eligible Person on or after the Effective Date, the later of the following dates:

- (i) the date of his attainment of age 65; or
- (ii) the date of his termination of service as an Outside Director, which shall not be later than the annual meeting date of the Board of Directors coincident with or next following

the date of his attainment of age 72, unless otherwise permitted by the Board of Directors.

1.10 Year of Board Service:

Each twelve (12)-month period during which a person serves as an Outside Director (other than as a Director Emeritus), regardless of the number of Board of Directors meetings attended by such person in any such period. A Year of Board Service shall commence on the date on which an Outside Director is appointed or elected to the Board of Directors and shall thereafter commence on each successive anniversary of such date. For purposes of this Section 1.10, each such twelve (12)-month period shall hereinafter be referred to as the "computation period." In the event that an Outside Director terminates his service on the Board of Directors and subsequently resumes such service pursuant to Section 2.03 or Section 3.03 after the expiration of the computation period in which his termination of service occurred, then the computation period for purposes of determining his Years of Board Service subsequent to such termination shall commence on the date on which he is re-appointed or re-elected to the Board of Directors and shall thereafter commence on each successive anniversary of such date.

Notwithstanding the foregoing, an Outside Director whose Years of Board Service as of his termination of service includes a period of service which is

less than twelve (12) months in duration, shall receive credit for a full Year of Board Service in respect of such period.

- 1.11 Masculine pronouns used herein shall refer to men or women or both and nouns and pronouns when stated in the singular shall include the plural and when stated in the plural shall include the singular, wherever appropriate.
- 1.12 Any reference in the Plan to a "Section" shall refer to a Section of the Plan unless otherwise specified.

## Section 2

### Eligibility and Vesting

- 2.01 Any person who (i) is an Outside Director on the Effective Date, or becomes an Outside Director after such date and (ii) completes at least five (5) Years of Board Service, shall be eligible to receive benefits under the Plan in accordance with Section 3 of the Plan.
- 2.02 An Outside Director must terminate his service on the Board of Directors after the completion of at least five (5) Years of Board Service in order to be eligible to receive benefits, if any, under the Plan. For purposes of this Section 2.02 and Section 3, an Outside Director shall not be considered to have terminated his service on the Board of Directors (i) for any period during which he serves as a Director Emeritus, (ii) as a result of his

resignation as a director of W. R. Grace & Co., a Connecticut corporation, on May 25, 1988, if he is then a member of the Board of Directors, or (iii) as a result of his resignation as a director of W. R. Grace & Co., a New York corporation, in September 1996, if he is then a member of the Board of Directors.

- 2.03 In the event that an Outside Director shall terminate his service on the Board of Directors prior to satisfying the five (5) year service requirement set forth above and shall subsequently resume active service as an Outside Director, his prior Years of Board Service shall be aggregated on the date of such resumption of active service for purposes of Section 2.01 and Section 3 of the Plan.
- 2.04 Notwithstanding anything herein to the contrary, an Outside Director who becomes employed by the Company or any subsidiary or affiliate of the Company at any time shall thereupon be considered as permanently ineligible to receive any benefits under this Plan.

### Section 3

#### Benefits

- 3.01 Subject to the provisions of this Section 3, and effective with respect to retirements or other terminations of service on the Board of Directors that occur on or after January 1, 1992, the quarterly retirement benefit payable

to an Eligible Person under the Plan shall be equal to \$6,000.

3.02 Subject to the provisions of this Section 3, and effective with respect to retirements or other terminations of service on the Board of Directors that occur on or after January 1, 1992, the benefit described in Section 3.01 shall commence to be paid to an Eligible Person as of the first day of the calendar quarter coincident with or next following his Retirement Date (with actual payment to be made as soon as practicable thereafter), and shall continue to be paid in each successive calendar quarter until such Eligible Person has received the lesser of: (i) sixty (60) such quarterly payments; or (ii) a number of quarterly payments equal to the number of his Years of Board Service, multiplied by four (4). For purposes of this Section 3, the period during which an Eligible Person is entitled to receive the applicable number of quarterly benefit payments, as determined in accordance with the preceding sentence, shall hereinafter be referred to as the "term of payment."

3.03 Subject to the provisions of this Section 3, in the event that an Eligible Person who has terminated his service as an Outside Director shall become a Director Emeritus (i) prior to the date on which his benefits are to commence or (ii) while receiving benefits hereunder, the payment of his benefits shall be deferred or suspended, as the case may be, for the period during which he retains such status and shall commence or resume, as the case may be, as soon as practicable following his termination of service as  
a



Director Emeritus. Upon such termination of service, such Eligible Person's term of payment shall be reduced by the period corresponding to the quarterly benefits previously paid to him, if any.

3.04 Subject to the provisions of this Section 3, in the event that an Eligible Person who has terminated his service as an Outside Director shall again become an Outside Director (i) prior to the date on which his benefits are to commence, or (ii) while receiving benefits hereunder, the payment of his benefits shall be deferred or suspended, as the case may be, for the period during which he continues to serve as an Outside Director, and shall commence or resume, as the case may be, as soon as practicable following his subsequent termination of service as an Outside Director. Upon such termination of service, such Eligible Person's term of payment shall be based on the aggregate of his Years of Board Service completed before and after his initial termination of service, and reduced by the period corresponding to the quarterly benefits previously paid to him, if any.

3.05 The continuation of benefit payments to an Eligible Person subsequent to his Retirement Date is expressly contingent upon his continued availability for consultation on Board of Directors matters when so requested by any member of such Board. The Board of Directors hereby reserves the right to suspend or permanently discontinue the payment of benefits to an Eligible Person otherwise entitled to receive quarterly benefit payments hereunder for any period during which such Board, in its discretion,

determines that any such Eligible Person's failure to render consulting services to the Board is not reasonable or justifiable under the facts and circumstances then prevailing. Any quarterly benefits which are not paid to an Eligible Person under the foregoing provisions of this Section 3.05 shall be forfeited and such Eligible Person's term of payment shall be reduced by the period corresponding to the quarterly benefits so forfeited.

- 3.06 In the event that an Eligible Person receiving benefits hereunder (including an Eligible Person whose benefit payments have been suspended pursuant to Section 3.03 or 3.04) shall die prior to the expiration of the term of payment described in Section 3.02 and such Eligible Person is survived by his spouse, then benefit payments shall continue to be paid to such spouse for the remainder of the term of payment. In the event that an Eligible Person shall die prior to his receipt of any benefit payments hereunder (including an Eligible Person whose benefit payments have been deferred pursuant to Section 3.03 or 3.04) and such Eligible Person is survived by his spouse, then benefit payments shall commence and shall continue to be paid to such spouse for the term of payment under the same terms and conditions as such payments would have been made had such Eligible Person terminated his service other than by reason of death. No benefits shall be payable under this Plan in the event of the death of an Outside Director who is not an Eligible Person, or in the event of the death of an Outside Director who is an Eligible Person but who is not survived by a spouse.

- 3.07 Notwithstanding anything herein to the contrary, in the event that an Eligible Person has terminated his service on the Board of Directors as a result of a physical or mental disability which, in the opinion of the Board of Directors, has rendered such Eligible Person unable to perform his duties as an Outside Director, such Eligible Person shall commence receiving the quarterly benefit described in Section 3.01 as of the first day of the calendar quarter coincident with or next following his termination of service (with actual payment to be made as soon as practicable thereafter), and shall continue to receive such quarterly benefit payments until the earlier of: (i) the expiration of the term of payment; or (ii) the cessation of his disability and resumption of active service on the Board of Directors. In the event of such resumption of active service by such Eligible Person, upon his later termination of service, his term of payment shall be reduced by the period corresponding to quarterly benefits previously paid to him.
- 3.08 The benefits payable under the Plan shall be paid by the Company out of its general assets and shall not be funded in any manner.

#### Section 4

##### Administration

- 4.01 The Plan shall be administered by the Committee (or its designee) in accordance with its terms and purposes. The

Committee (or its designee) shall determine the amount and manner of payment of the benefits under the Plan.

4.02 The decisions made and the actions taken by the Committee (and its designee) in the administration of the Plan shall be final and conclusive on all persons, and the Committee, its members, and its designees shall not be subject to liability with respect to the Plan.

4.03 The Committee shall have the sole responsibility for the administration of the Plan and shall have the exclusive right to interpret the provisions of the Plan and to determine any question arising thereunder or in connection with the administration of the Plan, including the remedying of any omissions, inconsistency, or ambiguity, and its decision or action in respect thereof shall be conclusive and binding on all persons.

#### Section 5

##### Amendment and Termination

5.01 The Board of Directors may amend or terminate the Plan with respect to future periods at any time for whatever reason it may deem appropriate. In the event of termination of the Plan, no person shall be entitled to accrue additional benefits under the Plan with respect to any period after the effective date of termination determined by the Board of Directors; provided, however, that any benefits under the Plan accrued prior to the

effective date of the termination determined by the Board of Directors shall not be reduced on account of such termination. Notwithstanding the foregoing, the provisions of Section 2.01 shall continue to be applicable (and satisfaction of the requirement of at least five (5) Years of Board Service shall be determined as of such effective date of termination of the Plan), unless the Board of Directors elects to waive such provisions in order to vest all Outside Directors in any such benefits provided under the Plan even if any such Outside Director has not completed at least five (5) Years of Board Service as of the effective date of Plan termination.

#### Section 6

##### Miscellaneous

- 6.01 Nothing contained in the Plan shall be construed as conferring upon any Eligible Person the right to continue to serve as an Outside Director on the Board of Directors or as imposing a limitation of the right of the Company to terminate any Eligible Person's service on the Board of Directors at any time.
- 6.02 The Plan shall be governed by the laws of the State of New York.

[GRACE LETTERHEAD]

May 15, 1995

Mr. Larry Ellberger  
91 N. Ashby Avenue  
Livingston, NJ 07039

Dear Larry,

This letter confirms the terms of your employment with W. R. Grace & Co. (the "Company") as Senior Vice President, Strategic Planning and Development, which are subject to approval by the Company's Board of Directors (the "Board") and/or the Compensation, Employee Benefits and Stock Incentive Committee ("Compensation Committee") of the Board. As you know, I believe you will make a valuable contribution to the Company's strategic planning and corporate development efforts.

#### Responsibilities

Your employment with the Company will begin on May 15, 1995. Your title will be Senior Vice President, Strategic Planning and Development, and you will report to me. Your office will be located at the Company's Headquarters in Boca Raton, Florida. Your principal responsibilities will consist of coordinating the development of a corporate strategic plan, and leading the Company's efforts on major business development initiatives, including mergers, acquisitions, spinoffs and divestments of businesses, as well as focusing all related commercial development projects.

#### Term of Agreement

The term of this Agreement shall be for a period of three years, commencing on May 15, 1995, and ending on May 14, 1998 (your "Initial Employment Term"). After your Initial Employment Term expires, the severance pay provisions of this Agreement (described below under the heading "Severance Pay Commitments") will no longer be applicable to you and your continued employment with the Company shall be as an employee "at will." (Of course, the provisions regarding your special retirement arrangement, described below under the heading "Special Retirement Plan Arrangement," will continue to apply after your Initial Employment Term.)

## Compensation

1. Your base salary will be at the monthly rate of \$22,916.67, which is \$275,000.04 per annum.
2. You will be eligible to participate in the Company's Annual Incentive Compensation Program. Cash awards under this program are contingent upon individual performance, and will be determined by the financial results of the Company as a whole. As a Senior Vice President of the Company, you will be eligible for a targeted award in the range of 45% of your base salary; provided, however, your award for 1995 will not be less than \$125,000. All annual incentive compensation awards are subject to approval by the Compensation Committee and the Board, and will be contingent upon your remaining with the Company through the date of payment; provided, however, the payment for 1995 will be made in March 1996 (reduced, if applicable, on a prorata basis to exclude any duplicate payments that may be payable under your severance arrangement) in the event your employment is terminated by the Company without cause before the date of payment, including termination of employment without cause following a change in control of the Company.
3. Management will recommend that the Compensation Committee of the Board of Directors approve your participation in the Company's Long-Term Incentive Plan for its corporate executives covering 5,250 Performance Units for the 1995-1997 Performance Period, 3,250 performance units for the 1994-1996 Performance Period and 1,250 for the 1993-1995 Performance Period. Such recommended Units represent prorated Targeted Awards based on 6,000 Performance Units for each full three-year cycle. You will be eligible to be recommended for participation in future Performance Periods on a similar basis commensurate with the recommended Performance Unit awards for similarly situated executives.
4. Management will recommend you for a non-statutory stock option grant covering 24,000 shares of Grace Common Stock on May 16, 1995, all of which will be immediately exercisable consistent with companion stock option shares granted at a 4:1 ratio with respect to your Long-Term Incentive Plan Performance Unit Awards at a rate of 6,000 Units for a full three-year cycle. In addition, management will recommend that you be granted an additional stock option on May 16, 1995, covering 48,000 shares of Grace Common Stock that will vest in three equal 16,000 share installments on May 17, 1996, 1997, and 1998, respectively; provided, however, all such installments would vest immediately upon a termination of employment by the Company without cause including termination of employment without cause following a change in control of the Company.
5. Management will recommend that you be granted a one-time restricted stock award covering 1,500 shares of Grace common stock on May 16, 1995, with the provision that you would vest in such shares and the restrictions would lapse at

the expiration of your employment agreement on May 14, 1998, or upon the earlier termination of employment by the Company not for cause (including termination not for cause following a "change in control" of the Company), or upon your death or disability as defined under the Company Long-Term Disability Income Plan). You would be eligible to vote such shares during the period of restriction and receive applicable dividends on such shares.

6. Consistent with your election as an officer of the Company, the Board will be requested to authorize the Company to enter into an Executive Severance Agreement or a so-called "golden parachute" with you. The agreement would provide a severance arrangement in the event your employment terminates under certain conditions following a "change in control" of the Company. In general, this agreement would provide for a severance payment of 2.99 times average annual Form W-2 compensation from the Company for the five (5) calendar years preceding the change in control.

#### Severance Pay Commitments

If your employment is terminated by the Company, without cause, during your Initial Employment Term, you will be paid "Severance Payments" (as defined below) for a period of one year or for the remainder of your Initial Employment Term, if longer. For the purpose of this arrangement, Severance Payments means 145% of your base salary at the time your employment is terminated. Severance Payments will be made to you at the same times and in the same manner as salary continuation payments but would be payable, at your option, in a lump sum as soon as practical after your termination. Such payments would not be made, however, in the event severance payments otherwise become payable under your Executive Severance Agreement (i.e., "golden parachute" agreement).

#### Special Retirement Plan Arrangement

Management will recommend that the Board approve a special retirement arrangement to recognize your service with American Cyanamid in determining your total retirement benefit payable under the W. R. Grace & Co. Retirement Plan for Salaried Employees and the Supplemental Executive Retirement Plan formula (as described in items 2 and 3 below) as if such service had been continuous service with the Company (except that the first year of service with the Company would be excluded). The supplemental pension based on American Cyanamid service would be fully offset by any benefits payable to you from any American Cyanamid (or, as applicable, any American Home Products) pension plan and would be payable from the general assets of the Company -- it would not be pre-funded in any manner. This supplemental pension arrangement would apply only if your employment with the Company ceases after your Initial Employment Term, or if you are terminated during that Term without cause, including termination without cause following a "change in control" of the Company. (This arrangement will not apply if you voluntarily terminate your employment before your Initial Employment Term expires, or if you are terminated for cause prior to the expiration of that Term.) For purposes of determining



any supplemental pension that may be payable to you if you voluntarily leave the Company after the expiration of your Initial Employment Term but prior to receiving sixty consecutive months of compensation from the Company, your final average compensation would utilize compensation paid to you by American Cyanamid and/or American Home Products, as applicable, to the extent necessary to complete 60 months of compensation.

#### Relocation Assistance

The Company will provide relocation assistance to you under the Headquarters Office Relocation Policy for current employees (copy attached). In addition, the Company will provide you with a mortgage interest rate differential allowance to be calculated by applying the percent differential between your old and new mortgages to the lower of the old or new mortgage balances and multiplying the resulting differential by a term of four (4) years. The total four year differential allowance will then be paid to you in three annual installments, i.e., in 1995, 1996, and 1997, respectively. Since home mortgage interest is tax deductible, these differential installment payments would not be "grossed up."

#### Other Benefit Programs

As a key executive of the Company, you also will be eligible to participate in the following benefit plans (subject to their respective provisions and as they may be amended from time to time):

1. The Grace Deferred Compensation Program, which provides that you may elect to defer a portion of your base salary (from a minimum of \$200 per month to a maximum of 25% of base salary) and all or a portion of your annual incentive compensation. Deferred amounts are credited with interest equal to the greater of (i) the prime rate plus two (2) percentage points, or (ii) 120% of the prime rate. The program also provides pre-retirement death (survivor) benefits in a multiple of the amount you elect to defer based on your age at the time the deferral commitment is made. Deferred commitments of base salary can be made annually or up to five (5) years in advance. The longer the commitment, the greater the death benefits coverage.
2. The W. R. Grace & Co. Retirement Plan for Salaried Employees ("Grace Salaried Retirement Plan"), which provides a pension at retirement equal to 1.50% of final average compensation (as defined by the Plan, but generally representing average compensation in the sixty (60) highest-pay months in your last 180 months of employment), less 1.25% of the primary Social Security benefit, multiplied by years of credited service. Your participation in this Plan is effective at the beginning of the month following one year of employment.

3. The Grace Supplemental Executive Retirement Plan ("SERP"), which pays retirement benefits that would otherwise be paid under the terms of the Grace Salaried Retirement Plan, but for certain exclusions imposed by tax law. For example, pension benefits related to base salary or incentive compensation awards that an executive elects to defer would be paid under the provisions of the SERP, since tax law does not allow payment from the Grace Salaried Retirement Plan. The SERP also pays any pension benefits that an executive accrues in excess of the Internal Revenue Code qualified plan payment limits. Participation and vesting in the SERP follow the same rules as the basic pension plan.
4. The W. R. Grace & Co. Salaried Employee Savings & Investment Plan, under which you (as of the beginning of the month following one (1) year of employment) may save a portion of your compensation up to a maximum permitted by law. With respect to the first 6% you contribute, the Company will match \$1 for each \$2 contributed by you. Your contributions are then invested in one or more of seven funds at your option. Grace's Savings and Investment Plan is a so-called 401(k) plan and, therefore, a portion of your contribution can, at your election, be treated as deferred income for tax purposes. Amounts of allowable savings are subject to certain Internal Revenue Code requirements, one of which presently limits annual before-tax savings amounts to \$9,240 for 1995. The Plan currently permits a 7% maximum savings rate for before-tax amounts. More detailed information will be provided to you shortly before you become eligible to participate.
5. The W. R. Grace & Co. Long-Term Disability Income Plan, for which you will become eligible on a voluntary and contributory basis on the first of the month following six (6) months of employment. The Plan provides for a monthly income of 60% of base monthly earnings (not in excess of \$7,000) after six (6) months of continuous total disability. The maximum monthly benefit (including primary social security and certain other benefit payment(s) is therefore \$4,200.
6. Executive Salary Protection Plan, management will recommend to the Compensation Committee that, beginning with the first date of your employment with the Company, it approve your participation in the Plan, under which, in the event of your death while employed and prior to age 70, the Company will continue to pay a portion of your base salary to your beneficiary(ies) for a period of time depending upon your age at death. This Plan also provides certain disability benefits which are supplemental to the Company's Long-Term Disability Plan.
7. The W. R. Grace & Co. Voluntary Group Accident Insurance Plan, for which you will become eligible thirty (30) days after the first day of employment. Participation is voluntary. Under the terms of the Plan, you may elect coverage of \$10,000 through \$500,000. Coverage is available on an individual basis or under a family plan.

8. The W. R. Grace & Co. Business Travel Accident Insurance Plan, which is effective on the first date of your employment with the Company. The Plan provides protection against death, permanent total disability or dismemberment. The principal sum is five (5) times your base salary. In your case, as in the case of other executives, the usual requirement that you be away from home or normal place of work and that you be on Company business do not apply in order to be eligible for coverage.
9. The W. R. Grace & Co. Split-Dollar Life Insurance Program, under which you (on or after August 1, 1995) will be considered for life insurance coverage equal to 3 1/2 times your annual base salary rate. This Plan provides for split premiums between you and the Company with life insurance coverage continuation into retirement and significant accumulation of cash value at age 65. Prior to the date you begin to participate in the Program, you will participate in the Company's basic group term life insurance plan under which coverage is 2 times your annual base salary. Supplemental life insurance, which is voluntary, is available at moderate rates based on your age, up to additional 3 times your base salary. Dependent life insurance is also available to your spouse and unmarried dependent children to age 19 (or to age 25 if the child regularly attends school full-time).
10. The W. R. Grace & Co. Group Medical Plan is effective on the first day of employment and offers protection to you, your spouse and unmarried children to age 19 (age 23 if the child regularly attends school full-time). The Headquarters network medical plan utilizes an established network of doctors and hospitals in the south Florida area. Employees in the network have a choice of two options: a Point-of-Service (POS) option allows them the choice of a network provider or the freedom to go outside the network for medical care; an HMO-like option locks them into using network providers. The network has been assembled by Metropolitan Life and includes Board Certified or Board Eligible physicians and quality area hospitals. Employees and their family get to choose a primary care physician who oversees all of their medical needs. The Plan includes flexible spending accounts up to \$5,000 per year. Your cost for participation in 1995 and thereafter will be 40% of the monthly premium.

An employee hired after January 1, 1993, qualifies for post-retirement medical coverage if he or she has at least 10 years of service at retirement (age 55 or later). Qualification for this coverage gives the retiree access to medical coverage in the Grace plan, but the retiree is expected to pay 100% of the premium cost of this coverage. Premium cost is determined annually based on experience. Actual claims dollars are paid by the Company.
11. The W. R. Grace & Co. Dental Assistance Plan, which is paid for by the Company and which pays certain benefits in full and other benefits according to a fixed schedule. Your participation will begin the first day of your employment.

12. Executive Registry Program, under which you would have access to a network of medical services offered by leading hospitals and medical centers in large cities throughout the U.S. and abroad. These hospitals and medical centers serve as sources where members can obtain high-quality emergency medical care while traveling or temporarily living away from home either in the U.S. or abroad.

Larry, this letter briefly outlines some of the provisions of the Company benefit plans and programs, as they apply to you. It does not provide a full description of those rules. Please refer to the Summary Plan Descriptions and other written documents that describe those benefit plans and programs for further details.

#### Financial Counseling

As an officer of the Company, you will be eligible to participate in the Company's Financial Counseling Program. This arrangement provides you with financial and estate planning assistance and income tax preparation services. The Company will pay up to \$4,000 per year for reasonable supportable expenses, except that the maximum amount for the first year of your participation (1995) will be \$9,000.

#### Company Car

The Company will arrange for you to lease at the Company's expense an automobile for use on Company business and for your personal use. The terms of the coverage shall be the same as those provided for other senior vice presidents of the Company including a purchase price cap of \$30,000.

#### Vacation

As an officer of Grace, you will be entitled to four weeks paid vacation per calendar year.

#### Miscellaneous

This Agreement may be amended, superseded or canceled only by a written instrument specifically stating that it amends, supersedes or cancels this Agreement, executed by you and the Company.

Please acknowledge your acceptance of the terms of this letter by signing where indicated below, and returning one fully executed copy to me. An additional copy of this letter is also enclosed for your records.

If you have any questions regarding any expectations of your new position, please call me; or if you have any questions regarding the compensation and Company benefits plans, please feel free to call Bill Monroe, Vice President, Global Compensation, Benefits and Administration, at (407) 362-2221.

Larry, we are very excited about your joining the Grace organization in Boca Raton, and I look forward to continuing our productive and mutually rewarding relationship.

Sincerely,

/s/ Albert J. Costello

Albert J. Costello  
President and Chief Executive Officer

Attachment

cc: W. L. Monroe

AGREED AND ACCEPTED:

/s/ Larry Ellberger

- - - - -  
Larry Ellberger

[GRACE LETTERHEAD]

June 6, 1995

Mr. Larry Ellberger  
W. R. Grace & Co.  
One Town Center Road  
Boca Raton, FL 33486

Dear Larry:

I am pleased to inform you that the Compensation, Employee Benefits and Stock Incentive Committee (the "Committee") of the Board of Directors of W. R. Grace & Co. (herein sometimes called the "Company"), at its meeting on May 16, 1995, granted you an award of 1,500 shares of the Company's Common Stock ("Common Stock"), par value \$1.00 per share, under the W. R. Grace & Co. 1994 Stock Incentive Plan (the "Plan"). This letter sets forth the terms on which such shares (herein sometimes called the "Restricted Shares") are being issued to you.

1. The Restricted Shares are issued to you subject to the following restrictions:

(a) As long as you are employed by the Company or a Subsidiary (as defined in paragraph 10 below), you will not, except as otherwise specifically required or permitted by this Agreement, sell, exchange, transfer, pledge, hypothecate or otherwise dispose of any of the Restricted Shares, or any interest therein, with respect to which the restrictions on transfer herein imposed have not lapsed in accordance with paragraph 5 ("Non-vested Shares").

(b) In any of the following events, you shall return all Non-vested Shares to the Company promptly upon the Company's written request:

THIS DOCUMENT CONSTITUTES PART OF A  
PROSPECTUS COVERING SECURITIES THAT  
HAVE BEEN REGISTERED UNDER THE  
SECURITIES ACT OF 1993.

(2)

(i) You shall at any time have disclosed to unauthorized persons trade secrets, confidential information or data relative to the business of the Company or Subsidiary.

(ii) You shall at any time have engaged in any activities, whether as owner, stockholder, partner, officer or employee of a business, or otherwise, that constitute competition with the Company or a Subsidiary, and you shall continue such activities at any time after the expiration of a period of thirty (30) days from the receipt by you of written notice from the Company to refrain from doing so; provided, however, that competition shall not include your ownership of less than 2% of any outstanding class of security listed on a national securities exchange or traded over-the-counter.

(iii) You shall at any time have engaged in misconduct  
(A) in the performance of your duties or  
(B) in other activities relating to the business of the Company or a Subsidiary.

(iv) You shall at any time have attempted to sell, exchange, transfer, pledge, hypothecate or otherwise dispose of any Non-vested Shares, or any interest herein, in violation of the terms of this Agreement.

(c) (i) The determination as to whether an event has occurred requiring the return of any Non-vested Shares to the Company in accordance with this paragraph 1 shall be made by the Committee in the reasonable exercise of its discretion, and such determination of the Committee with respect thereto shall in all respects be conclusive.

(ii) If you shall at any time be required to return any Non-vested Shares to the Company pursuant to this paragraph 1 or any other provision of this Agreement, you shall, from and after the effective date of such return, no longer have any rights as a stockholder with respect to the Non-vested Shares so required to be returned, or any interest therein, and, without limitation, you shall, commencing with the next following record date, no longer be entitled to receive dividends upon such Non-vested Shares and in the event that for any reason you shall have received such dividends upon such Non-Vested Shares, you shall repay an amount equal to such dividends to the Company.

(3)

2. Upon the issuance to you of the Restricted Shares, you shall for all purposes be a stockholder of record of the Company with respect to the Restricted Shares and shall have all rights of a holder of Common Stock with respect to such shares (including the right to vote such shares at any meeting of holders of Common Stock and the right to receive all dividends paid with respect to such shares), subject only to the restrictions imposed by paragraph 1 of this Agreement. To evidence such restrictions, until such restrictions shall have lapsed, the certificates for the Restricted Shares shall bear a legend, in form and substance satisfactory to the Company's counsel, to the effect that they were issued subject to, and may be sold or otherwise disposed of only in accordance with, the terms of this Agreement.

3. Under Section 83(b) of the Internal Revenue Code, you may, within 30 days from the effective date of grant of the Restricted Shares, make an election that would cause you to be taxed on an amount equal to the Fair Market Value (as defined in the Plan) of such shares on the effective date of grant; otherwise, in the absence of such an election, you will be taxed, at the times of the lapse of the restrictions on the Restricted Shares, on an amount equal to their Fair Market Value at the times of the lapse.

4. In the event that, as the result of a stock dividend, stock split, recapitalization, merger, consolidation, reorganization, or other similar event, you shall, as the owner of Restricted Shares, be entitled, under the provisions of Section 8 of the Plan or otherwise, to new or additional or different shares or securities, (a) such new or additional or different shares or securities shall be deemed "Restricted Shares," (b) all the provisions of this Agreement relating to restrictions and lapse of restrictions shall be applicable thereto, and (c) the certificates or other instruments evidencing such new or additional or different shares or securities shall bear the legend referred to in the third sentence of paragraph 2. The foregoing restrictions shall apply to any fractional shares resulting from any such event, or to any preemptive or other rights to purchase securities to which you, as a holder of Restricted Shares, may become entitled in connection with a public offering of Common Stock.

5. (a) The restrictions set forth in paragraph 1 above on the transfer of the Restricted Shares shall lapse at the expiration of your employment agreement on May 14, 1998, subject to all provisions of this Agreement then applicable.



(4)

(b) If your employment with the Company or a Subsidiary shall, while you hold any Non-vested Shares, terminate for any reason other than death, disability, or termination by the Company or a Subsidiary not for cause (including termination not for cause following a change in control of the Company) such Non-vested Shares shall be forfeited by you. If your employment with the Company or a Subsidiary shall, while you hold any Non-vested Shares, terminate by reason of death, disability, or termination by the Company or a Subsidiary not for cause (including termination not for cause following a change in control of the Company), the restrictions on transfer applicable to such Non-vested Shares shall lapse in their entirety as of the effective date of such termination of employment.

(c) If, as and when the restrictions lapse with respect to any Restricted Shares pursuant to this paragraph 5, there will be delivered to you, promptly upon your request, one or more certificates free of any legend for a like number of shares in exchange for the certificate or certificates for such Restricted Shares bearing the legend referred to in paragraph 2 of this Agreement, subject to your payment of any tax required to be withheld in connection with such lapse.

6. Except as otherwise expressly required or permitted by this Agreement, no right, benefit or interest in the Restricted Shares or under this Agreement shall be subject to anticipation, alienation, sale, assignment, encumbrance, charge, pledge or hypothecation.

7. (a) Nothing in paragraph 1 or elsewhere in this Agreement shall preclude a transfer to your legal representatives following your death or a distribution to the persons provided for in paragraph 7(b) (iii) or shall preclude you, upon not less than thirty (30) days' advance written notice to the Company, from transferring any Restricted Shares, or any interest therein,

(i) to one or more of your Immediate Family Members,

(ii) to a trust of which the beneficiary or beneficiaries of the corpus or of the income, or both, is either yourself or one or more of your Immediate Family Members, or both, or

(iii) to a corporation all of the stock of which is owned by you or one or more of your Immediate Family Members, or both.

For the purpose of this provision, an "Immediate Family Member" shall be deemed to be a spouse, child, stepchild, grandchild, parent, brother or sister or a child of a brother or sister of yours, whether of the whole or half blood, and whether or not the relationship arose by adoption.

(b) The term "Donee," as used in this Agreement, shall be deemed to mean

(i) the person, or collectively, all the persons (including a trust or corporation), to whom a transfer or distribution permitted by paragraph 7(a) has been made by you,

(ii) your legal representatives following your death, and

(iii) the persons to whom Restricted Shares shall be distributed by your legal representatives as the persons to whom they believe to be entitled thereto under your will, or, in case of intestacy, under the laws relating to intestacy.

(c) In case of any transfer or distribution to a Donee,

(i) the Restricted Shares so transferred or distributed shall continue to be subject to all the restrictions and other provisions of this Agreement,

(ii) the certificates for the Restricted Shares so transferred or distributed shall bear the legend referred to in paragraph 2 of this Agreement, and

(iii) the Donee shall, with respect to the Restricted Shares so transferred or distributed, have all the powers and shall be required to comply with all the restrictions and other provisions of this Agreement requiring the taking, or refraining from taking, of action to the same extent as you were immediately prior to such transfer or distribution, except that the Donee need not comply with the provisions of clauses (i), (ii), and (iii) of

(6)

subparagraph (b) of paragraph 1 (which shall, however, continue to apply to your conduct).

8. The Company may take such steps as it believes necessary or desirable to obtain sufficient funds from you to pay all taxes, if any, required by law to be withheld in respect of the Restricted Shares, including, but not limited to, requiring payments to the Company by you or on your behalf and/or taking deductions from amounts payable by the Company to you or on your behalf.

9. Nothing in this Agreement shall be construed to affect in any way the power of the Company to terminate your employment at any time for any reason, with or without cause.

10. As used in this Agreement, the term "Company or a Subsidiary" shall mean the Company, its divisions and units, and all corporations or other forms of business association of which shares (or other ownership interests) having 50% or more of the voting power regularly entitled to vote for directors (or equivalent management) or regularly entitled to receive 50% or more of the dividends (or their equivalents) paid on the Common Stock (or its equivalent) are owned or controlled, directly or indirectly, by the Company.

11. "Change in Control of the Company" means and shall be deemed to have occurred if (i) the Company determines that any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, has become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 20% of or more of the outstanding common stock of the Company; or (ii) individuals who are Continuing Directors cease to constitute a majority of any class of directors of the Board.

12. Each of the parties hereto agrees to execute and deliver all consents and other instruments and to take all other actions deemed necessary or desirable by counsel for the Company to carry out each term of this Agreement. Without limiting the

(7)

generality of the foregoing, you shall, if and when requested by the Company, deposit any or all certificates for the Restricted Shares, together with a stock power or other appropriate instrument of transfer executed in blank, with a bank and under a deposit agreement approved by the Company and, following such deposit, certificates for the Restricted Shares shall no longer carry the legend referred to in paragraph 2 of this Agreement, and new certificates shall be issued in place thereof, in which event, each of the parties agrees to give such instructions and to deliver or refrain from delivering such notices to the bank acting under such deposit agreement as may be necessary to carry out each term of this Agreement, to the end that all property deposited under such deposit agreement shall be paid, transferred, released or otherwise disposed of in accordance with the terms of this Agreement and each obligation thereunder. Each party recognizes that the other party has no adequate remedy at law for breach of this Agreement and recognizes, consents and agrees that the other party shall be entitled to an injunction or decree of specific performance directed to the other party and to the bank acting under any such deposit agreement requiring that the provisions of this Agreement be carried out.

13. (a) Any notice to the Company under or pursuant to this Agreement shall be deemed to have been given if and when delivered in person to the Secretary of the Company or if and when mailed by certified or registered mail to the Secretary of the Company at the Company's offices at One Town Center Road, Boca Raton, Florida, 33486, or such other address as the Company may from time to time designate in writing by notice to you given pursuant to paragraph 13(b) hereof.

(b) Any notice to you under or pursuant to this Agreement shall be deemed to have been given if and when delivered to you in person or if and when mailed by certified or registered mail to you at your address hereinabove given or such other address as you may from time to time designate in writing by notice to the Company given pursuant to paragraph 13(a) above.

14. Notwithstanding any remedy provided for in this Agreement, nothing in this Agreement shall preclude the Company from taking any other action or enforcing any other remedy available to the Company.

(8)

15. This Agreement has been executed pursuant to the Plan and is subject in all respects to the Plan, and the Plan is hereby incorporated herein by reference.

16. This Agreement shall be binding upon and inure to the benefit of
- (a) the Company, its successors and assigns, and
  - (b) you, and to the extent applicable, each Donee.

17. This Agreement has been executed, and it and the Restricted Shares have been or are to be delivered, in accordance with the laws of the State of New York, the state in which the Company is incorporated, and the validity, interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of New York applicable to contracts made and performed in such State.

Sincerely,  
W. R. GRACE & CO.

/s/ Donald H. Kohnken  
Executive Vice President

Executed and agreed to as of:

/s/ Larry Ellberger  
-----  
Larry Ellberger

Date: 6/19/95  
-----

[GRACE LETTERHEAD]

August 26, 1996

Mr. Larry Ellberger  
W. R. Grace & Co.  
One Town Center Road  
Boca Raton, FL 33486

Dear Larry:

The purpose of this letter is to amend your restricted stock award agreement with the Company, dated June 6, 1995. Specifically, Section 11 of such agreement is hereby amended to read in its entirety as follows:

"Change in Control of the Company" means and shall be deemed to have occurred if (i) the Company determines that any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, has become the "beneficial owner" (as defined in Rule 13d-3 under such Act), directly or indirectly, of 20% or more of the outstanding Common Stock of the Company; (ii) individuals who are "Continuing Directors" (as defined below) cease to constitute a majority of any class of the Board of Directors of the Company; (iii) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company (a "Corporate Transaction"), in each case, with respect to which the stockholders of the Company immediately prior to such Corporate Transaction do not, immediately after the Corporate Transaction, own more than 60% of the combined voting power of the corporation resulting from such Corporate Transaction; or (iv) the shareholders of the Company approve a complete liquidation or dissolution of the Company.

Notwithstanding any other provision hereof, the "NMC Disposition" (as defined below) shall not be deemed a "Change in Control of the Company" for purposes hereof. "Continuing Director" means any member of the Board who was such a member on the date hereof and any successor to such a Continuing Director who is approved as a nominee or elected to succeed a Continuing Director by a majority of Continuing Directors who are then members of the Board. "NMC Disposition" means a transaction or series of transactions whereby control of the business presently conducted by the Company's National Medical Care, Inc. subsidiary is separated from control of substantially all of the other businesses presently conducted by the Company and its affiliates (the "Non-NMC Businesses"), regardless of the structure of such transaction, and which may include (among other actions by the Company) a distribution by the Company, with respect to each share of its Common Stock, of one share of a newly formed corporation that directly or indirectly owns or controls the Non-NMC Businesses.

The foregoing definition is substantially identical to the definition set forth in your Executive Severance Agreement.

Except as expressly set forth herein, the restricted stock award agreement between you and the Company, dated June 6, 1995, remains in full force and effect.

Please confirm your agreement with the foregoing by signing a copy of this letter where indicated and returning it to me.

/s/ W. F. Monroe

Accepted and agreed to  
this 29th day of August, 1996

/s/ Larry Ellberger  
- -----  
Larry Ellberger

[GRACE LETTERHEAD]

December 10, 1996

Mr. Larry Ellberger  
W. R. Grace & Co.  
One Town Center Road  
Boca Raton, FL 33486

Dear Larry:

This letter amends the employment agreement, dated May 15, 1995 ("Employment Agreement"), and the restricted stock award agreement, dated June 6, 1995 ("Restricted Stock Agreement"), between you and W. R. Grace & Co., a New York corporation renamed Fresenius National Medical Care Holdings, Inc. ("Grace New York"), to reflect the transactions related to the September 1996 separation of National Medical Care, Inc. ("NMC"), a subsidiary of Grace New York, from Grace Holding, Inc., a Delaware corporation renamed W. R. Grace & Co. ("Grace Delaware").

As you know, in conjunction with the separation of NMC from Grace Delaware, the contracts and obligations of Grace New York that related to the non-NMC businesses of Grace New York were assigned to, and assumed by, Grace Delaware. This letter confirms that the Employment Agreement and the Restricted Stock Agreement were assigned to, and assumed by, Grace Delaware, effective upon consummation of such separation, on the following terms:

1. All references to "W. R. Grace & Co.", "Company" or "Grace" in the Employment Agreement and the Restricted Stock Agreement refer to Grace Delaware and any successor thereto.



- 2. Except as expressly set forth above (or by any other applicable amendments), the Employment Agreement and the Restricted Stock Agreement remain in full force and effect.

Please confirm your agreement with the foregoing by signing the accompanying copy of this letter and returning it to Bob Lamm.

Sincerely,

/s/ William F. Monroe

Accepted and agreed to:

/s/ Larry Ellberger

-----  
Larry Ellberger

Date: 12/12/96

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BRIDGE LOAN  
PROMISSORY NOTE

\$350,000.00

July 31, 1992

FOR VALUE RECEIVED, the undersigned, FRED LEMPEREUR and JACQUELINE LEMPEREUR ("Makers"), hereby jointly and severally promise to pay, on the earlier to occur of (i) the date on which a certificate of occupancy is issued by the City of Boca Raton for the residence which Makers are causing to be built at 2569 NW 59th Street, Boca Raton, Florida, 33496 or (ii) the date of Mr. Lempereur's termination of employment with W.R. Grace & Co.-Conn. or one of its affiliates ("Grace"); or (iii) June 30, 1993, at such place as shall be designated by Grace, the sum of three hundred fifty thousand, dollars and 00/100 cents (\$350,000.00) in lawful money of the United States of America.

Except as provided in the next following paragraph of this Promissory Note, the principal amount payable hereunder shall not bear interest. This Promissory Note may be prepaid, in whole or in part, at any time, without penalty.

If payment of any principal balance outstanding under this Promissory Note shall remain unpaid for thirty (30) days after it is due or after earlier demand therefor as provided herein, Makers shall pay, in addition to any other amounts due hereunder, interest on such outstanding balance at a variable rate, per annum, which is one Percent (1%) above the rate of interest

being charged from time to time by the Chase Manhattan Bank N.A. as its "prime rate", such interest to accrue from the date that is thirty (30) days after the date this Promissory Note is due or the date of such earlier demand therefor as provided herein until such balance and the accrued interest thereon are paid in full. Makers further agree to pay all costs of collection, including reasonable attorney's fees, in the event of any failure of the Makers to pay when due any sum payable under this Promissory Note.

This Promissory Note is made incident to the transfer of said Fred Lempereur from the headquarters of the European Technical Products Division for Grace Industrial Chemicals, Inc. in Suresnes, France to the headquarters of W.R. Grace & Co.-Conn. in Boca Raton, Florida and the proceeds are being used to purchase a new principal residence for the Makers in connection with such transfer. This Promissory Note is entitled to all of the benefits of the Employee Relocation Loan Agreement of even date herewith (the "Loan Agreement").

If for any reason said Fred Lempereur shall cease to be an employee of Grace or any parent or affiliate thereof, or if while he continues to remain as such employee his place of employment changes so that it requires relocation outside of Boca Raton, Florida or if the Makers shall be in default of any provision of the Loan Agreement, this Promissory Note shall become immediately due and payable in its entirety.

Makers waive presentment for payment, protest and demand, and notice of protest, demand and/or dishonor and nonpayment of this Promissory Note, notice of any event of default under the Loan Agreement and all other notices or demands otherwise required by law that the Makers may lawfully waive. The Makers expressly agree that this Note, or any payment hereunder, may be extended from time to time, without in any way affecting the liability of the Makers. No unilateral consent or waiver by Grace with respect to any action or failure to act which, without consent, would constitute a breach of any provision of this Promissory Note shall be valid and binding unless in writing and signed by Grace.

The rights and obligations of the Makers and all provisions hereof shall be governed by and construed as a sealed instrument in accordance with the laws of the State of Florida.

The Makers shall remain primarily liable on this Promissory Note until full payment, and shall not be affected by any forbearance or extension of time, guaranty or assumption by others, or by any other matter, as to all of which notice is hereby waived by the Makers.

IN WITNESS WHEREOF, the Makers have caused this Promissory Note to be executed as a sealed instrument as of the day and Year first above written.

/s/ Fred Lempereur (Seal)  
-----  
Fred Lempereur

/s/ Jacqueline Lempereur (Seal)  
-----  
Jacqueline Lempereur

## EMPLOYEE RELOCATION LOAN AGREEMENT

This is a LOAN AGREEMENT (the "Agreement") dated as of the (31) day of July, 1992 between FRED LEMPEREUR and JACQUELINE LEMPEREUR residing at 10, rue Joseph Bara, F-75006, Paris, France (collectively the "Borrower") and W.R. Grace & Co.-Conn. ("Grace"), a Connecticut corporation having an office at One Town Center Road, Boca Raton, Florida 33486-1010.

## 1. DEFINITIONS

For the purposes of this Agreement the following defined Terms shall have the meanings set forth in this Paragraph.

"BRIDGE NOTE" - Refers to the instrument which the Borrower signed this day and which evidences a bridge loan in the amount of \$350,000 made this day to the Borrower by Grace (the "Bridge Loan").

"I, MINE, ME, MY MYSELF" - refer to the Borrower.

"PROPERTY" - refers to the real property including the land and the buildings and fixtures to be constructed thereon at 2569 NW 59th Street, Boca Raton, Florida 33496.

## 2. LOAN

I agree to repay the bridge loan as required by the terms of the Bridge Note and by this Agreement.

## 3. WRITTEN STATEMENT OF AMOUNT DUE

If Grace requests, in writing, a confirmation of the amount owed by me under the Bridge Note and this Agreement, within ten (10) days after such request, I will give Grace a signed statement confirming the amount so owed.

## 4. REIMBURSEMENT

If Grace has to defend its rights under the Bridge Note, or this Agreement, then any money which Grace has to pay (including attorneys' fees and disbursements) shall be added to the amount I owe Grace and paid by me promptly at Grace's request with interest at a variable rate per annum which is one percent (1%) above the rate of interest being charged from time to time by the Chase Manhattan Bank, N.A. as its "prime rate".

## 5. USE OF PROCEEDS

I certify that the proceeds of the Bridge Loan shall be used only to purchase the land and finance construction of the buildings and improvements on the Property and that upon completion, the Property shall be my new principal residence.

## 6. FILING OF TAX RETURNS

I certify that I reasonably expect to be entitled to, and will itemize deductions on, my U.S. Federal Income Tax Return for the years in which the bridge loan is outstanding.

## 7. DEFAULT

The happening of any of the following events means that I will be in default. Grace will then have the right to require that all amounts that I owe to Grace under the Bridge Note and this Agreement be paid in full to Grace, with interest at a variable rate per annum which is one percent (1%)

above the rate of interest being charged from time to time by the Chase Manhattan Bank N.A., as its "prime rate". I will be in default:

- (a) if any payment required by the Bridge Note is not made within thirty (30) days after it is due; or
- (b) if I do not comply with any term, condition or provision of this Agreement; or
- (c) if any statement or representation made by me under this Agreement is not true or correct.

8. USURY

No matter what else is set forth in this Agreement or the Bridge Note, if any payment by me or act by me would result in the payment of interest in excess of the maximum amount of interest legally permissible, then my obligation to make such payment or do such an act shall be deemed automatically reduced to such maximum rate, so that in no event will I be obligated to make any payment, perform any act, or promise to do (or not do) any act which would result in payment of interest in excess of such maximum rate. Any such excess payment shall be applied as partial prepayments of my debt.

9. SUCCESSORS AND ASSIGNS

All of my rights and obligations under this Agreement, and all of Grace's rights and obligations under this Agreement, shall bind and benefit our respective distributees, legal representatives, successors, heirs and assigns. Grace retains any rights it may otherwise have that are not set forth in this Agreement. Grace may assign this Agreement without my consent.

## 10. LEGAL SERVICES

If any legal proceeding is commenced in which Grace is made a party and which relates to this Agreement or the Bridge Note, or if an attorney, on Grace's behalf, seeks to assert or defend Grace's rights under this Loan Agreement, I will repay on Grace's demand all of its legal fees, costs, expenses, disbursements and allowances. Any amounts payable to Grace under this paragraph shall be payable with interest from the date Grace requires payment, at a variable rate per annum which is one percent (1%) above the rate of interest in effect from time to time by the Chase Manhattan Bank N.A. as its "prime rate".

## 11. USE OF CAPTIONS

Captions are used in this Agreement only as a matter of convenience and do not define or describe the intent of any provision.

## 12. FLORIDA LAW

This Agreement and all provisions hereof shall be governed by and construed as a sealed instrument in accordance with the laws of the State of Florida. If any terms, covenants, conditions or provisions of this Agreement or the Bridge Note or the applicability thereof to any person or circumstance shall, at any time or to any extent, be invalid or unenforceable, the remainder of this instrument or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term, covenant, condition and provision of this Agreement or the Bridge Note shall be valid and enforceable to the fullest extent permitted by law.



13. MODIFICATION OF AGREEMENT

This Agreement cannot be modified without the mutual agreement in writing of Grace and myself.

14. NOTICE

All notices and demands are to be sent by certified or registered mail, postage prepaid, return receipt requested (i) to me at the address of the Property set forth above, and (ii) to Grace at the address set forth above, Attention: General Counsel. All notices shall be deemed to have been received three (3) business days after mailing. Each party may change the address to which communications are to be directed by giving notice to the other party in the manner provided in this paragraph.

15. RESPONSIBLE PARTIES

If more than one person signs this Agreement, each will be fully responsible, jointly and severally, for complying with its terms.

16. ENTIRE AGREEMENT

This Agreement and the documents referred to herein contain the entire agreement of the parties in respect of the subject matter hereof. No representation, promise, inducement or statement of intention has been made by Grace which is not embodied in this Agreement or in the documents referred to herein, and Grace shall not be bound by or liable for any alleged representation, promise, inducement or statement of intention not set forth.

I have signed this Agreement on the date shown at the beginning of this document.

----- /s/ Fred Lempereur  
Witness Fred Lempereur

----- /s/ Jacqueline Lempereur  
Witness Jacqueline Lempereur

CONFIDENTIAL

August 17, 1992

Mr. F. Lempereur  
Grace Industrial Chemicals, Inc.  
40, blvd Henri Sellier  
F-92156  
Suresnes Cedex, France

Dear Mr. Lempereur:

We are pleased to offer you the position of Executive Vice President, Grace Specialty Chemicals Co. reporting to D. H. Kohnken, President, Grace Specialty Chemicals Co. with effect from May 1, 1992 at the W.R. Grace Headquarters based in Boca Raton, Florida.

I. EMPLOYMENT CONDITIONS

As of May 1, 1992, your gross annual salary will be \$265,000. This salary will be payable semi-monthly. You will continue, as at present, to be eligible for payments under the Headquarters Incentive Compensation Plan and will continue to benefit from the Grace Stock Option Plan. While no guarantees can be made with respect to incentive compensation, we would expect that in the present environment, your 1992 incentive compensation would be \$85,000.

You will become an employee of Grace Specialty Chemicals Co. Headquarters and your employment conditions, except those which apply to your expatriate status, will conform to the practices prevailing in Boca Raton. Where such conditions are service-related with the organization, January 1, 1962, will be the operative date.

Other conditions related to your transfer are detailed below:

- a. SOCIAL SECURITY - You will be exempt from contributions to French Social Security, but you will be required to make legally required employee contributions to U.S. Social Security.

- b. OTHER EMPLOYEE BENEFITS - Your participation in the French Repartition System and other benefit programs provided by GICI, Suresnes will be discontinued. Effective on your transfer date, you will be offered coverage under all the benefit plans available to GSC Headquarters employees. These benefits include Basic and Supplemental life insurance, Voluntary Group Accident and Business Travel Accident insurance, Comprehensive Medical, Dental Assistance, short and long term disability benefits, Grace Salaried Retirement Plan and the Savings and Investment Plan. Descriptions of these benefit plans are included in the Headquarters Benefits Handbook.

In addition, you will participate in the Executive Salary Protection Plan, Deferred Compensation Program, S&I Plan Replacement Payment Program and Supplemental Executive Retirement Plan (SERP). This latter plan replaces benefits lost under the Grace Salaried Retirement Plan due to government imposed limits. You will be granted credited service under the SERP back to January 1, 1962 with the past service benefits reduced by the retirement benefits payable under other plans contributed to by Grace. As your participation in the SERP renders the International Benefits Protection Plan redundant, your participation in the latter will cease and SERP benefits will be paid in lieu of those under the International Benefits Protection Plan. This arrangement relates to your employment in the United States and, should your place of employment change, the situation will be reviewed and appropriate alternative arrangements established.

- c. TAXATION - You will be subject to U.S. tax on your earned income. The Company will provide you with the assistance of Ernst & Young in the preparation of your U.S. tax returns. If you are required to pay income tax on your company source income to the French authorities over and above that which you are required to pay to the U.S. tax authorities on the same income, the Company will reimburse you for the French tax differential.
- d. ANNUAL VACATION - You will be entitled to 25 days vacation per annum. Public holidays are in addition to the above. The date for determining seniority is your date of start with the Grace organization, namely January 1, 1962. A copy of the Vacation Policy is included in the Benefits Handbook.
- e. HOME LEAVE - You and your wife will be reimbursed for the cost of round trip First Class flights between Boca Raton and Paris once every twelve months starting from the date of the relocation of your family to Boca Raton. Wherever possible, this should be coordinated with a business trip to France. This leave should be taken as part of the annual vacation period referred to above. Also, the Company will reimburse you for the incurred cost of up to three additional round trip First Class flights between Boca Raton and Paris for your wife.

f. EMERGENCY LEAVE - If an emergency occurs such as the death or critical illness of a member of your family or your wife's, including children, your parents, brothers, or sisters, you will be allowed compassionate leave in addition to the vacation mentioned above. In such a case, the Company will reimburse you for the travel costs incurred.

g. CONFIDENTIALITY AND NON-COMPETITION - We wish to tell you in advance that you may be requested to sign restrictive covenants designed to preserve the confidentiality of any information which may come into your possession during your work in Boca Raton, designed to protect the interests of the Company, but at the same time respect the rights of the individual in a fair manner.

## II. RELOCATION

It is the aim of the Company to see that you are reimbursed for all costs that you incur as a consequence of your relocation. However, as a general condition, it is essential that all expenditure is supported by invoices or records of payment.

a. COST OF MOVE - The Company will reimburse you for the cost of travel for yourself and your wife to your accommodation in Florida, i.e. First Class air fares from Paris to Miami, Palm Beach or Ft. Lauderdale, together with incidental expenses related to transportation between the airports and your accommodation in the U.S. and France.

The Company will pay for the packing, transport, unpacking and insurance of all your household effects from Paris to Boca Raton. You should obtain at least two quotations from reputable moving companies for the move of your household goods. Before committing the company to this expenditure, approval should be obtained from the Human Resources Department in Boca Raton. Where the payment of tax and customs duties is involved, this should be first discussed with the Headquarters Human Resources Department as well.

b. TEMPORARY ACCOMMODATION - Should you have been unsuccessful in finding suitable accommodation during your advance trip to Boca Raton, the Company will pay for the cost of temporary storage of your household effects while your permanent residence is being established and will bear the cost of temporary accommodation for you and your family either in a suitable hotel, or if you prefer in a furnished apartment for a period not exceeding two months between the date of arrival of your family in Florida and your move to your permanent residence.

c. PERMANENT ACCOMMODATION - You will be assisted by the Human Resources Department in Boca Raton in your search for accommodation, and in the provision of advice needed in respect of any statutory documentation.

- d. PRIVATE CAR - The Company is prepared, in respect of one privately owned car to reimburse you for the cost you incur by the forced sale of your present car which represents the difference between the open market value and the forced sale price you obtain in a good faith effort. This, in line with all other relocation costs, should be documented.

You will also be provided with a Company leased car in accordance with the policy applicable to Headquarters executives. If there will be a period when you are without transportation, the Company will reimburse you for the rental of a car for a period of two months.

- e. FINANCIAL ASSISTANCE - In the event you choose to purchase a residence, the Company will provide to you an interest-free loan in the amount of \$350,000 which will be repayable upon your death, termination of service, retirement, transfer from Boca Raton, or on the schedule set forth below. Such loan will be secured by a mortgage on the property or other instrument acceptable to Grace.

Repayment Schedule

1993	\$ 0
1994	0
1995	0
1996	50,000
1997	50,000
1998	50,000
1999	50,000
2000	50,000
2001	50,000
2002	50,000

- f. RELOCATION ALLOWANCE - You will be entitled to one-twelfth of your annual salary of \$265,000 by way of a relocation allowance to reimburse you for miscellaneous expenses you incur due to your relocation (purchase or alteration of appliances, curtains, carpets, purchase of transformers, fixtures, and other equipment).

- g. REPATRIATION - At the end of your assignment the Company will incur the expenses related to your move back to France. If for reasons unforeseen at the moment, you find it necessary to relocate back to France before the end of your assignment, the Company will undertake a good faith search for an alternative position for you within its operations and will incur the expenses related to your relocation, except in the instance where you have at your own consent ceased your employment with W.R. Grace & Co. It is, however, the Company's wish that you and your family feel comfortable in your new home and the Company will do its utmost to assist you in achieving this.

We are pleased you have accepted this offer and we take this opportunity to wish you every success in your new assignment and home in Boca Raton.

Please indicate your agreement to the above conditions by signing and returning the duplicate letter which is enclosed.

Yours sincerely,

GRACE SPECIALTY CHEMICALS

/s/ Mr. R. A. Kulberg  
-----  
Mr. R. A. Kulberg,  
Vice President/Human Resources

/s/ Mr. D. H. Kohnken  
-----  
Mr. D. H. Kohnken,  
President

I agree with the above conditions:

/s/ Mr. F. Lempereur  
-----  
Mr. F. Lempereur

-----  
Date

cc: J.G. Albert

Ref:737

[GRACE LETTERHEAD]

January 10, 1997

Mr. Fred Lempereur  
W. R. Grace & Co.  
One Town Center Road  
Boca Raton, FL 33486

Dear Fred:

This letter sets forth our agreement relating to your resignation as Senior Vice President of W. R. Grace & Co. (the "Company") and your retirement from the Company as follows:

1. You will resign your position as Senior Vice President of the Company and all other offices and directorships you hold with the Company's subsidiaries and affiliates, on June 30, 1997, but continue to receive your regular base salary through November 30, 1997 at which time you will retire effective that date.
2. Following your retirement on November 30, 1997, as set forth in paragraph 1 above, you will be entitled to the compensation and benefits set forth below in accordance with and subject to the following terms:
  - A. You will receive severance pay, equal to \$172,038 (seven months severance pay; a total of 12 months less the five month continuation during 1997) paid in the form of continued salary payments (i.e., in installments twice a month), beginning in December 1997, or in a lump sum at any time prior to July 1, 1998 (less any installments previously received) if you so elect.
  - B. Incentive Compensation  

You will be considered for an annual incentive compensation award for 1996 based on the financial performance of Container Products, TEC Systems and Packaging and your individual performance. Your 1996 award, which is subject to Board approval, will be paid to you in March 1997, less the amount you deferred. You will not be eligible for 1997 Incentive Compensation.
  - C. Executive Salary Protection Plan and Split-Dollar Life Insurance Plan  

Your death benefit coverage under the Executive Salary Protection Plan shall cease on December 30, 1997, while your disability coverage under that Plan will cease on November 30, 1997, in accordance with the terms of that Plan. Your participation in the Split-Dollar Life Insurance Plan will cease on January 29, 1998, although you may purchase the policy by reimbursing the Company for the premiums paid by the Company for that policy in your behalf through the date of your retirement. Estimated premiums paid by the Company through November 30, 1997 are expected to total approximately \$490,000 for six policy years. The current cash value in the policy is approximately \$462,000. Your death benefit coverage is \$1,015,000.
  - D. Long-Term Incentive Plan  

Your participation in the Company's Long-Term Incentive Plan for the 1994-1996, 1995-1997, and 1996-1998 Performance Periods will vest and be paid to you at the same time as other participants. While you will participate for the full 1994-1996 cycle, your awards for 1995-1997 and 1996-1998 Performance Periods will be prorated as of your November 30, 1997 retirement date. In the event of a "change in control" of the Company, your entitlement, if any, to receive payments under the LTIP will be the same as those of other persons holding Contingent

Performance Units granted under the LTIP, including any proration of awards consistent with the length of the Performance Periods applicable to all other participants in the corresponding Performance Periods.

E. Stock Options

Your December 5, 1991, December 3, 1992, November 4, 1993, April 7, 1994 and March 2, 1995 stock option grants are fully vested. The second and third installments of your March 7, 1996 award will vest upon your retirement on November 30, 1997 (the first installment will vest on March 7, 1997). Subject to SEC requirements and restrictions (as to which you should consult Bob Lamm), you will be free to exercise your stock options (to the extent then vested) and to sell the shares acquired on exercise following your resignation as an officer of the Company on June 30, 1997. After your retirement, you will have a three-year grace period during which you may exercise your options.

F. Deferred Compensation

Your deferred compensation balances, estimated at \$179,759.75 as of November 30, 1996, will be paid to you in accordance with the distribution elections you have previously made, i.e. in a lump sum payable on January 31, 1998.

G. Savings and Investment Plan

Following your retirement, you may elect to take a lump sum distribution under the Savings and Investment Plan, defer your distribution until age 70 1/2, or elect to begin receiving installment payments over a period of up to 10 years, in accordance with the terms of the Plan. Your S&I balance as of January 9, 1996 was \$135,157. In March 1997, you will be eligible to receive your Savings & Investment Replacement payment for 1996 in an amount estimated to be \$7,779. In March 1998, you will receive your replacement payment for 1997 based on your S&I Plan compensation for 1997 and the tax law limit in effect for 1997.

H. Benefits

Active benefit coverages will continue through June 30, 1998 for medical, dental and for applicable life coverages, including Company-paid basic coverage of \$590,000 if you do not purchase your split dollar life insurance policy, unless you elect to take your severance pay in a lump sum, in which case all such coverages would cease at the end of the month as of the date your lump sum severance payment is paid. Pension Plan and Savings & Investment Plan participation will cease on your November 30, 1997 retirement date. Long Term Disability Plan and Business Travel Accident (BTA) Plan participation will cease on June 30, 1997 provided, however, such BTA coverage will be reinstated for the full period, as applicable, during which your repatriation to France is taking place. Of course, should the Company amend or terminate these plans for all other employees, such amendment or termination would apply to you.

Following June 30, 1998, your participation in all of Grace's life, medical and dental plans will cease. As provided under Federal COBRA legislation, you may continue coverage under Grace's medical and dental plans for up to 18 months following the date your group participation ends. Prior to June 30, 1998, you will receive the official Request for Continuation of Group Coverage form, and confirmation of the COBRA medical and dental rates that will apply to you. As a citizen and resident of France, you would be eligible for medical coverage under the French Social Insurance System.

I. Pensions

Under the Company's Retirement Plan for Salaried Employees and the Supplemental Retirement Plan and assuming continuous service through November 30, 1997, continuation of your base salary through such date and a 1996 incentive award at your target amount, your estimated annual benefit, on a straight life basis, would be \$204,039 beginning December 1, 1999 at age 62 and \$195,878 beginning December 1, 1997, at age 60. You may, of course, elect any other payment option that is available under the Plans. These gross benefit amounts, indicated above, would be reduced by all benefits you are eligible to receive under the French and Swiss retirement plans.



These offset amounts will be determined in November 1997 at the time of your retirement. Of course, should the Company amend or terminate any of the retirement plans for all other similarly situated retirees, such amendment or termination would apply to you.

J. Outplacement Assistance

The services of a specialized external company, nominated and sponsored by the Company, will be provided to you for executive-level assistance in job search and placement.

K. Perquisites

You may continue to use your company-provided leased car and receive reimbursement for expenses incurred under the Financial Counseling Program through December 1997. In the event you wish to purchase your leased car, the Company will arrange for you to do so on December 31, 1997, or on any earlier date as you may select, at the then "fair market value."

L. Tax Advice

The Company will continue to provide you with assistance of Ernst & Young for the computation of your tax liabilities and preparation of your U.S. tax returns for 1996, 1997 and 1998. The Company will also provide for the services of Cabinet Lefebvre to prepare your 1996, 1997 and 1998 French income tax returns.

M. Unused Vacation Payment

You are entitled to paid vacation aggregating not less than five weeks during 1997. You will be entitled to payment for any unused vacation time in accordance with Company policy at the time you retire on November 30, 1997, including any days (up to ten) carried over from 1996 in accordance with vacation policy.

N. Housing Loan

Your Company-provided housing loan in the amount of \$350,000 will be repaid by you upon the sale of your home or by December 31, 1997, if sooner.

O. Repatriation

The cost of your relocation to France and assistance with the sale of your home in Florida will be provided as described in the attached addendum to this letter.

This letter sets forth the entire agreement and understanding between you and the Company concerning the compensation and benefit arrangements covered by this letter, and it supersedes all prior agreements and understandings, if any, concerning such subject matter between you and the Company. No representation or promise concerning such subject matter has been made by the Company that is not set forth in this letter.

Please confirm your agreement with the foregoing by signing a copy of this letter where indicated below and returning it to me.

Sincerely,

/s/

Accepted and agreed to this 30 day of January 1997

/s/ Fred Lempereur

-----  
Fred Lempereur

cc: P. J. Hamilton  
J. G. Kaenzig  
W. L. Monroe

## ADDENDUM

## REPATRIATION

The Company will provide you with the following relocation assistance should you and your family wish to be repatriated to France in 1997:

## COST OF MOVE:

The Company will reimburse you for the cost of First Class air fare and incidental expenses related to the relocation of you and your immediate family back to France.

The Company will pay for the packing, transporting, unpacking and insurance of all your household effects from Florida to France, provided that moving your household effects is coordinated through the Grace International Human Resources Department, using a moving company designated by the Department.

## SALE OF RESIDENCE:

Grace will offer to purchase your Florida residence for its Fair Market Value ("FMV"), established as described in this paragraph. The FMV of your Florida residence will be established by securing and averaging two appraisals made by professional appraisers selected by the International Human Resources Department. If the appraisals vary by five (5) percent or more, a third appraisal will be obtained, and the average of the two closer appraisals will be the FMV of your Florida residence.

From the date the Company notifies you in writing of the FMV of your Florida residence, you will have sixty (60) days to accept, in writing, to the International Human Resources Department, the Company's offer to purchase your residence at the FMV. You may, instead, elect to reject that offer and sell your residence without assistance from the Company, in which case the Company will be under no obligation to reimburse you for a sale price below the FMV or for maintenance or carrying expenses.

Failure to accept, in writing, the established FMV within the 60-day period described above will be deemed a rejection of the Company's offer to purchase the residence at FMV.

Should you sell your Florida residence without the assistance of the Company, the Company will nevertheless reimburse you for reasonable and documented expenses that are incidental to the sale, such as any real estate commission, attorney's fees (or bank service fees if in lieu of attorney's fees), penalties for mortgage, transfer taxes, title evidence based on local practice, and advertising expenses if no real estate commission is involved.

Human Resources  
Boca Raton, Florida

DATE: January 30, 1997  
TO: F. Lempereur  
FROM: P. J. Hamilton  
SUBJECT: PARTICIPATION IN LTIPS - REVISED  
cc: J. G. Kaenzig, Jr.  
W. L. Monroe

Your financial and market achievement components are based on the following product lines and Corporate for the following LTIPs:

		TARGETED PERFORMANCE UNITS		
		Financial	Market	Total
		Component	Component	
		-----	-----	-----
1994 - 1996	Container (including Sp. Polymers)	3,120.86	1,537.14	4,658
	Corporate	2,329.00	2,329.00	4,658
		-----	-----	-----
		5,449.86	3,866.14	9,316
		=====	=====	=====
1995 -1997	Container (including Sp. Polymers)	3,120.86	1,537.14	4,658
	Corporate	2,329.00	2,329.00	4,658
		-----	-----	-----
		5,449.86	3,866.14	9,316
		=====	=====	=====
1996 - 1998	Container	936.66	461.34	1,398
	Corporate	699.00	699.00	1,398
		-----	-----	-----
		1,635.66	1,160.34	2,796
		=====	=====	=====

[Date]

CONFIDENTIAL

- - - - -

[Name]  
[Address]

Dear \_\_\_\_\_:

Re: INDEMNIFICATION  
-----

This will confirm that W. R. Grace & Co. ("Grace") will defend and indemnify you in accordance with the provisions of Article VI of its by-laws in connection with the pending Miami District Office of the SEC investigation.

Pursuant to this agreement, Grace will pay promptly upon request the reasonable expenses, including attorneys' fees, incurred by you or on your behalf in the defense of the investigation through its final conclusion. In the event that it is finally, judicially determined pursuant to the provisions of the Delaware General Corporation Law that you are not entitled to indemnification, you agree to repay the amounts advanced by Grace on your behalf.

You shall, during the period in which Grace is providing you with a defense in accordance with the provisions of this letter, fully cooperate in the defense of the investigation. Grace, in turn, will fully cooperate with you.

This undertaking by Grace does not constitute an acknowledgment or agreement by Grace that your conduct was within or outside the scope of your duties as an officer and/or director of Grace or that the conduct in the performance of your duties was not wrongful.

No provision of this letter may be modified, waived or discharged unless such modification, waiver or discharge is agreed to in writing and signed by you and an authorized representative of Grace. The terms of this letter shall be governed by the laws of the State of Delaware. This agreement shall be in addition to and shall not modify or supersede any arrangements or undertakings that you may have with Grace relating to any other matter, including, without limitation, any arrangements or understanding concerning any other lawsuit or claim.

By signing the acknowledgment appearing at the end of this letter, you confirm that this letter is in accordance with your understanding of how you and Grace will proceed in connection with the defense of the investigation. Please sign and date the enclosed copy of this letter and have your signature witnessed as provided below, and return the fully signed copy of this letter to me. You should also keep a fully signed copy of this letter for your file. Please do not hesitate to contact either me or Bob Lamm if you have any questions or comments concerning this matter.

Sincerely,

Enclosure

cc: R. B. Lamm  
R. S. Strange  
M. Wolinsky

AGREED AND ACCEPTED

- - - - -

Dated: \_\_\_\_\_

WITNESS:

- - - - -

Dated: \_\_\_\_\_

W. R. GRACE & CO. SUBSIDIARY LIST  
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Attached is a list of subsidiaries of W. R. Grace & Co. ("Grace") at December 31, 1996.

U.S. Subsidiaries (including those in Puerto Rico and the Virgin Islands) are listed alphabetically indicating the state of incorporation, ownership (by whom) and any notes that may pertain to the subsidiary. W. R. Grace & Co.-Conn. ("Grace-Conn") is the sole owner of the stock of each subsidiary listed unless otherwise noted or indicated by an "A", which means that the subsidiary is owned either (1) jointly by Grace-Conn. and one or more of its U.S. or non-U.S. wholly owned subsidiaries or (2) solely by one or more of those subsidiaries.

Non-U.S. Subsidiaries are listed by country and also indicate the ownership (percentage and by whom) and any notes that may pertain to the subsidiary.

Also attached is a list of partnerships in which Grace-Conn., or one of its subsidiaries, is a partner and a list of investments (at least 20% but not more than 50%) held by W. R. Grace & Co. or Grace-Conn. and/or one or more of its subsidiaries.

12/31/96

W. R. GRACE & CO., A DELAWARE CORPORATION  
U.S. SUBSIDIARIES

SUBSIDIARY NAME	STATE OF INCORPORATION	OWNERSHIP	NOTES
A-1 Bit & Tool Co., Inc.	DE	A	
Alewife Boston Ltd.	MA	A	
Amicon, Inc.	DE	A	
Auragen, Inc.	DE	A	
CCHP, Inc.	DE	A	
Circe Biomedical, Inc.	DE	A	
Coalgrace, Inc.	DE	A	
Coalgrace II, Inc.	DE	A	
Construction Products Dubai, Inc.	DE		
Creative Food 'N Fun Company	DE		
Darex Puerto Rico, Inc	DE		
De Zaan, Incorporated	NY		7
Del Taco Restaurants, Inc.	DE		
Dewey and Almy Company	MA		
Ecarg, Inc.	NJ		
Emerson & Cuming, Inc.	DE		
Five Alewife Boston Ltd.	MA	A	
G/B Cocoa Holding Inc.	DE		7
GC Holding Inc.	DE		
GEC Management Corporation	DE	A	
GN Holdings, Inc.	DE		18
GPC Thomasville Corp.	DE	A	
Gloucester New Communities Company, Inc.	NJ	A	
Grace A-B Inc.	DE	A	
Grace A-B II Inc.	DE	A	
Grace Asia Pacific, Inc.	DE		

Grace Chemicals, Inc.	DE		
Grace Chemical Company of Cuba	IL		6
Grace Cocoa, Inc.	DE		7
Grace Cocoa Limited Partners I, Inc.	DE		
Grace Cocoa Limited Partners II, Inc.	DE		
Grace Cocoa Management, Inc.	DE		
Grace Collections, Inc.	DE		
Grace Communications, Inc.	DE		
Grace Culinary Systems, Inc.	MD		
Grace Drilling Company	DE	A	
Grace Energy Corporation	DE		
Grace Environmental, Inc.	DE		
Grace Europe, Inc.	DE		
Grace H-G Inc.	DE	A	
Grace H-G II Inc.	DE	A	
Grace Hotel Services Corporation	DE		
Grace International Holdings, Inc.	DE		
Grace JVH, Inc.	DE		
Grace Logistics Services, Inc.	DE		
Grace Management Services, Inc.	DE		
Grace Offshore Company	LA	A	
Grace PAR Corporation	DE		
Grace Petroleum Libya Incorporated	DE		
Grace Tarpon Investors, Inc.	DE		
Grace Ventures Corp.	DE		
Grace Washington, Inc.	DE		
W. R. Grace Capital Corporation	NY	A	
W. R. Grace Land Corporation	NY		
W. R. Grace & Co.-Conn.	CT		4
Gracoal, Inc.	DE	A	

Gracoal II, Inc.	DE	A
Guanica-Caribe Land Development Corporation	DE	
Hanover Square Corporation	DE	
Homco International, Inc.	DE	A
L B Realty, Inc.	DE	
Monolith Enterprises, Incorporated	DC	
Monroe Street, Inc.	DE	
Water Street Corporation	DE	
Woolwich Sewer Company, Inc.	NJ	A
Woolwich Water Co., Inc.	NJ	A
W. R. C. Technical Ventures, Inc.	DE	



## NON-U.S. SUBSIDIARIES

Country	Subsidiary Name	Ownership % / By Whom	Notes
ARGENTINA	WRG Argentina, S.A.	100 / A	
	Grace Argentina, S.A.	100 / A	
AUSTRALIA	W. R. Grace Australia Limited	100 / A	
	W. R. Grace Catalysts Pty. Limited	100 / A	
	Omicron Proprietary Limited	100 / A	
	Omicron Pty. Ltd.	51 / A	12
BELGIUM	Finac N.V.	100 / A	
	Grace N.V.	100 / A	
	Grace Silica N.V.	100 / A	
BRAZIL	Grace Brasil S.A.	100 / A	
	PEADCO-Engenharia, Comercio Industria Ltda.	100 / A	
	International Holdings Ltda.	100 / A	
CANADA	Ambrosia Chocolate Ltd.	100 / A	
	Global Cocoa Holdings Ltd.	100 / A	
	H. Lawton Company Ltd.	100 / A	
	W. R. Grace & Co. of Canada Ltd.	100	
	W. R. Grace Finance (NRO) Ltd.	100	
CAYMAN ISLANDS	Grace Cocoa Hong Kong Ltd.	100 / A	
	Global Cocoa Holdings Ltd.	100 / A	
	Grace China Holdings I, Inc.	100	
	Grace Davison China, Inc.	100	
CHILE	Grace Quimica Compania Limitada	100 / A	
COLOMBIA	Grace Colombia, S.A.	100 / A	
	W R G Colombia S.A.	100 / A	
CUBA	Envases Industriales y Comerciales, S.A.	100	6
	Papelera Camagueyana, S.A.	100	6
CZECH REPUBLIC	Grace Spol. s r.o.	100	
DENMARK	W. R. Grace A/S	100	
ECUADOR	Grace Cocoa Ecuador S.A.	100 / A	
FINLAND	W. R. Grace Oy	100 / A	
FRANCE	Grace Cocoa France S.A.	100 / A	7
	Grace S.A.	100	
	Soboca S.A.	100 / A	
	Societe Civile Immobiliere Les Rosiers	100 / A	1

GERMANY	A-1 Bit & Tool Co. G.m.b.H.	100	
	Chomerics G.m.b.H.	100 / A	
	De Zaan B.V.m.b.H.	100 / A	7
	EAP Akustic GmbH	100 / A	1
	Emerson & Cuming G.m.b.H.	100 / A	
	Grace G.m.b.H.	100 / A	
	Grace Multiflex GmbH	100 / A	
	Kascho Kakao- und Schokoladenwerke, GmbH	100	7
Greece	Grace Hellas E.P.E.	100	
Guatemala	Grace Central America, S.A.	100	
Hong Kong	W. R. Grace Southeast Asia Holdings Limited	100	
	W. R. Grace Far East Investment Company Limited	100	1
	W. R. Grace (Hong Kong) Limited	100 / A	
Hungary	Grace kft.	100 / A	
India	Dearborn I.E.I. Ltd.	51 / A	11
	W. R. Grace & Co. (India) Private Limited	100	
Indonesia	P. T. Grace Specialty Chemicals Indonesia	100 / A	
Ireland	Amicon Ireland Limited	100 / A	
	W. R. Grace (Ireland) Ltd.	100 / A	
	Trans-Meridian Insurance (Dublin) Ltd.	100	
Italy	Grace Italiana S.p.A.	100 / A	
Japan	Grace Japan Kabushiki Kaisha	100	
Korea	Grace Korea Inc.	100	
Malaysia	W. R. Grace (Malaysia) Sendiran Berhad	100 / A	
	W. R. Grace Packaging (Malaysia) Sdn. Bhd.	100	
	W. R. Grace Specialty Chemicals (Malaysia) Sdn. Bhd.	100	
Mexico	Invertol S. A. de C. V.	100 / A	
	Grace Container, S. A. de C. V.	100 / A	
	Grace Holdings, S. A. de C. V.	100	
	Grace Mexico, S. A. de C. V.	100 / A	
Netherlands	Amicon B.V.	100	
	Cacao de Zaan B.V.	100	7
	Denac Nederland B.V.	100 / A	
	Grace B.V.	100	
	Grace Cocoa B.V.	100	7
	J. G. van Bruinessen B.V.	100 / A	7
	Storm van Bentem & Kluiver B.V.	100 / A	7
	Targhee Holding B.V.	100 / A	
	Twincon B.V.	100 / A	7
	Twincon International B.V.	100 / A	7

Netherlands Antilles	W. R. Grace N.V.	100	
New Zealand	W. R. Grace (N.Z.) Limited	100 / A	
Norway	W. R. Grace A/S	100 / A	
People's Republic of China	Global Huada (Guangzhou) Confectionery Ltd.	100	17
	Grace China Ltd.	100	
	Grace Packaging Gaoming Co. Ltd.	67.7 / A	16
Philippines	W. R. Grace (Philippines) Inc.	100 / A	
Poland	W. R. Grace Sp. z.O.O.	100	
Portugal	Grace Portuguesa (Productos Quimicos e Pl#sticos) Ltda.	100	
Russia	A/O Grace	100 / A	
	A/o Grace Kaustik	51 / A	10
	A/o Grace Kriz	51 / A	15
Singapore	A-1 Bit Tool Company Pte. Ltd.	100 / A	
	De Zaan Far East Pte. Ltd.	100	7
	Grace Cocoa Singapore Pte. Ltd.	100	7
	W. R. Grace (Singapore) Private Limited	100 / A	
South Africa	W. R. Grace Africa (Pty.) Limited	100	
Spain	Grace, S.A.	100	
	Teroson Espanola, S.L.	100 / A	3
Sweden	Grace AB	100	
	Grace Sweden AB	100 / A	
	Grace Tec Systems AB	100 / A	
Switzerland	Grace A.G.	100 / A	
	Grace Cocoa Chocolate Mgt. S.A.	100 / A	7
	Syncrete S.A.	100	3
	Neue Transvac Maschinen A.G.	99.99%	
Taiwan	W. R. Grace Taiwan Inc.	100 / A	
Thailand	W. R. Grace (Thailand) Ltd.	100 / A	3
Turkey	Grace TLS	100 / A	
United Kingdom	A.A. Consultancy & Cleaning Company Limited	100 / A	
	Cormix Limited	100 / A	1
	Dearborn (U.K.) Limited	100 / A	3
	Grace Construction Products Ltd.	100 / A	3
	Servicised Ltd.	100 / A	
	W. R. Grace Limited	100 / A	
Uruguay	W. R. G. Uruguay, S.A.	100 / A	
	Grace Uruguay S.A.	100	
Venezuela	Grace Venezuela, S.A.	100 / A	
	Inversiones GSC, S.A.	100	

## U.S. AND NON-U.S. NOTES

- 1 In liquidation
- 2 Inactive
- 3 Dormant, assets sold
- 4 Owned by W. R. Grace & Co.
- 5 Intentionally deleted
- 6 Assets and business expropriated by Cuban Government
- 7 Owned by a Delaware general partnership, Grace Cocoa Associates, or a subsidiary thereof
- 8 Intentionally deleted
- 9 Common stock owned 100% by Grace Cocoa Associates/Preferred stock owned 100% by W. R. Grace & Co. of Canada Ltd.
- 10 Joint stock company, 46% owned by Grace Italiana S.p.A., 5% owned by W. R. Grace Ltd., 49% owned by A/O Kaustik
- 11 Joint Venture, 51% owned by W. R. Grace & Co.-Conn., 49% owned by Ion Exchange India
- 12 Joint Venture, 51% owned by Omicron Proprietary Limited, 49% owned by Parade Packaging Sdn Bhd
- 13 Intentionally deleted
- 14 Intentionally deleted
- 15 A Russia Joint Venture, owned 31% by Grace S.A., 20% by W. R. Grace Limited and 49% by A/O Kriz
- 16 A China Joint Venture, owned 67.7% by Grace China Holdings I, Inc. and 32.3% by Sanzhou Economic Development General Company
- 17 A China Joint Venture, owned 70% by Grace Cocoa Hong Kong Ltd. and 30% by Guangzhou Confectionery Factory
- 18 Owned 95% by W. R. Grace & Co.-Conn.

## PARTNERSHIPS

- Axial Basin Ranch Company  
a Delaware partnership, owned 50% by Grace A-B Inc., 50% Grace A-B II Inc.
- Carbon Dioxide Slurry Systems L.P.  
a Delaware partnership, owned 50% by W. R. Grace & Co.-Conn.
- Cormix Middle East LLC  
a Dubai LLC, owned 49% by Construction Products Dubai, Inc., 51% Sheikh Hasher Maktoum Juma Al Maktoum
- Emirates Chemicals LLC  
a Dubai LLC, owned 49% Construction Products Dubai, Inc., 51% Sheikh Hasher Maktoum Juma Al Maktoum
- Grace Cocoa Associates  
a Delaware general partnership, the partners of which are W. R. Grace & Co.-Conn., GC Holding, Inc., Grace Cocoa Management, Inc. and Grace Cocoa Ventures.
- Grace Cocoa Ventures  
a Delaware general partnership, the partners of which are Grace Cocoa Limited Partners I, Inc. and W. R. Grace & Co.-Conn.
- Grace Offshore Turnkey  
a Texas partnership, owned 50% by Grace Offshore Company
- Hayden-Gulch West Coal Company  
a Delaware partnership, owned 50% by Grace H-G Inc., 50% by Grace H-G II, Inc.
- H-G Coal Company  
a Delaware partnership, owned 50% by Coalgrace, Inc., 50% by Coalgrace II, Inc.
- Metreon  
an Ohio joint venture/partnership, owned 50% by Grace JVH, Inc., 50% by Englehard MC, Inc.
- Parade & Omicron Sdn Bhd  
a Malaysia Joint Venture, owned 51% by Omipac Proprietary Ltd. and 49% by Parade Industries Pte. Ltd.
- Paramont Coal Company  
a Virginia partnership, owned 50% by Grace PAR Corporation

INVESTMENTS  
(holdings of at least 20% but not more than 50%)

Company Name	Jurisdiction	Ownership Percent	Notes
Arral & Partners	British Virgin Islands	25.8%	
Asian Food Investment Limited	British Virgin Islands	40%	
Caproa B.V.	Netherlands	20%	10
Colowyo Coal Company L.P.	Delaware		6
Denka Grace K.K.	Japan	45%	
General Cocoa Trading House Inc.	British Virgin Islands		9
Geniva, Inc.	Delaware	50%	8
GKA Company Limited	Hong Kong	25%	
Incacao Fabrica Nacional de Elaboradoes de Cacao S.A.	Ecuador	20%	2
Intercao, S.A.	British Virgin Islands	20%	2
Noxso Corporation	Virginia	23.1%	
Productos Derivados de la Sal	Colombia	30.1%	3
Productora de Papeles S.A. (PROPAL)	Colombia	36.16%	
Societe Nouvelle Sifca, S.A.	Ivory Coast	30%	7
Tarpon Investors, L.P.	Delaware		4
Unicao S.A.	Ivory Coast	20%	5

## NOTES:

- 1 Intentionally deleted
- 2 Owned by Grace Cocoa, Inc.
- 3 Owned by Productora de Papeles S.A.
- 4 Limited partnership interest owned by Grace Tarpon Investors, Inc.
- 5 Owned by Twincon B.V. plus approximately 14% through Sifca
- 6 Limited Partnership interests are owned by Gracoal, Inc. and Gracoal II, Inc.
- 7 Owned by Targhee Holdings, B.V., a wholly owned subsidiary of Grace Cocoa B.V., a Netherlands corporation
- 8 Owned by Grace International Holdings, Inc.
- 9 Wholly owned subsidiary of Incacao
- 10 Owned by Twincon B.V. plus approximately 12.5% through Sifca

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## POWER OF ATTORNEY

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The undersigned director of W. R. GRACE & CO. ("Company") hereby appoints KATHLEEN A. BROWNE, LARRY ELLBERGER and ROBERT B. LAMM as his/her true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 1996, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

/s/ J. F. Akers  
/s/ H. Brown  
/s/ C. Cheng  
/s/ H. A. Eckmann  
/s/ M. A. Fox  
/s/ J. W. Frick

/s/ T. A. Holmes  
/s/ V. A. Kamsky  
/s/ J. J. Murphy  
/s/ J. E. Phipps  
/s/ T. A. Vanderslice

Dated: March 28, 1997

## POWER OF ATTORNEY

-----

The undersigned, Chairman, President and Chief Executive Officer (Principal Executive Officer) and a director of W. R. GRACE & CO. ("Company"), hereby appoints KATHLEEN A. BROWNE, LARRY ELLBERGER and ROBERT B. LAMM as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 1996, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

/s/ A. J. Costello

Dated: March 28, 1997



THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF W. R. GRACE & CO. FOR THE YEAR ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR	
DEC-31-1996	
JAN-01-1996	
DEC-31-1996	68,300
	0
	842,900
	11,500
	376,100
	1,774,900
	3,307,900
	1,436,600
	4,945,800
1,487,100	
	1,073,000
	0
	0
	800
4,945,800	631,600
	3,454,100
	3,493,000
	2,071,000
	2,071,000
	0
	0
	71,600
	348,600
	134,800
	213,800
	2,643,900
	0
	0
	2,857,700
	31.06
	30.24

Includes net assets of discontinued operations of \$297,400.

Excludes 1996 sales from the discontinued health care and TEC Systems businesses of \$1,666,900 and \$102,500, respectively.

Includes gain on sales of businesses of \$326,400 (\$210,100 after-tax), offset by provisions of \$229,100 (\$148,900 after-tax) for asbestos-related liabilities and insurance coverage and \$107,500 (\$69,900 after-tax) for restructuring costs and asset impairments.

Includes TEC Systems' after tax operating losses of \$11,300 and an after-tax provision of \$4,600 related to its anticipated operating losses and the loss anticipated on its divestment.

Includes (i) after-tax income of \$24,800 from health care operations, (ii) and after-tax gain of \$2,483,700 on the separation of National Medical Care, Inc., (iii) an after-tax gain of \$79,400 on the sale of the transgenic plant business and (iv) an after-tax gain of \$40,000 on the sale of Amicon.

Includes a \$31,900 after tax reversal of previously recorded provisions for Grace's cocoa business.