

GRACE

W. R. GRACE & CO. ANNUAL REPORT 2001

Financial Highlights (Amounts in millions except per share data)	2001	2000	1999
Net Sales	\$1,723.2	\$1,597.4	\$1,550.9
Pre-Tax Income from Core Operations Before Interest, Taxes, Depreciation and Amortization As a Percentage of Sales	\$276.5 16.0%	\$274.9 17.2%	\$267.3 17.2%
Pre-Tax Income from Core Operations As a Percentage of Sales	\$187.5 10.9%	\$187.1 11.7%	\$178.1 11.5%
Income (Loss) from Continuing Operations Diluted EPS from Continuing Operations	\$78.6 \$1.20	\$(89.7) \$(1.34)	\$130.2 \$1.76
Net Income (Loss) Diluted EPS	\$78.6 \$1.20	\$(89.7) \$(1.34)	\$135.9 \$1.84
Weighted Average Diluted Shares Outstanding	65.4	66.8	73.8
Net Cash Flow from Core Operations	\$67.0	\$94.5	\$154.8
Net Cash Flow from Operating Activities	\$6.4	\$(140.1)	\$184.9
Total Assets	\$2,717.0	\$2,584.9	\$2,475.1
Total Liabilities	\$2,858.7	\$2,656.2	\$2,364.0
Liabilities Subject to Compromise (A Subset of Total Liabilities)	\$2,313.6	NA	NA
Total Shareholders' Equity	\$(141.7)	\$(71.3)	\$111.1

NA - Not Applicable



DAVISON CATALYSTS



Chairman's Letter - 2001 Annual Report

Last year was both challenging and difficult. We were overwhelmed by a tidal wave of asbestos personal injury claims that began building in 2000 and didn't stop until we obtained relief under Chapter 11 on April 2, 2001. A global economic recession, compounded by the terrorist attacks of September 11th, created a difficult operating environment. Through it all, our employees remained focused and committed, generating superior operating performance and making tremendous progress on the fundamentals of our businesses.

It is impossible to discuss the business effect of September 11th without first stopping to remember the senseless loss of life that occurred and the greater impact of those tragic events. I am thankful every day that none of our employees were injured or killed in the attacks. I am also heartened by the response of our employees, who raised money for the American Red Cross, with matching funds from the Grace Foundation, and arranged to have the company donate 40,000 square feet of Grace Ice and Water Shield® to the Pentagon's reconstruction.

The strategic course we set three years ago continues to pay dividends, turning the year into a success, particularly when compared to our peers. In 1999, we recognized that focusing on two basic business objectives simultaneously — revenue growth and productivity — would drive continuous performance improvement at Grace. In no year was this decision more important than in 2001. While the global specialty chemicals industry turned in its worst performance in a decade, our revenues grew nearly eight percent and we managed to increase our core earnings (before interest and taxes).

This performance came from the dedication and hard work of over 6,000 men and women worldwide who provide the energy and drive every day to make Grace a better company. Through two years of distractions, they have kept their focus on the thing that matters most: meeting our customers' needs by providing high value products.

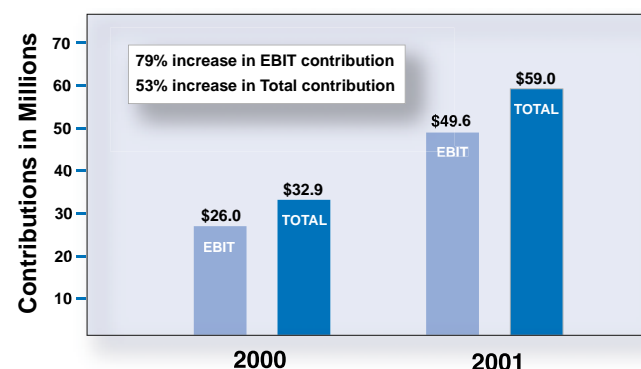
That dedication runs to every aspect of doing business at Grace. We maintain and expect the highest level of ethical behavior — including how we report and discuss our financial results. We intentionally segment our disclosures between core operations and noncore activities to enhance transparency and improve predictive analysis. Our executive management, Board of Directors, internal auditors and independent accountants are directly involved in our financial reporting processes.

Our safety performance is just as important as our financial performance. Equipping people with the tools and the training to protect themselves and their co-workers from injury is one of our most important values. I want to congratulate everyone at Grace on our safety performance in 2001. We reduced all accidents by 20%, bringing us closer to world class performance.

Our revenue growth has been enhanced by the introduction of new products and services to higher growth market segments and geog-

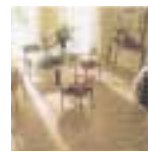
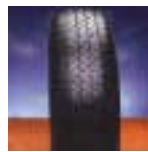
raphies. Our Product Innovation and Strategic Marketing (PRISM) process is critical to delivering the new products that our customers need. Two new technologies, Vanguard™ and Aurora™, and several new environmental additives, helped drive sales growth in fluid cracking catalysts and additives. We continued to penetrate the rapidly growing global digital imaging segment with the introduction of our new SYLOJET® silicas. Performance Chemicals growth was driven by the roofing underlayment family of products led by Grace Ice & Water Shield, and the high performance waterproofing products Preprufe® and Procor®.

Six Sigma



We continued to use quickly accretive "bolt-on" acquisitions to expand our businesses and create a platform for future growth. We added Pieri S.A. of France to our specialty construction chemicals portfolio, expanding our geographic reach in continental Europe and strengthening our product offerings to the precast and ready mix concrete segments. In our silicas business, we acquired The Separations Group and its well-established VYDAC® technology, positioning Grace to serve the rapidly growing biotechnology industry with new surface bonding chemistries and analytical capabilities. We also acquired the precipitated silicas business of APS (an Akzo-PQ joint venture), providing access to a major segment of the silicas industry. Through Advanced Refining Technologies, a joint venture with ChevronTexaco, we are inventing and marketing new hydroprocessing catalysts to produce more environmentally friendly transportation fuels.

Our productivity initiative was key to offsetting the economic slowdown and the steep price increases we experienced in energy and raw materials. The impact of increased prices for raw materials and energy was almost \$29 million above 2000. The foundation of continuous productivity at Grace is Six Sigma. In 2001, we trained 55 new black belts, 285 green belts and 456 yellow belts. They completed 150 revenue enhancement and cost reduction projects, evenly distributed across the businesses. The contribution to our earnings from Six Sigma was \$50 million in 2001, almost double the previous year and a significant improvement over our forecast. For 2002, we will have more tools in the hands of more people, and we expect another significant increase in the contribution to Grace's bottom line from Six Sigma.



Increasingly, Six Sigma is the way we conduct business at Grace. For instance, we are using the discipline of the Six Sigma methodology to improve our materials management process. Under this approach, we will purchase key materials for all of our facilities under one purchase arrangement, rather than having each facility act independently, lowering our total costs by leveraging our size and volume.

We are also carefully managing the growth of our workforce, adding new positions or filling vacant ones only when we can draw a clear line between the job and improved product quality, productivity or customer value.

We also reduced our expenses through expanded cost control efforts. We are continuously evaluating discretionary costs (non-payroll expenses) to make sure that we are getting real value for our money.

CHAPTER 11

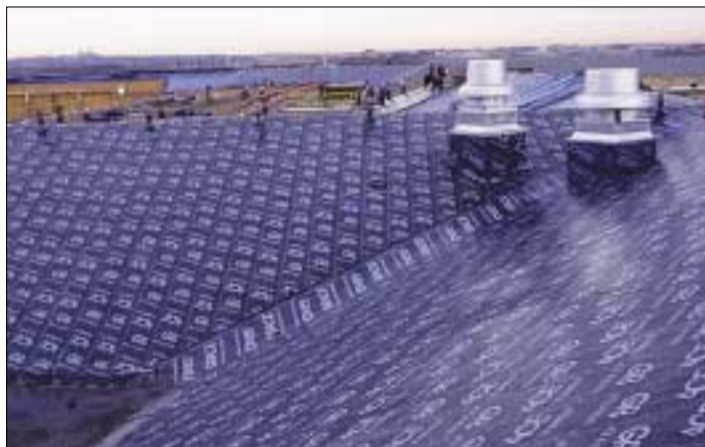
The asbestos litigation environment went through significant changes in 2000 and 2001, marked by a sharp increase in the number of asbestos personal injury cases filed not only against Grace but manufacturing companies across the country. When Owens-Corning, Armstrong World Industries and several other companies filed for protection under Chapter 11 bankruptcy laws, our situation became even more tenuous. Our senior management and the Grace Board of Directors analyzed the situation carefully, and came to the inescapable conclusion that the current system for handling asbestos claims is broken. Further efforts to manage the personal injury caseload in state courts throughout the country would only erode the strength of Grace's businesses. Our April 2 filing allows us to continue to build our businesses while giving us the only forum available to permanently resolve our legacy asbestos liabilities.

The response from our employees was tremendous. In the days that followed our Chapter 11 filing, our employees met with customers to explain the company's actions while others answered telephone hotlines set up for rapid responses to questions from customers, suppliers, employees and retirees. The message they delivered was clear: Grace is open for business. I want to thank our employees, customers and suppliers for their continuing support. They understand that our Chapter 11 filing does not impact our ability to deliver premier products and services around the world, and we are proving it every day.

THE FUTURE

The goals for our businesses in 2002 remain consistent with our long-term target of 5-7% revenue growth and double-digit growth in earnings before interest and taxes (EBIT). We want our safety performance to continue to improve and clearly move us into world class status. Our focus will be to execute the programs that we have in our 2002 operating plans in what may be a difficult economic environment, particularly in the first half of the year. With a continued strong focus on revenue growth and productivity improvements, we will turn in another good performance in 2002.

To achieve our revenue goals, we will continue driving a mix of organic growth opportunities through the PRISM process while improving the competitiveness of our foundation businesses. We expect to selectively add "bolt-on" acquisitions as we have in the



Grace Ice and Water Shield® is used on repair of the Pentagon.

past. Our business development teams continue to search for acquisitions that are strategically compelling, can be integrated into Grace efficiently, and enhance our revenues and earnings quickly. I am convinced we still have tremendous productivity opportunities. In 2002, we are targeting a 50% improvement in the contribution from Six Sigma cost reduction projects and a renewed emphasis on improving Grace's transactional and administrative processes. Six Sigma training will continue in 2002. Our goal is to have a cadre of black belts and green belts leading our transition into making Six Sigma our fundamental business process.

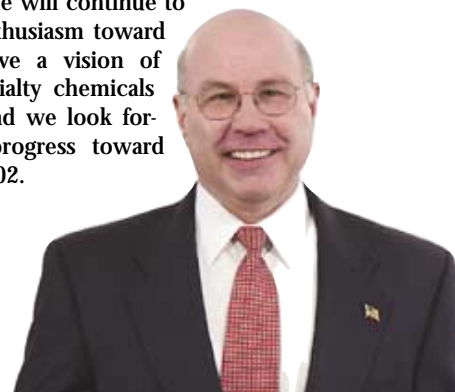
We will continue to aggressively manage our costs in 2002 as we did last year. Better use of Six Sigma in our global purchases will lead to cost savings and we continue to review our infrastructure to make certain it is sized appropriately for the markets we serve.

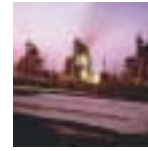
Though a difficult decision to make, entering Chapter 11 has enabled us to continue operating our businesses as we have in the past while seeking a resolution to all of our asbestos-related liabilities in a single forum. We are working toward a reorganization plan that deals with our asbestos claimants and other creditors in a fair and consistent manner while establishing a sound capital structure for long-term growth and profitability.

I have always said that we are in a marathon, not a sprint. Winning the long-distance race requires that we keep ourselves focused on the goal. We will continue to adapt to the challenging environment in front of us without abandoning the things that have brought us this far. I believe that our strategy is sound, our ability to execute is excellent, and I know our people will continue to work with energy and enthusiasm toward our shared goals. We have a vision of becoming a premier specialty chemicals and materials company, and we look forward to making more progress toward achieving that vision in 2002.

Paul J. Norris

Chairman, President and
Chief Executive Officer





Davison Chemicals

2001 Sales: \$874.1 million

Headquarters: Columbia, Maryland

Employees: 3,100

Catalysts

Catalysts that improve the yield and performance of petroleum, petrochemical and chemical products.

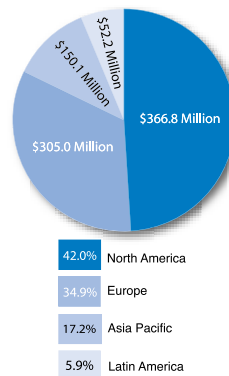
Silica Products

Silica gels, colloidal and precipitated silicas, separations media and columns for chromatography, and molecular sieve adsorbents that enhance manufacturing processes and end-products in a wide range of industrial, biotechnology, digital printing, and consumer applications.

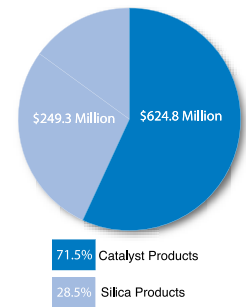
Fundamental Strengths

- Silica/alumina material expertise
- Strong global presence
- Applications technology
- Manufacturing flexibility

Sales by Region



Sales by Product Group



Catalysts

2001 Highlights

- Fluid cracking catalyst (FCC) sales up, driven by new technologies such as Vanguard and Aurora
- Incremental business from new products in 2001 was half of total revenue growth for FCC catalysts worldwide
- Sales of FCC additives up as a result of new products like D-PriSM™, DENOX®, and XNOx®, which enable refiners to meet increasingly stringent environmental regulations
- Launched Davison Refining Services, a new business unit, which leverages our extensive FCC technical capabilities to provide tools and services to help improve refiners' profitability
- Advanced Refining Technologies (ART), a joint venture between ChevronTexaco and Grace for development and marketing of hydroprocessing catalysts, has been fully integrated into our operations

Market Segments

- Fluid cracking catalysts and additives used by oil refineries to produce gasoline and other petroleum-based products
- Hydroprocessing catalysts used to upgrade refining feedstocks and fuels
- Chemical catalysts used to produce polyethylene resins for plastics
- Automotive catalysts which help industries meet and exceed environmental regulations

Growth Opportunities

- Introduction of new high performance products to penetrate high technology processing niches
- Increasingly stringent environmental regulations requiring catalytic solutions
- Strategic alliances and organic growth

Silicas

2001 Highlights

- Sales grew 13%
- Strong growth for digital printing products due to segment growth and acceptance of our specialty silicas for optimum image quality
- Participation in the separations segment grew with the acquisition of The Separations Group, which strengthens our position in the emerging biotechnology segment with the addition of advanced silica technology
- Completed and fully integrated, the APS precipitated silica acquisition
- Strengthened our position in the traditional coatings and plastics segments with the introduction of four new products

Market Segments

- Separations media and columns for biotechnology applications
- Specialty silicas for digital printing
- Silica gel, colloidal and precipitated silicas and molecular sieves for industrial applications: coatings, plastics, chemical processes, precision investment casting and refractory, desiccants, and gas and liquids purification
- Silica gels for consumer applications: edible oil processing, toothpaste formulations, beverage processing, and personal care and pharmaceutical products

Growth Opportunities

- Separations business with products for high-growth proteomics segment
- Penetration of specialty silicas for digital printing
- New silica products for coatings and plastics
- Growth in Asia Pacific and Latin America



Performance Chemicals

2001 Sales: \$849.1 million

Headquarters: Cambridge, Massachusetts

Employees: 3,000

Performance Chemicals

Specialty chemicals and materials that improve the performance, durability and cost of buildings, infrastructure and food and beverage packaging.

Fundamental Strengths

- Broad global position and brand equity
- Strong customer relationships
- Outstanding customer service and technical support
- High performance product development and commercialization process

Sealants and Coatings

2001 Highlights

- Increased market position of specialty coatings for metal packaging
- Achieved substantial growth of Daraform® sealants for beverage closures

Market Segments

- Can sealants for food, beverage and aerosol can and rigid industrial containers
- Closure sealants to protect the contents of glass and plastic bottles and jars
- Coatings to protect metal container surfaces and contents and ensure proper adhesion of sealing compounds
- Barrier coatings for flexible packaging and adhesive emulsions

Growth Opportunities

- Increasing use of plastic packaging in mature markets
- Developing economies in Asia Pacific and Latin America
- Increasing demand for higher barrier coatings for rigid, semi-rigid and flexible packaging
- Geographic expansion opportunities for high performance sealants and coatings

Construction Chemicals

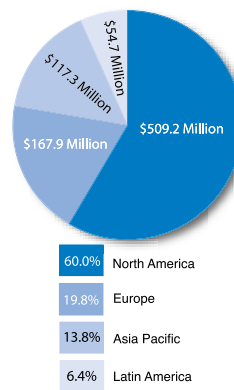
2001 Highlights

- Acquisition of Pieri S.A. in France strengthens our European infrastructure and provides a platform for growth
- Cement additives business continues to grow through geographic expansion and product conversions to Quality Improvers with the team increasing sales by nearly a quarter over 2000
- Commercialization of STRUX™, the next generation of fiber reinforcement, and Grace's total system solution for self-consolidating concrete
- Sales of Eclipse® shrinkage reducing admixture were up by almost half from 2000 sales

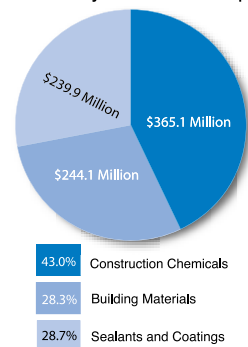
Market Segments

- Concrete admixtures to improve concrete placement efficiency and life cycle performance and durability of commercial, institutional and residential structures
- Cement additives to reduce production cost and improve product performance for cement producers

Sales by Region



Sales by Product Group



- Masonry admixtures to enhance manufacturing efficiency for block producers and improve in-place performance of masonry block construction
- Architectural concrete additives and treatments to create aesthetically pleasing concrete and increase in-place value of concrete construction

Growth Opportunities

- Expanding worldwide use of ready-mix concrete and manufactured concrete products
- Increasing sophistication of construction practices and standards worldwide
- Continued emphasis on total life cycle cost reduction and durability of commercial, industrial and infrastructure projects
- Growing demand for cost efficiencies by cement, concrete and block producers
- Penetration opportunities for water reducing and durability enhancing concrete admixtures, cement quality improvers and new specialty masonry admixtures

Building Materials

2001 Highlights

- Participated in NRCA's Reroof the Pentagon Project by donating more than 40,000 square feet of Ice and Water Shield to repair and replace a part of the Pentagon roof in Washington, DC
- Drove strong roofing underlayment growth through penetration of Ice and Water Shield in North America
- Generated significant growth through new proprietary waterproofing products, Preprufe, and Procor, in North America, Europe and Asia Pacific
- Waterproofing and underlayment products featured on PBS's "This Old House" and ABC's "Challenge America"
- Increased production capacity for underlayments to support rapid growth

Market Segments

- Structural waterproofing membranes and systems to cost-effectively protect structures from the damaging effects of water in commercial and institutional structures
- Roofing underlayments to protect against damage from ice dams and wind-driven rain in residential and commercial construction
- Fire protection products to prevent structural damage, retard the spread of fire within structures, and save lives in commercial and institutional structures

Growth Opportunities

- Rapid growth in roofing underlayments segment
- Growing use of innovative and performance-enhancing products
- Penetration and geographic expansion opportunities for new waterproofing and fire protection technologies
- Increasing demand for cost efficiencies by contractors

GRACE LEADERSHIP TEAM

Robert J. Bettacchi
Senior Vice President
President, Performance Chemicals

William M. Corcoran
Vice President, Public and
Regulatory Affairs

Susan E. Farnsworth
Vice President, Financial Operations

Carolyn J. Johnson
Vice President and
Chief Information Officer

W. Brian McGowan
Senior Vice President, Administration

Paul J. Norris
Chairman, President and
Chief Executive Officer

Michael N. Piergrossi
Vice President, Human Resources

Gregory E. Poling
Davison Chemicals
Vice President and General Manager,
Silicas/Adsorbents

Joseph A. Rightmyer
Davison Chemicals
Executive Vice President and
General Manager, Catalysts

Mark A. Shelnitz
Secretary

David B. Siegel
Senior Vice President, General Counsel
and Chief Restructuring Officer

Robert M. Tarola
Senior Vice President and
Chief Financial Officer

BOARD OF DIRECTORS

John E. Akers
Retired Chairman and Chief Executive Officer;
International Business Machines Corporation

H. Furlong Baldwin
Chairman of the Board, and Former President
and CEO of the Mercantile Bankshares
Corporation

Ronald C. Cambre
Retired Chairman, Newmont Mining
Corporation

Marye Anne Fox
Chancellor, North Carolina State University

John J. Murphy
Retired Chairman of the Board, Dresser
Industries Inc.

Paul J. Norris
Chairman, President and Chief Executive
Officer, W.R. Grace & Co.

Thomas A. Vanderslice
Former Chairman and Chief Executive Officer;
M/A-COM

INFORMATION FOR INVESTORS

Corporate Headquarters

W. R. Grace & Co.
7500 Grace Drive
Columbia, MD 21044

Transfer Agent

Inquiries and changes to shareholder accounts should be directed to our transfer agent:
Mellon Investor Services LLC
P. O. Box 3315
South Hackensack, NJ 07606-1915
(800) 648-8392
www.mellon-investor.com

Shareholder Services

Inquiries from individual shareholders should be directed to our shareholder services department:
W. R. Grace & Co., Shareholder Services
7500 Grace Drive
Columbia, MD 21044
(410) 531-4167

Publications

To obtain additional information about Grace, request copies of Company's quarterly reports on Forms 10-Q or current reports on Forms 8-K, write to:
Investor Relations, W. R. Grace & Co.
7500 Grace Drive, Columbia, MD 21044 or
via E-mail at investor.relations@grace.com
or call (410) 531-4167.

Trademarks

Products names used in the text of this report are trademarks, servicemarks or trade names of operating units of W. R. Grace & Co. or its subsidiaries.

MANUFACTURING SITES

Davison Chemicals

Lake Charles, LA; Curtis Bay, MD; East Chicago, IN; Chicago, IL; Cincinnati, OH; Chattanooga, TN; Aiken, SC; Hesperia, CA, U.S.A.; Sorocaba, Brazil; Valleyfield, Canada; Worms and Dueren, Germany; Kuantan, Malaysia.

Grace Performance Chemicals

Atlanta, Augusta and Lithonia, GA; Chicago, IL; Houston, TX; Irondale, AL; Los Angeles, San Leandro, and Santa Ana, CA; North Bergen, NJ; Owensboro, KY U.S.A.; Sorocaba, Brazil; Santiago, Mexico; Ajax, Canada; Slough, St. Neots and Widnes, United Kingdom; Eperton, Larnaud, and Saillenard, France; Hamburg, Germany; Passirana, Italy; Barcelona, Spain; Singapore; Inchon, Korea; Jakarta, Indonesia; Kuala Lumpur, Malaysia; Manila, Philippines; Bangkok, Thailand; Guangzhou and Shanghai, China; Atsugi, Japan; Melbourne and Sydney, Australia.

GRACE

7500 Grace Drive Columbia, MD 21044 > www.grace.com > investor.relations@grace.com > 410.531.4167 tel > 410.531.4367 fax