

W. R. Grace & Co.

# Building Bonds Around the World



Annual Report 2007

GRACE



## Dear Shareowners, Colleagues and Customers,

I am very pleased to report our results for 2007. We continue to make progress toward our vision of making W. R. Grace & Co. one of the world's premier specialty chemical and materials providers. Continued improvements in growth and productivity were realized in 2007, as were the benefits of becoming a more tightly integrated operating company.

In 2007, our sales were \$3.1 billion and our pre-tax income from core operations was \$284.6 million, representing increases of 10.2% and 18.5%, respectively, from the prior year. We offset increases in the cost of raw materials through our productivity efforts, which significantly helped the bottom line. I want to thank all 6,500 Grace employees for the hard work and dedication that made this possible. I also want to thank our customers for trusting us to provide what they need to succeed. We take the faith you place in us very seriously. That is our core purpose.

We continued to extend our geographic reach in 2007, with sales up in Europe, Middle East and Africa by 21%, Asia Pacific by 13% and Latin America by 32%. Today, 67% of our sales come from outside the United States.

In 2007, we opened or expanded facilities in Belgium, China, India, Ireland, Poland and Vietnam, and completed an acquisition in Spain. We kicked off 2008 by celebrating the grand opening of an office in Dubai. We constantly assess where the growth opportunities are and allocate our most precious resource, our people, to those areas.

These results are impressive, even more so when considering how far we've come in just seven years.

- In 2000, Grace had 6,300 employees; today, we have about 6,500. Over the same period, our sales have grown 95%.
- In 2000, Grace invested \$49 million in research and development. In 2007, we invested \$80 million, an increase of 63%. In 2007, 35% of sales came from products introduced over the last five years, a very nice payback from our investment.
- Since we finished the first wave of Six Sigma training in 2000, our savings from productivity have more than tripled, with Green Belts accounting for nearly two-thirds of that total. Our 75 Black Belts and Lean Masters held more than 200 Lean events last year, each helping us be more productive.
- Last but not least is our progress in making Grace a safer place to work. In 2000, our recordable incident rate was 1.39, while in 2007 it was 0.83, an improvement of 40.3%. I am every bit as proud of that improvement as I am of the other metrics.

There are more statistics I could mention, but they would all be making the same point: Grace today is a more vibrant company. And the reason is simple: we adopted a strategy of driving growth and productivity and empowered our people to implement it. More people than I ever imagined have stepped up and succeeded.

These changes, along with our global reach, will help us face future challenges. The continuing downturn in the U.S. housing market, which suffered a decline in housing starts of approximately 25% in 2007, affected us negatively and we don't know when it will recover. Despite this decline, we were able to grow our construction products business by 7.5%, thanks to outstanding performance in Europe and Asia.

During the year, we made changes to our businesses in order to sharpen our focus. First, we turned our Performance Chemicals business into a pure construction business by merging the packaging technologies product group into our Grace Davison operating segment. More than a move on an organizational chart, this merger of product offerings helps us benefit from overlapping synergies. Second, we sold our washcoat business. We decided that, from a resource utilization standpoint, there were better places to invest.

Like most global companies, we are focusing significant efforts on sustainable development, which we define fairly simply: using fewer of the planet's natural resources to make our products while being a source of positive energy in our communities. We are using numerous post-consumer materials in our products, looking at additional recycling opportunities and changing our capital approval process to take into consideration the economics of energy conservation projects.

When all is said and done, however, our greatest contribution to sustainable development is helping our customers address the issue. We created a Biofuel Technologies Group because we saw the need for catalysts that help customers process alternative products into fuel. We launched a green building initiative that allows our construction customers to meet new energy efficiency standards. Outside the U.S., we helped customers understand how to use our products to capture carbon dioxide (CO<sub>2</sub>) credits. Sustainable development is just one example of how we are turning challenges into opportunities.

# A Global Force to Help Our Customers Grow Their Businesses.



As optimistic as I am about our businesses, I am also aware of the tremendous challenges that lie ahead of us: resolving our legal issues. While we made progress on various parts of our Chapter 11 case, resolving our past and future personal injury liability has proven elusive. We have been operating under the protection of Chapter 11 for almost seven years. I want the people who were made ill because of exposure to a Grace product to receive the compensation they deserve, and I want our company to move forward unencumbered by the constraints of Chapter 11.

There is little progress to report in the government's criminal case against Grace and six former executives regarding Grace's former operations in Libby, Montana. As with the reorganization, I believe it is important to get this behind us.

As we prepare for the future, none of us has a crystal ball. Past performance is just that – past performance. It is in no way indicative of our future. However, I am optimistic that we are well prepared for what may come our way.

Today, we are a stronger company because we work together better around the world. We invested in upgrading our marketing talent and are better tuned into the marketplace than

ever before. Our manufacturing locations are not isolated, but part of a larger system that we can leverage. There is a connectivity in today's Grace that simply didn't exist before.

Last year's annual report was titled "Bonds that Build Business." I've thought about that term as I've visited with customers and wondered why these bonds keep getting stronger. Why do customers trust us so much? The answer is that our people share a common purpose. They are completely dedicated to the success of our customers. And, in return, our customers trust us to provide them with products, knowledge, technologies and services that make their products work better. That's why I am confident that we are prepared to address the future. I fully expect those bonds that have almost doubled the size of Grace in the last seven years to be stronger tomorrow than today. It's exciting to be part of it.

Thank you for your support.

Fred Festa  
Chairman, President & CEO

FINANCIAL HIGHLIGHTS <small>Amounts in millions, except per share data</small>	2007	2006	2005
NET SALES	\$3,115.2	\$2,826.5	\$2,569.5
PRE-TAX INCOME FROM CORE OPERATIONS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION <small>As a Percent of Sales</small>	\$398.0 12.8%	\$353.7 12.5%	\$322.4 12.5%
PRE-TAX INCOME FROM CORE OPERATIONS <small>As a Percent of Sales</small>	\$284.6 9.1%	\$240.2 8.5%	\$201.5 7.8%
NET INCOME (LOSS) <small>Diluted EPS</small>	\$80.3 \$1.12	\$18.3 \$0.27	\$67.3 \$1.00
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	71.6	68.3	67.3
NET CASH FLOW FROM OPERATING ACTIVITIES	\$88.2	\$152.7	\$67.3
TOTAL ASSETS	\$3,869.0	\$3,637.4	\$3,538.6
TOTAL LIABILITIES	\$4,255.6	\$4,187.2	\$4,133.9
LIABILITIES SUBJECT TO COMPROMISE <small>(A Subset of Total Liabilities)</small>	\$3,277.5	\$3,221.6	\$3,155.1
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	\$(386.6)	\$(549.8)	\$(595.3)

# Environment, Health and Safety



The world is changing all around us, with developing nations, emerging regulations and new technologies presenting both opportunities and challenges as we continue to reduce our global footprint. By working together around the world, we can share best practices and conserve the environment while protecting the health and safety of our colleagues and communities alike.

An important component of a strong environment, health and safety (EHS) focus is an EHS Management System that serves as the global platform for business activities. As a member of the American Chemistry Council (a U.S. trade association representing leading companies engaged in chemistry) Grace is required to develop and implement a system that meets certain technical specifications based on the “Plan – Do – Check – Act” continuous improvement model. While this requirement applies only to U.S.-based operations, our objective is to implement the system at every Grace location around the world. It helps establish common procedures and identify best practices. And it is the right thing to do.

In 2007, 12 of our manufacturing locations from eight countries successfully completed a two-part certification process to the Grace EHS Management System by a third party auditor. These 12 locations are a true cross-section of Grace’s operations – representing all product lines and geographies. We expect to certify several more sites throughout 2008.

## Sites that Received EHS Management System Certifications in 2007

- Chattanooga, Tennessee
- Curtis Bay, Maryland
- Hesperia, California
- Lake Charles, Louisiana
- Phoenix, Arizona
- Sorocaba, Brazil
- Valleyfield, Canada
- Slough, England
- Epernon, France
- Cikarang, Indonesia
- Santiago, Mexico
- Canlubang, Philippines

Like most global companies, Grace faces emerging regulations. One example, REACH (Registration, Evaluation and Authorization of Chemicals) is the new European Union regulatory system for chemical management. This will impact thousands of substances and compliance will require significant effort by the chemical industry. Grace supports product lifecycle management and REACH will improve knowledge about chemical substances and their uses to assure proper risk communication, exposure control and chemicals management. Grace is well prepared to meet all challenges rising from REACH and will be in a position to offer our customers the products and services they require.

## Environment

Across Grace, we have made continual improvements in our safety and environmental performance through our commitment to EHS excellence. For example, our European fluid catalytic cracking catalyst facility takes back spent catalyst from customers and offers excellent disposal options. Our plant in Worms, Germany has found outlets for by-product streams, taking what was once waste and turning it into revenue.

Grace Construction Products promotes sustainable building practices by offering products that help meet the prerequisites of the Leadership in Energy and Environmental Design (LEED®) Green Building Rating System™.

Grace is also working with our customers in the cement industry to reduce their carbon outputs. Cement is the most prevalent man-made material in the world, with an annual production of 2.3 billion tons. About 50 to 60% of the emissions from cement manufacturing is due to the chemical reaction in the production process and 30 to 40% is due to the combustion of fossil fuels in the kiln. Grace products help reduce these emissions. Our grinding agents contribute to production efficiency by reducing electrical consumption. Our quality improvers are added to lower used coal content and reduce carbon dioxide emissions.

Our Grace Davison Environmental Services Group, launched in 2007, helps customers reduce their environmental footprint. The mission of this group is two-fold: build a platform for long-term sustainability and provide environmentally oriented services. Its creation shows the growing importance of environmental protection to our core markets.

# 2007 Accomplishments

- Achieved a global, recordable incident rate of 0.83, compared to 0.89 in 2006.
- Reduced reportable environmental releases by 40%.
- Recognized 77 locations with the Paul J. Norris Award, Grace's internal award for meeting safety improvement metrics.
- Received the Responsible Care® award from the Chilean Association of Chemical Industries.
- Earned membership into the U.S. OSHA Voluntary Protection Program at the "Star" (highest) level in Edison, New Jersey.
- Received the annual Safety Award from the Mining Association of South Carolina for our Enoree and Aiken, South Carolina operations.
- Received International Organization for Standardization (ISO) 14001 certification for our facility at Passirana, Italy.
- Received the Occupational Health and Safety Assessment Series (OHSAS) 18001 certification in Bogotá, Colombia.
- Obtained certification to the Responsible Care® – 14001, ISO 14001 and OHSAS 18001 standards for manufacturing operations in Curtis Bay, Maryland.

## Helping Prepare First Responders

As a company dedicated to safety, we frequently reach out to our local fire and police departments. In New Jersey, we opened the doors to our manufacturing plant and conducted confined space rescue training with the North Hudson Regional Fire Department. The four-day event involved more than 100 people. In addition, Grace presented a three-year grant to the fire department. Earlier donations had been used to purchase life saving equipment for stations throughout the county.



Community involvement is also of great importance to us. We participate in local Community Action Programs to share information and periodically invite our neighbors to visit our facilities. One such occasion in 2007 was a 50<sup>th</sup> anniversary celebration for our facility in Valleyfield, Canada that was attended by several hundred people. We also support community recycling, as is the case in Santa Ana, California, where we have recycled over 26 million pounds of polystyrene into our products since 1997. Much of this material comes from nearby furniture and electronics companies.

## Health & Safety

In the areas of health and safety, we focus upon building consistency in the way the organization anticipates, recognizes, evaluates and controls occupational health and safety risks. We have established global minimum requirements for critical life safety activities to ensure that our employees around the world are protected to the same standards. We have conducted numerous engineering studies and facility upgrades to reduce employee exposures to chemicals and dusts.

Sadly, the Grace community mourned the passing of Terry Blake from a fatal injury sustained at our facility in Slough, England on January 23, 2007. Terry was a long-time employee and his loss continues to be felt to this day.

EHS is a primary focus of our daily activities, whether starting a meeting with a safety tip or creating products that help protect the environment. Regardless of our position or location, we are dedicated to working safely and effectively.

## SAFETY PERFORMANCE

	2007	2006	2005
Recordable Incidents	55	60	67
Lost Workday Cases	22	16	29
Lost Workdays	372	332	855
Recordable Incident Rate	0.83	0.89	0.97
OSHA Regulatory Citations	2	0	0
OSHA Penalties	\$12,000	0	0
MSHA Regulatory Citations	1	7	6
MSHA Penalties	\$100	\$646	\$360

Cases and rates are determined according to the U.S. Occupational Safety and Health Administration (OSHA) criteria. Regulatory citations and penalties are determined by state or federal OSHA and the U.S. Mine Safety and Health Administration (MSHA).

## ENVIRONMENTAL PERFORMANCE

	2007	2006	2005
Regulatory Citations	11	20	6
Regulatory Penalties	\$13,380	\$3,000	\$17,500
Reportable Releases <sup>(1)</sup>	36	51	51

(1) Reportable releases include releases to the air, water or land that exceed a government established reportable quantity, or are otherwise reportable by law, regulation or permit condition.

# Community Stewardship



Through community stewardship, we help combat diseases, preserve landmarks, educate children and support neighbors in need. All are worthy activities. However, instead of spotlighting the company's contributions, we want to recognize the generosity of our colleagues. So many of them have made profound impacts in our communities and it is their dedication that we want to recognize.

## Leading the Way

The hardest part of philanthropy is making the decision of which organizations to support. So many are worthy.

Employee donations were wide-ranging in 2007 and reflected the diversity and passion of the group. Some donations were made to rally and fight against diseases. Others were in memory of departed family members and friends. Many went to schools to support future generations. Just a few of the recipients included the Lymphoma Research Foundation, Share our Strength, National Multiple Sclerosis Society, Special Olympics and American Cancer Society.



Many times, employees banded together to spur themselves on. As they have done for eight years, a team from our Chattanooga, Tennessee facility walked in a Susan G. Komen for the Cure fundraiser in 2007. "Walk for Margie", as the team is known, has raised several thousand dollars in memory of a colleague that lost her fight against breast cancer. Another team of four women from Grace participated in a three-day walk over 60 miles inspired by a colleague's wife that was fighting the disease. This group raised more than \$30,000 and said that a few blisters were nothing compared to the feeling of accomplishment.

To increase the impact of these contributions, our philanthropic affiliate, the Grace Foundation, matched donations raised by employees from their colleagues in the United States and Canada, at 100%.

## Meeting Basic Needs

As important as the financial contributions can be, sometimes the greatest donation is much more personal: *time*. Many employees volunteer with organizations, sometimes a few hours, other times a few weeks. In one instance, a Grace site nurse travels to Honduras each year for a two-week stay to help people that don't receive frequent medical visits. For a decade, she has traveled to that country in order to provide first aid, health education and disease management. The reason she keeps going back year after year? Simply put, she wants to help and is inspired by others that make the same trip.

And her travels have inspired her Grace colleagues to collect money in her honor for Heifer International, an organization that gives livestock to impoverished villages and towns to be raised as a food source. The fundraising began in 2004 and has grown each year since. In 2007, the group's fundraising was matched by Grace and enabled several heads of livestock to be donated.

A similarly important and personal donation is blood. Throughout the year, employees responded to appeals from local healthcare and emergency responder organizations to "give the gift of life" and provided more than 500 donations from locations as diverse as Indonesia to the United States, with each donation having the potential to save up to three lives. Grace employees organized the drives with one group having the special distinction of being named Blood Drive Recruitment Committee of the Year by the American Red Cross (Greater Chesapeake and Potomac Blood Services Chapter). That team was able to collect 180 units from 227 participants at five drives.

In order to help spur interest, Grace held the blood drives on company property and gave employees an extra vacation day after making a certain number of donations in one year. Through the combined activities of everyone involved, communities are having their basic needs met.

By investing in our communities, we are investing in our future.



### Rebuilding through Recycling

Sometimes the largest impact comes from the smallest group. That is the case at our facility in Sorocaba, Brazil where one employee banded together with other members of the community to help individuals in need. Many were homeless or suffering from addictions and had nowhere to turn.

The group decided to create a recycling organization – a cooperative – to generate employment opportunities. Members of the community would pick-up and sort recyclables and have regular sources of income as environmental agents, as well as be eligible for the country’s social security plan. After years of hard work and dedication, “Cooperativa Reviver” was brought to life in 2007 during an official inauguration. The non-profit entity is housed in a building donated by the city with more than 30 tons of material being collected each month. The city is so pleased that they want to open additional cooperatives with the goal of collecting 400 tons each month.

Grace was able to support the cooperative by providing recyclable material from the company’s plant, and is preparing to serve as a drop-off location for employees to bring recyclables from home. When asked why he spent so much time helping his community, the employee that started it all said quite eloquently, “There is nothing more rewarding than the twinkle in the eyes of those who have recovered their self-esteem and can now take control of their lives.”

### Being a Kid at Heart

Many times the best thing for kids is to be encouraged to play. And play they did with the help of employees in China! Our colleagues hosted children from Shanghai elementary schools and special needs families for a rare day at the beach. The volunteers (all kids at heart) and the children enjoyed being outside and playing in the sun and sand. They had a kite flying competition that benefited from a strong breeze that day.

### Making the Holidays Happen

Holidays can be stressful, especially for families facing financial hardship. Our colleagues in Curtis Bay, Maryland provided some unexpected joy by organizing toy and food drives in November and December.

This outreach has occurred for more than a decade and has collectively helped more than 2,000 people. Employees “adopt” families and provide food to last up to a week and an assortment of clothes, bikes, helmets, toys and gift certificates. More than 100 employees are traditionally involved, whether buying food, wrapping presents, assembling toys and bicycles or making deliveries. Their outreach caught the attention of CNN and the news network did a live broadcast about their efforts on Thanksgiving Day.

This outreach has come a long way. The effort started small, with just turkeys and a handful of volunteers to help 12 people. In the early years, funds were raised by employees that donated \$1 each week. The fundraising has become larger in scope and the Grace Foundation now makes donations. No matter the size or surprise publicity, at the core is a dedication to help people in need.

These are just a few examples of our colleagues’ generosity. With 6,500 employees in more than 40 countries, the collective impact is significant. In one thank you letter, a school principal wrote, “W. R. Grace is not just a company; you are people that care.”<sup>(1)</sup> We couldn’t have said it any better about the people we are proud to call our colleagues.

(1) Principal from Zellwood Elementary School in Zellwood, Florida





Grace Davison is a global supplier of specialty chemicals, materials and formulation technologies for energy and refining; consumer, industrial and packaging; and the petro/biochemical industries, as well as life sciences and analytical chemistry applications. The business achieved sales of \$2.0 billion in 2007, an increase of 11.8% from 2006.

## 2007 Accomplishments

### Highlights

- Achieved 12% revenue growth through value-added customer programs, new product introductions and significant growth in defined “opportunity” regions.
- Increased EBIT by 15% compared to 2006.
- Improved cash flow processes, delivering cash 8% over 2006.
- Delivered \$40 million through productivity programs.
- Continued to increase capital investment.
- Opened Process and Design Engineering Center in India to accelerate commercial development of new products.
- Achieved vitality index, an indication of new product commercialization, of 38%.
- Acquired Grupo Sistiaga S.L., a Spanish manufacturer of coatings for specialty beverage containers. The acquisition added aluminum bottle coating technology, a fast-growing segment of the specialty beverage industry.

### Key Milestones

- Continued to improve safety record with a 15% reduction in recordable incidents.
- Combined Engineered Materials and Darex Packaging Technologies product groups based on technology synergies and common customer industry segments in order to leverage our materials sciences and formulations technologies to accelerate new product introductions; develop effective customer channels; and capture growth in emerging geographies.
- Launched commercialization of Biofuel Technologies Group from the Incubator program in order to capitalize on increasing sales and an active R&D pipeline for the renewable fuels industry.

- Formed Environmental Services Group to improve the environmental footprint of our manufacturing and innovation processes and develop environmentally focused products and services.
- Completed multi-million dollar expansion of Magnapore® catalyst manufacturing capacity at Curtis Bay, Maryland.
- Secured equity position in Kuwait Catalyst Company through Advanced Refining Technologies, our joint venture with Chevron Products Co., which establishes a platform for growth in hydroprocessing catalysts in the Middle East.
- Hosted refining technology conference in Italy that provided participants from 133 refineries and research institutes in 26 countries with a forum to meet and exchange best practices.
- Transferred silica manufacturing from Cincinnati, Ohio (and divested site) to Curtis Bay, Maryland to optimize processes and invest in establishing Good Manufacturing Processes-compliant operations.
- Launched E.R.A.S.E. (Eliminate, Reduce And Simplify Excess) campaign that empowered employees to simplify work processes and reduce current complexities.

### Innovation

- Successfully introduced several fluid cracking catalysts that enable petroleum refiners to maximize their crude oil feedstocks and produce higher-value fuels, such as gasoline, diesel and jet fuel.
- Introduced improved technology for ebullating bed resid hydrocracking.
- Launched the APPERTA® line of coatings for growing segment of easy-open food cans.
- Developed Grace EnSight® Biodiesel Analyzer, a process development tool and quality assurance instrument that reduces the analysis time for biodiesel impurities, speeding up the commercial production process.
- Launched GraceResolv™ flash cartridges that offer enhanced resolution for purifying pharmaceutical compounds.



## Plant Expansion Marks 50-Year Relationship with Chevron Phillips



In 1957, researchers from Phillips Petroleum Company contacted Grace Davison looking for an inorganic support to secure chromium on the catalyst they were developing for Phillips' budding polyethylene technology. Our R&D responded with a sample silica alumina support, beginning the 50-year relationship between Grace Davison and what would become Chevron Phillips Chemical Company LLC.

In the half-century since, Grace and Chevron Phillips have developed and commercialized a number of catalysts, keeping Chevron Phillips' world-class loop technology for the production of high-density polyethylene (HDPE) at the leading edge of resin producers.

During 2007, we completed a 30% expansion of our Magnapore® catalyst manufacturing capacity at Curtis Bay, Maryland. The expansion was driven by the growing demand for Magnapore® catalyst, sold exclusively to Chevron Phillips and its 85 worldwide licensees of the loop process. This premium catalyst ensures the durability of HDPE, which is used to strengthen transmission pipes for water and natural gas.

Completion of the expansion ensures a firm supply of this value-added catalyst to support the future growth of the Chevron Phillips loop process and its current and future licensees.

## New Engineering Center Accelerates Innovation



Our global reach was expanded in 2007 with the official inauguration of a Process and Design Engineering Center in Chennai, India. The facility is an additional resource for customers in the rapidly growing Indian market and an important collaborator for the global Grace research community.

The key impetus for the Center was comprised of three concepts: 24-hour engineering, establishing new process modeling capabilities and increasing the diversity of ideas. 24-hour engineering refers to leveraging the time difference between North American engineering teams and the Chennai Center – to accelerate sequential tasks in design projects. Process modeling and teamwork facilitate our manufacturing and operational excellence, while the cultural and educational experience of the Indian team adds valuable idea diversity, feeding the innovation pipeline. Collaboration with renowned institutions like the Indian Institute of Technology in Madras is also expected to accelerate innovation.

With the use of product lifecycle management software, the engineering teams in Chennai and the United States have immediate online access to accurate and controlled product design information. This enables us to meet customer needs rapidly and precisely. In addition, the teams have successfully experimented with joint new product development projects, particularly in the area of flash chromatography.

## 2008 Opportunities

- Continue to improve safety performance.
- Drive new product and technology innovation by leveraging our material science and formulations expertise.
- Explore the development of new business platforms in adjacent markets and emerging technologies.
- Leverage global marketing and R&D resources to support regional sales and manufacturing expansions.
- Maximize global manufacturing position for efficiencies and capacity utilization.
- Pursue acquisitions and alliances that add technology or infrastructure to current business models.



# Grace Construction Products



Grace Construction Products is a leading provider of specialty construction materials, systems and services that strengthen, enhance and protect structures. Our products include concrete admixtures and structural fibers, cement and concrete masonry processing additives, products for architectural concrete, air and vapor barriers, roofing underlayments, waterproofing systems and fire protection products. The business achieved sales of \$1.1 billion in 2007, an increase of 7.5% from 2006.

## 2007 Accomplishments

### Highlights

- Achieved double-digit sales growth over prior year in Europe and Asia Pacific through focus on key accounts, major projects, new technology innovations and productivity initiatives.
- Outperformed construction market growth performance in concrete admixtures and cement additives in the Americas region.
- Opened new manufacturing and technical service facilities in Ho Chi Minh City, Vietnam and Tianjin, China to meet growing demand for construction products.
- Celebrated grand opening and dedication of state-of-the-art manufacturing plant in Mt. Pleasant, TN. New facility produces Grace Ice & Water Shield® roofing underlayment, Bituthene® above and below grade waterproofing membranes and Grace Vycor® Plus window and door flashing for commercial and residential construction.
- Expanded resources in Europe with grand openings of regional headquarters in Brussels, Belgium and Innovation Center in Poznan, Poland.

### Key Milestones

- Improved safety performance over prior year through increased emphasis on behavioral-based employee safety awareness.
- Merged residential and commercial waterproofing product lines in Americas region to align with customer and market needs.
- Created regional R&D and Operations teams to accelerate innovation and better serve local customers.
- Launched “Building Green With Grace” web-based tools assisting architects in selecting Grace products in designing structures that comply with the Leadership in Energy and Environmental Design (LEED®) Green Building Rating System™. LEED promotes sustainable sites, energy/water efficiency, recycled materials, environmental quality and innovation in design.

- Donated Bituthene® System 4000 structural waterproofing for construction of Ann’s Place, a cancer support and resource center in Danbury, CT; and Grace Ice & Water Shield® to refurbish the roof of a historical site in Loomis, CA.

### Innovation

- Launched Synchro® 200, a next generation additive that minimizes the harmful effects of chromium in cement. Synchro 200 provides added safety and greater ease of use for concrete producers.
- Introduced Tri-Flex® Xtreme™, a strong, durable, high performance synthetic roofing underlayment with better wet and dry skid surface resistance that improves safety for roofing installers.
- Re-engineered ADVA® superplasticizers product line, providing ready-mix producers with greater workability, improved flow and higher strength concrete.
- Launched more than 40 new concrete admixture products worldwide, meeting dynamic global market requirements.
- Introduced AdiaCal™ field calorimeter as first new offering in Grace Construction Services business. AdiaCal™ monitors cement hydration to aid producers in improving the quality of their concrete mix.

## 2008 Opportunities

- Drive continued safety improvement using behavioral-based tools to reinforce safety as Grace’s Number One priority.
- Expand market presence in Latin America, Eastern Europe, Middle East and Asia Pacific to participate in rapidly growing geographic regions.
- Continue to drive operational excellence through Six Sigma and Lean methodologies.
- Accelerate introduction of “new to market” products and services to drive strategic growth initiatives.
- Leverage redesigned enhanced Innovation Process to increase speed of introducing new products.

## Showcasing The Treasures of Islam

### Grace Helps Build Qatar's Museum of Islamic Art



Poised at the end of the corniche in the harbor of Doha, Qatar, the Museum of Islamic Art rises majestically from the waters of the Arabian Gulf. Designed by renowned architect I. M. Pei, the Museum's striking exterior conceals one of the finest collections of Islamic art in the world.

The Museum found its primary inspiration in the Mosque of Ahmed Ibn Tulun in Egypt and was built through the combined efforts of several firms from around the globe – including Leslie E. Robertson Associates of New York. Reflecting in its design a modern interpretation of Islamic architecture, it mirrors Qatar's vision as a bridge between past and present, East and West.

Constructed on reclaimed land, the Museum's foundation rests below the water table, subjecting it to highly aggressive chloride and sulfate conditions. To prevent the concrete



substrate from deteriorating, building designers chose Grace Prepufe® 300 R waterproofing membrane, applied below the slab to stop water migration around the substructure. Bituthene® 8000 HC waterproofing membrane protected the substructure walls from the harsh

ground environment and was well suited for Qatar's severe heat. Bituthene® Liquid Membrane and Servipak® protection boards rounded out the system solution.

When viewed from different angles, the Museum seems to float in the sea, connected to land only by a pedestrian walkway, a pair of vehicular bridges, and a causeway – also reinforced using Grace products. Inside, the Museum boasts two floors of permanent galleries, an expansive Education Wing, world-class library, 200-seat auditorium, restaurant, temporary exhibition galleries and a conservation centre. The first of its kind in the Gulf, the 45,000 m<sup>2</sup> (484,375 ft<sup>2</sup>) structure is set to open in November 2008.

The partnership of Grace and the Museum of Islamic Art reflects the possibility of partnerships that transcend borders and cultures – bringing teams from around the world to work together.

## Grace Adds Durability to Design

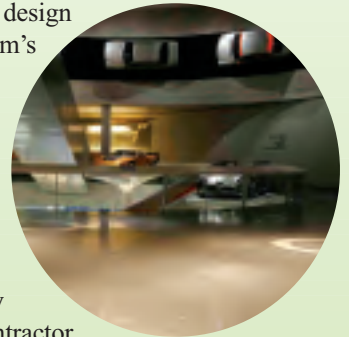
### The Mercedes-Benz Museum, Stuttgart, Germany



Modern architecture enthusiasts and car buffs alike share common fascination with the Mercedes-Benz Museum, located just outside Stuttgart, Germany. The 180,000 ft<sup>2</sup> (16,723 m<sup>2</sup>) structure is near the spot Daimler and Maybach conceived of their unique, high speed, lightweight engine that brought us motorized land, sea and air transportation and inspired the now famous Mercedes-Benz triad.

Designed by UN Studio van Berkel & Bos, Amsterdam, this architectural milestone resembles a series of stacked triangles with rounded corners, separated by glass walls and support columns. Visitors enter a central atrium and are sped to the top floor in rapid-fire elevators. From there, via two interconnecting helixes, they descend through nine levels and 1,500 exhibits, including 160 vehicles that tell the story of the inventor of the automobile.

While the structure presented myriad design challenges, the first level of the Museum's triangular interior foyer created its own engineering concerns. Here, visitors cross a patterned surface that must not only remain attractive, but also withstand the punishing footsteps of more than one million annual viewers. Though resembling marble terrazzo, the floor is actually polished concrete. The building contractor needed an innovative, long lasting solution that met the aesthetic as well as the engineering demands of the floor's large curved and sharp cornered sections.



The choice was Grace Eclipse® Floor shrinkage-reducing admixture, formulated for use in indoor slab-on-grade concrete construction. Eclipse admixture reduces concrete's tendency for drying shrinkage, cracking and curling, giving the floor enhanced durability and a longer life. Following construction, finish grinding brings out the grains and aggregates of the artificial stone, highlighting the floor's polished appearance.

Durability and design – from a legendary car manufacturer and its modern venue, realized and implemented with a unique product from Grace.

Photos courtesy of Daimler AG.

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*Vice President and President, Grace Construction Products*

### **William M. Corcoran**

*Vice President, Public and Regulatory Affairs*

### **Fred E. Festa**

*Chairman, President and Chief Executive Officer*

### **J. P. "Butch" Forehand**

*Vice President, Operations*

### **Gloria L. Keesee**

*Chief Information Officer*

### **Hudson La Force**

*Senior Vice President and Chief Financial Officer (as of April 1, 2008)*

### **W. Brian McGowan**

*Senior Vice President, Administration*

### **Gregory E. Poling**

*Vice President and President, Grace Davison*

### **Mark A. Shelnitz**

*Vice President, General Counsel and Secretary*

### **Robert M. Tarola**

*Senior Vice President & Chief Financial Officer (through March 31, 2008)  
Senior Vice President, Corporate Strategy (as of April 1, 2008)*

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*Retired Chairman and Chief Executive Officer,  
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*Retired Chairman and Chief Executive Officer, M/A-COM*

(1) Also serves on Audit, Nominating and Governance, Compensation and Corporate Responsibility Committees

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### **Investor Relations**

Inquiries from individual shareholders and requests for Annual Reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K should be directed to:

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