



# Bonds That Build Business

Annual Report 2006

**GRACE**

# Dear Shareholders, Colleagues and Customers



This annual letter gives me a welcome opportunity to reflect on the year past and put into perspective the things that our 6,500 people around the world are doing to make Grace a stronger competitor. By creating chemistry in the markets we serve, we are able to help our customers and our communities.

First, let me talk about the business performance in 2006. I am pleased to report we had another very good year. We remained focused on growth and productivity, and we delivered on both.

Sales for the year were \$2.8 billion, a 10% increase over the prior year. The increase was driven by strong performance in all regions, with Europe leading the way. Our business teams continued to grow our sales base despite a downturn in U.S. residential construction. Net income for 2006 was \$18.3 million, or \$0.27 per diluted share. Pre-tax income from core operations was \$240.2 million, a 19.2% increase over 2005.

We also achieved our high cash return targets. Our net cash flow from operating activities increased from \$67.3 million in 2005 to \$152.7 million in 2006. Our working capital management was the most significant “new” initiative and provided as much cash growth as sales increases.

These results don't tell the whole story. Our sales growth was driven by several factors, including product mix and volume. Our productivity increases, rooted in Six Sigma, were critical to offsetting inflation in key raw materials. And the big improvement in cash flow enabled us to meet important obligations, such as funding capital improvements and the Grace pension plans.

During the year, we accelerated our productivity efforts through the use of Six Sigma tools, often referred to as Lean or Kaizen, in order to maintain our earlier momentum and address something that has offended me in every job I have ever had: non-value added complexity. These tools are easy to use and effective in simplifying business processes. Champions were deployed across Grace to jumpstart their use, as those of us who have used them understand their effectiveness.

In 2006, we held more than 175 Lean and Kaizen events throughout Grace, one every other day. It's exciting, it's invigorating, and for those process owners it's enormously empowering. In one example, a Kaizen event was held at our hydroprocessing plant in Curtis Bay, Maryland. It focused on making the work areas safer, cleaner and more organized, and ultimately led to a new way to recover metals used at the facility. We estimate the savings from this one project at over \$600,000.

I don't want my enthusiasm to lead you to the conclusion we have simplified every business process at Grace. We still have plenty of work to do, but we are making measurable progress. I am very proud of what we have accomplished and the way we are sharing our successes.

On the next few pages, there is in-depth description of our two operating segments: Grace Performance Chemicals and Grace Davison. Both had excellent years and have improved their growth platforms to be better positioned for future success, in particular because of their focus on innovation.

We've developed a vitality index that tells us the percentage of revenues from products introduced during the most recent five years. I am pleased to say that the index is 36% for Grace Davison and 27% for Grace Performance Chemicals. Subsequent sections will highlight some of our innovative new products.

In the case of Grace Performance Chemicals, we moved decision-making, marketing, and research and development closer to the customer. We established European and Asian decision-making organizations and technical labs, reinvigorating our sales and marketing talent. Instead of seeking a single new product idea, I envision different new products being launched in different parts of the world, reflecting local market needs and opportunities. We have restructured our entire R&D organization. In addition to our focus on improving the products we manufacture today, we have placed a special emphasis on innovation. A cultural change is underway that will encourage people to take “big swings” at developing new products. We have several of these in the pipeline, and I look forward to telling you about their future market success.

At Grace Davison, we have devoted much of the last 18 months to repositioning our business to build on our strengths and focus on our best long-term opportunities. For instance, we expanded our position in polyolefin catalysts and components - essential ingredients for making industrial and consumer plastic resins - through the acquisition of a custom catalyst manufacturing facility. At the same time, we are reviewing whether or not to remain as a supplier to the automotive catalyst industry. Not an easy decision, but one we need to make. I believe these changes, and others like them, will ultimately help us better serve our customers around the world.

Like other companies, we have strategic business themes that we are relentlessly pursuing. We focus on improving productivity in our entire value chain. We reconfigure our manufacturing, challenge our logistics processes, beef up our supply chain organiza-

tion, and improve our IT capability to make data more readily available to those who need it. All of these are critically important to our future success. However, the one area that my leadership team and I have spent as much time on as any business initiative is what makes it all work -- our people.

Recently, we completed a global research project to understand the Grace brand and its position in the market. The results pointed out that the people of Grace are the face of the brand. I loved that finding because it reinforced my opinion that I am privileged to be the leader of great people. However, it also has important ramifications as we continue to globalize our businesses.

The world is changing rapidly and Grace is changing with it. In 2001, over 50% of our sales came from North America. Today, that number is 41%. That is a huge shift and we need to allocate resources accordingly. In 2006, we opened offices and labs in Russia, Poland, India and China, and expanded in the Middle East through joint ventures and organic growth. As we expand into these emerging growth areas, we are clearly focused on increasing our cultural diversity. We made progress in 2006 and intend to make more in 2007.

To capture the knowledge of our terrific people and ensure that the strength of the Grace brand is instilled in the next generation of employees, we have set an expectation that the leaders at Grace be teachers. Successful people at Grace know they have a responsibility to impart their wisdom to those coming behind them. Our goal is to have all front line supervisors and other managers understand their responsibility to help those around them.



In addition to all the positives at Grace, we still face numerous challenges. First and foremost is our Chapter 11 case. The bankruptcy judge has scheduled hearings for the estimation of our past and future asbestos-related liability for later in 2007. This is a critical step in our plan to emerge from Chapter 11 and we are fully engaged in the process. I look forward to the time I can write to you that final plans for our emergence from Chapter 11 are underway.

Also, the indictments of the company and seven former employees regarding operations at the former Libby vermiculite facility are still pending in Federal Court in Montana. The trial was to have begun last September, but the government is appealing a number of pretrial rulings and it appears unlikely that the case will reach trial before the end of 2007, at the earliest. As with the Chapter 11, I also look forward to being able to tell you that this case is behind us.

In closing, I would like to thank all Grace employees, who made our 2006 performance possible. Each of you shares the vision of Grace becoming the world's premier specialty materials and chemicals company and we made real progress toward that goal in 2006. I am optimistic that despite inevitable bumps along the way, we have the drive, the growth platforms, the passion and, most of all, the people to succeed.

Sincerely,

Fred Festa  
President & CEO

FINANCIAL HIGHLIGHTS	2006	2005	2004
Amounts in millions, except per share data			
NET SALES	\$2,826.5	\$2,569.5	\$2,259.9
PRE-TAX INCOME FROM CORE OPERATIONS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION As a Percent of Sales	\$353.7 12.5%	\$322.4 12.5%	\$294.6 13.0%
PRE-TAX INCOME FROM CORE OPERATIONS As a Percent of Sales	\$240.2 8.5%	\$201.5 7.8%	\$179.3 7.9%
NET INCOME (LOSS) Diluted EPS	\$18.3 \$0.27	\$67.3 \$1.00	\$(402.3) \$(6.11)
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	68.3	67.3	65.8
NET CASH FLOW FROM OPERATING ACTIVITIES	\$152.7	\$67.3	\$325.4
TOTAL ASSETS	\$3,637.4	\$3,538.6	\$3,553.1
TOTAL LIABILITIES	\$4,187.2	\$4,133.9	\$4,174.9
LIABILITIES SUBJECT TO COMPROMISE (A Subset of Total Liabilities)	\$3,221.6	\$3,155.1	\$3,207.7
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	\$(549.8)	\$(595.3)	\$(621.8)

# Environment, Health & Safety

With offices in over 40 countries, we have a responsibility to think globally and act locally. No matter if our product is produced in Hong Kong or in Houston, if it is used in pharmaceuticals or in petroleum, our objective is the same: to make products that benefit society in a manner that protects the health and safety of our employees without negatively impacting the environment.

Millions of people use Grace products each day without realizing it. We may be the coating on a beverage can or bottle of water, contribute to the quality of gasoline in a vehicle, or provide the material used to strengthen a bridge. As a result, we have a tremendous responsibility to our customers and to the communities we serve.

## Environment

Our focus on the environment is devoted to two areas - the compliant operation of our facilities with environmental regulations and the development of products that reduce our combined global footprint.

We operate recycling programs at many of our facilities. At our corporate headquarters alone, we have recycled over 46 tons of office paper since 2003. As a result, we have preserved seven acres of forest, saved 323,610 gallons of water, conserved 194,166 kilowatt hours of energy, and reduced our reliance on oil by 31,575 gallons.

Our impact is even greater at our manufacturing facilities. One of our larger plants is located in Curtis Bay, Maryland. Through an aggressive waste reduction program, that site has achieved a 28% decrease in waste since 1997. In Germany, we have recycled material from processed wastewater for five years. This material is added to some of our silica products and kept away from landfills.

In addition to these efforts, we have pursued Environment, Health & Safety (EHS) certifications for several Grace sites. Most notably, our facility in Passirana, Italy received International Organization for Standardization (ISO) 14001 certification in October 2006. As part of the certification process, the facility identified environmental aspects and impacts associated with its operations and established targets for continuous improvement. Some of the objectives included increased

recycling, waste reduction, energy savings and product life cycle assessments. The certification process was completed over the course of one year under the close review of an independent certification body. This facility joins Grace sites in Germany, Spain, the United Arab Emirates and the United Kingdom that have already completed the process.

Our focus on the environment also involves the development of products that help reduce harmful emissions, conserve energy and decrease the use of natural resources. Our efforts begin in the lab and extend throughout the entire chemical supply chain.

One area of particular achievement in 2006 was the expansion of our refining catalysts and additives product line. Our products are used by refineries to remove certain impurities when distilled crude oil is converted into transportation fuels. Of particular concern are sulfur, sulfur oxide, nitrogen oxide and carbon monoxide. All are present in crude oil and natural gas, or are generated by a refinery's fluid catalytic cracking unit (FCCU). The ultimate goal is to reduce these emissions so they are not released to the air. Our newer products can now reduce FCCU emissions by up to 90%, depending on the application and grade of gasoline.

## 2006 Accomplishments

- Achieved a global, normalized OSHA injury rate of 0.85, compared to Grace performance of 0.97 in 2005
- Reduced recordable incidents by 15%
- Reduced lost workday cases by 50%
- Reduced lost workdays by 87%
- Continued the rollout and implementation of our global EHS Management System that serves as the framework for our global EHS strategy
- Received guest professor recognition from East China University of Science and Technology
- Recognized 76 Grace locations with the Paul J. Norris Award, Grace's internal award for achieving impressive safety results
- Earned the Louisiana Chemical Association's Serious About Fostering Excellence Award for our plant in Lake Charles, Louisiana
- Received Environment, Health and Safety Award from Jebel Ali Free Zone Authority, a major Middle East business hub, for contributions made to the area's well-being





## Health and Safety

Responsibility for our EHS performance belongs to each and every employee, not just those in traditional manufacturing settings. In 2006, we achieved a total injury rate of 0.85, compared to an industry average of 3.50. Our performance was driven by reductions in recordable incidents, lost workday cases and lost workdays.

During the year, we focused on a number of new or expanded initiatives, ranging from improved ergonomics to driver safety. We also began the installation of automatic external defibrillators (AED) at our sites, that are used to diagnose and treat cardiac arrest by re-establishing an effective heart rhythm.

We are focused on building consistency in the way the organization anticipates, recognizes, evaluates and controls occupational health risks. As Grace expands in various regions of the world, managing exposure risks to a global harmonized standard has become crucial to the health and safety of our employees. Grace is actively improving industrial hygiene standards and procedures to identify, anticipate and reduce potential risks.

On March 14, 2006, we suffered a significant loss when Jimmy W. Streeter, a long-time employee, was fatally injured at the company's manufacturing plant in Maryland. We established a scholarship fund for his son, which received donations from many of his colleagues that were matched by the company.

## Responsible Care®

We work with our industry colleagues to share best practices and establish processes that benefit the environment. We are involved with the American Chemistry Council and the organization's Responsible Care® program, a global chemical industry performance initiative that exceeds government regulations.

We also work with schools and universities to elevate the visibility of EHS in science, technology and engineering programs so future engineers and researchers consider EHS in the development of tomorrow's products. Members of our R&D and EHS departments have judged school science fairs, provided onsite lab tours, mentored children and delivered lectures. Grace also funds a number of scholarships in North America and Asia.

SAFETY PERFORMANCE			
	2006	2005	2004
Recordable Incidents	57	67	74
Lost Workday Cases	14	27	30
Lost Workdays	192	689	1,344
<b>Total Injury Rate</b>	<b>0.85</b>	<b>0.97</b>	<b>1.10</b>
Cases and rates are determined according to the U.S. Occupational Safety and Health Administration criteria.			



As part of our community stewardship efforts in China, Grace sponsored a children's drawing competition themed "I Love Mother Earth." The goal of the competition was to raise people's awareness of the need for environmental protection through drawings by children.

Blank posters were distributed to schools and special needs centers in Shanghai to generate involvement. Teachers and students alike were extremely interested in participating.



In conjunction with contacting the schools, we solicited drawings from Special Olympics athletes. We hosted 20 athletes from Taiwan on behalf of the local business community and held painting games with the same environmental theme.

More than 80 drawings were eventually submitted; many were rich in creativity and demonstrated the children's love of nature. We held an outdoors award ceremony to display the drawings and recognize the children's efforts. Besides raising awareness, the drawings had the added benefit of using children's unique perspectives to make learning fun.

*"Lotus and Fish" drawing submitted by a student is pictured above*

ENVIRONMENTAL PERFORMANCE			
	2006	2005	2004
Regulatory Citations	20	6	14
Regulatory Penalties	\$3,000	\$17,500	\$10,400
Reportable Releases <sup>(1)</sup>	51	51	26
<sup>(1)</sup> 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

Reaching out to the community is not only about the donation of material needs; it is also about care and devotion. People are our greatest asset and civic engagement is an integral part of our corporate culture.

We believe in creating long-term partnerships with the communities in which we operate. Rather than contributing to one-time-only initiatives, we invest in their future. Our hope is that our collective efforts will make a significant, lasting impact in our neighborhoods.

## Community

At Grace, we go beyond investing in community projects, endowing scholarships and encouraging our employees to volunteer. When making decisions, we take into full account our impact on stakeholders and the environment.

In 2006, our community initiatives took many expressions. In Cambridge, Massachusetts, volunteers worked side-by-side with the Massachusetts Alliance of Portuguese Speakers in painting its headquarters. In Lake Charles, Louisiana, employees adopted a classroom from the local HeadStart program (a pre-school program for economically disadvantaged children) and organized a coat drive to benefit them. In Deerfield, Illinois, volunteers filled shoeboxes with gifts to be sent to needy children all over the world for the ninth consecutive year.

Another lasting community partnership developed between Grace China and the Shanghai Jiang Chuan community. Last year alone, employees volunteered 300 hours and directly influenced the lives of over 400 children and adults.

We were also quick to react and assist victims of unfolding disasters. When a powerful earthquake rocked the Indonesian island of Java, our Indonesian colleagues immediately initiated a donation drive to support those in need. The money, including a Grace contribution, helped purchase medical supplies for hospitals, provide food and water for affected residents and ensure that schools continue to function.

## Education

We understand the importance of a good education and focused many community stewardship efforts in 2006 on supporting learning, from elementary schools through universities.

Through the Grace Foundation, we contributed more than \$373,000 to support educational initiatives and scholarships. Each year we champion a student scholarship program that supports the college education of dozens of students across North America. Recipients are selected based on their academic achievement, school and community involvement, and work experience. Since its inception in 1989, the scholarship program has benefited more than 165 children of Grace employees.

In addition, Grace renewed its assistance of low-income students majoring in chemistry at the East China University of Science and Technology. The students who received the scholarships had good academic performance but may have had to suspend studying if they did not receive economic support.





In terms of our time, employees volunteered in many educational initiatives. Members of Grace's leadership team and senior executives delivered presentations on a variety of subjects including global expansion, leadership and product stewardship at colleges and universities across the globe. In Chicago, Illinois, employees spent more than 110 hours working with first and second grade students at a nearby elementary school. Employees read stories and helped students with their alphabet, handwriting, art and basic math skills. Grace is also represented on the governance board of the Maryland Academy of Sciences.

We also opened our offices and labs to tours for students ranging from elementary school to graduate programs. As part of the company's commitment to help students discover the world of science, employees gave demonstrations that ranged from can seaming to making and testing concrete to a truly close-up look at slides in a microscopy lab.

## Healthcare

Grace's commitment to health and safety has once again translated into a number of community stewardship initiatives. Among the most notable contributions was \$700,000 donated since 2000 to the Howard County General Hospital in Columbia, Maryland. We have made a commitment to donate \$1 million during the 2000 to 2010 time period.

We also donated \$250,000 to St. John's Lutheran Hospital in Libby, Montana in 2006. This donation was the eighth presented to the hospital to help the community of Libby. Grace has contributed more than \$1.9 million to the hospital over the years. The funds were used to provide the state-of-the-art equipment needed to screen, treat and care for Libby's residents.

Other continuing projects have focused on supporting the American Cancer Society. Grace employees have raised funds to fight cancer by participating in several fundraisers, including "Relay for Life", the Society's signature event and largest community fundraiser, as well as the "Making Strides Against Breast Cancer" walk and "Paddle for the Cure" kayak race.

**"We could not be more grateful for the company's continuing commitment to making it possible for children of little means to receive a quality education."**

*Jennifer R. Hammand - Partners in Excellence*



In another inspiring case, Grace employees and retirees from Curtis Bay, Maryland, pedaled 63 miles during the Maryland Wine Festival Asthma Ride Bike Tour to help children suffering from asthma. For the second year in a row, we received the honor of being the top corporate fundraiser.

With less physical exertion but of equal importance, we have partnered with Meals on Wheels in order to provide meal services to people in need. Every Wednesday, employees at our corporate headquarters deliver meals to seniors while paying extra attention during home visits for health or welfare concerns that may require medical attention.



## Grace Foundation

In addition to volunteering our time, we make financial contributions through the W. R. Grace Foundation, our philanthropic affiliate.

The Grace Foundation supports charitable organizations in the United States and Canada in regions where Grace has a significant employee presence. It also funds programs or projects that represent exceptional opportunities to improve the quality of life for a major segment of the population.

In 2006, the Grace Foundation made donations totaling \$1.05 million to nearly 200 organizations, universities and colleges. The most significant one in terms of size, \$278,000, was made to United Way, for their efforts in several states, including Massachusetts, Maryland, Louisiana, Tennessee, California and Illinois.

# Grace Davison



## BioFuel Technologies Group

### Enhancing a World of New Energy

Around the world, there is a growing movement to create clean and secure energy sources that are alternatives to gasoline and diesel. These new energy sources, called biofuels, are derived from several sources, including sugar cane, corn, soybeans and palm oil, among many others.

Grace has been a member of this movement for some time; however, we decided to intensify our efforts by creating the Grace Davison BioFuel Technologies Group in October 2006. Its objective is to help biorefineries find sustainable fuel alternatives.

The BioFuel Technologies Group is the flagship project of our Incubator Technology program, which develops technology and products through a combination of R&D and business development. The Group is combining our capabilities across Grace to build new business. We have long offered products that help in the renewable fuels industry, including adsorbents for biodiesel purification and desiccants for ethanol drying.

Our efforts position Grace to capitalize on an estimated average growth rate of 15% in the biofuels industry\* and reaffirm our strong commitment to environmental stewardship.

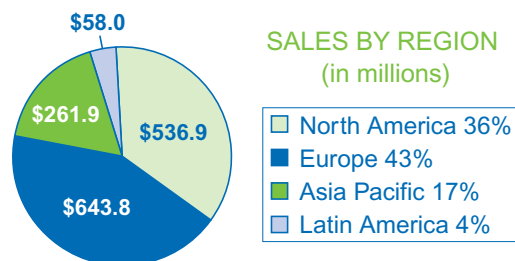
[www.gracebiofuels.com](http://www.gracebiofuels.com)

\* Growth rate is from a study prepared by the Worldwatch Institute.



## Overview

- Grace Davison produces:
  - Refining catalysts that improve the yield and performance of petroleum and chemical products, including gasoline and diesel fuels
  - Hydroprocessing catalysts used by petroleum refiners to upgrade heavy oils by removing impurities such as heavy metals
  - Specialty catalysts that are used in the manufacture of components found in plastic products, such as pipe and household containers
  - Silica and molecular sieve-based materials that are used in a wide variety of industrial and consumer products, such as ink jet paper and paint
  - Chromatography products that aid in drug discovery for life sciences, pharmaceutical and biotechnology markets
- 2006 sales of \$1.5 billion, an increase of \$130 million, or 9.5%, from 2005.



## 2006 Achievements

### Acquisitions & Expansions

- Acquired a facility in New Jersey, USA that increases our ability to manufacture polyolefin catalysts, essential components used in the creation of plastic.
- Expanded our manufacturing capacity in the Middle East through investment in the Kuwait Catalyst Company.
- Opened a new office in Moscow that serves as the central location for our marketing efforts in the Russian Federation.
- Opened a new technical services laboratory in Shanghai, China, which significantly improves our ability to support life sciences R&D across Asia.
- Invested in a new facility in India to serve as a global manufacturing location.
- Created Grace Trading (Shanghai) Co., Ltd. as a local commercial platform to better serve customers in China.



## Product Launches

- Introduced two new components for custom sulfur removal within our SmART Catalyst System® that help refineries produce ultra low sulfur diesel, which ultimately reduces automobile sulfur emissions.
- Completed successful commercial product launch of Neptune™, our latest generation catalyst for gasoline sulfur reduction, at Citgo Petroleum Corporation's refinery in Corpus Christi, Texas.
- Developed the next generation technical platform for commercial production of a polypropylene catalyst used in plastic manufacturing.
- Developed two discovery sciences products: GracePure™ SPE cartridges, which are used for sample preparation and cleanup in labs, and GraceSmart™ HPLC columns that provide low-cost, high-quality chromatography.
- Introduced DURAFILL® for the manufacture of “green” tires which reduces roll resistance, contributing to improved fuel efficiency.

## Awards & Special Distinctions

- Earned "Best in Louisiana" SAFE (Serious About Fostering Excellence) Award for outstanding health, safety and environmental performance from the Louisiana Chemical Association for the third time.
- Achieved significantly improved safety performance with eight lost workdays in 2006, compared to 217 in 2005.

## 2007 Opportunities

- Pursue selected acquisitions and alliances that complement our current product offerings or provide opportunities for faster penetration of desirable markets or geographic segments.
- Expand sales and manufacturing into growing geographic areas, including China, India, Middle East and Eastern Europe.
- Increase investment in manufacturing to improve efficiency and productivity.
- Increase investment in research and development by more than 10% and spur greater product development through Incubator Technology program.
- Leverage our refining catalyst position to help customers meet increasingly stringent environmental regulations.
- Realize high-growth opportunities in the discovery sciences market by integrating our material science, geographic infrastructure and customer service model.

## Middle East Expansion

### *Providing Local Resources to a Global Business Hub*

The Middle East region is projected to become the largest producer and exporter of basic petrochemical and commodity chemicals within just a few years.\*

As the region grows, it offers significant business opportunities and an increasing list of potential customers. Simply put, the Middle East is the place to be for Grace.

To better position our businesses to benefit from this activity and provide local resources to our customers in the Middle East, we have explored alliances and joint ventures, and moved additional personnel into the region.

In 2006, we signed an agreement with the Kuwait Catalyst Company (KCC) under which KCC manufactures residuum hydroprocessing catalysts for Advanced Refining Technologies, our joint venture with Chevron Products Company. Residuum hydroprocessing catalysts help refiners produce environmentally friendly, cleaner-burning transportation fuels by removing sulfur and other contaminants from petroleum.

We are also opening a new office in Dubai that will house Grace employees from multiple product groups, providing a central resource for customers in the region. These employees will also be focused on establishing relationships with local business leaders and supporting global sourcing efforts in the region.

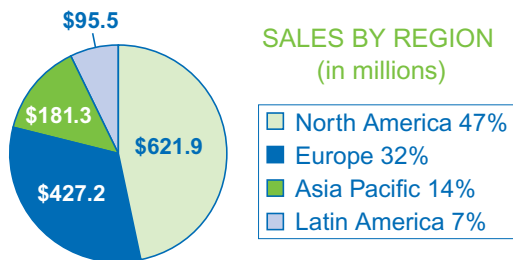
*\* Regional growth rates are from research conducted by the Gulf Cooperation Council that estimates investment in the region is growing 10% to 15% each year.*



# Grace Performance Chemicals

## Overview

- Grace Performance Chemicals produces:
  - Specialty construction chemicals, including concrete admixtures and fibers, additives for cement processing, masonry products, and products for architectural concrete that strengthen, beautify and protect buildings and infrastructure
  - Specialty building materials, such as fire protection products and structural waterproofing systems
  - Sealants and coatings for packaging that protect food and beverages from bacteria, extend shelf life and preserve flavor
- 2006 sales of \$1.3 billion, an increase of \$127 million, or 10.6%, from 2005.



## 2006 Achievements

### Sales Growth

- Achieved double-digit sales growth in all construction product groups. Strong volume in Americas and European markets and growing presence in China contributed significant sales increases over prior year.
- Grew residential products sales despite challenging U.S. residential construction market. Expanded distribution channels and increased brand presence at home centers and hardware stores.
- Grew Grace Darex® Packaging Technologies product line through sales increases in sealants, coatings and closures. Achieved solid growth through commercialization of new products and geographic expansion.

### Office Openings & Expansions

- Invested in new manufacturing plant in Mt. Pleasant, Tennessee to meet market growth in roofing underlayments and flashing products.

## Rapid Response Lands Major Airport Contract

### First Product Application in China

Speed and agility are essential for staying competitive, and our Asia Pacific sales team showed both traits in securing a significant contract in China. In less than three weeks, the team obtained specification and application of Grace products in the construction of an international airport located in Wuxi, China.

The group learned that a competing product had been initially selected for the project and quickly rallied to arrange presentation meetings with the architects, general contractor and owner group, convincing them of the value-added benefits of installing Grace waterproofing products at the airport. The result: the competing product was out and Grace had a significant win.

Once the contract was secured, our facility in Hong Kong rapidly obtained the needed material to produce more than a quarter million square feet (24,000 square meters) of Preprufe® 300R, a waterproofing membrane that was applied to the airport's concrete base slabs.

The installation is not just a significant project. It represents a milestone as the first major non-infrastructure application



of Preprufe in China. It further reflects our strategy of generating growth through increased penetration into new and emerging markets.

In addition to Preprufe, 64,580 square feet (approximately 6,000 square meters) of Bituthene® 3000, a rubberized asphalt/high density cross laminated polyethylene film waterproofing membrane, were applied to the airport's foundation walls. An extremely flexible product, Bituthene bridges shrinkage cracks in concrete and accommodates minor movement throughout the service life of the structure with its dimension stability feature.

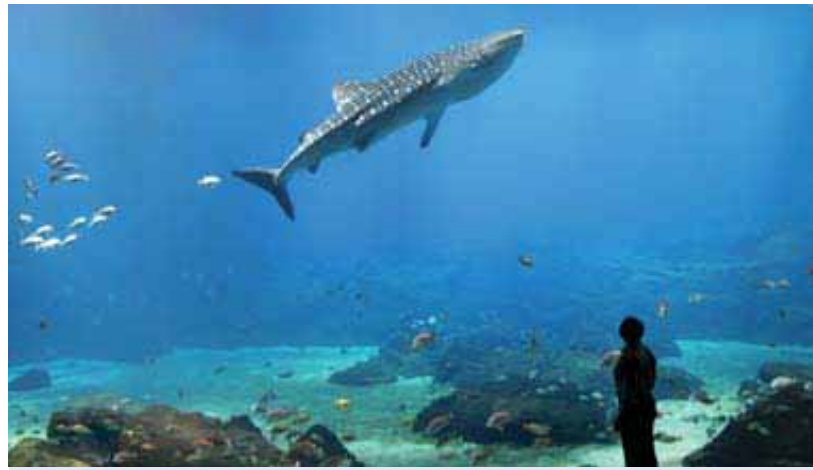
- Established European headquarters in Brussels, Belgium that continues our push to provide greater local resources to customers in each region.
- Opened new innovation laboratory in Poland that is integrated into our worldwide R&D efforts.
- Expanded construction lab in China to meet the needs of regional customers.

### Product Launches

- Introduced Sincera™ slip technology to eliminate “off taste” in plastic bottle beverage products.
- Launched Sodasorb® LF, a patented CO<sub>2</sub> absorbent developed for low flow anesthesia systems.
- Introduced ADVA® Cast 575 admixture for enhanced flow, strength and durability in self-consolidating concrete.
- Launched Perm-A-Barrier® VP, a fluid-applied, air barrier membrane that provides air tightness and water protection for walls.
- Developed Adprufe®, an integral waterproofing system for concrete construction.

### 2007 Opportunities

- Intensify efforts to produce innovative, best in class products, systems and services that accelerate growth and provide added value for our customers.
- Optimize core businesses through manufacturing and operations productivity programs.
- Increase production capabilities in the Middle East and Asia Pacific to support growth in these regions.
- Introduce Tri-Flex® Xtreme™, a high performance synthetic roofing underlayment providing improved skid resistance and durability to meet expectations of the growing residential roofing underlayment market.
- Enhance core competency in freight and distribution network optimization, leveraging Grace-wide infrastructure.
- Strive for incident-free safety record.



### Creating a Modern Day Noah's Ark *Grace Helps Showcase Georgia Aquarium*

Through our work with the Georgia Aquarium, we helped create a new home for thousands of fish and a world-class attraction for the city of Atlanta.

Meeting the construction challenges was no small feat. The Georgia Aquarium is the largest of its kind in the world. It has five separate galleries that hold more than a million cubic feet of water. There is a diverse population of animals in 60 habitats, including sharks, penguins, whales, otters, crabs, electric eels and fish of all shapes and sizes.

A successful outcome depended on expert planning and teamwork among Grace, the concrete producer, and the site's waterproofing and fireproofing contractors. Collaborating with them on all phases of construction, we provided admixtures, synthetic fiber reinforcement, above and below grade waterproofing, air barrier systems and fire protection.



Our involvement began in the construction of the tank walls, some as high as 33 feet, with the use of our ADVA® super-plasticizer, an admixture that helps concrete flow easily. Our DCI®-S corrosion inhibitor was used to extend the life of the concrete exposed to the marine environment. Also used was our Preprufe® 300R and Bituthene® 3000 waterproofing membranes that protect the tanks from groundwater contamination, and our Perm-A-Barrier® Wall Membrane that serves as the rain screen waterproofing and air barrier system.

Nearly 4 million people visited the Georgia Aquarium in its first year and passed through galleries and walkways that had added support from Grace STRUX® 90/40, a synthetic fiber reinforcement that reduces concrete handling. The application of our fireproofing product, Monokote® MK-6®/HY®, protects the site's structural steel and completes the Grace portfolio used on the project.





## Leadership Team

Richard C. Brown  
*Vice President and President, Grace Performance Chemicals*

William M. Corcoran  
*Vice President, Public and Regulatory Affairs*

Fred E. Festa  
*President and Chief Executive Officer*

J. P. "Butch" Forehand  
*Vice President, Operations*

W. Brian McGowan  
*Senior Vice President, Administration*

Michael N. Piergrossi  
*Vice President, Human Resources*

Gregory E. Poling  
*Vice President and President, Grace Davison*

Mark A. Shelnitz  
*Vice President, General Counsel and Secretary*

Robert M. Tarola  
*Senior Vice President and Chief Financial Officer*

## Board of Directors

John F. Akers <sup>(1)</sup>  
*Retired Chairman and Chief Executive Officer,  
International Business Machines Corporation*

H. Furlong Baldwin <sup>(1)</sup>  
*Retired Chairman of the Board, President and CEO,  
Mercantile Bankshares Corporation*

Ronald C. Cambre <sup>(1)</sup>  
*Retired Chairman of the Board and CEO,  
Newmont Mining Corporation*

Fred E. Festa  
*President and Chief Executive Officer,  
W. R. Grace & Co.*

Marye Anne Fox <sup>(1)</sup>  
*Chancellor,  
University of California, San Diego*

John J. Murphy <sup>(1)</sup>  
*Retired Chairman of the Board,  
Dresser Industries Inc.*

Paul J. Norris  
*Chairman (Non-Executive) of the Board,  
W. R. Grace & Co.*

Christopher J. Steffen <sup>(1)</sup>  
*Retired Vice Chairman,  
Citicorp and Citibank N.A.*

Mark E. Tomkins <sup>(1)</sup>  
*Retired Senior Vice President and Chief Financial Officer,  
Innovene*

Thomas A. Vanderslice <sup>(1)</sup>  
*Retired Chairman and Chief Executive Officer,  
MIA-COM*

<sup>(1)</sup> Also serves on Audit, Nominating and Governance, Compensation, and Corporate Responsibility Committees

## Investor Information

### Corporate Headquarters

W. R. Grace & Co.  
7500 Grace Drive  
Columbia, MD 21044  
410.531.4000  
www.grace.com

### Transfer Agent

Inquiries and changes to shareholder accounts should be directed to our transfer agent:

Mellon Investor Services LLC  
480 Washington Boulevard  
Jersey City, NJ 07310-1900  
800.648.8392  
www.melloninvestor.com

### Investor Relations

Inquiries from individual shareholders and requests for our annual report on Form 10-K, quarterly reports on Form 10-Q or current reports on Form 8-K should be directed to:

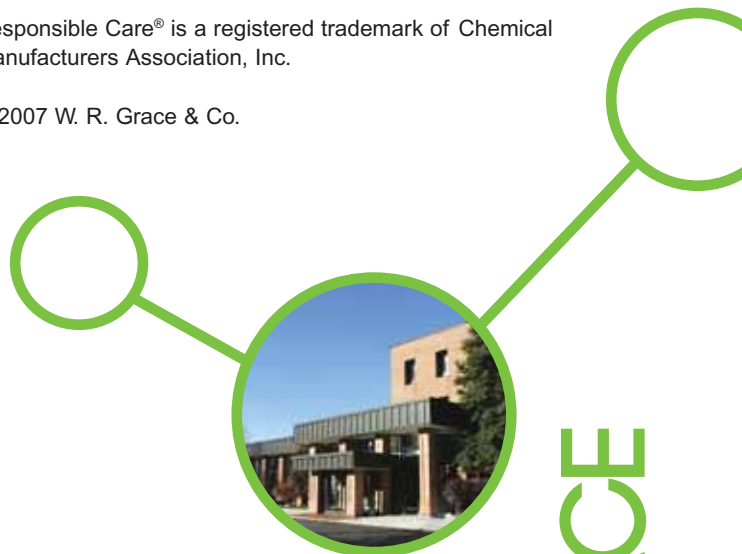
W. R. Grace & Co.  
Investor Relations  
7500 Grace Drive  
Columbia, MD 21044  
410.531.4167  
investor.relations@grace.com

### Trademarks

Product names used in the text of this report are trademarks, service marks or trade names of operating units of W. R. Grace & Co. or its subsidiaries except as otherwise indicated.

Responsible Care<sup>®</sup> is a registered trademark of Chemical Manufacturers Association, Inc.

© 2007 W. R. Grace & Co.



# GRACE



Printed on  
50% Recycled  
15% Post-Consumer Waste