

**Dear Shareowner:**

Many companies fail to succeed because they repeatedly change their focus, regularly confusing their employees and oftentimes their customers. In 1999 we decided to focus on two simple but powerful objectives: growth and productivity. Despite a difficult economic environment and an explosion in asbestos claims, we have not deviated from this course. As I look back on the last three years, I am proud of our resolve and our accomplishments.

Like other global manufacturing companies, we began to see customers' orders slow in the fourth quarter of 2000. It was the start of a global recession that still dampens our performance today. We were beginning to see the economy improve in 2001 when the tragic attacks of September 11 occurred. That single horrible event put further pressure on an already fragile recovery. It exacerbated an uncertain political environment and resulted in an extended period of anemic economic growth, in the Americas and Europe.

It's clear that our decision to stay focused on growth and productivity was the right one. Sales in 2002 increased 5.5 percent from \$1.72 billion to \$1.82 billion. Almost half of the increase came from our recent strategic acquisitions and the rest from growth of our product lines. At the same time, we didn't deliver as much to the bottom line as we planned. Research and development and commercialization costs associated with the growth initiatives were higher in 2002 than in 2001, as we expected, but cost increases for pensions, medical benefits and insurance were all significantly higher than our plans and last year. We have plans in place to manage our costs better this year.

The safety and the health of our employees is our highest priority. I am proud to report that at Grace our safety record is in the top quartile for our industry. Many of our facilities haven't had an incident in over a year and some have been incident-free for more than two years. However, our safety performance slipped at a couple of our larger facilities and as a result, we did not meet our safety goals for 2002. We have redoubled our efforts to make safety excellence a way of life throughout Grace.

Our productivity results were important contributors to our performance again last year. The gains we made through Six Sigma and materials management initiatives generated savings sufficient to offset basic inflation. Six Sigma, through its improved methodology, was employed in some way in almost all of this contribution. Grace continues to make progress on our journey to become a Six Sigma-based culture. Currently, we have more than 60 active black belts and 400 green belts driving improvement projects around the world. We have made tremendous progress in Six Sigma since our first training class in the summer of 1999.



We will continue to drive Six Sigma across the Company with additional manufacturing projects, but also are putting these tools to work in core functions beyond manufacturing. We are already realizing benefits in Sales, Technical Service and Research and Development that are allowing us to accelerate commercialization of new products and better serve our customers. Six Sigma is also giving us a fresh look at administrative processes and helping uncover opportunities to improve their efficiency and effectiveness. Through these efforts, we are seeing reduction in time devoted to non-value-added transactional work and improvement in the timeliness and quality of information overall.

As Six Sigma drives productivity, PRISM propels our growth. Our PRISM (**P**Roduct **I**nnovation and **S**trategic **M**arketing) commercialization process is a benchmark product development process that responds to the voice of the customer. It fully integrates R&D, marketing, sales, and manufacturing in a way that allows us to move products from ideas to market in a structured way, picking our priorities carefully and focusing our resources to get more done, faster. This process, in combination with our strategic thinking and market research, has helped us to grow faster than our markets. I am confident that we will further improve our time to market in 2003 and help our customers be successful with some exciting new products.

We also continue to pursue growth opportunities through acquisitions and alliances. With the support of all of the stakeholders involved in our Chapter 11 proceedings, we have made several ideal acquisitions that were strategically important, quickly integrated, and immediately accretive to earnings. We will pursue similar opportunities in 2003.

Given our Six Sigma focus, it is not surprising that we are approaching new accounting rules and enhancements in corporate governance with an eye toward process improvement, not just compliance. New financial disclosure laws have caused us

to be even more transparent in the way we report and discuss our financial results. Although we had always been diligent in gathering and reporting this information, we now have a more robust and disciplined process that requires key business and functional leaders to formally certify their results and acknowledge that they have disclosed all appropriate information to the newly formed financial disclosure committee. This has given us even more confidence that we are completely and appropriately informing our shareowners and other stakeholders.

We are fortunate to have a very active, independent Board of Directors, so we have not made many changes to our corporate governance practices. I am the only employee who is also a Director, and all of our outside directors meet the strictest standards for independence. Each of the independent Directors serves on all of our Board-level committees. We have excellent communication with our Board, and I am confident in our corporate governance practices. With so much attention given to those few companies who abuse the system, the general public is left with the unfortunate impression that all companies behave this way. I remain convinced that the large majority of American business leaders are honest and ethical.

People outside of the Company ask me over and over again – what’s it like being in Chapter 11? I always give them the same answer: I don’t recommend it. But I also tell them that many things at Grace haven’t changed. People still come to work every day with the same goals of being safe and successful, just as they did before we filed in April 2001. Their enthusiasm and hard work are just the same, if not greater. I talk with Grace employees around the world regularly, face-to-face, in videoconferences and local town meetings. My message is always the same. You’ve worked hard to create good businesses that are leaders in their markets. Don’t let your performance slip by becoming distracted by our Chapter 11 filing. In a Chapter 11 proceeding based on a mass tort liability like asbestos litigation, there is a great uncer-

*On January 8th, 2003, Grace lost the friendship and dedication of three colleagues. Dick Lyons, Joe Spiak and Paul Stidham were killed when U.S. Airways flight 5481 crashed in Charlotte, N.C.*

*This was a tremendous loss that affected each of us deeply. We have done our best to give the families as much comfort as possible during these difficult days. Dick, Joe and Paul will be missed by us all.*

tainty, but one thing that is certain is that our business performance is critical to our success. At first, I think that message was a difficult one for our employees to accept, but now I think they understand that their job is to continue to build our businesses while our reorganization (emergence) team resolves our asbestos liabilities through Chapter 11. The people at Grace are no different from people in other companies. They want to do the best they can, and I am proud to be associated with them.

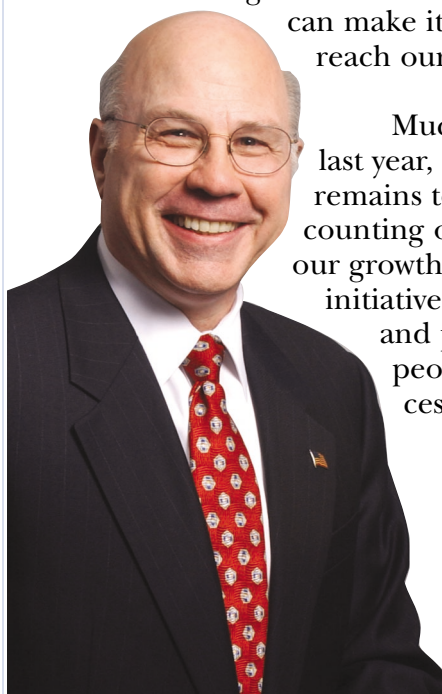
We made progress in 2002 on the legal issues surrounding our filing, and I believe we will make more progress this year. We have important dates on the bankruptcy court's calendar to address some of the key issues that remain in our Chapter 11 process. I look forward to the time I can write you and tell you that this is all behind us.

In the meantime, we are focused on growing our businesses to increase our enterprise value and making Grace a stronger company. Our long-term target of a five to seven percent sales increase, and double-digit earnings growth remain unchanged. We know our customers want more new products from us, and increasing our speed to market is a key goal. We recognize that our biggest opportunity for sustained long-term growth comes from

internal opportunities, and we have aligned our R&D, marketing and commercialization resources to capitalize these opportunities.

Our ability to achieve these results will undoubtedly be affected by global events that are beyond our control. Turmoil in the Middle East, the threat of terrorism and the continued stagnant global economy are all things that can make it more difficult to reach our goals.

Much was accomplished last year, but much more remains to be done. I am counting on the strength of our growth and productivity initiatives and the creativity and perseverance of our people to make us successful.



*Paul J. Norris*

**Paul J. Norris**  
Chairman, President and  
Chief Executive Officer

## Financial Highlights

*(Amounts in millions except per share data)*

	2002	2001	2000
<b>Net Sales</b>	\$ 1,817.2	\$ 1,723.2	\$ 1,597.4
<b>Pre-Tax Income from Core Operations</b>			
before Interest, Taxes, Depreciation and Amortization	\$ 275.4	\$ 276.5	\$ 274.9
As a Percentage of Sales	15.2%	16.0%	17.2%
<b>Pre-Tax Income from Core Operations</b>	\$ 180.8	\$ 187.5	\$ 187.1
As a Percent of Sales	9.9%	10.9%	11.7%
<b>Net Income (Loss)</b>	\$ 22.1	\$ 78.6	\$ (89.7)
Diluted EPS	\$ 0.34	\$ 1.20	\$ (1.34)
<b>Weighted Average Diluted Shares Outstanding</b>	65.5	65.4	66.8
<b>Net Cash Flow from Operating Activities</b>	\$ 195.4	\$ 14.7	\$ (143.7)
<b>Total Assets</b>	\$ 2,687.7	\$ 2,518.4	\$ 2,584.9
<b>Total Liabilities</b>	\$ 2,909.8	\$ 2,660.1	\$ 2,656.2
<b>Liabilities Subject to Compromise*</b>	\$ 2,334.7	\$ 2,311.5	NA
(A Subset of Total Liabilities)			
<b>Total Shareholders' Equity (Deficit)</b>	\$ (222.1)	\$ (141.7)	\$ (71.3)

\*Recorded liabilities subject to Chapter 11 proceedings. Actual claims allowed by the bankruptcy court could be materially different.



# Davison Chemicals

**2002 Sales:** \$945.2 million

**Headquarters:** Columbia, Maryland

**Employees:** 3,100

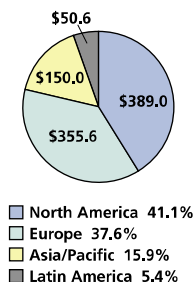
**Catalysts:** Catalysts that improve the yield and performance of petroleum, petrochemical and chemical products.

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

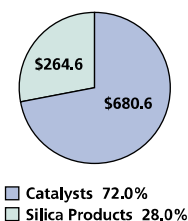
## Fundamental Strengths

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

**SALES BY REGION**  
in millions



**SALES BY PRODUCT GROUP**  
in millions



New SYLOID® silica matting agents are being introduced in Coatings, one of our core business segments.

A recently launched SYLOJET® product, developed for ink jet paper coatings for popular glossy photo applications, uses LUDOX® colloidal silica product line acquired from DuPont.

## SILICA PRODUCTS

### 2002 Highlights

- Introduced a colloidal-based product and formulations for ink jet paper coatings to provide glossy and matte functionality.
- Grew Coatings business by 8% with contributions from the commercialization of three new products.
- Built strong foundation for growth in Separations business unit with increased investment in research, marketing, and manufacturing.

With the acquisition of The Separations Group, Grace expands its portfolio of chromatography products with columns and media used in the fast-growing biotechnology fields of drug discovery and production, and launches the EXPEDITION™ line of products for chromatographic separations.



### Market Segments

- **Industrial:** Silica gel, colloidal and precipitated silicas and molecular sieves for coatings, plastics, chemical processes, precision investment casting, refractory, insulating windows, desiccants, and gas and liquids purification.
- **Consumer:** Silica gels for the processing of edible oil and beverages, and for formulating toothpaste and personal care products.
- **Biotechnology & Pharmaceutical:** Process media and analytical columns for chromatography and formulating silicas for pharmaceutical applications.
- **Digital Media:** Specialty silicas and formulations for ink jet papers, photo, and commercial wide-format printing.

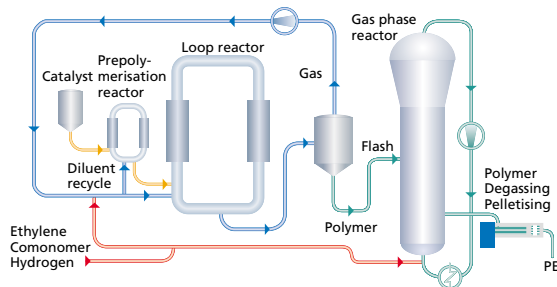
### Growth Opportunities

- Develop new products for Biotechnology and Pharmaceutical applications with continued enhancement to our materials science and chemistry modifications.
- Expand our Digital Media Solutions business with a variety of silica-based materials and formulations for the growing use of digital media, including ink jet printers, digital cameras, instant processing, and specialty applications.
- Leverage materials science in Coatings segment to develop higher efficiency matting agents for our traditional applications; create innovative products for the growing ultraviolet-cured and powder coatings segment; and enhance our product offering for anticorrosive coatings systems.

## CATALYSTS

### 2002 Highlights

- Sales in growth segments (clean fuels, environmental technologies, polypropylene, light olefins, distillate hydrotreating, and advanced washcoat materials for automotive emissions control) up 15.7%.



The Borealis Borstar® process for polyethylene resins utilizes polyolefin catalyst manufactured by Grace.

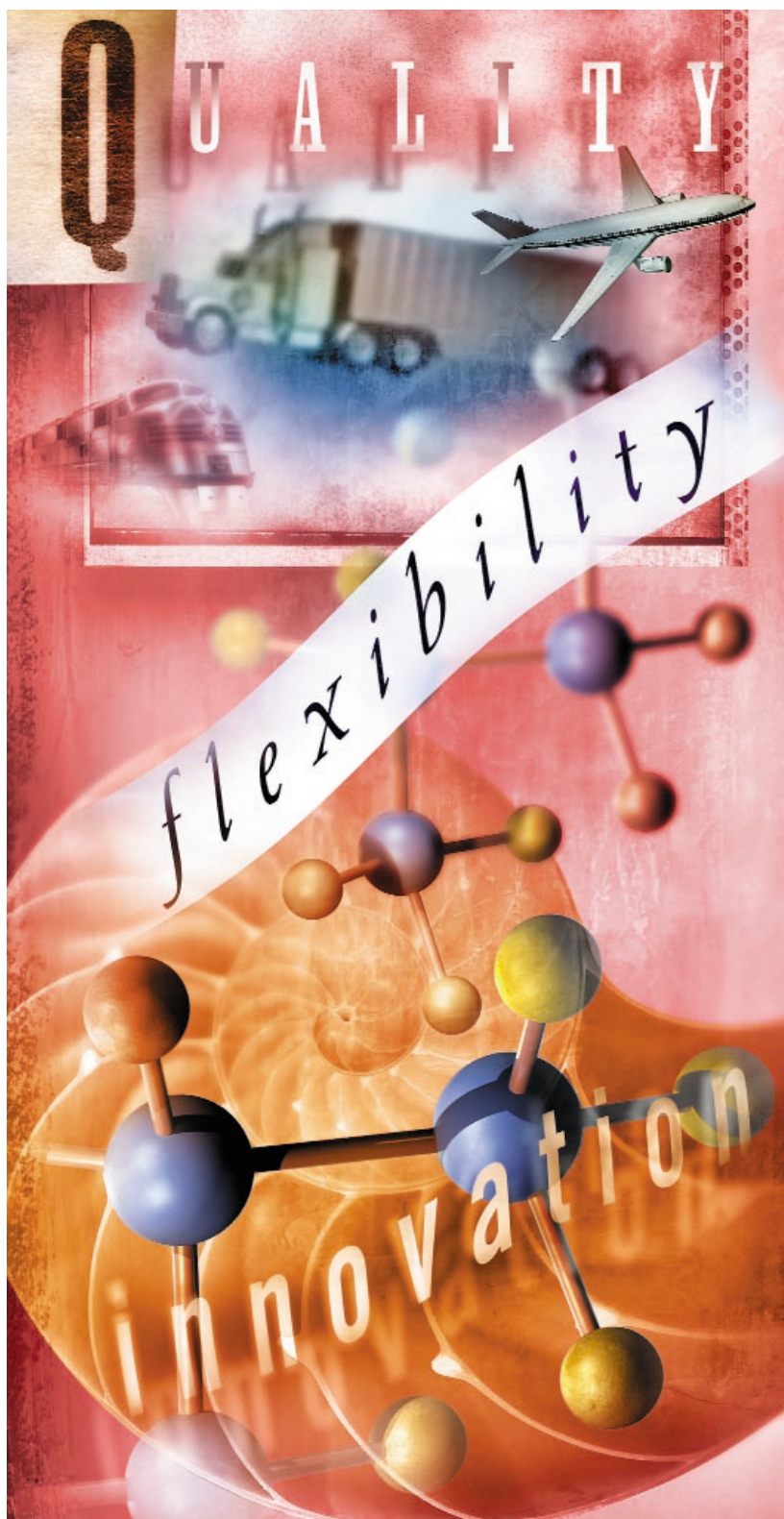
- Completed acquisition of catalyst manufacturing assets of Borealis A/S and integrated them into Davison's existing global polyolefin catalyst business.
- Advanced Refining Technologies LLC (ART), a joint venture of Chevron Products Company and Grace Davison, acquired an exclusive license for the hydroprocessing catalyst technology of Japan Energy Corporation and its subsidiary, Orient Catalyst Company.

### 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 and polypropylene resins for plastics, as well as catalysts for pharmaceuticals and other specialty chemical applications.
- Automotive catalysts which help industries meet and exceed environmental regulations.

### Growth Opportunities

- Introduce *IMPACT™*, specially designed fluid cracking catalyst for resid processing applications.
- Continue growth in distillate and FCC pretreat hydrotreating segments and enter hydrocracking catalyst market segment.
- Accelerate market acceptance of recently developed advanced washcoat materials for automotive emissions catalysts markets.
- Leverage materials science in chemical catalysts to enter new market segments.



Quality, flexibility and innovation are the foundation of Davison's refining catalyst technology. From our complete range of clean fuels solutions to environmental catalyst technologies to resid processing, Davison fluid cracking catalysts and ART hydroprocessing catalysts are allowing today's refiners to succeed in the challenging petroleum refining industry.

## Performance Chemicals

**2002 Net Sales:** \$ 872.0 million

**Headquarters:** Cambridge, Massachusetts

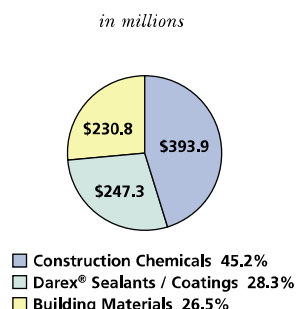
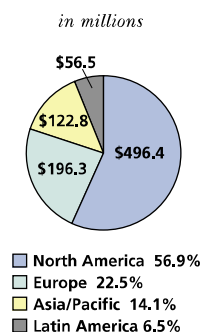
**Employees:** 3,100

### Performance Chemicals

Specialty chemicals and materials that strengthen and protect buildings and infrastructure, as well as sealants, closures and coatings for 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



Grace set a new industry standard with the introduction of Florprufe™. Florprufe provides a new level of vapor protection for moisture-impermeable or moisture-sensitive floor finishes.

Grace introduced PL 1801® a premier external protection coating lacquer that is applied directly to the can metal during manufacturing to ensure an increased level of protection during processing.

## SPECIALTY BUILDING MATERIALS

### 2002 Highlights

- Commercialization of Florprufe™, the industry's first integrally bonded vapor barrier for slabs-on-grade, that protects valuable floor finishes from the damaging effects of moisture.
- Significant growth in sales of Procor®, an environmentally friendly fluid applied waterproofing (12%) and Grace Vycor® Tapes used for moisture control (40%).

### Market Segments

- Structural waterproofing membrane and systems, that are innovative and time-tested to protect commercial and residential structures from the damaging effects of water.
- Roofing underlayments to extend the life of a roof by protecting against leaks caused by ice dams and wind driven rain.
- Fireproofing and firestopping products for commercial structures to protect steel from the effects of fire, prevent structural damage and retard the spread of fire within structure.

### Growth Opportunities

- Growth through increased penetration of roofing underlayments.
- Expand market for moisture control and waterproofing products in residential construction.

## DAREX SEALANTS AND COATINGS

### 2002 Highlights

- Revenue growth of 5% at constant exchange rates.
- Sales for closure sealants increased, primarily driven by growth in the plastic bottle market segment.

### 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 to ensure proper adhesion of sealing compounds.
- Performance latices for barrier coatings and adhesives.

### Growth Opportunities

- Geographic expansion opportunities for high performance sealants and coatings.
- Increase use of plastic packaging and PVC-free sealants in mature markets.



### 2002 Highlights

- Sales of concrete admixtures and fibers in strategic growth geographies were up 45%.
- Geographic expansion and increased penetration grew sales of cement additives.
- Sales of Pieri products for architectural concrete and strategic growth products such as a new generation of ADVA® for Self Consolidating Concrete were up 64%.
- Successful launch of revolutionary new VERIFI™ Fluid Delivery System for Grace MicroFiber™ and increasing customer acceptance of STRUX® synthetic structural fiber reinforcement strengthens our position as the leader in fibers and liquid admixture technology.
- Acquisition of Addiment in North America enhances our position in the growing concrete paver market with Paver Plus™ admixture.



**VERIFI™**  
Fluid Delivery System  
for Grace MicroFiber™

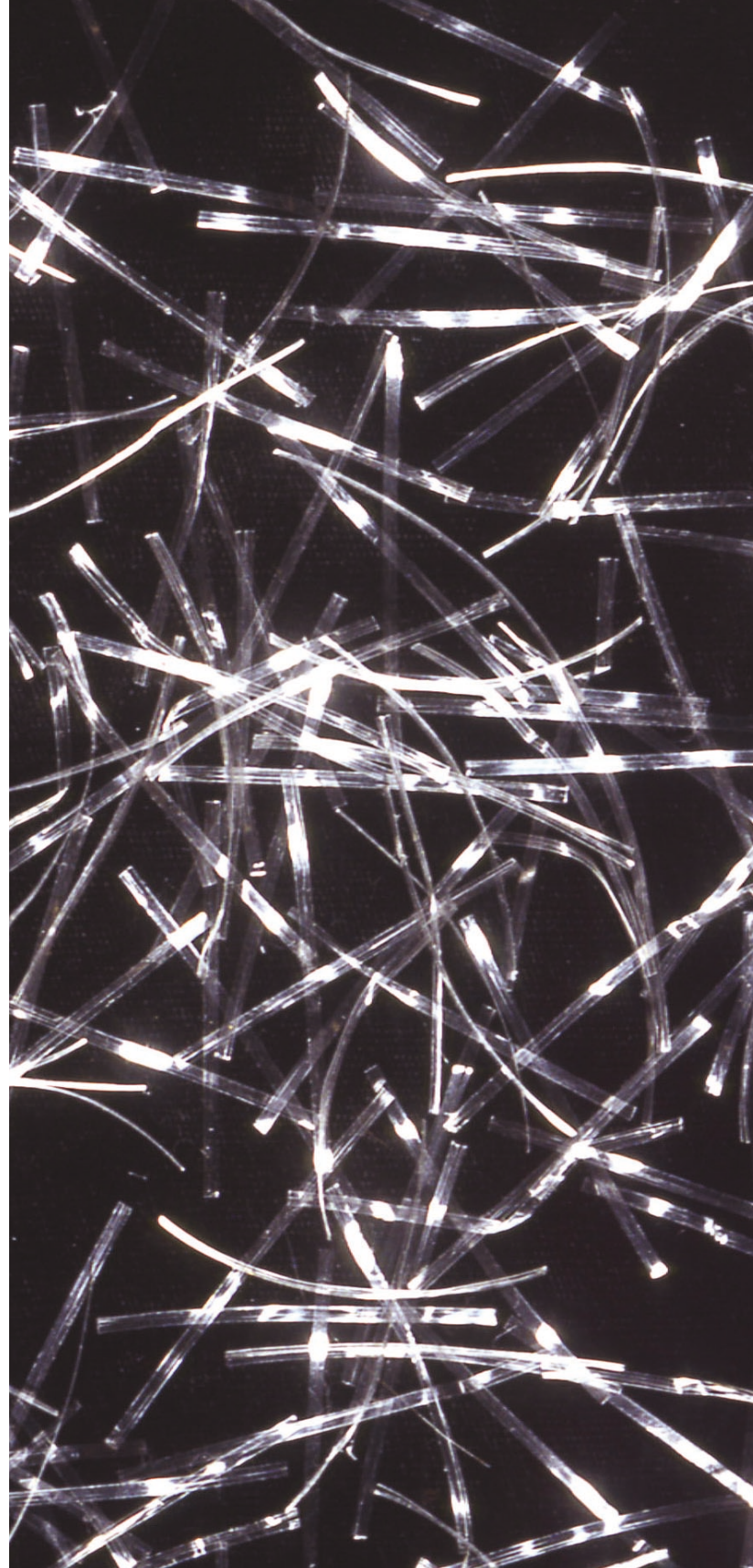
Grace's patent pending VERIFI™ Fluid Delivery System for Grace MicroFiber is a major advance in the delivery of fibers, which are traditionally added to the concrete mix by hand. With VERIFI, ready mix producers add Grace MicroFiber through their plant automation system and realize improved productivity, assurance, safety and perfor-

### 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 manufacturers.
- Masonry admixtures to enhance manufacturing efficiency for block producers and improve in-place performance of architectural block construction.
- Architectural concrete additives and treatments to enhance the appearance of concrete and increase in-place value of concrete construction.

### Growth Opportunities

- Expand worldwide use of cement and ready mix concrete, particularly in emerging economies, providing a fundamental foundation for ongoing growth via geographic expansion.
- Drive penetration of water reducing and durability enhancing concrete admixtures, cement quality improvers and new specialty masonry admixtures.



STRUX® is Grace's latest addition to its growing line of high performance synthetic structural fibers. Designed to replace welded wire fabric, light rebar and steel fibers in slab on grade and flooring applications, STRUX sets new standards for fiber reinforcement technology.

## 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, Finance  
Chief Financial Officer, Performance Chemicals*

### **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,  
Silica Products*

### **Joseph A. Rightmyer**

*Davison Chemicals  
Executive Vice President and  
General Manager, Catalysts*

### **David B. Siegel**

*Senior Vice President and General Counsel  
and Chief Restructuring Officer*

### **Mark A. Shelnitz**

*Secretary*

### **Robert M. Tarola**

*Senior Vice President and  
Chief Financial Officer*

## BOARD OF DIRECTORS

### **John F. Akers**

*Retired Chairman and Chief Executive Officer,  
International Business Machines Corporation  
(computers and technology)*

### **H. Furlong Baldwin**

*Former Chairman of the Board, President  
and CEO of the Mercantile Bankshares  
Corporation*

### **Ronald C. Cambre**

*Retired Chairman of the Board and CEO,  
Newmont Mining Corporation (mining)*

### **Marye Anne Fox**

*Chancellor, North Carolina State University*

### **John J. Murphy**

*Retired Chairman of the Board,  
Dresser Industries Inc. (energy products &  
technical services)*

### **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 (electronics)*

## 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](http://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 periodic reports  
on Forms 10-K or 10-Q or Grace's 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](mailto:investor.relations@grace.com)  
or call (410) 531-4167.

### **Trademarks**

Product 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.

## KEY MANUFACTURING SITES

### **Davison Chemicals**

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

### **Grace Performance Chemicals**

Adana, Turkey; Ajax, Canada; Atsugi, Japan; Augusta, Georgia; Bangkok, Thailand; Barcelona,  
Spain; Belleville, South Africa; Cambridge, Massachusetts; Chicago, Illinois; Chung Li, Taiwan;  
Dubai, UAE; Epervon, France; Guangzhou, China; Hamburg, Germany; Hatfield,  
Pennsylvania; Hong Kong, China; Houston, Texas; Kalininsk, Russia; Inchon, Korea; Irondale,  
Alabama; Jakarta, Indonesia; Kuala Lumpur, Malaysia; LaSalle, Canada; Larnaud, France;  
Lithonia, Georgia; Los Angeles, California; Manila, Philippines; Melbourne, Australia;  
Milwaukee, Wisconsin; North Bergen, New Jersey; Owensboro, Kentucky; Passirana, Italy;  
Pendik, Turkey; Saillenard, France; Santa Ana, California; Santiago, Mexico; Shanghai, China;  
Singapore; Japan; Slough, United Kingdom; Sorocaba, Brazil; St. Neots, United Kingdom;  
Sydney, Australia; Widnes, United Kingdom; Valencia, Venezuela

# GRACE

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