

W. R. Grace & Co.

Fourth Quarter 2012
Business Update

February 6, 2013

GRACE

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Non-GAAP Financial Terms

These slides contain certain “non-GAAP financial terms” which are defined in the Appendix. Reconciliations of non-GAAP terms to the closest GAAP term (i.e., net income) are provided in the Appendix.

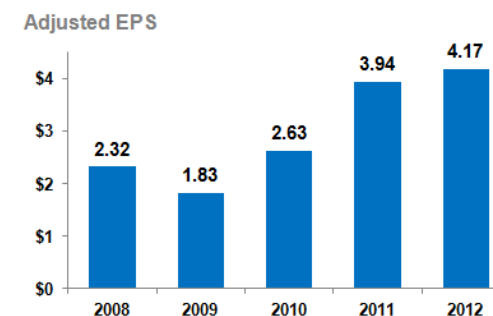
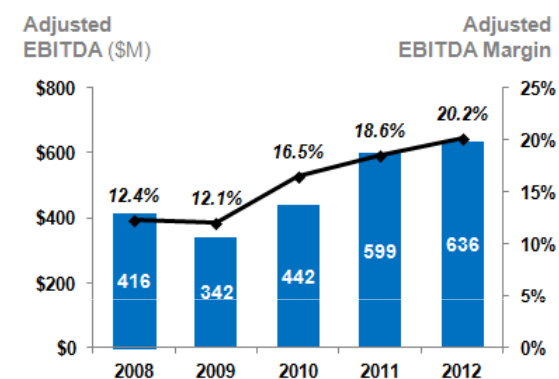
Highlights of 2012 – CEO Commentary

- Strong performance despite market uncertainty and volatility
 - Pressure-tested GRA's management systems and processes
- Significantly advanced GRA's strategic position for growth
 - New operating structure
 - Key investments in emerging regions
 - Capital for technology and growth
- Confident in delivering earnings growth for 2013 and 2014

Grace Business Results* – Full Year 2012

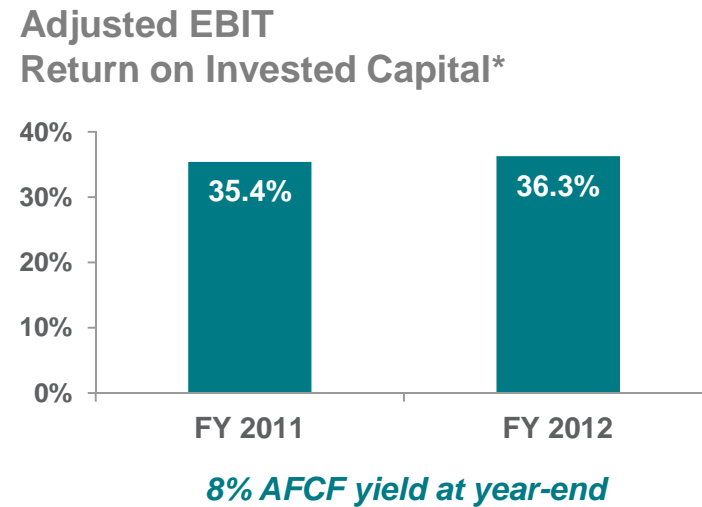
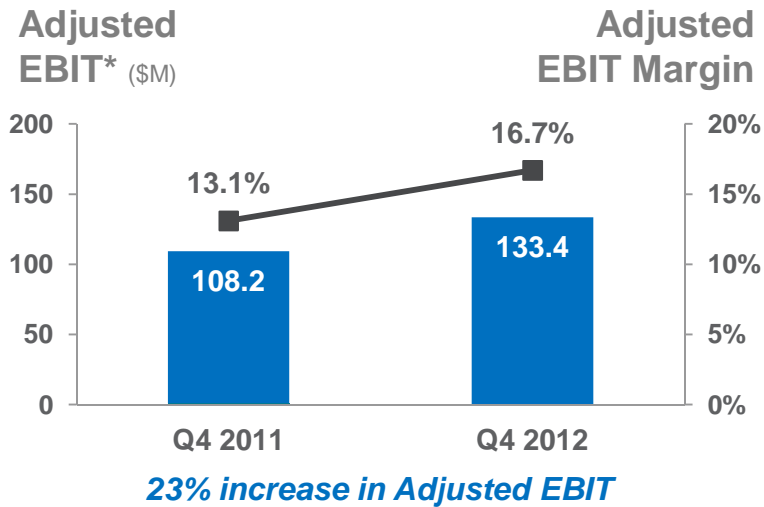
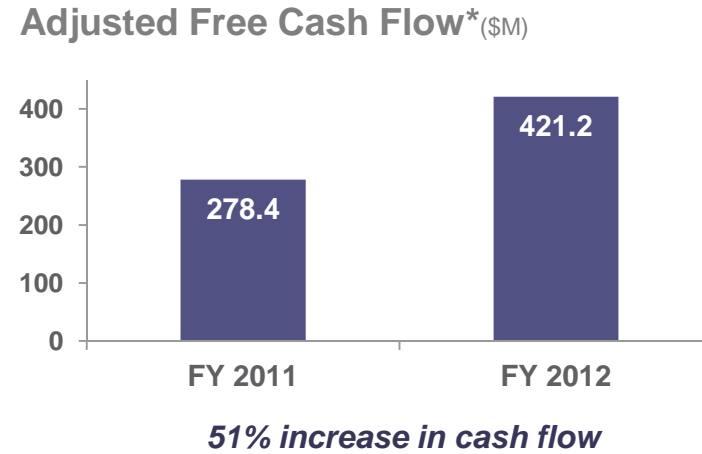
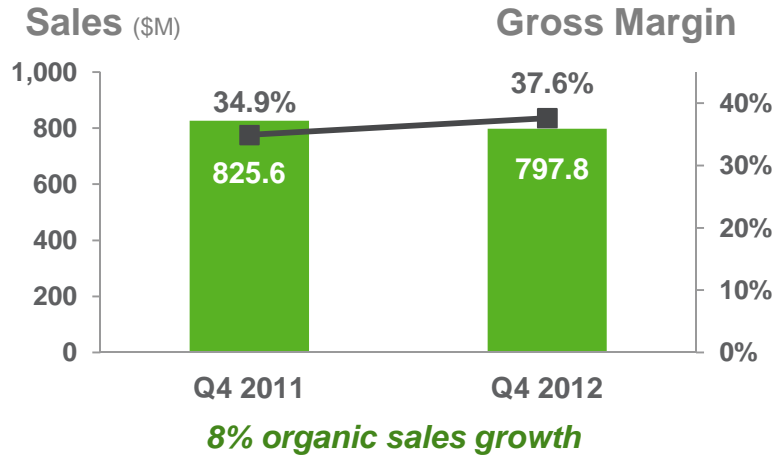
(in millions of dollars except EPS)	2011	2012	Y/Y Change
Net Sales	3211.9	3155.5	-1.8%
Gross Profit	1161.3	1166.3	0.4%
Gross Margin	36.2%	37.0%	80 bps
Adjusted EBIT	478.6	517.4	8.1%
Adjusted EBIT Margin	14.9%	16.4%	150 bps
Adjusted EBITDA Margin	18.6%	20.2%	160 bps
Adjusted EBIT ROIC	35.4%	36.3%	90 bps
Diluted EPS	3.57	1.23	<i>not meaningful</i>
Adjusted EPS	3.94	4.17	5.8%

Track record of margin and earnings growth continues



Organic sales growth of 7% with 4% growth in base pricing and 3% growth in sales volumes

Q4 2012 Financial Performance



Grace Business Results* – Q4 2012

(in millions of dollars except EPS)	Q4 2011	Q4 2012	Y/Y Change	Q3 2012	Q/Q Change
Net Sales	825.6	797.8	-3.4%	776.6	2.7%
Gross Profit	287.9	300.3	4.3%	284.8	5.4%
Gross Margin	34.9%	37.6%	270 bps	36.7%	90 bps
Adjusted EBIT	108.2	133.4	23.3%	129.1	3.3%
Adjusted EBIT Margin	13.1%	16.7%	360 bps	16.6%	10 bps
Adjusted EBITDA Margin	16.8%	20.5%	370 bps	20.4%	10 bps
Adjusted EBIT ROIC	35.4%	36.3%	90 bps	34.6%	170 bps
Diluted EPS	0.77	-1.48	<i>not meaningful</i>	0.99	<i>not meaningful</i>
Adjusted EPS	0.89	1.11	24.7%	1.04	6.7%

Catalysts Technologies – Q4 2012 Results

- 12% growth in base pricing and sales volumes
- Sales impacted by \$82 million of lower rare earth surcharges and currency translation
- Double-digit increases in PP catalyst sales offset lower PE catalyst sales
- Gross margin improvement due to operating leverage and productivity initiatives
- Segment operating income up due to higher gross margin, lower operating expenses and higher ART income

(in millions of dollars)	Q4 2011	Q4 2012	Q3 2012	Y/Y Change	Q/Q Change
Sales	367.5	328.3	298.9	-10.7%	9.8%
Gross Margin	38.0%	41.0%	40.5%	300 bps	50 bps
Operating Income	96.9	102.6	92.0	5.9%	11.5%
Operating Margin	26.4%	31.3%	30.8%	490 bps	50 bps

Factors Impacting Sales

Y/Y Change	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Volume	-1.3%	-0.9%	2.1%	0.4%	8.0%
Price	37.8%	16.0%	0.2%	-14.9%	-16.9%
Currency	0.6%	-1.5%	-4.2%	-4.5%	-1.8%
Total	37.1%	13.6%	-1.9%	-19.0%	-10.7%

Materials Technologies – Q4 2012 Results

- Sales in emerging regions grew 7% to 43% of total sales
- Increase in gross margin due to improved operating leverage and lower manufacturing costs
- Exiting 2012 at 2013 target gross margin
- Good progress positioning the business for improved growth and profitability in 2013

(in millions of dollars)	Q4 2011	Q4 2012	Q3 2012	Y/Y Change	Q/Q Change
Sales	204.5	210.1	214.4	2.7%	-2.0%
Gross Margin	31.9%	34.3%	32.8%	240 bps	150 bps
Operating Income	33.0	39.7	39.8	20.3%	-0.3%
Operating Margin	16.1%	18.9%	18.6%	280 bps	30 bps

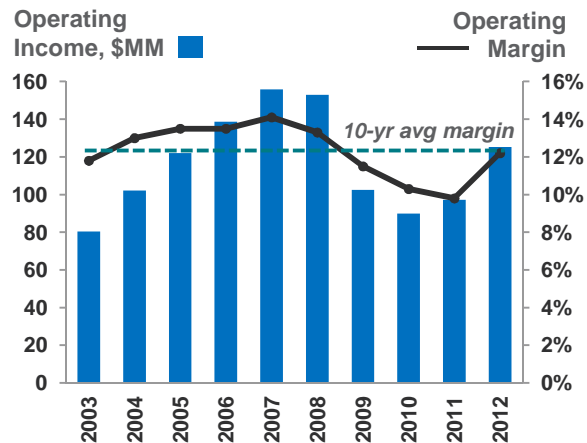
Factors Impacting Sales

Y/Y Change	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Volume	-4.4%	-1.8%	-1.3%	4.2%	5.0%
Price	4.9%	3.5%	2.4%	0.6%	0.9%
Currency	0.1%	-1.5%	-5.1%	-8.2%	-3.2%
Total	0.6%	0.2%	-4.0%	-3.4%	2.7%

Construction Products – Q4 2012 Results

- Good performance on a tough sales comp
- Emerging region sales grew 20% to 37% of total sales
- Pricing throughout the year improved raw material cost recovery
- Best full year operating margin since 2008

(in millions of dollars)	Q4 2011	Q4 2012	Q3 2012	Y/Y Change	Q/Q Change
Sales	253.6	259.4	263.3	2.3%	-1.5%
Gross Margin	32.7%	36.1%	35.4%	340 bps	70 bps
Operating Income	21.2	32.5	36.7	53.3%	-11.4%
Operating Margin	8.4%	12.5%	13.9%	410 bps	-140 bps



Factors Impacting Sales

Y/Y Change	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Volume	12.7%	7.9%	7.5%	1.1%	2.8%
Price	2.7%	3.3%	2.7%	1.1%	0.8%
Currency	-1.0%	-1.2%	-4.0%	-5.8%	-1.3%
Total	14.4%	10.0%	6.2%	-3.6%	2.3%

2013 Outlook

In millions	2013 Outlook (at Feb 6, 2013)	2012 Actual	Y/Y Growth
Adjusted EBIT	\$560 – \$580	\$517	8% – 12%
Adjusted EBITDA	\$685 – \$705	\$636	8% – 11%

Key Assumptions	
Sales	<ul style="list-style-type: none"> • Sales in the range of \$3.2 – 3.3 billion • Organic growth of 6 – 8% • Headwinds of ~ \$120 million from lower rare earth and currency
Margin	<ul style="list-style-type: none"> • Gross margin in the range of 36 – 38% • Adjusted EBIT margin improvement of ~100 basis points • Average euro exchange rate of \$1.29 for the year • Pension expense of \$73 million
Adjusted EPS	<ul style="list-style-type: none"> • Book effective tax rate of 34%; Cash tax rate of 14% • Diluted shares outstanding at year end of 78 million
Cash flow	<ul style="list-style-type: none"> • Adjusted Free Cash Flow > \$400 million • Capital expenditures in the range of \$180 – 200 million • Accelerated pension contribution of \$50 million in Q1

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Appendix – Definitions and Reconciliations of Non-GAAP Measures

Non-GAAP Financial Terms

Adjusted EBIT (Earnings Before Interest and Taxes) is net income adjusted for interest income and expense, income taxes, net Chapter 11- and asbestos-related costs, restructuring expenses and related asset impairments, divestment expenses, and gains and losses on sales of product lines and other investments.

Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is Adjusted EBIT plus depreciation and amortization expenses.

Segment Operating Income is Adjusted EBIT adjusted for defined benefit pension expense and corporate costs.

Adjusted Free Cash Flow is net cash provided by or used for operating activities minus capital expenditures plus the net cash flow from Chapter 11 expenses paid, cash paid to resolve contingencies subject to Chapter 11, accelerated payments under defined pension arrangements, and expenditures for asbestos-related environmental remediation.

Adjusted EBIT Return On Invested Capital is Adjusted EBIT (on a trailing four quarters basis) divided by the sum of net working capital, properties and equipment and certain other assets and liabilities.

Adjusted EBIT, Adjusted EBITDA, Adjusted EPS, Segment Operating Income, Adjusted Free Cash Flow and Adjusted EBIT Return On Invested Capital do not purport to represent income or cash flow measures as defined under U.S. generally accepted accounting principles (GAAP), and should not be used as alternatives to such measures as an indicator of Grace's performance. These measures are provided to investors and others to improve the period-to-period comparability and peer-to-peer comparability of Grace's financial results, and to ensure that investors understand the information we use to evaluate the performance of our businesses.

Adjusted EBIT has material limitations as an operating performance measure because it excludes Chapter 11- and asbestos-related costs and may exclude income and expenses from restructuring and divestment activities, which historically have been material components of Grace's net income. Adjusted EBITDA also has material limitations as an operating performance measure because it excludes the impact of depreciation and amortization expense. Grace's business is substantially dependent on the successful deployment of capital, and depreciation and amortization expense is a necessary element of Grace's costs. Adjusted Free Cash Flow also has material limitations as a liquidity measure because it excludes the cash flow effects of capital expenditures plus the net cash flow from Chapter 11 expenses paid, cash paid to resolve contingencies subject to Chapter 11, accelerated payments under defined pension arrangements, and expenditures for asbestos-related environmental remediation, which historically have been material components of Grace's operations. Grace compensates for the limitations of these measurements by using these indicators together with net income as measured under GAAP to present a complete analysis of its results of operations. Adjusted EBIT and Adjusted EBITDA should be evaluated together with net income measured under GAAP for a complete understanding of Grace's results of operations. Adjusted Free Cash Flow should be evaluated together with net cash provided by or used for operating activities as measured under GAAP for a complete understanding of Grace's operating cash flows. Investors should evaluate these measures in conjunction with Grace's Consolidated Financial Statements as presented in Grace's annual reports on Form 10-K for a more complete analysis of its financial results.

Appendix – Reconciliation of Non-GAAP Financial Measures (continued)

	2010	2011	2012	Q4 2011	Q3 2012	Q4 2012
Adjusted EBIT (Non-GAAP)	\$326.4	\$478.6	\$517.4	\$108.2	\$129.1	\$133.4
Adjustments:						
Chapter 11- and asbestos-related costs, net	(35.3)	(44.7)	(407.8)	(20.7)	(5.7)	(371.7)
Divestment expenses	0.0	(0.4)	(0.2)	(0.4)	0.0	0.0
Restructuring expenses and related asset impairments	(11.2)	(6.9)	(6.9)	(5.9)	(1.1)	(0.5)
Gains (loss) on sales of product lines and gain related to the sale of interest in an unconsolidated affiliate	0.0	(0.4)	(0.2)	(0.4)	(0.2)	0.0
EBIT	279.9	426.2	102.3	80.8	122.1	(238.8)
Benefit from (provision for) income taxes	(32.5)	(114.7)	37.3	(12.2)	(35.4)	139.3
Interest income of non-Debtor subsidiaries	1.0	1.2	1.0	0.3	0.3	0.3
Interest expense	(41.3)	(43.3)	(46.5)	(10.8)	(11.5)	(12.4)
Net Income (GAAP)	\$207.1	\$269.4	\$94.1	\$58.1	\$75.5	(\$111.6)
<u>Chapter 11- and asbestos-related costs, net:</u>						
Chapter 11 expenses, net of filing entity interest income	\$17.7	\$20.0	\$16.6	\$3.1	\$4.4	\$4.0
Provision for asbestos-related contingencies	0.0	0.0	365.0	0.0	0.0	365.0
Libby medical program settlement	0.0	0.0	19.6	0.0	0.1	0.0
Asbestos administration costs	6.1	4.5	6.3	1.1	1.3	1.7
Provision for environmental remediation related to asbestos	3.7	16.3	1.3	16.0	0.6	0.5
D&O insurance cost related to Chapter 11	3.5	0.3	0.3	(0.9)	0.1	0.1
Chapter 11 financing related:*						
Translation effects - intercompany loans	25.2	11.7	(5.6)	11.7	(5.2)	(7.9)
Value of currency forward contracts - intercompany loans	(25.4)	(9.3)	3.7	(10.0)	4.7	7.7
Certain other currency translation costs, net	4.3	1.2	0.6	(0.3)	(0.3)	0.6
Chapter 11- and asbestos-related costs, net	\$35.2	\$44.7	\$407.8	\$20.7	\$5.7	\$371.7

* Due to its bankruptcy, Grace has had significant intercompany loans between its non-U.S. subsidiaries and its U.S. debtor subsidiaries that are not related to its operating activities. In addition Grace has accumulated significant cash balances during its bankruptcy. The intercompany loans are expected to be paid when Grace emerges from bankruptcy, and excess cash balances are expected to be used to fund a significant portion of Grace's emergence from bankruptcy. Accordingly, income and expense items related to the intercompany loans and the cash balances are categorized as Chapter 11- and asbestos-related costs, net.

Appendix – Reconciliation of Non-GAAP Financial Measures (continued)

<u>Adjusted EBIT By Operating Segment:</u>	<u>2011</u>	<u>2012</u>	<u>Q4 2011</u>	<u>Q3 2012</u>	<u>Q4 2012</u>
Grace Catalysts Technologies segment operating income	\$388.8	\$393.8	\$96.9	\$92.0	\$102.6
Grace Materials Technologies segment operating income	158.7	162.0	33.0	39.8	39.7
Grace Construction Products segment operating income	97.3	125.2	21.2	36.7	32.5
Corporate support functions (including performance based compensation)	(74.8)	(66.3)	(18.5)	(16.0)	(15.5)
Other corporate costs (including environmental remediation)	(28.0)	(26.1)	(8.5)	(5.8)	(7.9)
Defined benefit pension expense	(63.4)	(71.2)	(15.9)	(17.6)	(18.0)
Adjusted EBIT (Non-GAAP)	\$478.6	\$517.4	\$108.2	\$129.1	\$133.4

<u>Adjusted Free Cash Flow:</u>	<u>2011</u>	<u>2012</u>
Net cash provided by (used for) operating activities	\$219.4	\$453.6
Capital expenditures	(144.0)	(138.5)
Free Cash Flow	75.4	315.1
Chapter 11 expenses paid	20.6	15.5
Accelerated defined benefit pension plan contributions	180.0	83.4
Expenditures for asbestos-related environmental remediation	2.4	7.2
Adjusted Free Cash Flow (Non-GAAP)	\$278.4	\$421.2

<u>Adjusted EBIT Return On Invested Capital (trailing four quarters):</u>	<u>2011</u>	<u>2012</u>
Adjusted EBIT (Non-GAAP)	\$478.6	\$517.4
Trade accounts receivable	473.0	490.4
Inventories	329.1	278.6
Accounts payable	(257.6)	(252.0)
Net working capital	544.5	517.0
Other current assets	82.6	62.4
Properties and equipment, net	723.5	770.5
Goodwill	148.2	196.7
Other assets	174.1	192.7
Other current liabilities	(259.5)	(258.9)
Other liabilities	(60.9)	(56.5)
Total invested capital	\$1,352.5	\$1,423.9
Adjusted EBIT Return On Invested Capital (Non-GAAP)	35.4%	36.3%

