1972 Annual Report
W. R. Grace & Co.

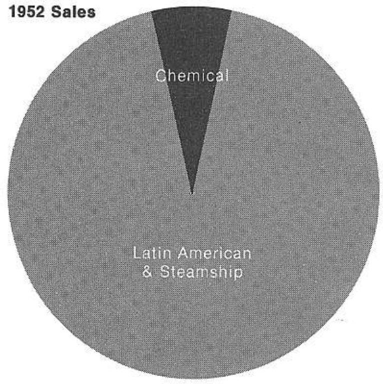
Grace

The Grace logotype and "G" mark on the cover will be introduced during 1973 as part of a new corporate identity program.

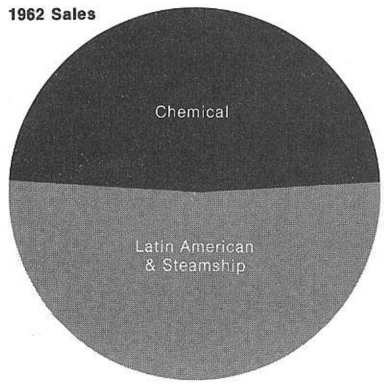
Contents

W. R. Grace & Co. is a diversified worldwide corporation with broad capabilities in chemically based products and services, and significant and growing commitments in consumer products and services. The company's strategy is to develop proprietary positions and a strong market share in specialty areas that offer high growth potential. Grace chemicals occupy leadership positions in expanding, high-technology markets, while the company's consumer products and services are gaining widening recognition in international markets.

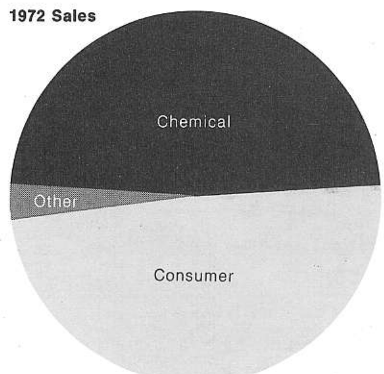
1952 Sales



1962 Sales



1972 Sales



To the Stockholders

Results for 1972 confirm statements that we have made for several years with regard to reducing dependence on business activities which could be adversely affected by political events beyond our control. We have pursued a policy of concentrating in more stable markets on two major business thrusts. Last year 97% of sales and operating revenues and 99% of income from operations were generated by chemically based products and services and consumer products and services.

In 1972, sales and operating revenues increased by 13%, totaling $2.3 billion, the highest in the company's history. Income before extraordinary items amounted to $60.4 million, a 27% increase over 1971. Per common and common equivalent share it was $2.15, compared with $1.75, an increase of 23%. Extraordinary items in both years represented the net effect of a number of transactions and resulted in a gain of $3.1 million in 1972 versus a loss of $6.2 million in 1971. Therefore, net income for 1972 was $63.5 million, compared with $41.3 million, an increase of more than 50%.

Chemically based products and services—the company's more mature business thrust—was the key factor in the earnings improvement. Operating income from chemicals increased 43% to $61.6 million and represented 72% of the company total. 1972 was the third consecutive year of higher chemical earnings, and since 1968 the average annual improvement has been 11%.

Chemical earnings growth last year reflected an increase in chemical sales of $120 million, or 12%, to $1.1 billion. The increase in earnings is largely the result of improved efficiency, as well as higher margins on sales in one particular area, agricultural products and services. The earnings improvement was spread among all areas of activity, with industrial and specialty chemicals and processes showing the largest increase in absolute operating income of $8.4 million, while the largest percentage increase, 79%, came from agricultural products and services.

Grace industrial and specialty chemicals are key elements in our customers' finished products and distinguishable in performance and quality from others. Automotive products, catalysts, construction chemicals, printing materials and systems, pollution control processes and water treatment are among the product lines that showed good improvement in sales and earnings. The company's continuing research and development programs are particularly important to these product lines.

In the agricultural products area, fertilizer materials were the key reason for the substantial improvement. This was primarily due to strong demand and an improving price structure for phosphatic fertilizers, particularly in the export market. Anhydrous ammonia and most nitrogen-based products showed little improvement, but this situation should be rectified this year in view of the demand already indicated.

Results from the converted plastics and packaging products area of activity were better, primarily because of enthusiastic acceptance of the new multilayered *Barrier Bag* for packaging primal cuts of fresh red meat. The contribution of medical products and services, while small in the overall total, again showed improvement, and earnings in the past four years have increased at an average annual rate of 17%.

Consumer products and services—the second and more recent thrust, initiated in the

J. Peter Grace (left) and Felix E. Larkin at the main entrance of the new Grace Building.

Financial Highlights

(Dollars in thousands except amounts per share—restated for poolings of interests, the prior period adjustment for U.S. Federal income taxes and changes in accounting principles)

	1972	1971	Increase Amount	Increase Percent
Sales and Operating Revenues	$ 2,315,144	$ 2,048,873	$ 266,271	13%
Income Before Extraordinary Items	60,379	47,539	12,840	27%
Per Common and Common Equivalent Share	2.15	1.75	.40	23%
Extraordinary Items	3,092	(6,195)	9,287	N.A.
Per Common and Common Equivalent Share	.11	(.23)	.34	N.A.
Net Income	63,471	41,344	22,127	54%
Per Common and Common Equivalent Share	2.26	1.52	.74	49%
Per Common Share Assuming Full Dilution	2.07	1.49	.58	39%
Working Capital Provided by Operations	131,493	117,216	14,277	12%
Cash Dividends Paid per Common Share	1.50	1.50	—	—
Stockholders' Equity per Common Share	26.14	25.68	.46	2%
Average Number of Common and Common Equivalent Shares	27,748,000	26,702,000	1,046,000	4%
Common Shares Outstanding at Year End	27,267,418	26,572,977	694,441	3%
Number of Common Stockholders	48,357	46,523	1,834	4%
Number of Employees	72,500	66,400	6,100	9%

mid-1960s—had a sales increase of 19% and slightly improved earnings. The three areas of activity which showed important earnings gains were education and other services, from continued growth in library book distribution as well as better results from real estate activities; leisure products and services, primarily from the automotive/performance field; and restaurant and food services. All three continued their growth patterns and more than offset reduced earnings in the grocery products and fashion products areas. In grocery products, the entire reduction in earnings could be attributed to pricing difficulties caused by the competitive climate in the edible oil business in France. Otherwise, much of the grocery products business showed improvement, particularly the operations in the United States. In fashion products, our ladies' apparel business operated at a profit in contrast to the loss experienced in 1971. However, this turnaround was not sufficient to offset a loss in the footwear business.

Overall, 1972 results confirm our conviction that the company's present business mix has the potential to provide strong continuing growth in sales and earnings.

We call your attention to pages 20 and 22 of this report, which were designed to provide stockholders with a meaningful and useful picture of the company's business as it is constituted today. The classification of businesses has been revised within the framework of the two major thrusts, further dividing them into areas of activity. Financial statistics—sales, income from operations and net fixed assets—also conform to the revised breakdown. To facilitate understanding, the results of discontinued operations are also shown. These reflect in large measure the elimination of shipping and most of our Latin American activities.

The future outlook for the company is bright. We have a solid chemical business based on leadership positions, sound technologies, concentration in fields with superior growth characteristics, and in addition, a concept of providing outstanding service to customers.

A more favorable earnings environment for fertilizers also seems assured. Worldwide food shortages and the consequent incentive to seek higher agricultural yields and to increase planting acreage will stimulate the demand for all plant nutrients. The full utilization of fertilizer production facilities will eliminate the excess capacity that has existed since the mid-1960s. This in turn should result in more realistic and equitable prices approaching the levels achieved when a normal supply/demand relationship existed.

The company's entry into consumer products and services businesses has resulted in the achievement of an impressive level of sales as well as strong positions in a number of areas with good growth and profit environments. As is characteristic of a major new effort, however, there can be delays in reaching acceptable earnings levels in some product lines. Steps are being taken to improve distribution, increase utilization of plant facilities and obtain larger market shares in areas where Grace brands already have key positions. Furthermore, unprofitable businesses will either be turned around or divested. We expect these steps to bring about improved results in the future.

The company maintains good balance in the allocation of its resources between the United States, Europe and other geographic areas and has considerable experience in international finance. We must be concerned with the problems which are currently besetting the international monetary system. Their solution is important for the future of all world trade and investment, in addition to the well-being of the U.S. economy.

Today's economic uncertainties make any prediction of future results difficult. Despite this, the underlying strength of the businesses which constitute our present mix is such that we view the future with confidence and optimism.

Respectfully submitted,

J Peter Grace

Chairman

President

March 8, 1973

After July 1, 1973, Grace's world headquarters will move from Hanover Square to the Grace Building at Avenue of the Americas and 42nd Street. The change in the company's business mix to two major thrusts—chemicals and consumer products—was a factor in the decision to move to a central Manhattan location.

Review of Operations

Grace is a market leader in chemically based products and services. The four areas of activity are industrial and specialty chemicals and processes, agricultural products and services, converted plastics and packaging products, and medical products and services.

In 1972, these activities accounted for $1.1 billion, or 48 percent of sales. Income from operations amounted to $61.6 million, an increase of 43 percent over the previous year. Significant improvement in agricultural chemicals and strong internal growth in other chemical areas were the principal reasons for these excellent results.

Industrial & Specialty Chemicals & Processes

Industrial and specialty chemicals and processes produced 42 percent of total operating income in 1972. Last year, sales and profits in this area of activity again exceeded those of the prior year, an indication of Grace's technical and marketing strength. Growth came in domestic operations, which contributed 69 percent of sales, and in foreign subsidiaries. The principal products are container sealants; petroleum-cracking, automotive and industrial catalysts; chelating agents; cleaning compounds; water treatment chemicals; oxygen and ozone production systems; printing plate systems and printing blankets; battery separators; sound-deadening materials; and construction products and chemicals.

Sales of container sealing compounds were the highest on record. Construction of new sealant manufacturing plants is under way in Woodbury, New Jersey, and St. Neots, England. Among new products developed during the year was a flowed-in polyurethane compound to replace rubber gaskets in the sealing of 55-gallon steel drums.

There were several developments in Grace's catalyst business. During the year, a 51-percent-owned subsidiary was formed with Laporte Industries Limited of England to produce catalysts essential to the manufacture of substitute natural gas. A manufacturing plant will be built in Curtis Bay, Maryland. Large amounts of substitute natural gas will be required in coming years because of a shortage of natural gas.

Intensive work continued on automotive catalysts. If car manufacturers use catalytic converters to meet 1975/76 anti-pollution standards, it is expected that Grace will be an important supplier of catalysts.

Sales of petroleum-cracking catalysts were strong in 1972 and are expected to remain high through 1973. Grace is a leading manufacturer of these catalysts.

Chelating agents are finding many new applications, including use in photographic developers and water treatment products. A new plant in England is expected to start up in the spring of this year.

Chemed Corporation, a Grace subsidiary, 11 percent of which is publicly owned, reported a 20-percent rise in net income for 1972 on sales and revenues of $140 million. Among its principal products are industrial and institutional cleaning compounds, and water and waste treatment chemicals. Chemed is moving increasingly into the European market.

Oxygen and ozone-generating systems developed through licensed technology and Grace research now are being introduced commercially. These systems are expected to offer economic improvement or effective replacement of existing processes for treating municipal and industrial wastes.

The leading market position of Grace's photopolymer printing plate system, known as *Letterflex*, was strengthened both here and abroad. The system, which has been contracted to 45 daily newspapers, permits them to realize for the first time the benefits of computerized photocomposition production techniques while retaining existing letterpress printing equipment. The method also has been adapted to many commercial printing applications, including a new method for printing books.

Daramic plastic battery separators gained increasing market acceptance in the automotive field, as a replacement for other types of separators in industrial batteries, and in such applications as new water-activated and maintenance-free batteries. Sales of sound-deadening materials for automobiles were strong, and the product line is being extended to other anti-noise applications.

The construction products market is expected to be large and expanding in the 1970s, and Grace should have a strong share in its growth. Worldwide sales of construction products in 1972 benefited from a number of developments evolving from Grace research, especially the self-adhesive *Bituthene* waterproofing membrane system for basements and other structures.

The modernization program at the Montana vermiculite mine is nearing completion. Vermiculite is used by the building industry for insulation and fireproofing. Sales of *Mono-Kote,* an asbestos-free vermiculite formulation, have accelerated.

The new oxo-alcohol plant in Puerto Rico is in full operation. The plant's capacity for 2-ethyl hexanol is the largest in the Western Hemisphere. A major portion of the production of 2-ethyl hexanol is used internally to make plasticizers, of which the company is a leading producer.

Development efforts are being directed toward expanding the base in synthetic lubricants. Since the late 1950s, the company has been a leading producer of ester lubricants for aircraft jet engines. Increasing high-temperature demands for automotive and industrial equipment are creating new applications for such lubricants.

In Jacksonville, Arkansas, a fifth polyester resin facility is scheduled for start-up in May 1973. Fiberglass-reinforced polyester is used in pleasure boats, automotive components and furniture.

Agricultural Products & Services

Grace is a major factor in the U.S. agricultural chemicals field as a supplier of fertilizers, animal and poultry feed and feed supplements, and breeding services.

The fertilizer industry is emerging from a period of overcapacity, with resultant improvement in Grace's earnings. Strategically located plants, an efficient distribution system, and strong capabilities in phosphate and ammonia give Grace an important position in the fertilizer business.

Demand for phosphate fertilizers was strong, with export markets a key factor. The improving domestic farm economy, additional planting acreage and increasing foreign grain sales are expected to stimulate strong demand for fertilizers in 1973.

Results of animal feed and feed supplement operations showed improvement in 1972. Sales of animal insemination serviaes to the dairy cattle industry continued strong, and progress was made in selling to the larger beef cattle industry. Expansion continued into export markets.

Converted Plastics & Packaging Products

Grace is a technological and market leader in several categories of converted plastics and packaging products. It manufactures shrink film and develops packaging systems for meat, poultry, cheese, games, toys and records; plastic trays for food items; disposable plastic beverage containers and dinnerware; plastic cases for packing bulky items such as power tools, tape discs, and postage meters; and vinyl for home furnishings, shoes and apparel.

A big factor in the advance of flexible packaging sales was broad acceptance of the *Barrier Bag* introduced in 1971. A 60-percent increase in production capacity for this product is planned in 1973. The *Barrier Bag,* used for primal cuts of meat, offers superior strength, and air and moisture impermeability.

Disposable drinkware and dinnerware are also fast-growing items. These products have been sold primarily to institutional customers, but in 1973 they also will be marketed to consumers through major food, novelty and discount chains.

Sales of vinyl products increased more than 15 percent. Strong market demand from home furnishings manufacturers, and Grace's continuing position as a leading supplier of vinyl for medical products, were important factors in this growth.

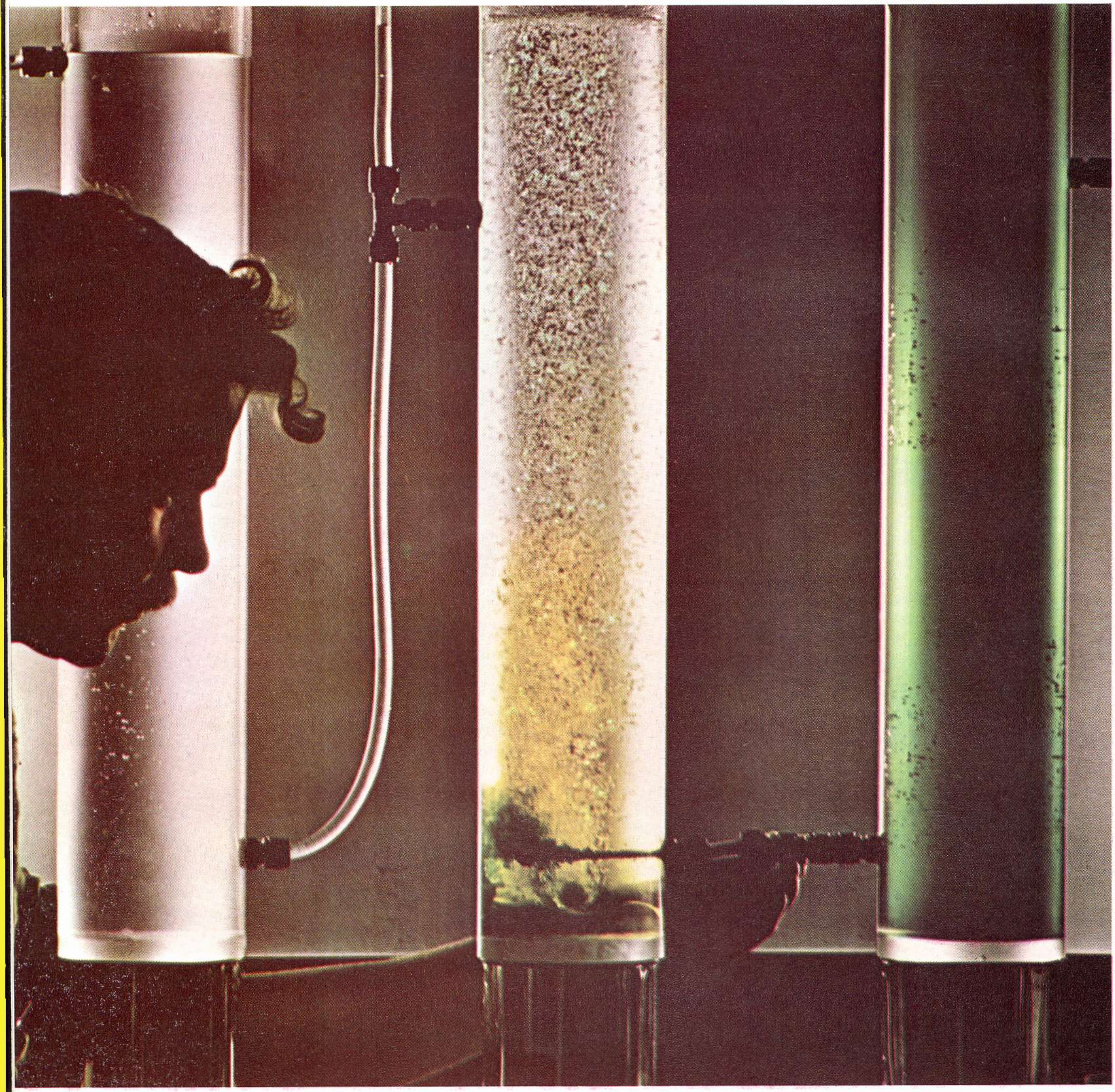
Medical Products & Services

Chemed Corporation is a leader in the rapidly growing health products and services field in the United States.

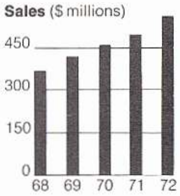
Chemed's medical diagnostic services facilities were further expanded in 1972. The increased use of independent laboratories by physicians and hospitals has been a key factor in the expansion of this area of activity.

An important new dimension in Grace health services was added in 1972 when Chemed acquired a company which provides inhalation therapy services and equipment for hospitals and other health care institutions in the Northeastern United States. Inhalation therapy requires specially trained personnel, and many hospitals are turning to expert technical concerns for this service.

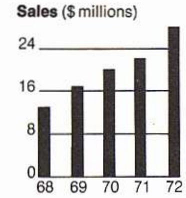
The market for disposable medical and dental supplies sold by direct mail is expanding significantly. Grace also produces germicidal detergents and similar products for hospitals, nursing homes and medical clinics.



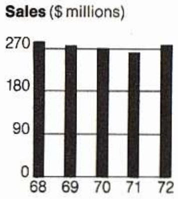
Industrial & Specialty Chemicals & Processes: Ozone produced by this proprietary Grace generating system is used for efficient purification of municipal and industrial waste water. Grace has leadership positions in many other specialty chemicals sold to industrial customers to improve product quality and performance.



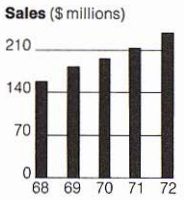
Medical Products & Services: Inhalation therapy is a new medical service for Grace. Many hospitals are using outside sources for therapy which relieve them of the need for specialized personnel. In addition to this service, Grace also markets disposable medical and dental supplies and environmental sanitation products, and provides diagnostic laboratory testing services.



Agricultural Products & Services: Grace is a major supplier of phosphate, ammonia and urea, and mixed fertilizers. Corn, soybean, wheat (shown being loaded for export at Houston, Texas), and other grain crops depend on chemical fertilizer application. Other agricultural activities include animal and poultry feed and feed supplements, and breeding services.



Converted Plastics & Packaging Products: Grace is an innovator and market leader in shrink film packaging for meat, poultry and cheese. Fresh red meat is sealed in the *Barrier Bag* film shown above. Grace packaging technology has been transferred to meat-producing countries outside the United States. Various types of rigid packaging, as well as flexible film, also have numerous non-food applications.



Review of Operations

Consumer products and services, Grace's second major business thrust, which was begun in the early 1960s, now contributes 49 percent of the company's total sales. The five areas of activity are grocery products, restaurant and food services, fashion products, leisure products and services, and education and other services. Sales totaled $1.1 billion in 1972, a 19-percent increase over the previous year. Operating income was $22.7 million, slightly higher than the prior year. The overall performance was less than satisfactory, but there are opportunities for higher margins and increased future earnings.

Grocery Products

Grace's grocery products business is international in scope and includes frozen and snack foods, confectioneries, soft drinks, dairy products and other packaged foodstuffs. Sales were up 13 percent over 1971. Results from U.S. operations improved, but European earnings were lower principally because of pricing difficulties in the edible oil operation.

Grace is a snack and convenience food producer in the West, mainly under the *Nalley* name. Earnings improved significantly over 1971, and there is room for further improvement as plant capacity is more fully utilized and distribution systems continue to be strengthened.

New frozen food products sold under the *SeaPak* label and other brand names resulted in a higher volume of sales. One of the most important new products was extruded *Shrimp Shapes* made from processing tiny shrimp.

In Europe, Grace is establishing a continent-wide distribution system to serve the Common Market area and is expanding its product lines.

The marketing of *Barilla* products in southern Italy was enhanced by the acquisition of a pasta processing company in Naples. The development and production of *Barilla* pasta-based dinner products are being stepped up, and the line of rusks and breadsticks is being broadened. An expansion of bakery facilities is under way.

In France, *Materne* products are now the country's largest-selling jams and compotes. *Raak* soft drinks in cans and a line of non-carbonated fruit beverages were introduced in the Netherlands. Construction began on a new cocoa processing plant and automation of a cocoa cake and powder plant, also in the Netherlands.

Restaurant & Food Services

Grace dining facilities in the United States and Europe include family restaurants, coffee shops, expressway snack bars, and institutional food service operations. These activities, part of Grace only since 1968, had sales of $117 million in 1972 and continued to expand at a rapid rate in Europe and the United States. Sales were up 46 percent and earnings 32 percent.

Sales of Jacques Borel International, a majority-owned subsidiary in France, were $64 million, an increase of 56 percent. Borel is a pioneer in the chain restaurant business and In catering to industry and institutions in France and other parts of Europe.

At the end of 1972, Borel operated 562 facilities. Its first auto-route hotel was opened in St. Albain, France. Motor hotels, especially along new expressways, are a new and growing business in Europe, and Borel is a leader in the field.

In the United States, Grace extended its chain of restaurants, most of which are named *Reuben's, Plankhouse* or *Moonraker,* and coffee shops, known as *Coco's,* by opening 17 new locations, bringing the total to 88. The success of this business can be attributed to attractive and modern decor, reasonably priced meals, centrally located commissaries that permit superior quality control of food distributed to individual restaurants, the establishment of standard menus and portions, and intensive employee training. More than 50 new facilities are scheduled to open in the next two years in the United States.

Fashion Products

Grace has a position in the fashion world with distinctive sportswear for women sold under the *Jones New York, John Meyer of Norwich* and *Emily M* labels. Strengthened management, tighter financial and inventory controls, and increased market acceptance of contemporary sportswear combined to return the apparel business to profitable levels. The new *Jones New York* line has been highly successful and now accounts for half of total apparel sales.

The company also manufactures and sells handbags and is a manufacturer, importer and retailer of footwear. The footwear industry experienced sluggishness in 1972, particularly in sales of women's shoes. The primary reason was lack of clear fashion direction. The industry was also hampered by high leather costs and the problems of inventory adjustments to keep pace with changing fashions.

To strengthen its position in marketing footwear, Grace began a program to put large *Pix of America* retail shoe stores in key locations in new market areas. The stores will be three times as large as present ones and have significant volume potential. Grace also entered a joint venture to market foreign-made casual footwear in France and eventually throughout Europe.

In Europe, Grace is a leading producer of damask mattress ticking. Printed mattress ticking, as well as damask, and upholstery fabrics are also distributed in the United States and other parts of the world.

Leisure Products & Services

The leisure products and services area of activity includes automotive parts and accessories, toys, sporting goods, and recreational vehicles.

Outstanding results were achieved in 1972. Sales increased 34 percent and earnings 26 percent, with especially strong growth in the automotive and sporting goods categories.

Sales of automotive aftermarket customizing and performance parts increased 49 percent as consumer demand continued strong. A mini-car parts line was added during the year and several new specialty parts were successfully introduced. Grace also purchased a Detroit-based company that fabricates specialty fasteners and wire and converted wire components for the automotive and hard goods industries.

Grace now has 16 retail sporting goods stores, up from 10 last year. Nine are *Herman's World of Sporting Goods,* located in Massachusetts, Connecticut, New Jersey and New York. Seven are *Brooks World of Sporting Goods,* in the Wilmington/Philadelphia area. It is expected that four additional stores located in and around Washington, D.C., will be added early in 1973. These outlets specialize in high-volume merchandising and are located in growing suburban population centers.

Sales of recreational vehicles increased as new models of travel trailers and motor homes were introduced.

In toy/hobby/housewares distribution, warehousing capabilities were expanded, and retail toy outlets were added.

Direct mail operations are also growing rapidly. Chemed offers quality gift items as well as men's shirts and accessories. In total, more than 20 million catalogs from Grace operations are distributed annually throughout the United States.

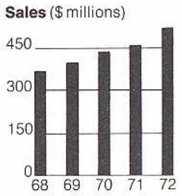
Education & Other Services

Grace is a major distributor of books to university, school and public libraries and recently began providing audio-visual materials to the same markets.

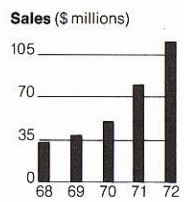
A fifth regional distribution center was opened in Commerce, Georgia, and facilities in Illinois and Nevada were expanded during the year. Industry leadership is maintained through computerization, inventory control, and rapid processing and shipping of orders. This business is expected to continue to grow as demand for educational materials increases. In order to expand the company's interests in the education field, entry was made last year into the school supplies market in the Midwest.

The company's participation in real estate development and services increased during the year. A number of sites for development were selected, a leading mortgage brokerage firm—Pearce, Mayer & Greer Incorporated—was added, and a real estate investment trust—Hanover Square Realty Investors—was sponsored. In addition, a West Coast developer of shopping centers and other commercial properties was acquired in January 1973. Pearce, Mayer & Greer acts as adviser to the real estate investment trust. An initial public offering of $25 million in Hanover Square securities was made in July 1972. The trust currently has a total of $40 million in real estate investments.

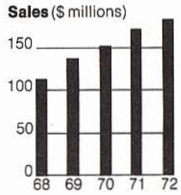
Grocery Products: Grace manufactures grocery products in the United States, Europe and the Far East. An expanded distribution system under development will facilitate marketing of Grace's consumer products in the enlarged Common Market. For example, this *Barilla* pasta made in Italy is now being sold in other European countries.



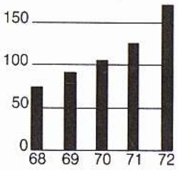
Restaurant & Food Services: The attractively furnished *Moonraker* in Syosset, Long Island, is typical of Grace restaurants, which offer good food in a pleasant atmosphere at moderate prices. Grace now has more than 650 food service facilities worldwide.



Fashion Products: Contemporary styling and fine quality have made *Jones New York* one of the most successful new lines in the fashion industry. Other labels in women's sportswear are *Emily M* and *John Meyer of Norwich.* Grace also manufactures and sells handbags and footwear.

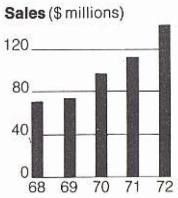


Leisure Products & Services: Cars like this entry in the Super Nationals drag race depend on Grace gaskets and other specially engineered parts for superior performance. The manufacture and marketing of performance and customizing parts for the automotive after-market is one of Grace's fastest-growing businesses. Other leisure lines include toys and hobbies, sporting goods, and recreational vehicles.



Education & Other Services: Grace maintains its position as a leading distributor of books to school, university and public libraries through advanced computer technology and a regional warehousing system.

Other services include real estate activities such as land development, management and brokerage, and commercial realty development.



Review of Operations

Natural Resources Investments

The operations remaining from the traditional businesses of W. R. Grace & Co. are classified as natural resources investments. In 1972, they represented only 3 percent of the company's total sales and 1 percent of operating income. They consist of a 50-percent ownership of a leading paper producer in Colombia, and tin and tungsten mining operations in other Latin American countries. The company also has a petroleum investment in Libya which has been providing a satisfactory return on capital. However, earnings from this source in 1972 were substantially lower because of reduced production and higher taxes.

Investments are now concentrated in the United States and Canada, and exploratory activities are continuing in other developed areas of the world. Oil and gas exploration expenditures were $2.2 million in 1972, approximately three times those of 1971, and an aggressive program is planned for 1973.

Grace obtained a 24-percent interest in Voyager Petroleums Ltd., a Canadian oil and gas production and exploration company with important holdings in Canada, the United States, and the North Sea. Voyager's currently contracted natural gas reserves exceed 200 billion cubic feet.

During the year, ownership in Western Mines Limited, a Canadian copper, zinc and silver mining company, was increased to 25 percent.

While these investments do not constitute a major thrust, Grace intends to maintain a position in natural resources in view of the energy shortage in the United States which is just now becoming widely recognized.

Discontinued Operations

Sales, income from operations and net fixed assets for "discontinued operations" are shown in the table on page 22. This category reflects activities in which Grace is no ldnger engaged. Included are the synthetic fibers business sold in 1968; Miller Brewing Company, sold in 1969; seed operations sold in 1970 and 1971; and a number of Latin American and shipping businesses divested over the last five years.

Operating results in Peru were deconsolidated in 1970 in view of The General Industry Law of that country stipulating that foreign ownership of industrial companies be reduced to a minority position. Negotiations are continuing under an agreement in principle to sell the company's chemical and paper interests to the Peruvian Government. It is expected that the agreement will be completed in 1973.

The company's investment in Marine Midland Banks, Inc. (shares of a convertible preferred stock), obtained in 1965 through the sale of its majority interest in Grace National Bank, was sold to Marine Midland in December 1972.

Chemically Based Products & Services	Industrial & Specialty Chemicals & Processes	Automotive Products Catalysts Chelating Agents Cleaning Compounds Construction Products and Chemicals Organics	Paper Impregnants Plasticizers Pollution Control Processes Printing Materials and Systems Sealants Water Treatment
	Agricultural Products & Services	Animal Insemination Feed and Feed Supplements Fertilizers Pesticides	
	Converted Plastics & Packaging Products	Flexible Packaging Office Accessories Packaging Equipment	Rigid Packaging Vinyls
	Medical Products & Services	Diagnostic Services Disposable Products Environmental Sanitation Inhalation Therapy	
Consumer Products & Services	Grocery Products	Chocolate Intermediates Confections Dairy and Ice Cream Edible Oils Frozen Foods	Jams and Compotes Pasta Products Snack Foods Soft Drinks
	Restaurant & Food Services	Coffee Shops Institutional Food Service Motels/Hotels Restaurants	
	Fashion Products	Apparel and Accessories Footwear Mattress Ticking Upholstery	
	Leisure Products & Services	Automotive Specialties Direct Mail Gift Items Recreational Vehicles	Sporting Goods Toys
	Education & Other Services	Library Book Distribution Film, Record Distribution Personnel and Travel	Real Estate Development School Supplies and Equipment
Natural Resources Investments		Oil, Gas, Minerals Paper, Pulp Processes	

Financial Review

Capital Expenditures: The following table compares capital expenditures, including those of pooled companies. Net properties and equipment of other companies acquired are included in the year of acquisition.

	1972	1971
	(In Thousands)	
Chemicals		
Industrial & Specialty	$ 30,722	$28,992
Agricultural	21,149	8,918
Converted Plastics	13,245	13,119
Medical	1,203	1,543
Total Chemicals	66,319	52,572
Consumer Products		
Grocery	25,265	15,897
Restaurants	14,049	9,982
Fashion	3,728	3,394
Leisure	12,117	2,809
Education	3,404	3,179
Total Consumer Products	58,563	35,261
Other Activities	2,345	2,898
Grand Total	$127,227	$90,731

Dividends: Four quarterly dividends of 37½ cents per share were paid on the common stock for a total of $1.50 per share. In aggregate, common stock dividends amounted to $38.3 million. In addition, the Company paid $773,000 in dividends to preferred stockholders. The common stock dividend was raised to its present rate in 1968. This was the 39th year of consecutive dividend payments.

Employment Costs: Total employment costs for 1972 were $518,423,000, compared with $461,842,000 the previous year. These costs include salaries, wages, other forms of compensation, employee benefit plan expenses and social security contributions. During the year, the Company's principal retirement plan for salaried employees was modified to provide improved retirement and disability benefits and reduced employee contributions.

International Operations: The table below provides a geographical breakdown of sales and income from operations:

	Sales		Income from Operations	
(In Millions)	1972	1971	1972	1971
United States and Canada	$1,553	$1,374	$58.7	$44.2
Western Europe	617	518	15.1	14.2
Other Areas	145	157	11.1	10.4
Total	$2,315	$2,049	$84.9	$68.8

Sales and income from operations outside the United States and Canada in 1972 contributed 33% and 31% of the respective totals.

Working Capital: Additions to working capital provided by operations amounted to $131.5 million in 1972, compared with $117.2 million in 1971. The sources included income before extraordinary items, depreciation and depletion, deferred income taxes and other items.

As of December 31, 1972, working capital increased by $15.4 million to $433.8 million from $418.4 million at the end of the previous year. The Company's current ratio at the end of 1972 was 1.9:1, compared with 2.0:1 at the end of 1971.

Chemed Corporation: Chemed Corporation, an 89% owned subsidiary of the Company, reported for the full year 1972 sales of $140.0 million, an increase of 13% over 1971, and net income of $10.4 million, a gain of 20% over the previous year.

During the year, the Company sold 500,000 shares of Chemed capital stock outside the United States. The stock, 11% of which is publicly owned, is traded over the counter.

Chemed's 1972 Annual Report is available upon request.

Financing: On December 15, 1972, the Company entered into an eight year revolving term loan agreement with a group of its principal banks. This arrangement permits total borrowings of $100 million with interest at the prime rate for the first three years. As of December 31, 1972, the Company had borrowed a total of $35 million under the agreement.

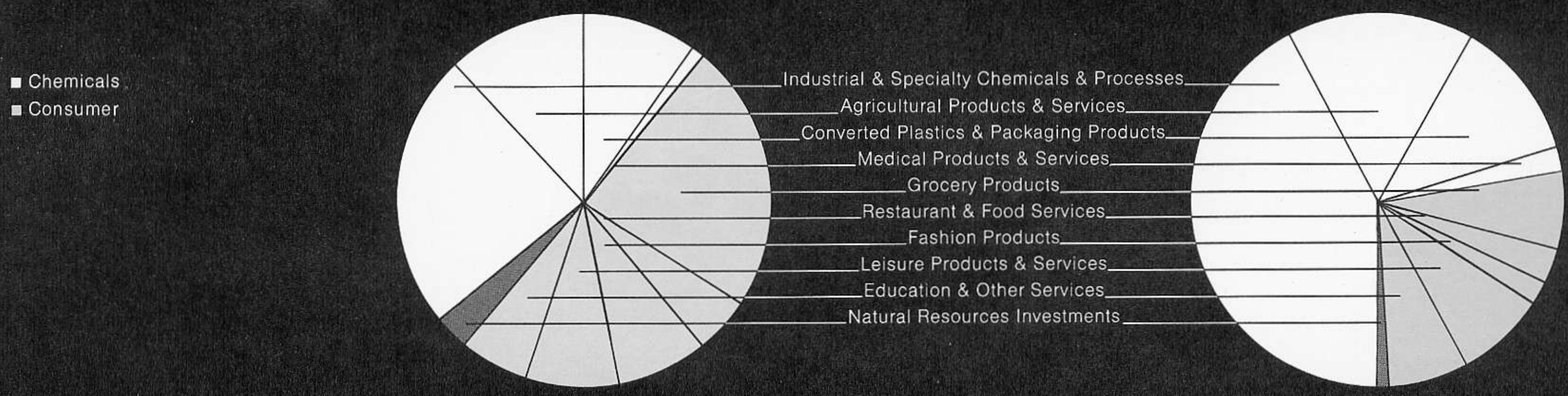
Summary of 1972 Quarterly Results:

			Income before Extraordinary Items			
Quarter Ended:	Sales (In Millions)		Amount (In Millions)		Per Common and Common Equivalent Share	
	1972	1971	1972	1971	1972	1971
3/31	$ 524	$ 453	$ 8.9	$ 8.0	$ .32	$ .28
6/30	597	559	22.4	19.6	.78	.72
9/30	572	504	15.8	12.9	.57	.47
12/31	622	533	13.3	7.0	.48	.28
	$2,315	$2,049	$60.4	$47.5	$2.15	$1.75

Financial Data by Areas of Activity

(In millions of dollars—restated for poolings of interests and changes in accounting principles)	Sales and Operating Revenues					Income from Operations					Net Fixed Assets	
	1972	1971	1970	1969	1968	1972	1971	1970	1969	1968	1972	1971
Chemically Based Products & Services												
Industrial & Specialty Chemicals & Processes	$ 563	$ 496	$ 459	$ 423	$ 371	$36.0	$27.6	$25.4	$22.8	$22.8	$192	$180
	24%	24%	23%	20%	18%	42%	40%	37%	37%	27%	30%	30%
Agricultural Products & Services	283	266	272	280	288	13.6	7.6	6.9	(.2)	8.1	167	162
	12	13	13	13	14	16	11	10	—	10	26	27
Converted Plastics & Packaging Products	242	212	195	181	158	10.1	6.3	6.6	8.8	8.1	68	65
	11	11	10	9	7	12	9	9	15	10	10	11
Medical Products & Services	28	22	20	17	13	1.9	1.6	1.4	1.2	1.0	5	4
	1	1	1	1	1	2	2	2	2	1	1	1
Total—Chemical	1,116	996	946	901	830	61.6	43.1	40.3	32.6	40.0	432	411
	48	49	47	43	40	72	62	58	54	48	67	69
Consumer Products & Services												
Grocery Products	518	457	445	404	370	6.2	7.9	6.9	6.0	7.2	114	102
	22	22	22	19	18	7	12	10	10	8	18	18
Restaurant & Food Services	117	80	50	38	33	2.9	2.2	1.3	1.0	.8	27	17
	5	4	2	2	2	3	3	2	2	1	4	3
Fashion Products	183	173	153	139	114	1.6	2.8	5.3	7.8	7.4	18	17
	8	9	8	7	5	2	4	8	12	9	3	3
Leisure Products & Services	173	129	108	94	77	6.3	5.0	4.1	4.3	3.1	20	9
	8	6	5	5	4	8	7	6	7	4	3	1
Education & Other Services	138	112	97	75	71	5.7	4.0	3.2	1.8	3.0	11	9
	6	5	5	3	3	7	6	4	3	3	2	1
Total—Consumer	1,129	951	853	750	665	22.7	21.9	20.8	20.9	21.5	190	154
	49	46	42	36	32	27	32	30	34	25	30	26
Total—Chemical and Consumer	2,245	1,947	1,799	1,651	1,495	84.3	65.0	61.1	53.5	61.5	622	565
	97	95	89	79	72	99	94	88	88	73	97	95
Natural Resources Investments	66	68	82	75	63	.9	2.4	8.9	8.1	7.4	20	21
	3	3	4	3	3	1	4	13	13	9	3	4
Total—Continuing Operations	2,311	2,015	1,881	1,726	1,558	85.2	67.4	70.0	61.6	68.9	642	586
	100	98	93	82	75	100	98	101	101	82	100	99
Discontinued Operations	4	34	134	375	510	(.3)	1.4	(.4)	(.7)	15.2	—	6
	—	2	7	18	25	—	2	(1)	(1)	18	—	1
Grand Total	$2,315	$2,049	$2,015	$2,101	$2,068	$84.9	$68.8	$69.6	$60.9	$84.1	$642	$592
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Income from operations is computed on an after tax basis before extraordinary items and allocation of general corporate overhead and general corporate interest. For this table, taxes are computed substantially on a separate return basis for each subsidiary and each division of the Company. In the case of each U.S. subsidiary and division, benefits for all generated investment tax credits and operating losses, if any, are recognized currently.



Sales and Operating Revenues

Income from Operations

Statement of Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and all majority owned and controlled domestic and foreign subsidiary companies (except for Peruvian subsidiary companies). All significant intercompany transactions have been eliminated from the consolidated financial statements. Certain investments in less than majority owned companies are carried at cost adjusted for subsequent changes in equity since dates of acquisition.

Translation of Foreign Currencies: The assets and liabilities of the Company's foreign subsidiaries have been translated into United States dollars at year end rates of exchange, except that properties and equipment (and related depreciation) have been translated at rates prevailing at dates of acquisition. Income and expenses (other than depreciation) have been translated at rates prevailing during the year. Unrealized foreign currency translation adjustments are taken into income currently except that those adjustments arising from the translation of indebtedness incurred to finance additions to properties and equipment are amortized over the estimated useful lives of the related assets.

Inventories: Inventories are stated at the lower of cost or market. Due to the diversified nature of the Company's operations, several bases of determining costs are used, including first in-first out, average and identified cost. Market for raw and packaging materials is based on replacement cost and for other inventory classifications on net realizable value.

Properties and Equipment and Related Depreciation: Depreciation of properties and equipment is generally computed using the straight line method over the estimated useful lives of the assets and depletion of mineral and oil producing properties is provided on the unit of production method. Expenditures for maintenance, repairs, renewals and betterments which do not materially prolong the useful lives of the assets are charged to income as incurred. The cost of property retired or sold, and the related accumulated depreciation, is removed from the accounts, and any gain or loss, after taking into consideration proceeds from sale, is transferred to income.

Goodwill: Goodwill, principally arising from acquisitions accounted for as purchase transactions, is amortized using the straight line method over the estimated useful lives, but not in excess of forty years.

Research and Development: Research and development costs are charged to income as incurred.

Income Taxes: Deferred income taxes are provided for the excess of depreciation for tax purposes over depreciation recorded for financial accounting purposes, for the unremitted earnings of less than majority owned companies and for other significant timing differences. The investment tax credit is applied as a reduction of the tax provision in the year the properties and equipment are placed in service.

Earnings Per Share: Earnings per common and common equivalent share are computed on the basis of the weighted average number of shares of common stock outstanding during the respective years after giving retroactive effect to shares issued and expected to be issued for business combinations and assuming stock options outstanding were exercised at the beginning of the year (with applicable proceeds used to purchase treasury stock) and after deducting dividends paid on preferred stocks. Earnings per common share assuming full dilution are computed based on the assumptions that various convertible debt obligations were converted at the beginning of the year or from date of issue (with applicable reduction in interest expense, net of tax) and contingent shares were issued for business combinations.

Pension Plans: Pension obligations, under various funded and unfunded domestic and foreign (including prevailing social law) plans, are generally provided by current funding and accruals. Prior service costs, as to certain of the plans, are amortized generally over ten to thirty years.

Consolidated Statement of Income

	1972	1971*
	(In Thousands)	
Sales and operating revenues	$2,315,144	$2,048,873
Dividends and interest	12,401	13,382
Net gain on retirement of debt and disposition of properties	2,311	2,501
Equity in earnings of less than majority owned companies (Dividends received 1972—$4,443,000; 1971—$3,567,000)	4,420	3,595
	2,334,276	2,068,351
Cost of goods sold and operating expenses	1,639,564	1,463,535
Selling, general and administrative expenses	463,709	396,290
Depreciation and depletion	60,900	57,715
Research and development expenses	21,559	20,517
Interest expense	38,620	38,323
Income applicable to minority stockholders	2,653	2,352
	2,227,005	1,978,732
	107,271	89,619
U.S. and foreign income taxes:		
Current	46,264	38,967
Deferred	628	3,113
	46,892	42,080
Income before extraordinary items	60,379	47,539
Extraordinary items	3,092	(6,195)
Net income	$ 63,471	$ 41,344
Earnings per common and common equivalent share:		
Income before extraordinary items	$2.15	$1.75
Extraordinary items	.11	(.23)
Net income	$2.26	$1.52
Earnings per common share assuming full dilution:		
Income before extraordinary items	$1.97	$1.70
Extraordinary items	.10	(.21)
Net income	$2.07	$1.49

Consolidated Statement of Changes in Financial Position

	1972	1971*
	(In Thousands)	
FINANCIAL RESOURCES PROVIDED BY:		
Income before extraordinary items	$ 60,379	$ 47,539
Depreciation and depletion	60,900	57,715
Other amortization	6,933	6,497
Deferred income taxes	628	3,113
Income applicable to minority stockholders	2,653	2,352
Working capital provided by operations	131,493	117,216
Working capital provided by extraordinary items:		
Proceeds from sales (less abandonment costs), inclusive of income taxes:		
Investment in Marine Midland Banks, Inc.	23,136	—
Chemed Corporation capital stock	15,750	—
Other	9,396	15,615
Working capital divested	(1,992)	(3,400)
Issuance of long term debt:		
6½ % convertible subordinate debentures	—	100,000
Other	34,987	11,891
Disposal of properties and equipment	7,204	7,159
Proceeds from Chemed Corporation public offering	—	7,000
	219,974	255,481
FINANCIAL RESOURCES USED FOR:		
Capital expenditures	127,227	90,731
Cash dividends	39,068	36,284
Retirement and repayment of long term debt	34,454	38,831
Other transactions, net	3,851	3,277
	204,600	169,123
INCREASE IN WORKING CAPITAL	$ 15,374	$ 86,358
ANALYSIS OF CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Cash and marketable securities	$ 35,823	$ 19,905
Notes and accounts receivable, less allowances	41,234	1,342
Inventories	30,536	16,015
Loans payable	(37,332)	71,984
Accounts and acceptances payable	(45,809)	(2,288)
U.S. and foreign taxes on income	2,698	(9,807)
Other components of working capital	(11,776)	(10,793)
	$ 15,374	$ 86,358

*Restated.

The Statement of Accounting Policies, page 23, and the Notes to Financial Statements, pages 26 to 30, are an integral part of these statements.

Consolidated Balance Sheet

	December 31, 1972 (In Thousands)	1971*
Assets		
CURRENT ASSETS		
Cash, including time deposits of $59,110,000 (1971—$30,977,000)	$ 94,305	$ 59,578
U.S. Government and other marketable securities, at cost (approximate market value)	42,932	41,836
Notes and accounts receivable, less allowances of $11,981,000 (1971—$10,780,000)	372,331	331,097
Inventories	400,416	369,880
Prepaid expenses	20,676	19,039
TOTAL CURRENT ASSETS	930,660	821,430
OTHER ASSETS		
Investment in Occidental Petroleum Corporation	17,500	17,500
Investment in Marine Midland Banks, Inc.	—	30,515
Investments in and advances to unconsolidated Peruvian subsidiary companies	31,074	39,016
Investments in and advances to less than majority owned companies	30,562	24,267
Long term receivables and other assets	62,359	71,932
Goodwill, less amortization of $9,279,000 (1971—$7,730,000)	66,594	47,776
TOTAL OTHER ASSETS	208,089	231,006
PROPERTIES AND EQUIPMENT, at cost less accumulated depreciation and depletion of $498,837,000 (1971—$450,769,000)	642,306	592,079
	$1,781,055	$1,644,515
Liabilities		
CURRENT LIABILITIES		
Loans payable	$ 138,802	$ 101,470
Accounts and acceptances payable	255,940	210,131
U.S. and foreign taxes on income	42,695	45,393
Other current liabilities	59,430	46,017
TOTAL CURRENT LIABILITIES	496,867	403,011
DEFERRED TAXES ON INCOME	25,249	24,473
FOREIGN SOCIAL LAW OBLIGATIONS AND OTHER NONCURRENT LIABILITIES	28,703	21,200
LONG TERM DEBT	479,071	477,407
RESERVE FOR LOSS ON DIVESTMENTS AND ABANDONMENTS	2,900	5,100
EQUITY OF MINORITY STOCKHOLDERS IN CONSOLIDATED SUBSIDIARIES	25,493	19,666
	1,058,283	950,857
Stockholders' Equity		
CAPITAL STOCK		
Preferred stocks	10,045	11,139
Common stock	27,267	26,573
PAID IN CAPITAL, per accompanying statement	212,699	207,588
RETAINED EARNINGS, per accompanying statement	472,761	448,358
	722,772	693,658
	$1,781,055	$1,644,515

Consolidated Statement of Paid In Capital

	1972 (In Thousands)	1971*
Balance at beginning of year	$207,588	$200,920
Exercise of stock options	440	136
Acquisition of businesses in purchase transactions	4,553	3,259
Prior years poolings of interests	(475)	(60)
Net proceeds from Chemed Corporation public offering	—	4,160
Expenditures relating to poolings of interests transactions initiated prior to November 1, 1970	(124)	(737)
Other	717	(90)
Balance at end of year	$212,699	$207,588

Consolidated Statement of Retained Earnings

	1972	1971*
Balance at beginning of year	$463,558	$456,525
Cumulative effect of prior period adjustment for U.S. Federal income taxes	(12,000)	(10,100)
Cumulative effect of change in accounting principle for income taxes	(3,200)	(3,127)
Balance at beginning of year as adjusted	448,358	443,298
Net income	63,471	41,344
	511,829	484,642
Dividends paid:		
W. R. Grace & Co.		
Preferred	773	837
Common ($1.50 per share)	38,295	34,949
Pooled companies—prior to combination with the Company	—	498
	39,068	36,284
Balance at end of year	$472,761	$448,358

*Restated.

The Statement of Accounting Policies, page 23, and the Notes to Financial Statements, pages 26 to 30, are an integral part of these statements.

Notes to Financial Statements

(The Statement of Accounting Policies, page 23, is an integral part of the financial statements and notes thereto.)

Note 1—General:

(a) Investments in Occidental Petroleum Corporation and Marine Midland Banks, Inc.

The Company's investment in Occidental Petroleum Corporation (175,000 shares of $8.00 Preferred Stock constituting all of the issued and outstanding shares of this class which is redeemable at par no later than 1981) is carried at the redemption price established when the stock was received as partial consideration for the Company's sale in 1970 of certain Latin American businesses to the Hooker Chemical Corporation, a subsidiary of Occidental. The Company's investment in Marine Midland Banks, Inc. (277,406 shares of $5.50 Convertible Preferred Stock) was sold to Marine Midland in December 1972. The loss incurred on this sale has been included in "Extraordinary items" in the Consolidated Statement of Income (See Note 6).

(b) Investments in Unconsolidated Peruvian Subsidiary Companies

In July 1970, the Peruvian Government issued The General Industry Law which provides, among other things, that foreign ownership of industrial companies in Peru be reduced to a minority position and in certain cases divested, within an agreed period. Accordingly, all of the Peruvian subsidiary companies were deconsolidated at June 30, 1970 and the Company's equity in the book value of the underlying net assets at that date has been Included in "Investments in and advances to unconsolidated Peruvian subsidiary companies." This carrying value has been subsequently reduced by certain related remittances.

In November 1971, the Peruvian Government and the Company signed an agreement in principle for the sale of the Company's existing Peruvian paper, chemical and alcohol operations to the Government over a ten year period. This agreement also contemplates the investment of Agrarian Reform bonds, to be issued by the Government as compensation for its assuming control of certain sugar properties which were written off in 1969, in a new Peruvian paper, chemical or other basic industrial enterprise. The Company's resulting equity in such enterprise will be acquired by the Peruvian Government during the last five of fifteen years following the date the investment is made. The price and other specific terms of the sale of the Company's existing paper, chemical and alcohol operations as well as of its future equity derived from the investment of its Agrarian Reform bonds remain to be determined in negotiations currently in progress with the Interministerial Commission appointed by the Peruvian Government.

(c) Chemed Corporation

As of April 30, 1971, the business and assets of the Company's Specialty Products Group were transferred to Chemed Corporation, a 100% owned subsidiary of the Company. In May 1971, Chemed Corporation sold to the public 350,000 shares of its unissued capital stock, reducing the Company's ownership to 96%. The excess of the net proceeds from the offering over the 4% minority interest in Chemed's net worth as of the offering date has been included in "Paid In Capital" in the Consolidated Balance Sheet as of December 31, 1971.

In 1972, the Company sold 500,000 shares of Chemed Corporation capital stock to the public outside the United States. The excess of the net proceeds from the sale over the decrease in the Company's proportionate interest in Chemed's net worth has been included in "Extraordinary items" in the Consolidated Statement of Income (See Note 6). At December 31, 1972, the Company's ownership was 89%.

(d) Restatement in 1972 of Previously Reported Financial Statements

(1) Prior Period Adjustment for U.S. Federal Income Taxes

As a result of an income tax settlement arrived at in 1972 (See Note 3), income before extraordinary items in 1971 has been decreased by $1,915,000 ($.07 per share) and net income decreased by $1,900,000 ($.07 per share). Retained earnings at the beginning of 1972 have been decreased retroactively from the amount previously reported by $12,000,000 (1971—$10,100,000) to reflect this adjustment.

(2) Change in Accounting Principle for Income Taxes

In accordance with Accounting Principles Board Opinion #24, "Accounting for Income Taxes—Investments in Common Stock Accounted for by the Equity Method," the Company now provides tax effects based upon its share of earnings (assuming a full payout of such earnings) in certain less than majority owned companies. Previously, taxes were provided only when dividends were received from these companies.

As a result, income before extraordinary items in 1972 has been increased by $11,000 (1971—decreased by $73,000) and retained earnings at the beginning of 1972 have been decreased retroactively from the amount previously reported by $3,200,000 (1971—$3,127,000) to reflect this change.

(e) 1971 Changes in Accounting Principles

In 1971, the basis of accounting for certain investments in less than majority owned companies was changed from the cost method to the equity method, in accordance with Accounting Principles Board Opinion #18, "The Equity Method of Accounting for Investments in Common Stock." As a result, income before extraordinary items in 1971 was increased by $101,000. Also in 1971, the Company adopted the policy of deferring unrealized foreign currency translation adjustments arising from the translation of indebtedness incurred specifically to finance additions to properties and equipment. Had this change not occurred, net income in 1971 would have been $1,240,000 lower ($.05 per share).

Note 2—Business Combinations:

The following is a summary of businesses acquired during 1972 which for accounting purposes have been treated as purchase transactions:

	Shares of Common Stock Issued*	Cash Paid	Total Acquisition Cost
Leisure Products & Services	7,760	$17,635,000	$17,817,000
Grocery Products	38,956	3,404,000	4,214,000
Restaurant & Food Services	—	3,628,000	3,628,000
Education & Other Services	94,976	665,000	2,693,000
Fashion Products	—	1,063,000	1,063,000
	141,692	$26,395,000	$29,415,000

*312,500 additional shares are issuable in accordance with prescribed formulas.

In addition, Chemed Corporation acquired three businesses in 1972 for $780,000 in cash and the issuance of 94,622 shares of its capital stock.

The Consolidated Statement of Income includes the results of operations of the above businesses from the effective dates of acquisition. The following table summarizes the combined results of operations on a pro forma basis as though these businesses were consolidated with the Company and its subsidiary companies as of January 1, 1971.

	Year Ended December 31, 1972	1971
Sales and operating revenues	$2,349,144,000	$2,092,194,000
Income before extraordinary items	$ 61,447,000	$ 49,615,000
Net income	$ 64,539,000	$ 43,420,000
Per common and common equivalent share:		
Income before extraordinary items	$2.19	$1.82
Net income	$2.30	$1.59

Additionally, in 1972, one business was acquired for 80,000 shares of common stock in a pooling of interests transaction. However, the financial statements for 1971 have not been restated as the effect on previously reported consolidated earnings is not considered material.

On January 17, 1973, all the outstanding shares of capital stock of two related companies engaged in the development of commercial real estate were acquired through an exchange of 381,000 shares of the Company's common stock. This combination will be accounted for as a pooling of interests transaction in 1973. As the results of operations of these two companies are not considered material in relation to the consolidated earnings of the Company, combined pro forma information is not presented herein.

The following is a summary of businesses acquired in 1971 which for accounting purposes have been treated as poolings

Inventories

	December 31, 1972 (In Thousands)	1971
Raw and packaging materials	$ 100,879	$ 89,340
In process	28,206	26,596
Finished products	271,331	253,944
	$ 400,416	$ 369,880

Properties and Equipment

	1972	1971
Land	$ 80,355	$ 78,329
Producing and undeveloped oil properties	10,598	10,143
Buildings	278,094	251,892
Machinery, equipment, etc.	717,679	670,180
Projects under construction	54,417	32,304
	1,141,143	1,042,848
Accumulated depreciation and depletion	(498,837)	(450,769)
	$ 642,306	$ 592,079

of interests transactions and are included in the results of operations for the entire year. Certain adjustments have been made to the net assets of these acquired businesses to conform to the accounting practices of the Company. The effect of these changes upon previously reported consolidated earnings is not considered material.

	Shares of Common Stock Issued	1971 Results of Operations Prior to Combination	
		Sales	Net Income
Leisure Products & Services (automotive parts manufacturers, toy wholesaler, manufacturer of travel trailers and motor homes)	1,069,492	$48,913,000	$2,679,000
Other Activities	159,496	4,246,000	107,000
	1,228,988		

Note 3—U.S. and Foreign Taxes on Income:

In the 1971 Annual Report it was stated that the Internal Revenue Service, at informal conferences in February 1972, had indicated that it was proposing certain adjustments to the consolidated U.S. Federal income tax returns of the Company and its domestic subsidiaries for the years 1965 through 1967. These proposed adjustments related primarily to the methods by which certain expenses had been allocated between domestic and foreign source income.

In April 1972, a settlement with the IRS was reached and as a result the Company recorded additional income taxes (including interest expense, net of tax) amounting to $12,000,000 on a retroactive basis for the seven year period 1965 through 1971 (See Note 1).

The IRS has completed examinations of the consolidated U.S. Federal income tax returns of the Company and its domestic subsidiaries for 1967 and prior years, except that 1962 through 1967 are subject to Maritime adjustment.

Additional foreign and United States taxes might become payable if undistributed earnings of foreign subsidiaries were to be paid as dividends, but such taxes, if any, have not been fully provided since a substantial portion of such earnings has been or will be reinvested for an indefinite period of time. The amount of unremitted earnings of foreign subsidiaries as of December 31, 1972 is $106,000,000. The investment tax credit reduced the 1972 tax provision by $3,145,000 (1971—$1,420,000).

Note 4—Capital Stock:

The preferred stocks ($100 par) authorized, issued and outstanding are listed below:

	Shares		Par Value of Shares Outstanding	
	Authorized and Issued	In Treasury	December 31,	
	(December 31, 1972)		1972	1971
6% Cumulative (1)	40,000	13,126	$ 2,687,400	$ 2,721,700
8% Cumulative Class A (2)	50,000	11,706	3,829,400	4,749,400
8% Noncumulative Class B (2)	40,000	4,718	3,528,200	3,668,200
			$10,045,000	$11,139,300

(1) Eighty votes per share.
(2) Eight votes per share.

In 1972, the Company purchased 343 shares of 6% Cumulative (1971—134 shares), 9,200 shares of 8% Cumulative Class A and 1,400 shares of 8% Noncumulative Class B preferred stocks.

The Company's Certificate of Incorporation also authorizes 5,000,000 shares of a Class C preferred stock, without par value, none of which has been issued.

The holders of common stock are entitled to receive dividends, when and as declared by the Board of Directors, after prior and current year dividends on the 6% Cumulative and 8% Cumulative Class A preferred stocks and current year dividends on the 8% Noncumulative Class B preferred stock have been paid or accrued. Upon liquidation, after the payment of the par value of the preferred stocks and the dividends referred to above, the remaining net assets of the Company are to be distributed pro rata to the holders of common stock.

On December 31, 1972, the authorized common stock of the Company was 50,000,000 shares ($1 par). Changes in the number of shares of common stock issued and outstanding during 1972 and 1971 are summarized below:

	1972	1971*
Balance at beginning of year	26,572,977	26,394,697
Common stock issued upon:		
Exercise of stock options	2,581	5,810
Acquisition of businesses in purchase transactions	141,692	112,000
Prior years poolings of interests	475,103	60,295
Other transactions	75,065	175
Balance at end of year	27,267,418	26,572,977

*Restated.

Of the unissued common stock, approximately 9,089,000 shares may be issuable upon conversion of various convertible debt obligations, exercise of stock options and granting of stock awards, and as provided for in various acquisition agreements. These agreements provide for payments in stock in the years 1973 through 1976, the number of shares to be determined in accordance with prescribed formulas. Based upon these formulas, it is estimated that at December 31, 1972 the Company is committed to issue approximately 1,550,000 shares of its common stock.

The average number of shares of common stock used to compute earnings per common and common equivalent share was 27,748,000 (1971—26,702,000 shares) including 572,000 common equivalent shares (1971—685,000 shares). The average number of shares of common stock used to compute earnings per common share assuming full dilution was 33,486,000 (1971—29,864,000 shares).

Long Term Debt

	Interest Rates	Years of Maturity	December 31, 1972 (In Thousands)	1971
W. R. GRACE & CO.				
Promissory notes	5 to 5½%	1972-91	$193,663	$204,678
Promissory notes	6.8	1983	13,500	14,500
Revolving term loan (1)	5¾ to 6	1976-80	15,000	—
Subordinate debentures (2)	6½	1982-96	100,000	100,000
Subordinate debentures (3)	4¼	1976-90	61,681	64,681
Sundry indebtedness	4 to 6	1972-95	18,402	19,949
			402,246	403,808
SUBSIDIARY COMPANIES				
W. R. Grace Overseas Development Corporation (4)				
Debentures	5¾	1972-80	16,000	16,850
Debentures (3)	5	1976-86	14,996	15,000
Promissory note	7.21	1976-78	12,422	12,422
Other			2,250	3,787
Federation Chemicals Limited (5)	5¼ to 5¾	1972-77	9,476	11,522
Other Subsidiaries			47,405	38,365
			504,795	501,754
Amount due within one year (6)			(25,724)	(24,347)
			$479,071	$477,407

(1) In December 1972, the Company entered into an eight year term loan agreement under which it may borrow on a revolving basis up to $100,000,000 until December 1975. These borrowings bear interest at the prime rate for the first three years, after which the interest rate is increased to a maximum of ½% over the prime rate. Outstanding borrowings at December 1975 are repayable in five equal annual installments in the years 1976 through 1980. As of December 31, 1972, the Company had borrowed a total of $35,000,000 under this agreement, of which $15,000,000 has been classified as long term debt and $20,000,000 included in current liabilities under loans payable as such amount was subsequently repaid.

(2) Issued in November 1971 and convertible into one share of W. R. Grace & Co. common stock for each $29.625 principal amount.

(3) Convertible into one share of W. R. Grace & Co. common stock for each $60.69 principal amount.

(4) Guaranteed by W. R. Grace & Co.

(5) The Company has agreed to purchase, at a set price, all of the ammonia produced by Federation in excess of its requirements and under certain conditions to advance cash to Federation to meet payments required under its note agreements.

(6) Included in current liabilities under loans payable.

Note 5—Stock Options:

The changes in common stock options outstanding during 1972 and 1971 are summarized below:

	1972 Number of Shares	1972 Average Price	1971 Number of Shares	1971 Average Price
Balance at beginning of year	650,791	$28.81	729,700	$30.12
Options granted during year	268,100	25.77	59,900	29.89
	918,891		789,600	
Options exercised	(2,581)	22.92	(5,810)	23.58
Options terminated or cancelled	(52,540)	37.82	(132,999)	36.71
Balance at end of year	863,770	27.34	650,791	28.81

At December 31, 1972, options for 250,080 shares (1971—177,527 shares) were exercisable and 43,087 shares (1971—258,647 shares) were available for granting of additional options and stock awards. In addition, 98,806 shares (1971—98,806 shares) were available to cover options which may be assumed or granted in lieu of existing options granted by companies which may be acquired.

In 1971, Chemed Corporation (See Note 1) adopted a Stock Incentive Plan covering 584,000 shares of its capital stock. In 1972, nonstatutory options to purchase 148,800 shares (1971—334,000 shares) at an average price of $35.86 per share (1971—$20.00 per share) were granted and 18,959 shares were exercised at $20.00 per share. At December 31, 1972, options for 458,641 shares (1971—330,650 shares) were outstanding of which 47,138 shares were exercisable and 106,400 shares (1971—253,350 shares) were available for granting of additional options and stock awards.

Note 6—Extraordinary Items:

The Company has disposed of certain investments and chemical facilities as well as certain operations resulting in net extraordinary items as follows:

1972	Gross	Tax Effect (In Thousands)	Net Gain (Loss)
Sale of 500,000 shares of Chemed Corporation capital stock	$ 12,108	$ (3,690)	$ 8,418
Sale of investment in Marine Midland Banks, Inc.	(10,541)	3,162	(7,379)
Losses (net of gains) on sales and abandonments of certain operations and investments	(6,540)	3,123	(3,417)
	(4,973)	2,595	(2,378)
Intraperiod tax effect of extraordinary items and other tax adjustments*	—	5,470	5,470
	$ (4,973)	$ 8,065	$ 3,092

*Principally attributable to the realization of foreign tax credits carried forward.

1971	Gross	Tax Effect	Net Gain (Loss)
Losses (net of gains) and provisions for losses on:—			
Sales and abandonments of certain:			
Seed, fertilizer and chemical operations	$ (7,074)	$ 3,888	$ (3,186)
Frozen food operations	(2,347)	1,052	(1,295)
Latin American and other investments	(2,095)	869	(1,226)
	(11,516)	5,809	(5,707)
Intraperiod tax effect of extraordinary items and other tax adjustments	—	(488)	(488)
	$ (11,516)	$ 5,321	$ (6,195)

Certain other Latin American businesses were also divested. The net loss on these transactions and the loss on the abandonment of certain chemical facilities (1972—$2,200,000; 1971—$1,600,000) have been charged to "Reserve for Loss on Divestments and Abandonments" as they were provided for as extraordinary items in a prior year.

Note 7—Retained Earnings:

Retained earnings include $4,758,000 set aside by foreign subsidiaries, principally as required by statute, $8,614,000 of undistributed earnings of less than majority owned companies and approximately $58,000,000 transferred to capital stock accounts on the books of subsidiary companies.

Parent company unappropriated retained earnings at December 31, 1972 amounted to $369,595,000. Of these retained earnings, $56,600,000 were free of the restriction on payment of cash dividends imposed by the terms of the most restrictive of the Company's loan agreements.

Note 8—Commitments and Contingent Liabilities:

At December 31, 1972, the Company was obligated under non-cancellable leases, principally for real property, for minimum annual rentals of approximately $24,000,000. The Company has entered into a long term lease agreement for new corporate offices commencing in 1973 at the present average minimum annual rental of $3,200,000 (approximately $106,000,000 over the lease term).

As partial consideration for a prior year acquisition of a European food products company, the Company's wholly owned subsidiary company, W. R. Grace Overseas Development Corporation, delivered shares of its preferred stock (convertible into approximately 500,000 shares of the Company's common stock) having a liquidation value of 51,570,000 Swiss francs, which translated to U.S. dollars at December 31, 1972 approximated $13,500,000. A final delivery of preferred stock having a liquidation value of 51,570,000 Swiss francs is to be made in January 1974.

The unfunded amount of prior service pension costs at December 31, 1972 was estimated to be $12,489,000. In 1972, pension expense under various retirement plans amounted to $9,202,000 (1971—$7,514,000).

There are various lawsuits, claims, commitments and contingent liabilities, including contingencies arising in connection with agreements for the sale of interests in businesses formerly owned by the Company, which are not expected to have any material adverse effect on the consolidated financial position or results of operations.

Report of Independent Accountants

PRICE WATERHOUSE & CO.

60 Broad Street
New York 10004

To the Stockholders and Board of Directors
of W. R. Grace & Co.

We have examined the consolidated balance sheets of W.R. Grace & Co. and its subsidiary companies as of December 31, 1972 and 1971, and the related statements of income, retained earnings, paid in capital and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As stated in Note 1 of the Notes to Financial Statements, the ultimate realizable value of the Company's investments in and advances to unconsolidated Peruvian subsidiary companies, carried at $31,074,000 at December 31, 1972, is not presently determinable.

Also as described in Note 1 of the Notes to Financial Statements, in 1972 the Company changed its method of accounting for income taxes on earnings from certain investments in less than majority owned companies, and, in 1971, changed its method of accounting for (1) the carrying value of such investments and (2) foreign currency translation adjustments.

In our opinion, subject to the effect, if any, of the settlement of the matter mentioned in the second preceding paragraph, the accompanying consolidated financial statements examined by us present fairly the consolidated financial position of W.R. Grace & Co. and its subsidiary companies at December 31, 1972 and 1971, the results of their operations and the changes in finaneial position for the years then ended, in conformity with generally accepted accounting principles consistently applied, after giving effect to the changes, with which we concur, described in the immediately preceding paragraph.

Price Waterhouse & Co.

March 2, 1973

Ten-Year Financial Summary*

(All dollar amounts in thousands except amounts per share)

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
Earnings Statistics										
Sales and operating revenues	$2,315,144	$2,048,873	$2,014,774	$2,100,820	$2,067,677	$1,905,803	$1,586,880	$1,097,377	$876,201	$699,587
Income before depreciation and depletion and taxes	168,171	147,334	145,600	147,340	187,618	176,789	162,866	117,625	104,826	85,580
Depreciation and depletion	60,900	57,715	58,620	66,882	70,927	67,299	56,029	43,901	37,542	30,404
U.S. and foreign income taxes	46,892	42,080	35,523	35,429	47,163	46,595	36,522	24,657	24,066	20,640
Income before extraordinary items	60,379	47,539	51,457	45,029	69,528	62,895	70,315	49,067	43,218	34,536
Extraordinary items	3,092	(6,195)	(19,339)	13,996	(25,980)	3,996	2,597	10,357	3,160	—
Net income	63,471	41,344	32,118	59,025	43,548	66,891	72,912	59,424	46,378	34,536
Financial Position										
Cash and marketable securities	$ 137,237	$ 101,414	$ 81,509	$ 104,779	$ 135,582	$ 130,293	$ 122,011	$ 108,160	$ 62,590	$ 58,749
Notes and accounts receivable—net	372,331	331,097	329,755	345,510	331,203	312,530	309,443	196,970	174,381	130,005
Inventories	400,416	369,880	353,865	392,818	381,790	344,947	308,228	206,885	158,386	128,603
Current liabilities	496,867	403,011	454,127	449,943	502,726	412,879	412,300	269,854	214,514	165,421
Working capital	433,793	418,419	332,061	412,473	365,292	388,364	337,704	250,174	188,841	157,368
Properties and equipment—gross	1,141,143	1,042,848	1,014,077	1,118,615	1,304,974	1,235,343	1,126,854	892,537	710,403	589,392
Properties and equipment—net	642,306	592,079	591,907	664,396	770,303	740,731	687,028	553,905	428,066	347,789
Long term debt—convertible	176,681	179,681	84,681	91,369	98,467	98,467	98,469	85,988	6,673	10,814
Long term debt—non-convertible	302,390	297,726	321,359	345,344	396,461	425,940	360,903	302,923	255,305	215,414
Long term debt—total	479,071	477,407	406,040	436,713	494,928	524,407	459,372	388,911	261,978	226,228
Minority interest	25,493	19,666	15,844	27,752	68,416	63,718	57,904	20,625	19,210	15,182
Stockholders' equity—common stock	712,727	682,519	670,612	674,451	647,327	631,574	589,166	474,243	401,525	348,105
Data Per Common Share										
Earnings per common and common equivalent share:										
Income before extraordinary items	$ 2.15	$ 1.75	$ 1.88	$ 1.63	$ 2.59	$ 2.34	$ 2.82	$ 2.83	$ 2.75	$ 2.37
Extraordinary items	.11	(.23)	(.74)	.54	(1.00)	.15	.11	.61	.21	—
Net income	2.26	1.52	1.14	2.17	1.59	2.49	2.93	3.44	2.96	2.37
Earnings per common share assuming full dilution:										
Income before extraordinary items	1.97	1.70	1.82	1.60	2.45	2.24	2.65	2.68	2.67	2.27
Net income	2.07	1.49	1.17	2.08	1.55	2.38	2.75	3.24	2.87	2.27
Cash dividends per common share—Company	1.50	1.50	1.50	1.50	1.45	1.38	1.28	1.18	1.08	.96
Stockholders' equity per common share	26.14	25.68	25.41	25.58	24.60	25.38	25.73	27.68	25.94	24.12
Other Statistics										
Working capital provided by operations	$ 131,493	$ 117,216	$ 120,947	$ 120,620	$ 153,435	$ 139,435	$ 135,355	$ 97,534	$ 86,940	$ 68,039
Cash dividends on common stock	38,295	35,447	32,821	31,597	29,448	29,059	25,517	19,646	16,647	13,794
Capital expenditures	127,227	90,731	112,207	138,758	136,243	129,863	157,527	154,784	100,503	74,073
Current ratio	1.9:1	2.0:1	1.7:1	1.9:1	1.7:1	1.9:1	1.8:1	1.9:1	1.9:1	2.0:1
Debt ratio—non-convertible debt	25%	25%	30%	31%	34%	36%	34%	35%	38%	37%
Debt ratio—total debt	40%	41%	37%	39%	43%	45%	43%	44%	39%	39%
Number of common stockholders	48,357	46,523	48,583	48,793	48,636	48,247	46,617	45,053	41,790	40,142
Number of employees	72,500	66,400	65,400	71,800	80,200	78,200	75,000	57,600	53,900	48,200

*Restated for the prior period adjustment for U.S. Federal income taxes and changes in accounting principles. The data for the years 1971 through 1967 have been restated to include all businesses acquired in poolings of interests transactions and 1966 has been restated to include all poolings of interests in the years 1967 through 1970. Amounts previously reported in 1971 were as follows (dollars in thousands except amounts per share):

	1971	1970	1969	1968	1967
Sales and operating revenues	$2,048,873	$2,014,774	$2,100,820	$2,067,677	$1,905,803
Income before extraordinary items	49,527	54,207	45,416	70,333	66,845
Per share	1.83	1.99	1.65	2.63	2.50
Net income	43,317	33,168	61,087	45,711	70,841
Per share	1.60	1.18	2.25	1.68	2.65

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Chemed Corporation

Edward L. Hutton, *President and Chief Executive Officer*

Transfer Agents

Marine Midland Bank—New York
2 Broadway
New York, New York 10004

Continental Illinois
National Bank and
Trust Company of Chicago
231 South LaSalle Street
Chicago, Illinois 60690

Registrars

Chemical Bank
20 Pine Street
New York, New York 10015

The First National Bank
of Chicago
38 South Dearborn Street
Chicago, Illinois 60690

Trustees

4¼ % Convertible Subordinate
Debentures Due 1990:
Chemical Bank
20 Pine Street
New York, New York 10015

6½ % Convertible Subordinate
Debentures Due 1996:
Chase Manhattan Bank N.A.
One Chase Manhattan Plaza
New York, New York 10015

Stock Exchange Listings

New York	Geneva
Midwest	Hamburg
Amsterdam	Lausanne
Basel	London
Edinburgh	Paris
Frankfurt	Zurich

Executive Offices

3 Hanover Square
New York, New York 10004

After July 1, 1973:
Grace Plaza
1114 Avenue of the Americas
New York, New York 10036

Annual Meeting

The annual meeting
of stockholders of
W. R. Grace & Co. will
be held at 11 a.m.
Eastern Daylight Saving Time
on Thursday, May 10, 1973,
at The New York Hilton Hotel,
Avenue of the Americas,
53rd to 54th Streets,
New York, New York 10019.

*Grace trademarks in
this report are italicized.*

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