

SECOND QUARTER 2006

Highlights

- ◆ Sales for the second quarter were \$729.1 million compared with \$676.5 million in the prior year quarter, a 7.8% increase (8.5% before the effects of currency translation). The increase was attributable primarily to higher sales volume in all geographic regions, improved product mix, and selling price increases in response to cost inflation. Sales increased 9.8% for the Grace Performance Chemicals operating segment and 6.0% for the Grace Davison operating segment.
- ◆ We recorded a net loss for the second quarter of \$(5.2) million, or \$(0.08) per diluted share, compared with net income of \$32.7 million, or \$0.49 per diluted share, in the prior year quarter. The second quarter net loss is attributable to a \$30.0 million increase in our estimated liability for environmental remediation, principally related to Grace's former vermiculite mining operation in Montana, and to \$24.3 million in costs for Chapter 11, litigation and other matters not related to core operations. Excluding these costs (and after tax effects), net income would have been \$34.1 million for the second quarter of 2006 compared with \$28.8 million calculated on the same basis for the second quarter of 2005, an 18.4% increase.
- ◆ Pre-tax income from core operations was \$70.7 million in the second quarter compared with \$56.6 million last year, a 24.9% increase. Pre-tax operating income of the Grace Performance Chemicals segment was \$53.1 million, up 16.2% compared with the second quarter of 2005, attributable principally to higher sales of commercial construction products. Pre-tax operating income of the Grace Davison segment was \$46.3 million, up 7.4% compared with the second quarter of 2005, attributable primarily to higher sales of specialty materials and catalysts used in refining, chemical, and industrial applications. Corporate operating costs were \$3.5 million lower than the second quarter of 2005 due to reduced pension expense resulting from recent cash contributions to our pension plans.

Please go to www.grace.com for complete information regarding second quarter earnings. The investor page includes links to our SEC filings (2nd quarter Form 10-Q) and press releases.

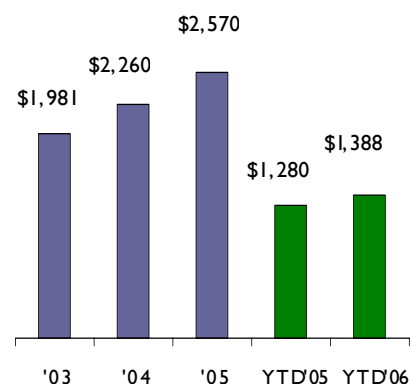
Financial Summary

June 30,	Second Quarter			Year-to-Date		
	2006	2005	% change	2006	2005	% change
Net Sales	\$ 729.1	\$ 676.5	7.8%	\$ 1,387.7	\$ 1,279.7	8.4%
Gross Profit ^(a) *	\$ 239.1	\$ 215.8	10.8%	\$ 439.9	\$ 404.4	8.8%
% of Sales	32.8%	31.9%	0.9% pts	31.7%	31.6%	0.1% pts
Pre-tax Income from Core Operations before Depreciation and Amortization*	\$ 99.1	\$ 86.8	14.2%	\$ 175.0	\$ 157.0	11.5%
% of Sales	13.6%	12.8%	0.8% pts	12.6%	12.3%	0.3% pts
Pre-tax Income from Core Operations*	\$ 70.7	\$ 56.6	24.9%	\$ 118.5	\$ 96.3	23.1%
% of Sales	9.7%	8.4%	1.3% pts	8.5%	7.5%	1.0% pts
Noncore and Chapter 11 Expenses	\$ (54.3)	\$ 8.5	NM	\$ (83.1)	\$ (5.6)	NM
Net Income (Loss)	\$ (5.2)	\$ 32.7	NM	\$ (5.1)	\$ 35.8	NM
Diluted EPS	\$ (0.08)	\$ 0.49	NM	\$ (0.08)	\$ 0.53	NM
Average diluted shares outstanding	67.9	67.2	1.0%	67.5	67.3	0.3%

NM = Not meaningful. ^(a) Sales less cost of goods sold, less manufacturing depreciation and amortization.

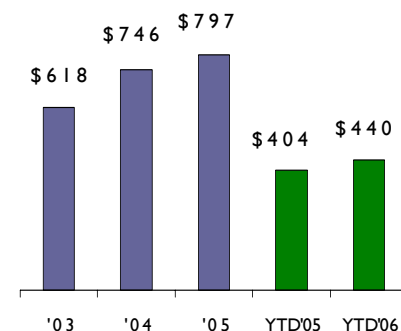
Net Sales

(in millions of U.S. dollars)



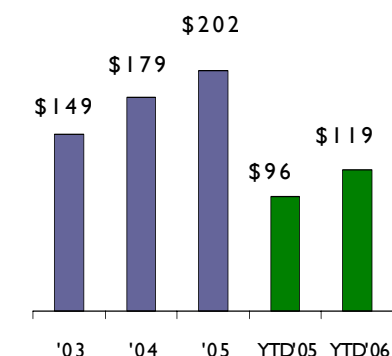
Gross Profit ^(a)

(in millions of U.S. dollars)



Pre-tax Income from Core Operations*

(in millions of U.S. dollars)



* See page 2.

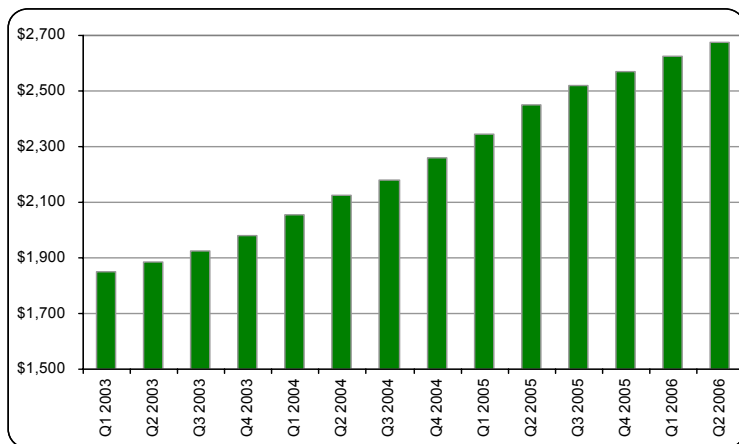
How We Describe Our Results

Our financial results are divided between “core operations” and “noncore activities.” Core operations comprise the financial results of Grace Davison, Grace Performance Chemicals, and the costs of corporate activities that directly or indirectly support our business operations. In contrast, noncore activities comprise all other events and transactions not directly related to the generation of operating revenue or the support of our core operations and generally relate to our former operations and products.

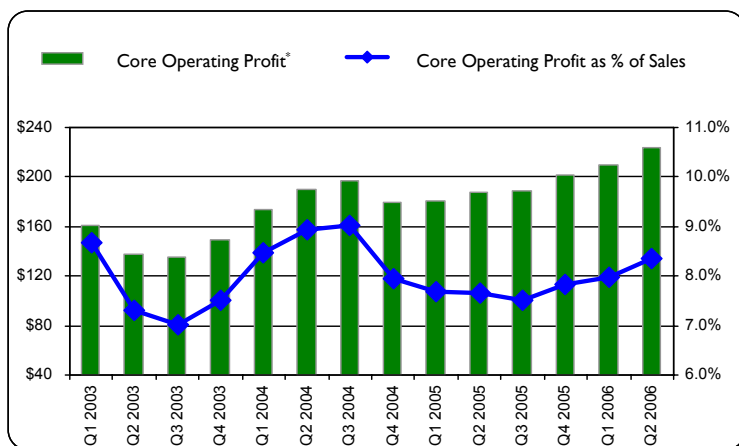
The tables to the right show Net Sales and Pre-tax Income from Core Operations on a trailing twelve month basis by quarter from 2003 through the current quarter. Trailing 12-month net sales reached \$2.677 million at June 30, 2006 and trailing 12-month core operating profit reached \$224 million.

We are attempting to resolve noncore liabilities and contingencies through Chapter 11 of the U.S. Bankruptcy Code. Our noncore liabilities include asbestos-related litigation, environmental remediation, and legacy business litigation. Our operating statements include periodic adjustments to account for changes in estimates of such liabilities and developments in our Chapter 11 proceeding. These liabilities and contingencies may result in continued volatility in net results in the future.

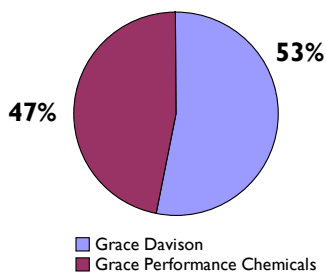
Net Sales—Trailing 4 Quarters
(in millions of U.S. dollars)



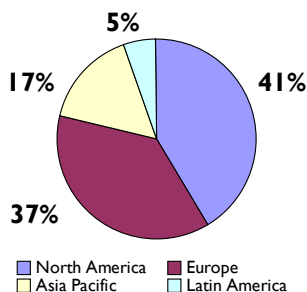
Pre-tax Income from Core Operations* - Trailing 4 Quarters
(in millions of U.S. dollars)



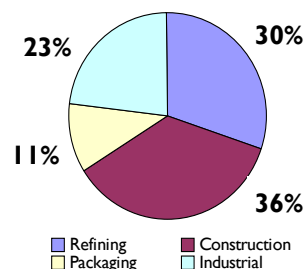
Operating Segments
(Net Sales—Year-to-Date)



Geographic Regions
(Net Sales—Year-to-Date)



End Markets
(Net Sales—Year-to-Date)



* Pre-tax income from core operations, (also termed core operating profit), pre-tax income from core operations before depreciation and amortization and gross profit do not purport to represent income or cash flow measures as defined under generally accepted accounting principles, and you should not consider them an alternative to such measures as an indicator of our performance. We provide these measures so you can distinguish the operating results of our current business base from the income and expenses of our past businesses, discontinued products, and corporate legacies, including the effect of our Chapter 11 proceedings, and to ensure that you understand the key data that management

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www.grace.com

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