

W R GRACE & CO
Form 10-Q
August 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the Quarterly Period Ended June 30, 2015

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

Commission File Number 1-13953

W. R. GRACE & CO.

Delaware

65-0773649

(State of Incorporation)

(I.R.S. Employer Identification No.)

7500 Grace Drive

Columbia, Maryland 21044

(410) 531-4000

(Address and phone number of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting
(Do not check if a company
smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at July 31, 2015

Common Stock, \$0.01 par value per share

72,335,202 shares

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Unless the context otherwise indicates, in this Report the terms "Grace," "we," "us," "our" or "the Company" mean W. R. Grace & Co. and/or its consolidated subsidiaries and affiliates. Unless otherwise indicated, the contents of websites mentioned in this report are not incorporated by reference or otherwise made a part of this Report. GRACE®, the GRACE® logo and, except as otherwise indicated, the other trademarks, service marks or trade names used in the text of this Report are trademarks, service marks, or trade names of operating units of W. R. Grace & Co. or its affiliates and/or subsidiaries.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Review by Independent Registered Public Accounting Firm

With respect to the interim consolidated financial statements included in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, has applied limited procedures in accordance with professional standards for a review of such information. Their report on the interim consolidated financial statements, which follows, states that they did not audit and they do not express an opinion on the unaudited interim consolidated financial statements. Accordingly, the degree of reliance on their report on the unaudited interim consolidated financial statements should be restricted in light of the limited nature of the review procedures applied. This report is not considered a "report" within the meaning of Sections 7 and 11 of the Securities Act of 1933, and, therefore, the independent accountants' liability under Section 11 does not extend to it.

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Report of Independent Registered Public Accounting Firm
To the Shareholders and Board of Directors of W. R. Grace & Co.:

We have reviewed the accompanying consolidated balance sheet of W. R. Grace & Co. and its subsidiaries (the “Company”) as of June 30, 2015, and the related consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2015 and June 30, 2014 and the consolidated statements of cash flows and equity for the six-month periods ended June 30, 2015 and June 30, 2014. These interim financial statements are the responsibility of the Company’s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of operations, comprehensive income, equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 25, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2014, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
Baltimore, Maryland
August 5, 2015

Table of ContentsW. R. Grace & Co. and Subsidiaries
Consolidated Statements of Operations (unaudited)

| (In millions, except per share amounts) | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------|------------------|-----------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Net sales | \$782.1 | \$838.0 | \$1,502.7 | \$1,582.5 |
| Cost of goods sold | 471.5 | 517.1 | 933.8 | 992.4 |
| Gross profit | 310.6 | 320.9 | 568.9 | 590.1 |
| Selling, general and administrative expenses | 135.9 | 144.0 | 273.1 | 280.8 |
| Research and development expenses | 17.9 | 20.3 | 35.8 | 40.8 |
| Interest expense and related financing costs | 24.8 | 11.1 | 49.6 | 22.3 |
| Interest accretion on deferred payment obligations | 0.2 | 13.6 | 0.4 | 21.8 |
| Gain on termination of postretirement plans | — | (7.9) | — | (7.9) |
| Chapter 11 expenses, net | 1.6 | 3.0 | 3.2 | 9.1 |
| Repositioning expenses | 13.4 | — | 20.3 | — |
| Equity in earnings of unconsolidated affiliate | (2.3) | (3.1) | (8.5) | (6.8) |
| Other expense, net | 8.0 | 10.9 | 2.4 | 20.9 |
| Total costs and expenses | 199.5 | 191.9 | 376.3 | 381.0 |
| Income before income taxes | 111.1 | 129.0 | 192.6 | 209.1 |
| (Provision for) benefit from income taxes | (53.6) | 7.7 | (82.3) | (22.1) |
| Net income | 57.5 | 136.7 | 110.3 | 187.0 |
| Less: Net income attributable to noncontrolling interests | (0.1) | (0.5) | (0.2) | (0.7) |
| Net income attributable to W. R. Grace & Co. shareholders | \$57.4 | \$136.2 | \$110.1 | \$186.3 |
| Earnings Per Share Attributable to W. R. Grace & Co. Shareholders | | | | |
| Basic earnings per share: | | | | |
| Net income attributable to W. R. Grace & Co. shareholders | \$0.79 | \$1.79 | \$1.51 | \$2.44 |
| Weighted average number of basic shares | 72.6 | 75.9 | 72.7 | 76.5 |
| Diluted earnings per share: | | | | |
| Net income attributable to W. R. Grace & Co. shareholders | \$0.78 | \$1.77 | \$1.50 | \$2.40 |
| Weighted average number of diluted shares | 73.2 | 76.8 | 73.3 | 77.5 |

The Notes to Consolidated Financial Statements are an integral part of these statements.

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W. R. Grace & Co. and Subsidiaries

Consolidated Statements of Comprehensive Income (unaudited)

| (In millions) | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------|------------------|---------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Net income | \$57.5 | \$136.7 | \$110.3 | \$187.0 |
| Other comprehensive income (loss): | | | | |
| Defined benefit pension and other postretirement plans, net of income taxes | (0.8 |) 21.9 | (1.2 |) 21.8 |
| Currency translation adjustments | (0.7 |) 7.3 | (11.5 |) 5.2 |
| Gain (loss) from hedging activities, net of income taxes | 1.6 | (2.4 |) (0.3 |) (1.7 |
| Loss on securities available for sale, net of income taxes | — | (0.6 |) — | (0.5 |
| Total other comprehensive income attributable to noncontrolling interests | 0.6 | — | 0.7 | 0.1 |
| Total other comprehensive income (loss) | 0.7 | 26.2 | (12.3 |) 24.9 |
| Comprehensive income | 58.2 | 162.9 | 98.0 | 211.9 |
| Less: comprehensive income attributable to noncontrolling interests | (0.7 |) (0.5 |) (0.9 |) (0.8 |
| Comprehensive income attributable to W. R. Grace & Co. shareholders | \$57.5 | \$162.4 | \$97.1 | \$211.1 |

The Notes to Consolidated Financial Statements are an integral part of these statements.

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W. R. Grace & Co. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

| (In millions) | Six Months Ended | |
|--|------------------|------------|
| | June 30, 2015 | 2014 |
| OPERATING ACTIVITIES | | |
| Net income | \$110.3 | \$187.0 |
| Reconciliation to net cash used for operating activities: | | |
| Depreciation and amortization | 66.8 | 68.0 |
| Equity in earnings of unconsolidated affiliate | (8.5 |) (6.8 |
| Dividends received from unconsolidated affiliate | 11.8 | 11.2 |
| Chapter 11 expenses, net | 3.2 | 9.1 |
| Asbestos and bankruptcy related charges, net | (8.7 |) 6.4 |
| Cash paid for Chapter 11 and asbestos | (492.8 |) (1,336.5 |
| Provision for income taxes | 82.3 | 22.1 |
| Cash paid for income taxes, net of refunds | (22.4 |) (16.4 |
| Cash paid for interest on credit arrangements | (46.0 |) (11.0 |
| Defined benefit pension expense | 17.5 | 11.5 |
| Cash paid under defined benefit pension arrangements | (8.6 |) (89.1 |
| Cash paid for restructuring | (8.5 |) (3.4 |
| Cash paid for repositioning | (10.1 |) — |
| Cash paid for environmental remediation | (5.6 |) (7.0 |
| Changes in assets and liabilities, excluding effect of currency translation: | | |
| Trade accounts receivable | (20.3 |) (57.4 |
| Inventories | 1.3 | (39.8 |
| Accounts payable | 35.7 | 20.3 |
| All other items, net | 58.5 | 45.5 |
| Net cash used for operating activities | (244.1 |) (1,186.3 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (73.9 |) (81.5 |
| Transfer from restricted cash and cash equivalents | — | 395.4 |
| Other investing activities | — | (1.6 |
| Net cash (used for) provided by investing activities | (73.9 |) 312.3 |
| FINANCING ACTIVITIES | | |
| Borrowings under credit arrangements | 288.3 | 1,101.1 |
| Repayments under credit arrangements | (62.5 |) (662.2 |
| Cash paid for debt financing costs | (0.4 |) (23.9 |
| Proceeds from exercise of stock options | 21.8 | 12.5 |
| Cash paid for repurchases of common stock | (108.7 |) (233.7 |
| Other financing activities | 0.3 | 1.1 |
| Net cash provided by financing activities | 138.8 | 194.9 |
| Effect of currency exchange rate changes on cash and cash equivalents | (11.4 |) (1.8 |
| Decrease in cash and cash equivalents | (190.6 |) (680.9 |
| Cash and cash equivalents, beginning of period | 557.5 | 964.8 |
| Cash and cash equivalents, end of period | \$366.9 | \$283.9 |

The Notes to Consolidated Financial Statements are an integral part of these statements.

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W. R. Grace & Co. and Subsidiaries

Consolidated Balance Sheets (unaudited)

(In millions, except par value and shares)

| | June 30, 2015 | December 31, 2014 |
|---|------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$366.9 | \$557.5 |
| Trade accounts receivable, less allowance of \$7.0 (2014—\$5.8) | 480.9 | 481.1 |
| Inventories | 322.8 | 332.8 |
| Deferred income taxes | 244.0 | 235.4 |
| Other current assets | 88.9 | 84.1 |
| Total Current Assets | 1,503.5 | 1,690.9 |
| Properties and equipment, net of accumulated depreciation and amortization of \$1,771.0 (2014—\$1,818.4) | 825.4 | 833.5 |
| Goodwill | 444.8 | 452.9 |
| Technology and other intangible assets, net | 273.6 | 288.0 |
| Deferred income taxes | 552.2 | 612.0 |
| Overfunded defined benefit pension plans | 45.6 | 44.1 |
| Investment in unconsolidated affiliate | 108.7 | 113.1 |
| Other assets | 60.2 | 60.7 |
| Total Assets | \$3,814.0 | \$4,095.2 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Debt payable within one year | \$76.8 | \$96.8 |
| Accounts payable | 273.0 | 255.3 |
| PI warrant liability | — | 490.0 |
| Other current liabilities | 339.0 | 340.0 |
| Total Current Liabilities | 688.8 | 1,182.1 |
| Debt payable after one year | 2,146.5 | 1,919.0 |
| Deferred income taxes | 18.5 | 19.3 |
| Income tax contingencies | 24.2 | 24.0 |
| Underfunded and unfunded defined benefit pension plans | 438.6 | 457.5 |
| Other liabilities | 112.1 | 124.3 |
| Total Liabilities | 3,428.7 | 3,726.2 |
| Commitments and Contingencies—Note 8 | | |
| Equity | | |
| Common stock issued, par value \$0.01; 300,000,000 shares authorized; outstanding: 72,418,302 (2014—72,922,565) | 0.7 | 0.7 |
| Paid-in capital | 491.1 | 526.1 |
| Retained earnings | 402.2 | 292.1 |
| Treasury stock, at cost: shares: 5,038,323 (2014—4,524,688) | (475.9 |) (429.2 |
| Accumulated other comprehensive loss | (36.8 |) (23.8 |
| Total W. R. Grace & Co. Shareholders' Equity | 381.3 | 365.9 |
| Noncontrolling interests | 4.0 | 3.1 |
| Total Equity | 385.3 | 369.0 |
| Total Liabilities and Equity | \$3,814.0 | \$4,095.2 |

The Notes to Consolidated Financial Statements are an integral part of these statements.

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W. R. Grace & Co. and Subsidiaries

Consolidated Statements of Equity (unaudited)

| (In millions) | Common Stock and Paid-in Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests | Total Equity |
|--------------------------------------|--|----------------------|-------------------|--|-----------------------------|-----------------|
| Balance, December 31, 2013 | \$534.2 | \$15.8 | \$— | \$10.6 | \$10.6 | \$571.2 |
| Net income | — | 186.3 | — | — | 0.7 | 187.0 |
| Repurchase of common stock | — | — | (233.7) | — | — | (233.7) |
| Stock based compensation | 6.5 | — | — | — | — | 6.5 |
| Exercise of stock options | (0.9) | — | 13.4 | — | — | 12.5 |
| Tax benefit related to stock plans | 0.5 | — | — | — | — | 0.5 |
| Shares issued | 1.9 | — | — | — | — | 1.9 |
| Other comprehensive income | — | — | — | 24.8 | 0.1 | 24.9 |
| Balance, June 30, 2014 | \$542.2 | \$202.1 | \$(220.3) | \$35.4 | \$11.4 | \$570.8 |
| Balance, December 31, 2014 | \$526.8 | \$292.1 | \$(429.2) | \$(23.8) | \$3.1 | \$369.0 |
| Net income | — | 110.1 | — | — | 0.2 | 110.3 |
| Repurchase of common stock | — | — | (108.7) | — | — | (108.7) |
| Stock based compensation | 4.3 | — | — | — | — | 4.3 |
| Exercise of stock options | (40.2) | — | 62.0 | — | — | 21.8 |
| Shares issued | 0.9 | — | — | — | — | 0.9 |
| Other comprehensive income (loss) | — | — | — | (13.0) | 0.7 | (12.3) |
| Balance, June 30, 2015 | \$491.8 | \$402.2 | \$(475.9) | \$(36.8) | \$4.0 | \$385.3 |

The Notes to Consolidated Financial Statements are an integral part of these statements.

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Notes to Consolidated Financial Statements

1. Basis of Presentation and Summary of Significant Accounting and Financial Reporting Policies

W. R. Grace & Co., through its subsidiaries, is engaged in specialty chemicals and specialty materials businesses on a global basis through three operating segments: Grace Catalysts Technologies, which includes catalysts and related products and technologies used in refining, petrochemical and other chemical manufacturing applications; Grace Materials Technologies, which includes packaging technologies and engineered materials used in consumer, industrial, coatings, and pharmaceutical applications; and Grace Construction Products, which includes specialty construction chemicals and specialty building materials used in commercial, infrastructure and residential construction.

W. R. Grace & Co. conducts all of its business through a single wholly owned subsidiary, W. R. Grace & Co.—Conn. ("Grace—Conn."). Grace—Conn. owns all of the assets, properties and rights of W. R. Grace & Co. on a consolidated basis, either directly or through subsidiaries.

As used in these notes, the term "Company" refers to W. R. Grace & Co. The term "Grace" refers to the Company and/or one or more of its subsidiaries and, in certain cases, their respective predecessors.

On February 5, 2015, the Company announced its intent to separate the business, assets and liabilities associated with the Grace Construction Products operating segment and the packaging technologies business (collectively, "GCP") into an independent publicly-traded company. Following the separation, Grace will consist of the Catalysts Technologies and Materials Technologies (excluding the packaging technologies business) operating segments. Grace intends that the separation transaction will be a tax-free spin-off to the Company's stockholders for U.S. federal income tax purposes and expects the transaction to be completed in the 2016 first quarter.

Chapter 11 Proceedings On April 2, 2001, Grace and 61 of its United States subsidiaries and affiliates filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") in order to resolve outstanding asbestos personal injury and property damage claims, including class-action lawsuits alleging damages from Zonolite® Attic Insulation ("ZAI"), a former Grace attic insulation product. In 2008, Grace and other parties filed a joint plan of reorganization with the Bankruptcy Court (as subsequently amended, the "Joint Plan"). Following the confirmation of the Joint Plan in 2011 by the Bankruptcy Court and in 2012 by a U.S. District Court, and the resolution of all appeals, Grace emerged from bankruptcy on February 3, 2014.

Basis of Presentation The interim Consolidated Financial Statements presented herein are unaudited and should be read in conjunction with the Consolidated Financial Statements presented in the Company's 2014 Annual Report on Form 10-K. Such interim Consolidated Financial Statements reflect all adjustments that, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented; all such adjustments are of a normal recurring nature except for the impacts of adopting new accounting standards as discussed below. All significant intercompany accounts and transactions have been eliminated.

The results of operations for the six-month interim period ended June 30, 2015, are not necessarily indicative of the results of operations for the year ending December 31, 2015.

Use of Estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses for the periods presented. Actual amounts could differ from those estimates, and the differences could be material. Changes in estimates are recorded in the period identified. Grace's accounting measurements that are most affected by management's estimates of future events are:

• Realization values of net deferred tax assets, which depend on projections of future taxable income (see Note 5);
• Pension and postretirement liabilities that depend on assumptions regarding participant life spans, future inflation, discount rates and total returns on invested funds (see Note 6); and

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Notes to Consolidated Financial Statements (Continued)

1. Basis of Presentation and Summary of Significant Accounting and Financial Reporting Policies (Continued)

Contingent liabilities, which depend on an assessment of the probability of loss and an estimate of ultimate obligation, such as litigation (see Note 8), income taxes (see Note 5), and environmental remediation (see Note 8).

Reclassifications Certain amounts in prior years' Consolidated Financial Statements have been reclassified to conform to the current year presentation. Such reclassifications have not materially affected previously reported amounts in the Consolidated Financial Statements.

Effect of New Accounting Standards In April 2014, the FASB issued ASU 2014-08 "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This update is intended to change the requirements for reporting discontinued operations and enhance convergence of the FASB's and the International Accounting Standard Board's ("IASB") reporting requirements for discontinued operations. Grace adopted this standard in the first quarter and it did not have a material effect on the Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers." This update is intended to remove inconsistencies and weaknesses in revenue requirements; provide a more robust framework for addressing revenue issues; improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; provide more useful information to users of financial statements through improved disclosure requirements; and simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The new requirements were to be effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years, with early adoption not permitted. On July 9, 2015, the FASB voted to defer the effective date by one year but will permit adoption as of the original effective date. The revised standard allows for two methods of adoption: (a) full retrospective adoption, meaning the standard is applied to all periods presented, or (b) modified retrospective adoption, meaning the cumulative effect of applying the new standard is recognized as an adjustment to the opening retained earnings balance. Grace does not intend to adopt the standard early and is in the process of determining the adoption method as well as the effects the adoption will have on the Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs." This update is part of the FASB's Simplification Initiative and is also intended to enhance convergence with the IASB's treatment of debt issuance costs. The update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new requirements are effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years, with early adoption permitted. Grace is currently evaluating its effect on the Consolidated Financial Statements and the timing of adoption.

2. Inventories

Inventories are stated at the lower of cost or market, and cost is determined using FIFO. Inventories consisted of the following at June 30, 2015, and December 31, 2014:

| (In millions) | June 30, 2015 | December 31, 2014 |
|-------------------|------------------|----------------------|
| Raw materials | \$83.3 | \$78.8 |
| In process | 47.3 | 47.2 |
| Finished products | 164.8 | 177.7 |
| Other | 27.4 | 29.1 |
| | \$322.8 | \$332.8 |

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Notes to Consolidated Financial Statements (Continued)

3. Debt

Components of Debt

| (In millions) | June 30, 2015 | December 31, 2014 |
|---|------------------|----------------------|
| U.S. dollar term loan, net of unamortized discount of \$1.9 at June 30, 2015, and \$2.1 at December 31, 2014(1) | \$938.1 | \$692.6 |
| 5.125% senior notes due 2021 | 700.0 | 700.0 |
| 5.625% senior notes due 2024 | 300.0 | 300.0 |
| Euro term loan, net of unamortized discount of \$0.4 at June 30, 2015, and \$0.4 at December 31, 2014(2) | 165.2 | 181.2 |
| Debt payable—unconsolidated affiliate | 31.6 | 31.5 |
| Deferred payment obligation | 28.7 | 28.2 |
| Other borrowings(3) | 59.7 | 82.3 |
| Total debt | 2,223.3 | 2,015.8 |
| Less debt payable within one year | 76.8 | 96.8 |
| Debt payable after one year | \$2,146.5 | \$1,919.0 |
| Weighted average interest rates on total debt | 4.2 | % 4.3 |

(1) Interest at LIBOR +200 bps with a 75 bps LIBOR floor at June 30, 2015, and LIBOR +225 bps with a 75 bps LIBOR floor at December 31, 2014

(2) Interest at EURIBOR +225 bps with a 75 bps EURIBOR floor at June 30, 2015, and EURIBOR +250 bps with a 75 bps EURIBOR floor at December 31, 2014

(3) Represents borrowings under various lines of credit and other borrowings, primarily by non-U.S. subsidiaries. See Note 4 for a discussion of the fair value of Grace's debt.

The principal maturities of debt outstanding at June 30, 2015, were as follows:

| | (In millions) |
|------------|---------------|
| 2015 | \$36.0 |
| 2016 | 49.4 |
| 2017 | 44.9 |
| 2018 | 15.8 |
| 2019 | 15.1 |
| Thereafter | 2,062.1 |
| Total debt | \$2,223.3 |

On January 30, 2015, Grace borrowed on its \$250 million term loan facility and used the funds, together with cash on hand, to repurchase the warrant issued to the asbestos personal injury trust for \$490 million. (See Note 8 for Chapter 11 information.)

Grace has reviewed the impact of the separation on the credit agreement entered into upon emergence from bankruptcy (the "Credit Agreement"). Grace anticipates that the Credit Agreement will remain with Grace but at the time of the separation will require an amendment to permit the separation. Grace intends to seek such amendment as well as repay a substantial amount of the borrowings under the Credit Agreement in connection with the separation. If an amendment is not granted, Grace will be required to repay all term loan and revolver debt and enter into a new borrowing facility.

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Notes to Consolidated Financial Statements (Continued)

3. Debt (continued)

Grace has reviewed the impact of the separation on the senior notes. The senior notes will remain obligations of Grace and Grace does not believe that the separation will have any impact on payment or other terms.

4. Fair Value Measurements and Risk

Certain of Grace's assets and liabilities are reported at fair value on a gross basis. ASC 820 "Fair Value Measurements and Disclosures" defines fair value as the value that would be received at the measurement date in the principal or "most advantageous" market. Grace uses principal market data, whenever available, to value assets and liabilities that are required to be reported at fair value.

Grace has identified the following financial assets and liabilities that are subject to the fair value analysis required by ASC 820:

Fair Value of Debt and Other Financial Instruments

Debt payable is recorded at carrying value as discussed in Note 3. Fair value is determined based on Level 2 inputs, including expected future cash flows (discounted at market interest rates), estimated current market prices and quotes from financial institutions.

At June 30, 2015, the carrying amounts and fair values of Grace's debt were as follows:

| (In millions) | June 30, 2015 | | December 31, 2014 | |
|------------------------------|-----------------|------------|-------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| U.S. dollar term loan(1) | \$938.1 | \$936.5 | \$692.6 | \$691.3 |
| 5.125% senior notes due 2021 | 700.0 | 707.0 | 700.0 | 720.9 |
| 5.625% senior notes due 2024 | 300.0 | 308.3 | 300.0 | 312.0 |
| Euro term loan(1) | 165.2 | 165.8 | 181.2 | 181.4 |
| Other borrowings | 120.0 | 120.0 | 142.0 | 142.0 |
| Total debt | \$2,223.3 | \$2,237.6 | \$2,015.8 | \$2,047.6 |

Carrying amounts are net of unamortized discounts of \$1.9 million and \$0.4 million as of June 30, 2015, and \$2.1 (1) million and \$0.4 million as of December 31, 2014, related to the U.S. dollar term loan and euro term loan, respectively.

At June 30, 2015, the recorded values of other financial instruments such as cash equivalents and trade receivables and payables approximated their fair values, based on the short-term maturities and floating rate characteristics of these instruments.

Commodity Derivatives

From time to time, Grace enters into commodity derivatives such as fixed-rate swaps or options with financial institutions to mitigate the risk of volatility of prices of natural gas or other commodities. Under fixed-rate swaps, Grace locks in a fixed rate with a financial institution for future purchases, purchases its commodity from a supplier at the prevailing market rate, and then settles with the bank for any difference in the rates, thereby "swapping" a variable rate for a fixed rate.

The valuation of Grace's fixed-rate natural gas swaps was determined using a market approach, based on natural gas futures trading prices quoted on the New York Mercantile Exchange. Commodity fixed-rate swaps with maturities of not more than 12 months are used and designated as cash flow hedges of forecasted purchases of natural gas. Current open contracts hedge forecasted transactions until December 2015. The effective portion of the gain or loss on the commodity contracts is recorded in "accumulated other comprehensive income" and reclassified into income in the same period or periods that the underlying commodity purchase affects income. At

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Notes to Consolidated Financial Statements (Continued)

4. Fair Value Measurements and Risk (Continued)

June 30, 2015, the contract volume, or notional amount, of the commodity contracts was 2.5 million MMBtu (million British thermal units) with a total contract value of \$8.5 million.

The valuation of Grace's natural gas call options was determined using a market approach, based on the strike price of the options and the natural gas futures trading prices quoted on the New York Mercantile Exchange. Commodity option contracts with maturities of not more than 24 months are used and designated as cash flow hedges of forecasted purchases of natural gas. The effective portion of the gain or loss on the commodity contracts is recorded in "accumulated other comprehensive income" and reclassified into income in the same period or periods that the underlying purchases affect income. At June 30, 2015, there are no outstanding commodity option contracts.

The valuation of Grace's fixed-rate aluminum swaps was determined using a market approach, based on aluminum futures trading prices quoted on the London Metal Exchange. Commodity fixed-rate swaps with maturities of not more than 12 months are used and designated as cash flow hedges of forecasted purchases of aluminum. Current open contracts hedge forecasted transactions until May 2016. The effective portion of the gain or loss on the commodity contracts is recorded in "accumulated other comprehensive income" and reclassified into income in the same period or periods that the underlying commodity purchase affects income. At June 30, 2015, the contract volume, or notional amount, of the commodity contracts was 1.3 million pounds with a total contract value of \$1.1 million.

Currency Derivatives

Because Grace operates in over 40 countries and does business in more than 50 currencies, results are exposed to fluctuations in currency exchange rates. Grace seeks to minimize exposure to these fluctuations by matching sales in volatile currencies with expenditures in the same currencies, but it is not always possible to do so. From time to time Grace will use financial instruments such as currency forward contracts, options, or combinations of the two to reduce the risk of certain specific transactions. However, Grace does not have a policy of hedging all exposures, because management does not believe that such a level of hedging would be cost-effective.

The valuation of Grace's currency exchange rate forward contracts is determined using both a market approach and an income approach. Inputs used to value currency exchange rate forward contracts consist of: (1) spot rates, which are quoted by various financial institutions; (2) forward points, which are primarily affected by changes in interest rates; and (3) discount rates used to present value future cash flows, which are based on the London Interbank Offered Rate (LIBOR) curve or overnight indexed swap rates.

Debt and Interest Rate Swap Agreements

Grace uses interest rate swaps designated as cash flow hedges to manage fluctuations in interest rates on variable rate debt. The effective portion of gains and losses on these interest rate cash flow hedges is recorded in "accumulated other comprehensive income" and reclassified into "interest expense and related financing costs" during the hedged interest period.

In connection with its emergence financing, Grace entered into an interest rate swap beginning on February 3, 2015, and maturing on February 3, 2020, fixing the LIBOR component of the interest on \$250 million of Grace's term debt at a rate of 2.393%. The valuation of this interest rate swap is determined using both a market approach and an income approach, using prevailing market interest rates and discount rates to present value future cash flows based on the forward LIBOR yield curves.

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Notes to Consolidated Financial Statements (Continued)

4. Fair Value Measurements and Risk (Continued)

The following tables present the fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2015, and December 31, 2014:

| (In millions) | Fair Value Measurements at June 30, 2015, Using | | | |
|---------------------------|---|---|---|--|
| | Total | Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets | | | | |
| Currency derivatives | \$2.9 | \$— | \$2.9 | \$— |
| Total Assets | \$2.9 | \$— | \$2.9 | \$— |
| Liabilities | | | | |
| Currency derivatives | \$0.2 | \$— | \$0.2 | \$— |
| Interest rate derivatives | 7.3 | — | 7.3 | — |
| Commodity derivatives | 1.5 | — | 1.5 | — |
| Total Liabilities | \$9.0 | \$— | \$9.0 | \$— |
| (In millions) | Fair Value Measurements at December 31, 2014, Using | | | |
| | Total | Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets | | | | |
| Currency derivatives | \$3.3 | \$— | \$3.3 | \$— |
| Total Assets | \$3.3 | \$— | \$3.3 | \$— |
| Liabilities | | | | |
| Currency derivatives | \$0.1 | \$— | \$0.1 | \$— |
| Interest rate derivatives | 5.5 | — | 5.5 | — |
| Commodity derivatives | 2.6 | — | 2.6 | — |
| Total Liabilities | \$8.2 | \$— | \$8.2 | \$— |

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Notes to Consolidated Financial Statements (Continued)

4. Fair Value Measurements and Risk (Continued)

The following tables present the location and fair values of derivative instruments included in the Consolidated Balance Sheets as of June 30, 2015, and December 31, 2014:

| June 30, 2015 (In millions) | Asset Derivatives | | Liability Derivatives | |
|--|------------------------|------------|---------------------------|------------|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives designated as hedging instruments under ASC 815: | | | | |
| Commodity contracts | Other current assets | \$— | Other current liabilities | \$ 1.5 |
| Currency contracts | Other current assets | 0.6 | Other current liabilities | — |
| Interest rate contracts | Other current assets | — | Other current liabilities | 4.2 |
| Currency contracts | Other assets | 1.5 | Other liabilities | 0.1 |
| Interest rate contracts | Other assets | — | Other liabilities | 3.1 |
| Derivatives not designated as hedging instruments under ASC 815: | | | | |
| Currency contracts | Other current assets | 0.8 | Other current liabilities | 0.1 |
| Total derivatives | | \$2.9 | | \$9.0 |
| December 31, 2014 (In millions) | Asset Derivatives | | Liability Derivatives | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives designated as hedging instruments under ASC 815: | | | | |
| Commodity contracts | Other current assets | \$— | Other current liabilities | \$2.6 |
| Currency contracts | Other current assets | 0.8 | Other current liabilities | — |
| Interest rate contracts | Other current assets | — | Other current liabilities | 2.5 |
| Currency contracts | Other assets | 0.9 | Other liabilities | — |
| Interest rate contracts | Other assets | — | Other liabilities | 3.0 |
| Derivatives not designated as hedging instruments under ASC 815: | | | | |
| Currency contracts | Other current assets | 1.6 | Other current liabilities | 0.1 |
| Total derivatives | | \$3.3 | | \$8.2 |

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Notes to Consolidated Financial Statements (Continued)

4. Fair Value Measurements and Risk (Continued)

The following tables present the location and amount of gains and losses on derivative instruments included in the Consolidated Statements of Operations or, when applicable, gains and losses initially recognized in other comprehensive income (loss) ("OCI") for the three and six months ended June 30, 2015 and 2014:

| Three Months Ended June 30, 2015 (In millions) | Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion) |
|---|--|---|---|
| Derivatives in ASC 815 cash flow hedging relationships: | | | |
| Interest rate contracts | \$0.6 | Interest expense | \$(1.1) |
| Currency contracts | (0.6) | Other expense | (0.4) |
| Currency contracts | (0.1) | Cost of goods sold | — |
| Commodity contracts | — | Cost of goods sold | (1.1) |
| Total derivatives | \$(0.1) | | \$(2.6) |

| | | Location of Gain (Loss) Recognized in Income on Derivatives | Amount of Gain (Loss) Recognized in Income on Derivatives |
|--|--|--|--|
| Derivatives not designated as hedging instruments under ASC 815: | | | |
| Currency contracts | | Other expense | \$0.4 |

| Six Months Ended June 30, 2015 (In millions) | Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion) |
|---|--|---|---|
| Derivatives in ASC 815 cash flow hedging relationships: | | | |
| Interest rate contracts | \$(2.9) | Interest expense | \$(1.7) |
| Currency contracts | 5.8 | Other expense | 6.1 |
| Currency contracts | — | Cost of goods sold | — |
| Commodity contracts | (1.0) | Cost of goods sold | (2.1) |
| Total derivatives | \$1.9 | | \$2.3 |

| | | Location of Gain (Loss) Recognized in Income on Derivatives | Amount of Gain (Loss) Recognized in Income on Derivatives |
|--|--|--|--|
| Derivatives not designated as hedging instruments under ASC 815: | | | |
| Currency contracts | | Other expense | \$(0.1) |

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Notes to Consolidated Financial Statements (Continued)

4. Fair Value Measurements and Risk (Continued)

| Three Months Ended June 30, 2014 (In millions) | Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion) |
|---|--|---|---|
| Derivatives in ASC 815 cash flow hedging relationships: | | | |
| Interest rate contracts | \$(3.9 |) Interest expense | \$— |
| Currency contracts | (0.6 |) Other expense | (0.7) |
| Currency contracts | — | Cost of goods sold | — |
| Commodity contracts | — | Cost of goods sold | (0.1) |
| Total derivatives | \$(4.5 |) | \$(0.8) |

| | | Location of Gain (Loss) Recognized in Income on Derivatives | Amount of Gain (Loss) Recognized in Income on Derivatives |
|--|--|--|--|
| Derivatives not designated as hedging instruments under ASC 815: | | | |
| Currency contracts | | Other expense | \$0.3 |

| Six Months Ended June 30, 2014 (In millions) | Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion) |
|---|--|---|---|
| Derivatives in ASC 815 cash flow hedging relationships: | | | |
| Interest rate contracts | \$(2.9 |) Interest expense | \$— |
| Currency contracts | (0.1 |) Other expense | (0.2) |
| Currency contracts | — | Cost of goods sold | — |
| Commodity contracts | 0.4 | Cost of goods sold | 0.2 |
| Total derivatives | \$(2.6 |) | \$— |

| | | Location of Gain (Loss) Recognized in Income on Derivatives | Amount of Gain (Loss) Recognized in Income on Derivatives |
|--|--|--|--|
| Derivatives not designated as hedging instruments under ASC 815: | | | |
| Currency contracts | | Other expense | \$4.8 |

Net Investment Hedges

Grace uses foreign currency denominated debt as nonderivative hedging instruments in certain net investment hedges. The effective portion of gains and losses attributable to these net investment hedges is recorded to "currency translation adjustments" within "accumulated other comprehensive income." Recognition in earnings of amounts previously recorded to "currency translation adjustments" is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. At June 30, 2015, €148.1 million of Grace's term loan principal was designated as a hedging instrument of its net investment in European subsidiaries.

The following tables present the location and amount of gains and losses on nonderivative instruments designated as net investment hedges for the three and six months ended June 30, 2015 and 2014. There were no reclassifications of the effective portion of net investment hedges out of OCI and into earnings for the period presented in the table below.

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Notes to Consolidated Financial Statements (Continued)

4. Fair Value Measurements and Risk (Continued)

| | Amount of Gain (Loss) Recognized in OCI in Currency Translation Adjustments (Effective Portion) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Ineffective Portion) | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Ineffective Portion) |
|---|--|--|--|
| Three Months Ended June 30, 2015 (In millions) | | | |
| Nonderivatives in ASC 815 net investment hedging relationships: | | | |
| Foreign currency denominated debt | \$(4.8) |) Not applicable | \$— |
| Total nonderivatives | \$(4.8) |) | \$— |
| Six Months Ended June 30, 2015 (In millions) | | | |
| Nonderivatives in ASC 815 net investment hedging relationships: | | | |
| Foreign currency denominated debt | \$15.2 | Not applicable | \$— |
| Total nonderivatives | \$15.2 | | \$— |
| Three Months Ended June 30, 2014 (In millions) | | | |
| Nonderivatives in ASC 815 net investment hedging relationships: | | | |
| Foreign currency denominated debt | \$1.8 | Not applicable | \$— |
| Total nonderivatives | \$1.8 | | \$— |
| Six Months Ended June 30, 2014 (In millions) | | | |
| Nonderivatives in ASC 815 net investment hedging relationships: | | | |
| Foreign currency denominated debt | \$1.8 | Not applicable | \$— |
| Total nonderivatives | \$1.8 | | \$— |

Credit Risk

Grace is exposed to credit risk in its trade accounts receivable. Customers in the petroleum refining and construction industries represent the greatest exposure. Grace's credit evaluation policies, relatively short collection terms and history of minimal credit losses mitigate credit risk exposures. Grace does not generally require collateral for its trade

accounts receivable, but may require a bank letter of credit in certain instances, particularly when selling to customers in cash-restricted countries.

Grace may also be exposed to credit risk in its derivatives contracts. Grace monitors counterparty credit risk and currently does not anticipate nonperformance by counterparties to its derivatives. Grace's derivative contracts are with internationally recognized commercial financial institutions.

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Notes to Consolidated Financial Statements (Continued)

5. Income Taxes

The annualized effective tax rate on 2015 forecasted income is estimated to be 39.1% as of June 30, 2015, compared with 17.1% for the year ended December 31, 2014. The prior year includes a benefit of \$59.6 million for the release of reserves for uncertain tax positions while 2015 includes costs of \$22.8 million related to the separation transaction including the estimated tax effect of repatriating foreign earnings and nondeductible transaction costs.

Grace generated approximately \$1,800 million in U.S. federal tax deductions relating to its emergence from bankruptcy, including approximately \$670 million relating to payments made upon emergence, \$632 million upon payment of the PI deferred payment obligation, and \$490 million upon repurchase of the warrant held by the PI Trust. These items, a significant portion of which were previously recorded as deferred tax assets for temporary differences, will be available to reduce U.S. federal taxable income in 2015 and future years. Grace also expects to generate U.S. federal tax deductions of \$30 million upon payment of the ZAI PD deferred payment obligation in 2017. The present value of the expected settlement amount has already been recorded as a deferred tax asset for temporary differences. Grace expects to carryforward U.S. federal NOLs generated during 2014 and 2015. Under U.S. federal income tax law, a corporation is generally permitted to carryforward NOLs for a 20-year period for deduction against future taxable income. (See Note 8 for Chapter 11 information.)

The following table summarizes the balance of deferred tax assets, net of deferred tax liabilities, at June 30, 2015, of \$776.1 million:

| | Deferred Tax Asset (Net of Liabilities)(2) | Valuation Allowance | Net Deferred Tax Asset |
|--------------------------|---|---------------------|------------------------|
| United States—Federal(1) | \$688.5 | \$(2.4) |) \$686.1 |
| United States—States(1) | 56.8 | (4.2) |) 52.6 |
| Germany | 36.4 | — |) 36.4 |
| Other Foreign | 5.2 | (4.2) |) 1.0 |
| Total | \$786.9 | \$(10.8) |) \$776.1 |

(1) The U.S. federal deductions generated during 2014 relating to emergence of \$670 million and settlement of the PI deferred payment obligation of \$632 million, and the \$490 million warrant repurchase on February 3, 2015, plus the \$30 million ZAI PD deferred payment obligation, account for a significant portion of the U.S. federal and state deferred tax assets.

(2) Deferred tax assets are net of \$5.7 million of income tax contingencies related to these deferred tax assets.

Grace will need to generate approximately \$2,000 million of U.S. federal taxable income by 2035 (or approximately \$100 million per year during the carryforward period) to fully realize the U.S. federal and a majority of the U.S. state net deferred tax assets.

The following table summarizes expiration dates in jurisdictions where we have, or will have, material tax loss carryforwards:

| | Expiration Dates |
|-----------------------|------------------------|
| United States—Federal | 2034 - 2035 |
| United States—States | 2015 - 2035 |
| Brazil | Unlimited Carryforward |

In evaluating Grace's ability to realize its deferred tax assets, Grace considers all reasonably available positive and negative evidence, including recent earnings experience, expectations of future taxable income and the tax character of that income, the period of time over which the temporary differences become deductible and the carryforward and/or carryback periods available to Grace for tax reporting purposes in the related jurisdiction. In estimating future taxable income, Grace relies upon assumptions and estimates about future activities, including the amount of future federal, state and international pretax operating income that Grace will generate;

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Notes to Consolidated Financial Statements (Continued)

5. Income Taxes (Continued)

the reversal of temporary differences; and the implementation of feasible and prudent tax planning strategies. Grace records a valuation allowance to reduce deferred tax assets to the amount that it believes is more likely than not to be realized. Grace believes it is reasonably possible that in the next 12 months the amount of the liability for unrecognized tax benefits could decrease by approximately \$3 million.

Grace expects to restructure certain legal entities and execute other transactions having income tax consequences, including the repatriation of undistributed earnings from certain of Grace's foreign subsidiaries, prior to completion of the separation. The process of analyzing the tax consequences of these transactions is ongoing and includes consideration of whether it will be necessary to record a tax liability for any of these transactions. As part of the separation plan, Grace expects to repatriate approximately \$131 million from its foreign subsidiaries in the third and fourth quarters of 2015. Grace estimates that this will increase its provision for income taxes in 2015 by approximately \$16 million and recorded approximately \$11 million as a discrete item in the second quarter of 2015. Additional repatriations may occur as Grace continues to analyze its 2015 cash position in anticipation of completion of the separation.

With the exception of the repatriation of earnings resulting from the separation plan, Grace expects undistributed earnings of its foreign subsidiaries to remain permanently reinvested except in certain instances where repatriation attributable to current earnings results in minimal or no U.S. tax consequences.

6. Pension Plans and Other Postretirement Benefit Plans

Pension Plans The following table presents the funded status of Grace's fully-funded, underfunded, and unfunded pension plans:

| (In millions) | June 30, 2015 | December 31, 2014 |
|--|------------------|----------------------|
| Overfunded defined benefit pension plans | \$45.6 | \$44.1 |
| Underfunded defined benefit pension plans | (81.3 |) (79.5) |
| Unfunded defined benefit pension plans | (357.3 |) (378.0) |
| Total underfunded and unfunded defined benefit pension plans | (438.6 |) (457.5) |
| Pension liabilities included in other current liabilities | (15.1 |) (15.6) |
| Net funded status | \$(408.1 |) \$(429.0) |

Fully-funded plans include several advance-funded plans where the fair value of the plan assets exceeds the projected benefit obligation ("PBO"). This group of plans was overfunded by \$45.6 million as of June 30, 2015, and the overfunded status is reflected as "overfunded defined benefit pension plans" in the Consolidated Balance Sheets. Underfunded plans include a group of advance-funded plans that are underfunded on a PBO basis. Unfunded plans include several plans that are funded on a pay-as-you-go basis, and therefore, the entire PBO is unfunded. The combined balance of the underfunded and unfunded plans was \$453.7 million as of June 30, 2015.

Postretirement Benefits Other Than Pensions Grace has provided postretirement health care and life insurance benefits for retired employees of certain U.S. business units and certain divested business units. The postretirement medical plan provided various levels of benefits to employees hired before 1993 who retired from Grace after age 55 with at least 10 years of service. These plans are unfunded and Grace pays a portion of the costs of benefits under these plans as they are incurred. Grace applies ASC 715 to these plans, which requires that the future costs of postretirement health care and life insurance benefits be accrued over the employees' years of service. Actuarial gains and losses are recognized in the Consolidated Balance Sheets as a component of Shareholders' Equity, with amortization of the net actuarial gains and losses that exceed 10 percent of the accumulated postretirement benefit obligation recognized each quarter in the Consolidated Statements of Operations over the average future service period of active employees.

In June 2014, Grace announced that it would discontinue its postretirement medical plan for all U.S. employees effective October 31, 2014, and eliminate certain postretirement life insurance benefits. As a result of

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Notes to Consolidated Financial Statements (Continued)

6. Pension Plans and Other Postretirement Benefit Plans (Continued)

these actions, Grace recognized a gain of \$41.9 million in other comprehensive income in the 2014 second quarter. Grace amortized \$39.5 million from accumulated other comprehensive income into the Consolidated Statement of Operations during the five-month period from June to October 2014.

Components of Net Periodic Benefit Cost (Income)

| (In millions) | Three Months Ended June 30, | | | | | |
|--|-----------------------------|----------|--------------------------|-----------------|----------|--------------------------|
| | 2015 | | | 2014 | | |
| | Pension U.S. | Non-U.S. | Other Post Retirement | Pension U.S. | Non-U.S. | Other Post Retirement |
| Service cost | \$6.5 | \$2.9 | \$— | \$5.9 | \$2.8 | \$0.1 |
| Interest cost | 13.8 | 4.0 | — | 14.9 | 5.6 | 0.3 |
| Expected return on plan assets | (17.6) | (3.3) | — | (17.5) | (3.9) | — |
| Amortization of prior service (credit) cost | — | — | (0.9) | 0.2 | — | (0.4) |
| Amortization of net deferred actuarial loss (gain) | — | — | 0.1 | — | — | (0.1) |
| Gain on termination of postretirement plans | — | — | — | — | — | (7.9) |
| Net periodic benefit cost (income) | \$2.7 | \$3.6 | \$(0.8) | \$3.5 | \$4.5 | \$(8.0) |
| (In millions) | Six Months Ended June 30, | | | | | |
| | 2015 | | | 2014 | | |
| | Pension U.S. | Non-U.S. | Other Post Retirement | Pension U.S. | Non-U.S. | Other Post Retirement |
| Service cost | \$12.9 | \$5.9 | \$— | \$11.8 | \$5.5 | \$0.1 |
| Interest cost | 27.6 | 8.2 | 0.1 | 30.1 | 11.3 | 0.9 |
| Expected return on plan assets | (35.2) | (6.7) | — | (35.0) | (7.8) | — |
| Amortization of prior service cost (credit) | 0.1 | — | (1.9) | 0.4 | — | (0.5) |
| Amortization of net deferred actuarial loss (gain) | — | — | 0.3 | — | — | (0.3) |
| Mark-to-market adjustment | — | — | — | (3.1) | — | — |
| Gain on termination of postretirement plans | — | — | — | — | — | (7.9) |
| Net periodic benefit cost (income) | \$5.4 | \$7.4 | \$(1.5) | \$4.2 | \$9.0 | \$(7.7) |

At emergence, benefit payments of approximately \$27 million were paid from a U.S. nonqualified pension plan in connection with Grace's emergence from bankruptcy. As a result, that plan was remeasured as of March 1, 2014, using a discount rate of 4.43%. The remeasurement resulted in a mark-to-market gain of \$3.1 million.

Plan Contributions and Funding Grace intends to satisfy its funding obligations under the U.S. qualified pension plans and to comply with all of the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). For ERISA purposes, funded status is calculated on a different basis than under U.S. GAAP.

Grace intends to fund non-U.S. pension plans based on applicable legal requirements and actuarial and trustee recommendations.

Defined Contribution Retirement Plan Grace sponsors a defined contribution retirement plan for its employees in the United States. This plan is qualified under section 401(k) of the U.S. tax code. Currently, Grace contributes an amount equal to 100% of employee contributions, up to 6% of an individual employee's salary or wages. Grace's costs related to this benefit plan for the three and six months ended June 30, 2015, were \$3.8 million and \$7.9 million compared with \$3.3 million and \$6.6 million for the corresponding prior-year periods.

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Notes to Consolidated Financial Statements (Continued)

7. Other Balance Sheet Accounts

| (In millions) | June 30, 2015 | December 31, 2014 |
|-----------------------------|------------------|----------------------|
| Other Current Liabilities | | |
| Accrued compensation | \$73.2 | \$77.0 |
| Income tax payable | 43.5 | 34.1 |
| Customer volume rebates | 31.1 | 37.8 |
| Environmental contingencies | 19.7 | 21.5 |
| Accrued interest | 18.9 | 21.0 |
| Deferred revenue | 18.9 | 19.4 |
| Pension liabilities | 15.1 | 15.6 |
| Deferred tax liability | 1.6 | 1.5 |
| Other accrued liabilities | 117.0 | 112.1 |
| | \$339.0 | \$340.0 |

Accrued compensation in the table above includes salaries and wages as well as estimated current amounts due under the annual and long-term incentive programs.

8. Commitments and Contingent Liabilities

Asbestos-Related Liabilities Grace emerged from an asbestos-related Chapter 11 bankruptcy on February 3, 2014 (the "Effective Date"). Under its plan of reorganization, all pending and future asbestos-related claims are channeled for resolution to either a personal injury trust (the "PI Trust") or a property damage trust (the "PD Trust"). The trusts are the sole recourse for holders of asbestos-related claims. The channeling injunctions issued by the bankruptcy court prohibit holders of asbestos-related claims from asserting such claims directly against Grace.

Grace has satisfied all of its financial obligations to the PI Trust. Grace has fixed and contingent obligations remaining to the PD Trust. With respect to property damage claims related to Grace's former attic insulation product installed in the U.S. ("ZAI PD Claims"), the PD Trust was funded with \$34.4 million on the Effective Date. Grace is obligated to make a payment of \$30 million to the PD Trust in respect of ZAI PD Claims on February 3, 2017, and has recorded a liability of \$28.7 million representing the present value of this amount in "debt payable after one year" in the accompanying Consolidated Balance Sheets. Grace is also obligated to make up to 10 contingent deferred payments of \$8 million per year to the PD Trust in respect of ZAI PD Claims during the 20-year period beginning on the fifth anniversary of the Effective Date, with each such payment due only if the assets of the PD Trust in respect of ZAI PD Claims fall below \$10 million during the preceding year. Grace has not accrued for the 10 additional payments since Grace does not currently believe they are probable. Grace is not obligated to make additional payments to the PD Trust in respect of ZAI PD Claims beyond the payments described above. Grace has satisfied all of its financial obligations with respect to Canadian ZAI PD Claims.

With respect to other asbestos property damage claims ("Other PD Claims"), claims unresolved as of the Effective Date are to be litigated in the bankruptcy court and any future claims are to be litigated in a federal district court, in each case pursuant to procedures to be approved by the bankruptcy court. To the extent any such Other PD Claims are determined to be allowed claims, they are to be paid in cash by the PD Trust. Grace is obligated to make a payment to the PD Trust every six months in the amount of any Other PD Claims allowed during the preceding six months plus interest (if applicable) and the amount of PD Trust expenses for the preceding six months (the "PD Obligation"). The aggregate amount to be paid under the PD Obligation is not capped and Grace may be obligated to make additional payments to the PD Trust in respect of the PD Obligation. Grace has accrued for those unresolved Other PD Claims that it believes are probable and estimable. Grace has not accrued for other unresolved or unasserted Other PD Claims as it does not believe that payment is probable. As of June 30, 2015, Grace has accrued \$0.4 million since the Effective Date related to two Other PD Claims that were filed in the bankruptcy but were not resolved until after the

Effective Date.

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Notes to Consolidated Financial Statements (Continued)

8. Commitments and Contingent Liabilities (Continued)

All payments to the PD Trust required after the Effective Date are secured by the Company's obligation to issue 77,372,257 shares of Company common stock to the PD Trust in the event of default, subject to customary anti-dilution provisions.

This summary of the commitments and contingencies related to the Chapter 11 proceeding does not purport to be complete and is qualified in its entirety by reference to the plan of reorganization and the exhibits and documents related thereto, which have been filed with the SEC.

Environmental Remediation Grace is subject to loss contingencies resulting from extensive and evolving federal, state, local and foreign environmental laws and regulations relating to the generation, storage, handling, discharge, disposition and stewardship of hazardous wastes and other materials. Grace accrues for anticipated costs associated with response efforts where an assessment has indicated that a probable liability has been incurred and the cost can be reasonably estimated. These accruals do not take into account any discounting for the time value of money.

Grace's environmental liabilities are reassessed whenever circumstances become better defined or response efforts and their costs can be better estimated. These liabilities are evaluated based on currently available information, including the progress of remedial investigation at each site, the current status of discussions with regulatory authorities regarding the method and extent of remediation at each site, existing technology, prior experience in contaminated site remediation and the apportionment of costs among potentially responsible parties.

Estimated Investigation and Remediation Costs

At June 30, 2015, Grace's estimated liability for environmental investigation and remediation costs totaled \$53.5 million, compared with \$61.7 million at December 31, 2014, and was included in "other current liabilities" and "other liabilities" in the Consolidated Balance Sheets. These amounts are based on funding and/or remediation agreements in place and Grace's estimate of costs for sites not subject to a formal remediation plan for which sufficient information is available to estimate response costs. These amounts do not include certain response costs for the Libby vermiculite mine area or certain vermiculite expansion facilities, which may be material but are not currently estimable. Due to these vermiculite-related matters, it is probable that Grace's actual response costs will exceed Grace's current estimates by material amounts. Net cash paid against previously established reserves for the six months ended June 30, 2015 and 2014, were \$5.6 million and \$7.0 million, respectively.

Vermiculite-Related Matters

Grace purchased a vermiculite mine in Libby, Montana, in 1963 and operated it until 1990. Vermiculite concentrate from the Libby mine was used in the manufacture of attic insulation and other products. Some of the vermiculite ore contained naturally occurring asbestos. The U.S. Environmental Protection Agency (the "EPA") and Grace are engaged in a remedial investigation of the Libby mine and the surrounding area.

During 2010, the EPA began reinvestigating certain facilities on a list of 105 facilities where vermiculite concentrate from the Libby mine may have been used, stored or processed. Grace is cooperating with the EPA on this reinvestigation and has remediated several of these facilities. It is probable that the EPA will request additional remediation at other facilities.

Grace's total estimated liability for response costs that are currently estimable related to its former vermiculite operations in Libby and vermiculite processing sites outside of Libby at June 30, 2015, and December 31, 2014, was \$13.4 million and \$19.4 million, respectively. It is probable that Grace's ultimate liability for these vermiculite-related matters will exceed current estimates by material amounts. Grace's current recorded liability will be adjusted as Grace receives new information and amounts become reasonably estimable.

Non-Vermiculite-Related Matters

At June 30, 2015, and December 31, 2014, Grace's estimated liability for response costs at sites not related to its former vermiculite mining and processing activities was \$40.1 million and \$42.3 million, respectively. This

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Notes to Consolidated Financial Statements (Continued)

8. Commitments and Contingent Liabilities (Continued)

liability relates to Grace's current and former operations, including its share of liability for off-site disposal at facilities where it has been identified as a potentially responsible party. Grace's estimated liability is based upon regulatory requirements and environmental conditions at each site. As Grace receives new information its estimated liability may change materially.

Purchase Commitments Grace uses purchase commitments to ensure supply and to minimize the volatility of major components of direct manufacturing costs including natural gas, certain metals, rare earths, asphalt, amines and other materials. Such commitments are for quantities that Grace fully expects to use in its normal operations.

Guarantees and Indemnification Obligations Grace is a party to many contracts containing guarantees and indemnification obligations. These contracts primarily consist of:

- Product warranties with respect to certain products sold to customers in the ordinary course of business. These warranties typically provide that products will conform to specifications. Grace accrues a warranty liability on a transaction-specific basis depending on the individual facts and circumstances related to each sale. Both the liability and annual expense related to product warranties are immaterial to the Consolidated Financial Statements.

- Performance guarantees offered to customers under certain licensing arrangements. Grace has not established a liability for these arrangements based on past performance.

- Licenses of intellectual property by Grace to third parties in which Grace has agreed to indemnify the licensee against third party infringement claims.

- Contracts providing for the sale of a former business unit or product line in which Grace has agreed to indemnify the buyer against liabilities arising prior to the closing of the transaction, including environmental liabilities.

- Guarantees of real property lease obligations of third parties, typically arising out of (a) leases entered into by former subsidiaries of Grace, or (b) the assignment or sublease of a lease by Grace to a third party.

Financial Assurances Financial assurances have been established for a variety of purposes, including insurance and environmental matters, trade-related commitments and other matters. At June 30, 2015, Grace had gross financial assurances issued and outstanding of \$123.0 million, composed of \$34.2 million of surety bonds issued by various insurance companies and \$88.8 million of standby letters of credit and other financial assurances issued by various banks.

Accounting for Contingencies Although the outcome of each of the matters discussed above cannot be predicted with certainty, Grace has assessed its risk and has made accounting estimates as required under U.S. GAAP.

9. Restructuring Expenses, Asset Impairments and Repositioning Expenses

Restructuring Expenses

In the second quarter, Grace incurred costs from restructuring actions as a result of changes in the business environment and its business structure, which are included in "other expense, net" in the Consolidated Statements of Operations. Grace incurred \$4.4 million (\$0.7 million in Catalysts Technologies, \$3.0 million in Construction Products, \$0.3 million in Materials Technologies, and \$0.4 million in Corporate) of restructuring expenses during the second quarter, compared with \$2.0 million during the prior-year quarter. These costs are not included in segment operating income. Substantially all costs related to the restructuring programs are expected to be paid by December 31, 2015.

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Notes to Consolidated Financial Statements (Continued)

9. Restructuring Expenses, Asset Impairments and Repositioning Expenses (Continued)

In the 2014 second quarter, Grace incurred an asset impairment charge of \$9.7 million. The impairment charge related to the concrete production management systems product that is part of the Construction Products operating segment.

| Restructuring Expenses and Asset Impairments (In millions) | Three Months Ended | | Six Months Ended | |
|---|--------------------|--------|------------------|--------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Restructuring expenses | \$4.4 | \$2.0 | \$13.9 | \$2.7 |
| Asset impairments | — | 9.7 | — | 9.7 |
| Total restructuring expenses and asset impairments | \$4.4 | \$11.7 | \$13.9 | \$12.4 |
| Restructuring Liability (In millions) | | | | Total |
| Balance, December 31, 2014 | | | | \$4.5 |
| Accruals for severance and other costs | | | | 13.9 |
| Payments | | | | (8.5) |
| Currency translation adjustments and other | | | | 0.2 |
| Balance, June 30, 2015 | | | | \$10.1 |

Repositioning Expenses
Repositioning expenses of \$13.4 million and \$20.3 million for the second quarter and six months primarily related to Grace's planned separation into two independent companies as follows:

| (In millions) | Three Months Ended | | Six Months Ended | |
|------------------------|--------------------|---------------|------------------|---------------|
| | June 30, 2015 | June 30, 2015 | June 30, 2015 | June 30, 2015 |
| Professional fees | \$9.7 | | \$16.1 | |
| Employee-related costs | 3.7 | | 4.2 | |
| Total | \$13.4 | | \$20.3 | |

Substantially all of these costs are expected to be settled in cash.

10. Other Expenses, net

Components of other expense, net are as follows:

| (In millions) | Three Months Ended | | Six Months Ended | |
|--|--------------------|--------|------------------|--------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Restructuring expenses and asset impairments | \$4.4 | \$11.7 | \$13.9 | \$12.4 |
| Asbestos and bankruptcy-related charges, net | — | (2.4) | (8.7) | 6.4 |
| Provision for environmental remediation, net | 0.7 | 3.4 | (2.6) | 4.6 |
| Net loss on sales of investments and disposals of assets | 1.5 | — | 1.9 | 0.7 |
| Currency transaction effects | 1.7 | 0.4 | (1.1) | 0.7 |
| Interest income | (0.1) | (0.5) | (0.2) | (1.0) |
| Other miscellaneous income | (0.2) | (1.7) | (0.8) | (2.9) |
| Total other expense, net | \$8.0 | \$10.9 | \$2.4 | \$20.9 |

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Notes to Consolidated Financial Statements (Continued)

10. Other Expense, net (Continued)

In the 2015 first quarter, Grace finalized its accounting for emergence from bankruptcy and recorded a gain of \$9.0 million reflecting the final resolution of bankruptcy liabilities.

11. Other Comprehensive Income (Loss)

The following tables present the pre-tax, tax, and after-tax components of Grace's other comprehensive income (loss) for the three and six months ended June 30, 2015 and 2014:

| Three Months Ended June 30, 2015 (In millions) | Pre-Tax Amount | Tax Benefit/ (Expense) | After-Tax Amount |
|---|-------------------|------------------------------|---------------------|
| Defined benefit pension and other postretirement plans: | | | |
| Amortization of net prior service credit included in net periodic benefit cost | \$(0.9) |) \$0.3 | \$(0.6) |
| Amortization of net deferred actuarial loss included in net periodic benefit cost | 0.1 | — | 0.1 |
| Other changes in funded status | (0.4) |) 0.1 | (0.3) |
| Benefit plans, net | (1.2) |) 0.4 | (0.8) |
| Currency translation adjustments | (0.7) |) — | (0.7) |
| Gain from hedging activities | 2.5 | (0.9) |) 1.6 |
| Other comprehensive income attributable to W. R. Grace & Co. shareholders | \$0.6 | \$(0.5) |) \$0.1 |
| Six Months Ended June 30, 2015 (In millions) | | | |
| Defined benefit pension and other postretirement plans: | | | |
| Amortization of net prior service credit included in net periodic benefit cost | \$(1.8) |) \$0.7 | \$(1.1) |
| Amortization of net deferred actuarial loss included in net periodic benefit cost | 0.3 | (0.1) |) 0.2 |
| Other changes in funded status | (0.4) |) 0.1 | (0.3) |
| Benefit plans, net | (1.9) |) 0.7 | (1.2) |
| Currency translation adjustments | (11.5) |) — | (11.5) |
| Loss from hedging activities | (0.4) |) 0.1 | (0.3) |
| Other comprehensive loss attributable to W. R. Grace & Co. shareholders | \$(13.8) |) \$0.8 | \$(13.0) |
| Three Months Ended June 30, 2014 (In millions) | | | |
| Defined benefit pension and other postretirement plans: | | | |
| Net gain due to postretirement plan changes | \$41.9 | \$(14.7) |) \$27.2 |
| Gain on termination of postretirement plans | (7.9) |) 2.8 | (5.1) |
| Amortization of net prior service credit included in net periodic benefit cost | (0.2) |) — | (0.2) |
| Amortization of net deferred actuarial gain included in net periodic benefit cost | (0.1) |) 0.1 | — |
| Benefit plans, net | 33.7 | (11.8) |) 21.9 |
| Currency translation adjustments | 7.3 | — | 7.3 |
| Loss from hedging activities | (3.7) |) 1.3 | (2.4) |
| Loss on securities available for sale | (0.9) |) 0.3 | (0.6) |
| Other comprehensive income attributable to W. R. Grace & Co. shareholders | \$36.4 | \$(10.2) |) \$26.2 |

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Notes to Consolidated Financial Statements (Continued)

11. Other Comprehensive Income (Loss) (Continued)

| Six Months Ended June 30, 2014 (In millions) | Pre-Tax Amount | Tax Benefit/ (Expense) | After-Tax Amount |
|---|-------------------|------------------------------|---------------------|
| Defined benefit pension and other postretirement plans: | | | |
| Net gain due to postretirement plan changes | \$41.9 | \$(14.7) | \$27.2 |
| Gain on termination of postretirement plans | (7.9) | 2.8 | (5.1) |
| Amortization of net prior service credit included in net periodic benefit cost | (0.1) | — | (0.1) |
| Amortization of net deferred actuarial gain included in net periodic benefit cost | (0.3) | 0.1 | (0.2) |
| Benefit plans, net | 33.6 | (11.8) | 21.8 |
| Currency translation adjustments | 5.2 | — | 5.2 |
| Loss from hedging activities | (2.6) | 0.9 | (1.7) |
| Loss on securities available for sale | (0.8) | 0.3 | (0.5) |
| Other comprehensive income attributable to W. R. Grace & Co. shareholders | \$35.4 | \$(10.6) | \$24.8 |

The following tables present the changes in accumulated other comprehensive income (loss), net of tax, for the six months ended June 30, 2015 and 2014:

| Six Months Ended June 30, 2015 (In millions) | Defined Benefit Pension and Other Postretirement Plans | Currency Translation Adjustments | Gain (Loss) from Hedging Activities | | Total |
|--|---|--|--|--|-----------|
| Beginning balance | \$4.0 | \$(22.8) | \$(5.0) | | \$(23.8) |
| Other comprehensive income (loss) before reclassifications | (0.3) | (11.5) | 2.2 | | (9.6) |
| Amounts reclassified from accumulated other comprehensive income | (0.9) | — | (2.5) | | (3.4) |
| Net current-period other comprehensive loss | (1.2) | (11.5) | (0.3) | | (13.0) |
| Ending balance | \$2.8 | \$(34.3) | \$(5.3) | | \$(36.8) |

| Six Months Ended June 30, 2014 (In millions) | Defined Benefit Pension and Other Postretirement Plans | Currency Translation Adjustments | Gain (Loss) from Hedging Activities | Unrealized Loss on Investment | Gain on Securities Available for Sale | Total |
|--|---|--|---|-------------------------------------|--|--------|
| Beginning balance | \$6.6 | \$5.2 | \$(0.5) | \$(0.8) | \$0.1 | \$10.6 |
| Other comprehensive income (loss) before reclassifications | 27.2 | 5.2 | (1.7) | — | (0.5) | 30.2 |
| Amounts reclassified from accumulated other comprehensive income | (5.4) | — | — | — | — | (5.4) |
| Net current-period other comprehensive income (loss) | 21.8 | 5.2 | (1.7) | — | (0.5) | 24.8 |
| Ending balance | \$28.4 | \$10.4 | \$(2.2) | \$(0.8) | \$(0.4) | \$35.4 |

Grace is a global enterprise operating in over 40 countries with local currency generally deemed to be the functional currency for accounting purposes. The currency translation amount represents the adjustments necessary to translate the balance sheets valued in local currencies to the U.S. dollar as of the end of each period presented, and to translate revenues and expenses at average exchange rates for each period presented.

See Note 4 for a discussion of hedging activities. See Note 6 for a discussion of pension plans and other postretirement benefit plans.

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Notes to Consolidated Financial Statements (Continued)

12. Earnings Per Share

The following table shows a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share.

| (In millions, except per share amounts) | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------|------------------|---------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Numerators | | | | |
| Net income attributable to W. R. Grace & Co. shareholders | \$57.4 | \$136.2 | \$110.1 | \$186.3 |
| Denominators | | | | |
| Weighted average common shares—basic calculation | 72.6 | 75.9 | 72.7 | 76.5 |
| Dilutive effect of employee stock options | 0.6 | 0.9 | 0.6 | 1.0 |
| Weighted average common shares—diluted calculation | 73.2 | 76.8 | 73.3 | 77.5 |
| Basic earnings per share | \$0.79 | \$1.79 | \$1.51 | \$2.44 |
| Diluted earnings per share | \$0.78 | \$1.77 | \$1.50 | \$2.40 |

There were approximately 0.4 million anti-dilutive options outstanding for the three and six months ended June 30, 2015. There were approximately 0.3 million and 0.1 million anti-dilutive options outstanding for the three and six months ended June 30, 2014.

On February 4, 2014, Grace announced that the Company's Board of Directors had authorized a share repurchase program of up to \$500 million expected to be completed over the following 12 to 24 months at the discretion of management. The Company completed this initial share repurchase program on January 15, 2015. On February 5, 2015, the Company announced that its Board of Directors has authorized an additional share repurchase program of up to \$500 million. The timing of the repurchases and the actual amount repurchased will depend on a variety of factors, including the market price of the Company's shares, the strategic deployment of capital, and general market and economic conditions. During the six months ended June 30, 2015, the Company repurchased 1,123,508 shares of Company common stock for \$108.7 million pursuant to the terms of its share repurchase programs.

13. Operating Segment Information

Grace is a global producer of specialty chemicals and specialty materials. Grace manages its business through three operating segments: Grace Catalysts Technologies, Grace Materials Technologies, and Grace Construction Products. Grace Catalysts Technologies includes catalysts and related products and technologies used in refining, petrochemical and other chemical manufacturing applications. Grace's Advanced Refining Technologies (ART) joint venture is managed in this segment. ART is an unconsolidated affiliate, and Grace accounts for ART using the equity method as discussed in Note 14. Grace Materials Technologies includes packaging products and engineered materials, coatings and sealants used in consumer, industrial, and pharmaceutical applications. Grace Construction Products includes specialty construction chemicals and specialty building materials used in commercial, infrastructure and residential construction. Intersegment sales are eliminated in consolidation. The table below presents information related to Grace's operating segments. Only those corporate expenses directly related to the operating segments are allocated for reporting purposes. All remaining corporate items are reported separately and labeled as such.

Grace excludes defined benefit pension expense from the calculation of segment operating income. Grace believes that the exclusion of defined benefit pension expense provides a better indicator of its operating segment performance as defined benefit pension expense is not managed at an operating segment level.

Grace defines Adjusted EBIT (a non-GAAP financial measure) to be net income adjusted for interest income and expense; income taxes; costs related to Chapter 11 and asbestos; restructuring and repositioning expenses and asset impairments; pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; income and expense items related to divested businesses, product

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Notes to Consolidated Financial Statements (Continued)

13. Operating Segment Information (Continued)

lines, and certain other investments; gains and losses on sales of businesses, product lines, and certain other investments; and certain other unusual or infrequent items that are not representative of underlying trends.

Operating Segment Data

| (In millions) | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------|------------------|-----------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Net Sales | | | | |
| Catalysts Technologies | \$289.3 | \$313.2 | \$570.3 | \$597.7 |
| Materials Technologies | 204.2 | 236.1 | 404.5 | 455.9 |
| Construction Products | 288.6 | 288.7 | 527.9 | 528.9 |
| Total | \$782.1 | \$838.0 | \$1,502.7 | \$1,582.5 |
| Adjusted EBIT | | | | |
| Catalysts Technologies segment operating income | \$86.6 | \$97.5 | \$160.3 | \$168.7 |
| Materials Technologies segment operating income | 45.7 | 49.7 | 86.7 | 95.2 |
| Construction Products segment operating income | 53.9 | 45.0 | 83.3 | 70.4 |
| Corporate costs | (23.1) | (22.8) | (43.7) | (45.3) |
| Gain on termination of postretirement plans related to current businesses | — | 4.7 | — | 4.7 |
| Certain pension costs | (6.3) | (8.0) | (12.8) | (16.3) |
| Total | \$156.8 | \$166.1 | \$273.8 | \$277.4 |

Corporate costs include corporate support function costs and other corporate costs such as professional fees and insurance premiums.

Grace Adjusted EBIT for the three and six months ended June 30, 2015 and 2014, is reconciled below to income before income taxes presented in the accompanying Consolidated Statements of Operations.

Reconciliation of Operating Segment Data to Financial Statements

| (In millions) | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------|------------------|---------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Grace Adjusted EBIT | \$156.8 | \$166.1 | \$273.8 | \$277.4 |
| (Costs) benefit related to Chapter 11 and asbestos, net | (2.7) | (1.5) | 7.0 | (17.0) |
| Pension MTM adjustment and other related costs, net | — | — | (4.7) | 4.8 |
| Gain on termination of postretirement plans related to divested businesses | — | 3.2 | — | 3.2 |
| Restructuring expenses and asset impairments | (4.4) | (11.7) | (13.9) | (12.4) |
| Repositioning expenses | (13.4) | — | (20.3) | — |
| Gain on sale of product line | — | 0.2 | — | 0.2 |
| Income and expense items related to divested businesses | (0.4) | (3.6) | 0.3 | (4.7) |
| Interest expense, net | (24.9) | (24.2) | (49.8) | (43.1) |
| Net income attributable to noncontrolling interests | 0.1 | 0.5 | 0.2 | 0.7 |
| Income before income taxes | \$111.1 | \$129.0 | \$192.6 | \$209.1 |

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Notes to Consolidated Financial Statements (Continued)

13. Operating Segment Information (Continued)

The table below presents information related to the geographic areas in which Grace operates. Sales are attributed to geographic areas based on customer location.

Geographic Area Data

| (In millions) | Three Months Ended | | Six Months Ended | |
|---------------------------|--------------------|---------|------------------|-----------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Net Sales | | | | |
| United States | \$248.9 | \$238.7 | \$463.5 | \$444.7 |
| Canada and Puerto Rico | 25.3 | 21.6 | 43.1 | 38.2 |
| Total North America | 274.2 | 260.3 | 506.6 | 482.9 |
| Europe Middle East Africa | 242.5 | 289.8 | 477.7 | 564.7 |
| Asia Pacific | 185.7 | 190.1 | 362.3 | 355.0 |
| Latin America | 79.7 | 97.8 | 156.1 | 179.9 |
| Total | \$782.1 | \$838.0 | \$1,502.7 | \$1,582.5 |

14. Unconsolidated Affiliate

Grace accounts for its 50% ownership interest in ART using the equity method of accounting. Grace's investment in ART amounted to \$108.7 million and \$113.1 million as of June 30, 2015, and December 31, 2014, respectively, and the amount included in "equity in earnings of unconsolidated affiliate" in the accompanying Consolidated Statements of Operations totaled \$2.3 million and \$8.5 million for the three and six months ended June 30, 2015, compared with \$3.1 million and \$6.8 million for the three and six months ended June 30, 2014, respectively.

Grace and ART transact business on a regular basis and maintain several agreements in order to operate the joint venture. These agreements are treated as related party activities with an unconsolidated affiliate. The table below presents summary financial data related to transactions between Grace and ART.

| (In millions) | Three Months Ended | | Six Months Ended | |
|---|--------------------|--------|------------------|---------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Grace sales of catalysts to ART | \$63.3 | \$64.5 | \$117.5 | \$130.0 |
| Charges for fixed costs, research and development and selling, general and administrative services to ART | 5.9 | 7.1 | 11.8 | 14.6 |

Grace and Chevron provide lines of credit in the amount of \$15.0 million each at a commitment fee of 0.1% of the credit amount. These agreements expire on February 26, 2016. No amounts were outstanding at June 30, 2015, and December 31, 2014.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We generally refer to the quarter ended June 30, 2015, as the "second quarter," the quarter ended June 30, 2014, as the "prior-year quarter," the quarter ended March 31, 2015, as the "2015 first quarter," the six months ended June 30, 2015, as the "six months," and the six months ended June 30, 2014, as the "prior-year period." Our references to "advanced economies" and "emerging regions" refer to classifications established by the International Monetary Fund. See Analysis of Operations for a discussion of our non-GAAP performance measures.

Results of Operations

Second Quarter Performance Summary

Following is a summary of our financial performance for the second quarter compared with the prior-year quarter.

Net sales decreased 6.7% to \$782.1 million, and increased 1.1% on a constant currency basis.

Adjusted EBIT decreased 5.6% to \$156.8 million, and increased 4.8% on a constant currency basis.

Net income decreased 57.9% to \$57.4 million or \$0.78 per diluted share. Adjusted EPS was \$1.19 per diluted share.

Adjusted EBIT Return On Invested Capital was 31.6% on a trailing four quarters basis compared with 27.4% for the 2014 second quarter.

On February 5, 2015, the Company announced its intent to separate the business, assets and liabilities associated with the Grace Construction Products operating segment and the packaging technologies business (collectively, "GCP") into an independent publicly-traded company. Following the separation, Grace will consist of the Catalysts Technologies and Materials Technologies (excluding the packaging technologies business) operating segments. Grace intends that the separation transaction will be a tax-free spin-off to the Company's stockholders for U.S. federal income tax purposes and expects the transaction to be completed in the 2016 first quarter.

Summary Description of Business

We are engaged in specialty chemicals and specialty materials businesses on a worldwide basis through our three operating segments.

Grace Catalysts Technologies produces and sells catalysts and related products and technologies used in refining, petrochemical and other chemical manufacturing applications, as follows:

Fluid catalytic cracking catalysts, also called FCC catalysts, that help to "crack" the hydrocarbon chain in distilled crude oil to produce transportation fuels, such as gasoline and diesel fuels, and other petroleum-based products; and FCC additives used to reduce sulfur in gasoline, maximize propylene production from refinery FCC units, and reduce emissions of sulfur oxides, nitrogen oxides and carbon monoxide from refinery FCC units.

Hydroprocessing catalysts (HPC), most of which are marketed through our ART joint venture with Chevron Products Company in which we hold a 50% economic interest, that are used in process reactors to upgrade heavy oils into lighter, more useful products by removing impurities such as nitrogen, sulfur and heavy metals, allowing less expensive feedstocks to be used in the petroleum refining process (ART is not consolidated in our financial statements, so ART's sales are excluded from our sales).

Polyolefin catalysts and catalyst supports, also called specialty catalysts (SC), for the production of polypropylene and polyethylene thermoplastic resins, which can be customized to enhance the performance of a wide range of industrial and consumer end-use applications including high pressure pipe, geomembranes, food packaging, automotive parts, medical devices, and textiles; chemical catalysts used in a variety of industrial, environmental and consumer applications; and gas-phase

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polypropylene process technology, which provides our licensees with a reliable capability to manufacture polypropylene products for a broad array of end-use applications.

Grace Materials Technologies produces and sells specialty materials, coatings and sealants and related products used in coatings, consumer, industrial, pharmaceutical, and packaging applications, as follows:

Engineered materials, including silica-based and silica-alumina-based materials, used in:

- Coatings and print media applications, including functional additives that provide matting effects and corrosion protection for industrial and consumer coatings and media and paper products to enhance quality in ink jet coatings.

- Consumer applications, as a free-flow agent, carrier or processing aid in food and personal care products; as a toothpaste abrasive and thickener; and for the processing and stabilization of edible oils and beverages.

- Industrial applications, such as tires and rubber, precision investment casting, refractory, insulating glass windows, adsorbents for use in petrochemical and natural gas processes and biofuels, various functions such as reinforcement, high temperature binding and moisture scavenging.

- Pharmaceutical, life science and related applications including silica-based separation media, excipients and pharmaceutical intermediates; complementary purification products, chromatography consumables, and instruments; and CO₂ adsorbents used in anesthesiology and mine safety applications.

- Packaging products, including can and closure sealants used to seal and enhance the shelf life of can and bottle contents; coatings for cans and closures that prevent metal corrosion, protect package contents from the influence of metal and ensure proper adhesion of sealing compounds; and scavenging technologies designed to reduce off-taste and extend the shelf-life of packaged products.

Grace Construction Products produces and sells construction chemicals and building materials, as follows:

- Specialty construction chemicals (SCC) used to improve the performance of portland cement and materials based on portland cement including:

- Concrete admixtures that are sold to ready-mix, precast, and sprayed concrete producers to improve the rheology, workability, quality, durability and other engineering properties of concrete, reduce production costs and provide differentiated product offerings. Certain of our concrete admixtures include polyolefin fibers which are used to improve the strength of concrete and enables the replacement of steel reinforcement, in certain cases.

- Cement additives that are sold to manufacturers of portland cement to improve energy efficiency in cement milling operations and to enhance the characteristics of finished cement. Our additives are also used by cement manufacturers to meet national standards for cement quality at lower production cost and with a reduced environmental footprint, including lower CO₂ emissions.

- Specialty building materials (SBM) used in both new construction and renovation/repair projects including:

- Sheet and liquid membrane systems that protect commercial buildings, residential buildings and infrastructure from above- and below-grade water penetration and above-grade vapor and air penetration and underlayments used to protect sloped roofs from wind and water penetration.

Global Scope

We operate our business on a global scale with approximately 71% of our annual 2014 sales and 69% of our six months sales outside the United States. We operate in over 40 countries and do business in more than 50 currencies. We manage our operating segments on a global basis, to serve global markets. Currency fluctuations affect our reported results of operations, cash flows, and financial position.

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Analysis of Operations

We have set forth in the table below our key operating statistics with percentage changes for the second quarter compared with the prior-year quarter. Please refer to this Analysis of Operations when reviewing this Management's Discussion and Analysis of Financial Condition and Results of Operations.

We define Adjusted EBIT (a non-GAAP financial measure) to be net income adjusted for interest income and expense; income taxes; costs related to Chapter 11 and asbestos; restructuring and repositioning expenses and asset impairments; pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; income and expense items related to divested businesses, product lines, and certain other investments; gains and losses on sales of businesses, product lines, and certain other investments; and certain other unusual or infrequent items that are not representative of underlying trends.

We define Adjusted EBITDA (a non-GAAP financial measure) to be Adjusted EBIT adjusted for depreciation and amortization.

We define Adjusted Earnings Per Share (EPS) (a non-GAAP financial measure) to be diluted EPS adjusted for costs related to Chapter 11 and asbestos; restructuring and repositioning expenses and asset impairments; pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; income and expense items related to divested businesses, product lines and certain other investments; gains and losses on sales of businesses, product lines and certain other investments; certain other unusual or infrequent items that are not representative of underlying trends; and certain discrete tax items.

We define Adjusted EBIT Return On Invested Capital (a non-GAAP financial measure) to be 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.

We define Segment Gross Margin (a non-GAAP financial measure) to be gross margin adjusted for pension-related costs included in cost of goods sold.

We use Adjusted EBIT as a performance measure in significant business decisions and in determining certain incentive compensation. We use Adjusted EBIT as a performance measure because it provides improved period-to-period comparability for decision making and compensation purposes, and because it better measures the ongoing earnings results of our strategic and operating decisions by excluding the earnings effects of our Chapter 11 proceedings, asbestos liabilities, restructuring and repositioning activities, and divested businesses.

Adjusted EBIT, Adjusted EBITDA, Adjusted EPS, Adjusted EBIT Return On Invested Capital and Segment Gross Margin do not purport to represent income measures as defined under U.S. GAAP, and should not be used as alternatives to such measures as an indicator of our performance. These measures are provided to investors and others to improve the period-to-period comparability and peer-to-peer comparability of our 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 costs related to Chapter 11 and asbestos and may exclude income and expenses from restructuring and repositioning activities and divested businesses, which historically have been material components of our net income. Adjusted EBITDA also has material limitations as an operating performance measure because it excludes the impact of depreciation and amortization expense. Our business is substantially dependent on the successful deployment of capital, and depreciation and amortization expense is a necessary element of our costs. We compensate for the limitations of these measurements by using these indicators together with net income as measured under U.S. GAAP to present a complete analysis of our results of operations. Adjusted EBIT and Adjusted EBITDA should be evaluated together with net income measured under U.S. GAAP for a complete understanding of our results of operations.

We have provided in the following tables a reconciliation of these non-GAAP measures to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP.

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| Analysis of Operations (In millions, except per share amounts) | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|--|-----------------------------|---------|----------|---------------------------|-----------|----------|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| Net sales: | | | | | | |
| Catalysts Technologies | \$289.3 | \$313.2 | (7.6)% | \$570.3 | \$597.7 | (4.6)% |
| Materials Technologies | 204.2 | 236.1 | (13.5)% | 404.5 | 455.9 | (11.3)% |
| Construction Products | 288.6 | 288.7 | — % | 527.9 | 528.9 | (0.2)% |
| Total Grace net sales | \$782.1 | \$838.0 | (6.7)% | \$1,502.7 | \$1,582.5 | (5.0)% |
| Net sales by region: | | | | | | |
| North America | \$274.2 | \$260.3 | 5.3 % | \$506.6 | \$482.9 | 4.9 % |
| Europe Middle East Africa | 242.5 | 289.8 | (16.3)% | 477.7 | 564.7 | (15.4)% |
| Asia Pacific | 185.7 | 190.1 | (2.3)% | 362.3 | 355.0 | 2.1 % |
| Latin America | 79.7 | 97.8 | (18.5)% | 156.1 | 179.9 | (13.2)% |
| Total net sales by region | \$782.1 | \$838.0 | (6.7)% | \$1,502.7 | \$1,582.5 | (5.0)% |
| Profitability performance measures: | | | | | | |
| Adjusted EBIT(A): | | | | | | |
| Catalysts Technologies segment operating income | \$86.6 | \$97.5 | (11.2)% | \$160.3 | \$168.7 | (5.0)% |
| Materials Technologies segment operating income | 45.7 | 49.7 | (8.0)% | 86.7 | 95.2 | (8.9)% |
| Construction Products segment operating income | 53.9 | 45.0 | 19.8 % | 83.3 | 70.4 | 18.3 % |
| Corporate costs | (23.1) | (22.8) | (1.3)% | (43.7) | (45.3) | 3.5 % |
| Gain on termination of postretirement plans related to current businesses | — | 4.7 | NM | — | 4.7 | NM |
| Certain pension costs(B) | (6.3) | (8.0) | 21.3 % | (12.8) | (16.3) | 21.5 % |
| Adjusted EBIT | 156.8 | 166.1 | (5.6)% | 273.8 | 277.4 | (1.3)% |
| (Costs) benefit related to Chapter 11 and asbestos, net | (2.7) | (1.5) | | 7.0 | (17.0) | |
| Pension MTM adjustment and other related costs, net | — | — | | (4.7) | 4.8 | |
| Gain on termination of postretirement plans related to divested businesses | — | 3.2 | | — | 3.2 | |
| Restructuring expenses and asset impairments | (4.4) | (11.7) | | (13.9) | (12.4) | |
| Repositioning expenses | (13.4) | — | | (20.3) | — | |
| Gain on sale of product line | — | 0.2 | | — | 0.2 | |
| Income and expense items related to divested businesses | (0.4) | (3.6) | | 0.3 | (4.7) | |
| Interest expense, net | (24.9) | (24.2) | (2.9)% | (49.8) | (43.1) | (15.5)% |
| (Provision for) benefit from income taxes | (53.6) | 7.7 | NM | (82.3) | (22.1) | NM |
| Net income attributable to W. R. Grace & Co. shareholders | \$57.4 | \$136.2 | (57.9)% | \$110.1 | \$186.3 | (40.9)% |
| Diluted EPS (GAAP) | \$0.78 | \$1.77 | (55.9)% | \$1.50 | \$2.40 | (37.5)% |
| Adjusted EPS (non-GAAP) | \$1.19 | \$1.22 | (2.5)% | \$2.01 | \$1.99 | 1.0 % |

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| Analysis of Operations (In millions) | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|--|-----------------------------|----------|-------------|---------------------------|----------|--------------|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| Profitability performance measures: | | | | | | |
| Gross margin: | | | | | | |
| Catalysts Technologies | 43.3 | % 43.6 | % (0.3) pts | 41.1 | % 41.4 | % (0.3) pts |
| Materials Technologies | 37.2 | % 35.0 | % 2.2 pts | 36.2 | % 34.9 | % 1.3 pts |
| Construction Products | 38.6 | % 36.2 | % 2.4 pts | 37.3 | % 35.4 | % 1.9 pts |
| Segment Gross Margin | 40.0 | % 38.6 | % 1.4 pts | 38.5 | % 37.5 | % 1.0 pts |
| Pension costs in cost of goods sold | (0.3) |)% (0.3) |)% 0.0 pts | (0.6) |)% (0.2) |)% (0.4) pts |
| Total Grace | 39.7 | % 38.3 | % 1.4 pts | 37.9 | % 37.3 | % 0.6 pts |
| Adjusted profitability performance measures: | | | | | | |
| Adjusted EBIT: | | | | | | |
| Catalysts Technologies | \$86.6 | \$97.5 | (11.2)% | \$160.3 | \$168.7 | (5.0)% |
| Materials Technologies | 45.7 | 49.7 | (8.0)% | 86.7 | 95.2 | (8.9)% |
| Construction Products | 53.9 | 45.0 | 19.8 % | 83.3 | 70.4 | 18.3 % |
| Corporate | (29.4) | (26.1) | (12.6)% | (56.5) | (56.9) | 0.7 % |
| Total Grace | 156.8 | 166.1 | (5.6)% | 273.8 | 277.4 | (1.3)% |
| Depreciation and amortization: | | | | | | |
| Catalysts Technologies | \$17.0 | \$16.4 | 3.7 % | \$34.1 | \$33.0 | 3.3 % |
| Materials Technologies | 7.3 | 8.1 | (9.9)% | 14.8 | 16.1 | (8.1)% |
| Construction Products | 7.3 | 7.8 | (6.4)% | 14.7 | 15.4 | (4.5)% |
| Corporate | 1.7 | 1.7 | — % | 3.2 | 3.5 | (8.6)% |
| Total Grace | 33.3 | 34.0 | (2.1)% | 66.8 | 68.0 | (1.8)% |
| Adjusted EBITDA: | | | | | | |
| Catalysts Technologies | \$103.6 | \$113.9 | (9.0)% | \$194.4 | \$201.7 | (3.6)% |
| Materials Technologies | 53.0 | 57.8 | (8.3)% | 101.5 | 111.3 | (8.8)% |
| Construction Products | 61.2 | 52.8 | 15.9 % | 98.0 | 85.8 | 14.2 % |
| Corporate | (27.7) | (24.4) | (13.5)% | (53.3) | (53.4) | 0.2 % |
| Total Grace | 190.1 | 200.1 | (5.0)% | 340.6 | 345.4 | (1.4)% |
| Adjusted EBIT margin: | | | | | | |
| Catalysts Technologies | 29.9 | % 31.1 | % (1.2) pts | 28.1 | % 28.2 | % (0.1) pts |
| Materials Technologies | 22.4 | % 21.1 | % 1.3 pts | 21.4 | % 20.9 | % 0.5 pts |
| Construction Products | 18.7 | % 15.6 | % 3.1 pts | 15.8 | % 13.3 | % 2.5 pts |
| Total Grace | 20.0 | % 19.8 | % 0.2 pts | 18.2 | % 17.5 | % 0.7 pts |
| Adjusted EBITDA margin: | | | | | | |
| Catalysts Technologies | 35.8 | % 36.4 | % (0.6) pts | 34.1 | % 33.7 | % 0.4 pts |
| Materials Technologies | 26.0 | % 24.5 | % 1.5 pts | 25.1 | % 24.4 | % 0.7 pts |
| Construction Products | 21.2 | % 18.3 | % 2.9 pts | 18.6 | % 16.2 | % 2.4 pts |
| Total Grace | 24.3 | % 23.9 | % 0.4 pts | 22.7 | % 21.8 | % 0.9 pts |

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| Analysis of Operations (In millions) | Four Quarters Ended | |
|--|---------------------|---------------|
| | June 30, 2015 | June 30, 2014 |
| Calculation of Adjusted EBIT Return On Invested Capital (trailing four quarters): | | |
| Adjusted EBIT | \$622.6 | \$558.1 |
| Invested Capital: | | |
| Trade accounts receivable | 480.9 | 539.9 |
| Inventories | 322.8 | 334.6 |
| Accounts payable | (273.0) | (311.5) |
| | 530.7 | 563.0 |
| Other current assets (excluding income taxes) | 80.7 | 79.9 |
| Properties and equipment, net | 825.4 | 835.2 |
| Goodwill | 444.8 | 467.7 |
| Technology and other intangible assets, net | 273.6 | 305.2 |
| Investment in unconsolidated affiliate | 108.7 | 102.7 |
| Other assets (excluding capitalized financing fees) | 25.2 | 41.4 |
| Other current liabilities (excluding income taxes, environmental remediation related to asbestos and divested businesses, Chapter 11, restructuring, repositioning and accrued interest) | (244.2) | (258.8) |
| Other liabilities (excluding environmental remediation related to asbestos and divested businesses) | (75.4) | (101.6) |
| Total invested capital | \$1,969.5 | \$2,034.7 |
| Adjusted EBIT Return On Invested Capital | 31.6 | % 27.4 |

Amounts may not add due to rounding.

(A) Grace's segment operating income includes only Grace's share of income of consolidated and unconsolidated joint ventures.

Certain pension costs include only ongoing costs recognized quarterly, which include service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits. Catalysts Technologies, Materials Technologies, and Construction Products segment operating income and corporate costs do not include any amounts for pension expense. Other pension related costs including annual mark-to-market adjustments and

(B) actuarial gains and losses are excluded from Adjusted EBIT. These amounts are not used by management to evaluate the performance of Grace's businesses and significantly affect the peer-to-peer and period-to-period comparability of our financial results. Mark-to-market adjustments and actuarial gains and losses relate primarily to changes in financial market values and actuarial assumptions and are not directly related to the operation of Grace's businesses.

NM—Not Meaningful

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Grace Overview

Following is an overview of our financial performance for the second quarter and six months compared with the corresponding prior-year periods.

Net Sales and Gross Margin

The following tables identify the year-over-year increase or decrease in sales attributable to changes in sales volume and/or mix, product price, and the impact of currency translation.

| | Three Months Ended June 30, 2015 as a Percentage Increase (Decrease) from Three Months Ended June 30, 2014 | | | | | | | |
|-----------------------------|--|----|-------|----|-------------------------|----|-------|----|
| Net Sales Variance Analysis | Volume | | Price | | Currency Translation | | Total | |
| Catalysts Technologies | (1.5 |)% | (0.1 |)% | (6.0 |)% | (7.6 |)% |
| Materials Technologies | (3.6 |)% | 0.8 | % | (10.7 |)% | (13.5 |)% |
| Construction Products | 5.6 | % | 1.8 | % | (7.4 |)% | — | % |
| Net sales | 0.3 | % | 0.8 | % | (7.8 |)% | (6.7 |)% |
| By Region: | | | | | | | | |
| North America | 4.5 | % | 1.1 | % | (0.3 |)% | 5.3 | % |
| Europe Middle East Africa | 1.2 | % | (0.2 |)% | (17.3 |)% | (16.3 |)% |
| Asia Pacific | 1.0 | % | (0.2 |)% | (3.1 |)% | (2.3 |)% |
| Latin America | (14.5 |)% | 4.8 | % | (8.8 |)% | (18.5 |)% |

Sales for the second quarter decreased 6.7% compared with the prior-year quarter. The sales decrease was due to unfavorable currency translation (-7.8%), partially offset by higher sales volumes (+0.3%) and improved pricing (+0.8%). As the dollar strengthened against the Euro and other currencies, unfavorable currency translation negatively affected all operating segments, primarily in Europe. Unfavorable currency translation also affected Construction Products and Materials Technologies in Latin America.

Segment Gross Margin increased 140 basis points to 40.0% for the second quarter from 38.6% for the prior-year quarter due to lower manufacturing costs in all three operating segments, including lower raw material costs which had a positive effect of approximately 90 basis points, and improved product mix and pricing in Materials Technologies and Construction Products.

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Six Months Ended June 30, 2015
as a Percentage Increase (Decrease) from
Six Months Ended June 30, 2014

| Net Sales Variance Analysis | Volume | Price | Currency Translation | Total |
|-----------------------------|--------|--------|-------------------------|-----------|
| Catalysts Technologies | 1.0 | % — | % (5.6) |)% (4.6) |
| Materials Technologies | (2.7) |)% 0.9 | % (9.5) |)% (11.3) |
| Construction Products | 4.6 | % 1.4 | % (6.2) |)% (0.2) |
| Net sales | 1.2 | % 0.7 | % (6.9) |)% (5.0) |
| By Region: | | | | |
| North America | 4.4 | % 0.8 | % (0.3) |)% 4.9 |
| Europe Middle East Africa | (0.4) |)% — | % (15.0) |)% (15.4) |
| Asia Pacific | 4.7 | % 0.1 | % (2.7) |)% 2.1 |
| Latin America | (9.6) |)% 3.9 | % (7.5) |)% (13.2) |

Sales for the six months decreased 5.0% overall compared with the prior-year quarter. The sales decrease was due to unfavorable currency translation (-6.9%), partially offset by higher sales volumes (+1.2%) and improved pricing (+0.7%). As the dollar strengthened against the Euro and other currencies, unfavorable currency translation negatively affected all operating segments, primarily in Europe. Unfavorable currency translation also affected Construction Products and Materials Technologies in Latin America.

Segment Gross Margin increased 100 basis points to 38.5% for the six months from 37.5% for the prior-year period due to lower manufacturing costs in all three operating segments, including lower raw material costs which had a positive effect of approximately 70 basis points, and improved product mix and pricing in Materials Technologies and Construction Products.

Adjusted EBIT

Adjusted EBIT was \$156.8 million for the second quarter, a decrease of 5.6% compared with the prior-year quarter, primarily due to unfavorable currency translation of approximately \$17 million. The prior year quarter includes a gain of \$4.7 million related to the termination of certain retiree benefit plans that lowered corporate costs. Adjusted EBIT increased 4.8% on a constant currency basis primarily due to increased Segment Gross Margin.

Adjusted EBIT was \$273.8 million for the six months, a decrease of 1.3% compared with the prior-year period, primarily due to unfavorable currency translation of approximately \$28 million. The prior year period includes a gain of \$4.7 million related to the termination of certain retiree benefit plans that lowered corporate costs. Adjusted EBIT increased 8.8% on a constant currency basis primarily due to increased Segment Gross Margin.

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Grace Net Income

Grace net income was \$57.4 million for the second quarter, a decrease of 57.9% compared with \$136.2 million for the prior-year quarter. The decrease was primarily due to a higher provision for income taxes in the second quarter compared with a benefit from income taxes in the prior-year quarter, a one-time gain on termination of certain retiree benefit plans in 2014, and lower segment operating income.

Grace net income was \$110.1 million for the six months, a decrease of 40.9% compared with \$186.3 million for the prior-year period. The decrease was primarily due to a higher provision for income taxes in the six months compared with a benefit from income taxes in the prior-year second quarter, a one-time gain on termination of certain retiree benefit plans in 2014, and lower segment operating income.

Adjusted EPS

The following table reconciles our Diluted EPS (GAAP) to our Adjusted EPS (non-GAAP):

| (In millions, except per share amounts) | Three Months Ended June 30, | | | | | | | |
|--|-----------------------------|------------|-----------|-----------|---------|------------|-----------|-----------|
| | 2015 | | | | 2014 | | | |
| | Pre-Tax | Tax Effect | After-Tax | Per Share | Pre-Tax | Tax Effect | After-Tax | Per Share |
| Diluted Earnings Per Share (GAAP) | | | | \$0.78 | | | | \$1.77 |
| Costs related to Chapter 11 and asbestos, net | \$2.7 | \$1.0 | \$1.7 | 0.02 | \$1.5 | \$0.4 | \$1.1 | 0.01 |
| Gain on termination of postretirement plans related to divested businesses | — | — | — | — | (3.2) | (1.1) | (2.1) | (0.03) |
| Restructuring expenses and asset impairments | 4.4 | 1.1 | 3.3 | 0.05 | 11.7 | 2.5 | 9.2 | 0.12 |
| Repositioning expenses | 13.4 | 0.5 | 12.9 | 0.18 | — | — | — | — |
| Gain on sale of product line | — | — | — | — | (0.2) | (0.1) | (0.1) | — |
| Income and expense items related to divested businesses | 0.4 | 0.2 | 0.2 | — | 3.6 | 0.7 | 2.9 | 0.04 |
| Discrete tax items: | | | | | | | | |
| Discrete tax items, including adjustments to uncertain tax positions | | (11.9) | 11.9 | 0.16 | | 53.2 | (53.2) | (0.69) |
| Adjusted EPS (non-GAAP) | | | | \$1.19 | | | | \$1.22 |

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| (In millions, except per share amounts) | Six Months Ended June 30, | | | | 2014 | | | |
|--|---------------------------|------------|-----------|-----------|---------|------------|-----------|-----------|
| | 2015 | | | | | | | |
| | Pre-Tax | Tax Effect | After-Tax | Per Share | Pre-Tax | Tax Effect | After-Tax | Per Share |
| Diluted Earnings Per Share (GAAP) | | | | \$1.50 | | | | \$2.40 |
| (Benefit) costs related to Chapter 11 and asbestos, net | \$(7.0) | \$(2.6) | \$(4.4) | (0.06) | \$17.0 | \$5.5 | \$11.5 | 0.15 |
| Gain on termination of postretirement plans related to divested businesses | — | — | — | — | (3.2) | (1.1) | (2.1) | (0.03) |
| Pension MTM adjustment and other related costs, net | 4.7 | 1.7 | 3.0 | 0.04 | (4.8) | (1.8) | (3.0) | (0.04) |
| Restructuring expenses and asset impairments | 13.9 | 4.7 | 9.2 | 0.13 | 12.4 | 2.7 | 9.7 | 0.13 |
| Repositioning expenses | 20.3 | 3.8 | 16.5 | 0.23 | — | — | — | — |
| Gain on sale of product line | — | — | — | — | (0.2) | (0.1) | (0.1) | — |
| Income and expense items related to divested businesses | (0.3) | (0.1) | (0.2) | — | 4.7 | 1.5 | 3.2 | 0.04 |
| Discrete tax items: | | | | | | | | |
| Discrete tax items, including adjustments to uncertain tax positions | | (12.2) | 12.2 | 0.17 | | 51.2 | (51.2) | (0.66) |
| Adjusted EPS (non-GAAP) | | | | \$2.01 | | | | \$1.99 |

Adjusted EBIT Return On Invested Capital

Adjusted EBIT Return On Invested Capital for the second quarter increased to 31.6% on a trailing four quarters basis from 27.4% on the same basis for the prior-year period. This increase was primarily due to higher Adjusted EBIT. We manage our operations with the objective of maximizing sales, earnings and cash flow over time. Doing so requires that we successfully balance our growth, profitability and working capital and other investments to support sustainable, long-term financial performance. We use Adjusted EBIT Return On Invested Capital as a performance measure in evaluating operating results, in making operating and investment decisions and in balancing the growth and profitability of our operations. Generally, we favor those businesses and investments that provide the highest return on invested capital.

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Operating Segment Overview—Grace Catalysts Technologies

Following is an overview of the financial performance of Catalysts Technologies for the second quarter and six months compared with the corresponding prior-year periods.

Net Sales—Grace Catalysts Technologies

Sales were \$289.3 million for the second quarter, a decrease of 7.6% from the prior-year quarter. The decrease was primarily due to unfavorable currency translation (-6.0%) and lower sales volumes (-1.5%) and pricing (-0.1%). The decrease in sales volumes includes a decrease in sales of refining catalysts and polypropylene process licenses, partially offset by an increase in sales of specialty catalysts. Sales of refining catalysts were negatively affected by the timing of customer orders in Latin America and the timing of customer transitions in preparation for new sales volumes as a result of securing strategic customer positions. We expect these customer transitions to continue through year-end 2015.

Sales were \$570.3 million for the six months, a decrease of 4.6% compared with the prior-year period. The decrease was due to unfavorable currency translation (-5.6%), partially offset by higher sales volumes (+1.0%). Prices were unchanged compared with the prior-year period. Sales volumes in specialty catalysts increased during the six months, partially offset by decreased sales volumes in refining catalysts in the second quarter.

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Segment Operating Income (SOI) and Margin—Grace Catalysts Technologies

Gross profit was \$125.4 million for the second quarter, a decrease of 8.2% from the prior-year quarter. Gross margin decreased to 43.3% from 43.6% for the prior-year quarter. Gross profit decreased primarily due to unfavorable currency translation, lower licensing sales and lower refining catalysts sales volumes, partially offset by lower manufacturing costs, including lower raw material costs which had a positive effect of approximately 70 basis points. The decrease in gross margin was primarily due to a decline in licensing sales, partially offset by lower manufacturing costs.

Operating income was \$86.6 million for the second quarter, a decrease of 11.2% from the prior-year quarter. The decrease was primarily due to lower gross profit and reduced earnings from the ART joint venture. The ART joint venture contributed \$2.3 million to operating income, a decrease of \$0.8 million from the prior-year quarter.

Operating margin for the second quarter decreased by 120 basis points to 29.9%.

Gross profit was \$234.3 million for the six months, a decrease of 5.3% from the prior-year period. Gross margin decreased to 41.1% from 41.4% for the prior-year period. Gross profit decreased primarily due to unfavorable currency translation, lower licensing sales in the second quarter and lower refining catalysts sales volumes in the second quarter, partially offset by lower manufacturing costs, including lower raw material costs which had a positive effect of approximately 60 basis points. The decrease in gross margin was primarily due to a decline in licensing sales, partially offset by lower manufacturing costs.

Operating income was \$160.3 million for the six months, a decrease of 5.0% compared with the prior-year period. The decrease was primarily due to lower gross profit partially offset by higher earnings from the ART joint venture. The ART joint venture contributed \$8.5 million to operating income, an increase of \$1.7 million from the prior-year period. Operating margin for the six months decreased by 10 basis points to 28.1%.

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Operating Segment Overview—Grace Materials Technologies

Following is an overview of the financial performance of Materials Technologies for the second quarter and six months compared with the corresponding prior-year periods.

Net Sales—Grace Materials Technologies

Sales were \$204.2 million for the second quarter, a decrease of 13.5% compared with the prior-year quarter. The decrease was due to unfavorable currency translation (-10.7%) and lower sales volumes (-3.6%), partially offset by improved pricing (+0.8%). Unfavorable currency translation, primarily in Europe and Latin America, affected both engineered materials and packaging products as the dollar strengthened against the Euro and other currencies.

Unfavorable currency translation in Latin America was partially offset by price increases in that region. Sales volumes decreased primarily due to weak demand in Europe and the emerging regions, partially offset by increased volume in North America and developed Asia Pacific.

Sales were \$404.5 million for the six months, a decrease of 11.3% compared with the prior-year period. The decrease was due to unfavorable currency translation (-9.5%) and lower sales volumes (-2.7%), partially offset by improved pricing (+0.9%). Unfavorable currency translation, primarily in Europe and the emerging regions, affected both engineered materials and packaging products as the dollar strengthened against the Euro and other currencies.

Unfavorable currency translation in Latin America was partially offset by price increases in that region. Sales volumes decreased in all regions except EMEA in both product groups.

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Segment Operating Income (SOI) and Margin—Grace Materials Technologies

Gross profit was \$75.9 million for the second quarter, a decrease of 8.1% from the prior-year quarter. Gross margin was 37.2% compared with 35.0% for the prior-year quarter. The gross profit decline was primarily due to unfavorable currency translation and lower sales volumes, partially offset by lower manufacturing costs, including lower raw material costs which had a positive effect of approximately 110 basis points. The gross margin increase was primarily due to lower manufacturing costs, better product mix and improved pricing.

Operating income was \$45.7 million for the second quarter, a decrease of 8.0% from the prior-year quarter, primarily due to lower gross profit. Operating margin for the second quarter was 22.4%, an increase of 130 basis points from the prior-year quarter.

Gross profit was \$146.5 million for the six months, a decrease of 8.0% from the prior-year period. Gross margin was 36.2% compared with 34.9% for the prior-year period. The gross profit decrease was primarily due to unfavorable currency translation and lower sales volumes, partially offset by lower manufacturing costs, including lower raw material costs which had a positive effect of approximately 110 basis points. The gross margin increase was primarily due to lower manufacturing costs and improved pricing.

Operating income was \$86.7 million for the six months, a decrease of 8.9% compared with the prior-year period, primarily due to lower gross profit. Operating margin for the six months was 21.4%, an increase of 50 basis points from the prior-year period.

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Operating Segment Overview—Grace Construction Products

Following is an overview of the financial performance of Construction Products for the second quarter and six months compared with the corresponding prior-year periods.

Net Sales—Grace Construction Products

Sales were \$288.6 million for the second quarter, unchanged compared with the prior-year quarter. The effect of unfavorable currency translation (-7.4%) was offset by higher sales volumes (+5.6%) and improved pricing (+1.8%).

Unfavorable currency translation affected sales of both product groups with the largest effects in Europe and Latin America as the dollar strengthened against the Euro and other currencies. Sales volumes increased in both product groups in North America and, to a lesser extent, other regions due to increased demand. Pricing improved primarily in SCC in Latin America where it offset unfavorable currency translation in that region and in SBM in North America and EMEA.

Sales were \$527.9 million for the six months, a decrease of 0.2% compared with the prior-year period. The decrease was due to unfavorable currency translation (-6.2%), partially offset by higher sales volumes (+4.6%) and improved pricing (+1.4%). Unfavorable currency translation affected sales of both product groups with the largest effects in Europe and Latin America as the dollar strengthened against the Euro and other currencies. Sales volumes increased in both product groups in North America and Asia Pacific due to increased demand. SCC sales volumes decreased in Europe due to weaker demand. Pricing improved primarily in SCC in Latin America where it partially offset unfavorable currency translation in that region and in SBM primarily in North America.

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Segment Operating Income (SOI) and Margin—Grace Construction Products

Gross profit was \$111.5 million for the second quarter, an increase of 5.3% from the prior-year quarter. Gross margin was 38.6% for the second quarter compared with 36.2% for the prior-year quarter. Gross profit and gross margin increased primarily due to increased sales volumes, improved product mix and improved pricing, partially offset by unfavorable currency translation.

Operating income was \$53.9 million for the second quarter, an increase of 19.8% compared with the prior-year quarter. The increase was primarily due to increased gross profit, partially offset by higher operating expenses. Operating margin for the second quarter was 18.7%, an improvement of 310 basis points compared with the prior-year quarter.

Gross profit was \$197.1 million for the six months, an increase of 3.4% compared with the prior-year period. Gross margin improved to 37.3% compared with 35.4% for the prior-year period. Gross profit and gross margin increased due to increased sales volumes, improved product mix and improved pricing

Operating income was \$83.3 million for the six months, an increase of 18.3% compared with the prior-year period. The increase was primarily due to increased gross profit, partially offset by higher operating expenses. Operating margin for the six months was 15.8%, an improvement of 250 basis points compared with the prior-year period.

Corporate Overview

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Corporate costs include corporate functional costs and other corporate costs such as professional fees and insurance premiums. Corporate costs for the second quarter increased \$0.3 million from the prior-year quarter. Corporate costs for the six months decreased \$1.6 million from the prior-year period, primarily due to lower long term incentive plan accruals in the first quarter of 2015.

Defined Benefit Pension Expense

Certain pension costs for the second quarter and six months were \$6.3 million and \$12.8 million compared with \$8.0 million and \$16.3 million for the corresponding prior-year periods. The decreases were primarily due to lower interest costs.

Repositioning Expenses

Repositioning expenses of \$13.4 million and \$20.3 million for the second quarter and six months primarily related to our planned separation into two independent companies as follows:

| (In millions) | Three Months Ended June 30, 2015 | Six Months Ended June 30, 2015 |
|------------------------|-------------------------------------|-----------------------------------|
| Professional fees | \$9.7 | \$16.1 |
| Employee-related costs | 3.7 | 4.2 |
| Total | \$13.4 | \$20.3 |

We are spending a significant amount of time and money to complete the separation transaction. We are excluding from Adjusted EBIT specific third party costs of advisors, attorneys and accountants that are assisting us with the separation. We have also excluded certain internal costs that we would not have spent in 2015 absent the separation. Internal costs primarily include compensation, benefits and specific costs related to the separation.

Interest and Financing Expenses

Interest and financing expenses were \$24.9 million and \$49.8 million for the second quarter and six months, increases of 2.9% and 15.5% compared with the corresponding prior-year periods, primarily due to new debt incurred during 2014, partially offset by reduced interest accretion on deferred payment obligations due to the settlement of the PI deferred payment obligation during the 2014 third quarter.

Income Taxes

The income tax provision at the U.S. federal corporate rate of 35% for the six months and the prior-year period would have been \$67.4 million and \$73.2 million, respectively. The primary differences between these amounts and the recorded provision for income taxes of \$82.3 million and \$22.1 million