

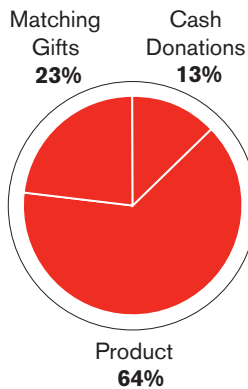
# Corporate Social Responsibility

Grainger succeeds by building on its strengths:

- Employing conservative financial practices and communicating openly about the company's operating model so that shareholders can invest appropriately
- Treating customers fairly and with respect
- Empowering loyal employees to deliver exceptional service by providing fulfilling work experiences
- Selecting philanthropic focus areas that complement the company's business, so that communities benefit from Grainger's expertise

In these ways, Grainger sets itself apart.

## 2006 Charitable Contributions



### A Targeted Approach to Giving

Grainger gave \$11 million to not-for-profit organizations in 2006 while channeling its charitable activities into two main focus areas: disaster relief and technical education.

#### Disaster Relief

The depth and breadth of Grainger's products and its highly efficient logistics network make Grainger a natural leader in addressing critical needs during times of disaster.

In 2006, Grainger became the National Founding Sponsor of the *Ready When the Time Comes* program, the American Red Cross corporate volunteer program that trains employees to participate in disaster response. Already, approximately 400 Grainger employees participate in programs in Chicago, Denver, Kansas City, Houston, St. Louis and South Florida: staffing shelters, serving meals and manning phone banks. Through its \$1 million contribution in 2006, Grainger provided funding for programs in 16 chapters throughout the United States over the next two years. A partner of the Red Cross since 2000, Grainger has received the Red Cross Circle of Humanitarians award for its

disaster relief efforts throughout the United States.

The company also has awarded grants to communities severely affected by natural disasters through the Grainger Rebuilding America® program. In 2006, the tornado-ravaged communities of Iowa City, Iowa, and Springfield/Jerome, Ill., each received awards of \$50,000. Local economic development organizations disperse the funds to small, independent businesses as seed money to help them.

#### Technical Education

Many Grainger customers, including contractors, plumbers, electricians, welders and construction workers, provide the skilled labor that keeps businesses running and economies growing. To help ensure the future of these careers, in 2006, the company launched the Grainger Tools for Tomorrow<sup>SM</sup> technical education scholarship program. It provides second-year students enrolled in technical programs at community colleges across the country with scholarships and a customized Westward<sup>®</sup> toolkit.



Grainger Chairman and CEO Richard L. Keyser (left) and Interim American Red Cross CEO Jack McGuire (right) greet volunteers from Chicago-area companies, including Grainger.

## Product Donations

In 2006, Grainger donated approximately \$7 million in product for disaster relief and educational efforts.

Grainger also contributed inventory to two organizations: The National Association for the Exchange of Industrial Resources, which distributes items to schools and other organizations, and Educational Assistance, Ltd., which offers Grainger inventory to colleges and universities in exchange for scholarships for students in need.

## Engaging Employees

One of Grainger's biggest strengths is the connection employees forge with customers and their communities. To celebrate those relationships, Grainger contributes to local charitable organizations in several ways. Through its various contribution programs, Grainger donates cash, product, volunteer time and expertise. For instance, in June 2006, 10 Grainger branches in the Gulf Coast collaborated to make a \$5,000 donation to the Baton Rouge Area Foundation. The funds were dispersed to small businesses to further their post-hurricane rebuilding efforts.

To support causes that are important to individual employees, Grainger gave more than \$2 million through its matching charitable gifts program in 2006. Grainger is among less than 2 percent of U.S. companies that match employee contributions three-for-one.

Beyond financial contributions, Grainger encourages employee volunteerism. In addition to the Red Cross, each year Grainger volunteers participate in The Tax Assistance Program, a Chicago-based organization that enlists the help of volunteer professionals to offer free, confidential tax and student aid form preparation and financial consulting services to low-income clients. And across the United States, employees volunteer for charitable walks, bike rides and other community events.

## Workplace Benefits

Grainger trusts its employees to get the job done right and provides the tools they need to excel personally and professionally while enhancing Grainger's status as the industry leader. Leaders at every level are responsible for providing a safe work environment and ensuring that employees are properly trained. Each year, every Grainger employee commits to a set of ethical and legal conduct guidelines as a condition of employment. Employees also receive ethics and diversity training to meet those standards. In addition, employees take part in a profit sharing retirement plan, through which Grainger rewards employees with a share of the company's profits. Grainger also provides industry-leading benefits that promote employees' health and preserve work-life balance.

## Corporate Governance

Corporate citizenship begins with accountability to those who have a stake in the company's direction. Grainger publishes its standards for corporate governance so that investors and other parties can see the transparency with which the company operates.

## Corporate Governance at a Glance

(As of 02/27/07)

### Board Accountability

Majority of Directors independent	Yes
Separate Chairman and CEO	No
Independent Director with leadership role	Yes
Independent Board Affairs and Nominating Committee	Yes
Board meetings held or scheduled	5
Annual Board elections	Yes
Corporate governance guidelines approved by the Board	Yes
Outside Directors hold meetings without management present	Yes
Board-approved succession plan in place	Yes
Directors are required to submit a resignation upon a substantive change in career or vocation	Yes
The performance of the Board is reviewed regularly	Yes
The performance of each Committee is reviewed regularly	Yes
Board members conduct periodic individual self-evaluations	No
Board orientation/education program	Yes
Board is elected by majority vote	Yes
All Directors attended at least 75 percent of Board and Committee meetings	Yes
Each Director serves on fewer than six boards of directors	Yes
A majority of Directors attended the annual shareholders meeting held on April 26, 2006	Yes

### Financial Disclosure and Internal Controls

Charters for Audit, Compensation and Board Affairs and Nominating Committees	Yes
Disclosure Committee function for financial reporting	Yes
Independent Audit Committee	Yes
Audit Committee has a financial expert	Yes
Auditors elected at most recent annual meeting	Yes
Company discloses financial performance targets	Yes

### Shareholder Rights

Shareholders have cumulative voting rights	Yes
Shareholders may call special meetings	Yes
Employees may vote their shares in company-sponsored plans	Yes
All stock-based incentive plans have been approved by shareholders	Yes
An independent vote tabulator tabulates shareholder votes	Yes
Company has a poison pill in place	Yes
Company posts on its Web site its charter and bylaws	Yes

### Executive Compensation

Independent compensation committee	Yes
Board compensation committee has independent compensation consultant	Yes
Executive compensation is tied to performance and numeric criteria are disclosed	Yes

### Corporate Behavior

Company has employee tasked with environmental responsibilities	Yes
Company has environmental, health and safety guidelines	Yes
Environmental and workplace safety policy is disclosed	Yes
Environmental performance is audited by an outside firm	No
Company publishes core vision and values statement	Yes
Company compares its governance policies to an external code of best practices	Yes
Company has program in place to monitor its policies on corruption and bribery	Yes
Company has code of ethics	Yes
Company has an ethics officer function	Yes
Training on ethical behavior is required for all employees	Yes