GRAINGER®

FOR THE ONES WHO GET IT DONE





350,000 products in stock

600 branches

1.8 million customers

The Many Facts of Grainger

2007 Fact Book

The Many Facts of Grainger

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The photos on the cover and throughout this fact book feature just a few of the 1.8 million customers Grainger serves. Thank you to the following organizations and businesses for allowing the Grainger Catalog Team to photograph their employees on location:
Capital Metro Transit
CPS Energy
St. Luke's Baptist Hospital

A customer turned to Grainger seeking simplicity. The customer needed to consolidate a large order for a project in Jamaica, and the usual supplier couldn't handle the transaction, proposing instead that the customer do the legwork. But calling multiple supplier locations to find the right products and then coordinating the delivery to a single staging location would be both costly and time consuming. Instead, the customer looked to Grainger.

Another customer was wasting a lot of money by doing business with too many suppliers. Each time a manufacturing plant employee ordered a product from one of the 2,200 different facilities maintenance suppliers, it cost the customer $120 just to process and manage the paperwork. By reducing the number of suppliers to 150 and buying primarily from those offering a national footprint and a broad selection of product, the customer will save money. Grainger is part of the solution.

These situations occur every day, and they are just some of the reasons why **1.8 million customers** rely on Grainger. As the leading broad-line supplier stocking more than **350,000 facilities maintenance products** – motors, tools, lighting, fasteners, safety gear, plumbing – Grainger keeps businesses and institutions up and running in the United States, Canada, Mexico and China. More than **110,000 times a day**, Grainger employees provide customers with a wide range of products when and where they need them.

How does that translate into performance? With an **average order size of $205**, Grainger achieved **record sales in 2006 of $5.9 billion**, a 6.5 percent increase versus 2005. **Earnings per share rose 12 percent** in 2006 to $4.24 compared with 2005. The company's **return on invested capital was 26.4 percent**. In addition to delivering attractive, profitable growth, Grainger also increased shareholder value by generating **$437 million in operating cash** to invest in the business, paying **$98 million in dividends** and **buying back 7 million shares of stock**. Grainger was able to accomplish all of this while maintaining a strong balance sheet. Financial strength gives the company enormous flexibility to invest in improving operations over the course of a business cycle.

Grainger sets high standards for its customer service and financial goals. And its ability to accomplish these goals hinges on the efforts of its **17,000 employees**, who uphold and enhance Grainger's 80-year tradition of operating with integrity.

Driving Growth and Shareholder Value

Grainger has three long-term financial goals that investors can use to measure the company's success in growing the business, improving profitability and driving shareholder value:

- Grow sales by 7 to 10 percent over a business cycle
- Attain operating margins of 10 to 12 percent
- Provide attractive returns on invested capital greater than 20 percent

Here's how the company did against those goals in 2006, alongside its anticipated performance for 2007:

	Long-term Goals	2006	2007 Guidance
Sales	7 to 10%	Up 6.5%	7 to 10%
Operating Margins	10.0 to 12.0%	9.8%	10.0 to 10.5%
ROIC*	>20%	26.4%	>20%

To grow sales, Grainger is:

- Implementing a market expansion program in the top U.S. metropolitan markets (see pages 6 and 7). This program delivered 1 to 2 percentage points to the company's overall sales growth in 2006 and is expected to contribute 3 to 4 percentage points in 2007.
- Expanding the product line offered by the U.S. Branch-based Business over several years (see page 7). In 2006, the company added some 43,000 new products, its largest addition ever. With the inclusion of 25,000 more items in 2007, the program is expected to add 1 to 2 percentage points to Grainger's sales growth for the year.
- Continuing to search for bolt-on acquisitions for Lab Safety Supply (LSS) to increase its customer reach (see page 8). In 2006, LSS acquired three businesses: Rand Materials Handling Equipment, Professional Inspection Equipment and Construction Book Express.
- Expanding geographically in Mexico, a multiyear project to capture share (see page 10). In 2006, the company opened two new branches and plans to open several more during 2007, including a master branch to handle shipping to the Yucatán Peninsula.
- Creating a distribution presence in Shanghai, China (see page 11), having opened a 120,000-square-foot master branch/distribution center and a will-call express location in 2006. In 2007, Grainger plans to add more express locations within Shanghai, while reaching out to customers in cities close enough to be served by the Shanghai distribution center.

To improve profitability, Grainger is:

- Planning to enhance operating performance in Canada so that the business meets the company's return requirements (see page 9). Acklands – Grainger expects to strengthen its supply chain, increase its overall product offering and improve gross profit margins.
- Planning to increase the percentage of product Grainger sells that is globally sourced (see page 13) by adding new products, increasing market penetration in Mexico and Canada and sourcing items from more countries. Globally sourced products are competitively priced and carry more attractive gross profit margins and currently represent 7 percent of sales.

In addition, Grainger's SAP system should continue to yield productivity gains. By maintaining operating expenses while growing sales and improving gross profit margins, operating margins should continue to rise. This, combined with proper management of net working assets, should allow Grainger to again reach its target for return on invested capital.

Grainger is positioned to deliver attractive growth and increased shareholder value, building on its reputation for integrity, unparalleled service, innovation and technology.

* For a definition of ROIC, see page 16.

Grainger Facts at a Glance

Branch-Based Business

United States

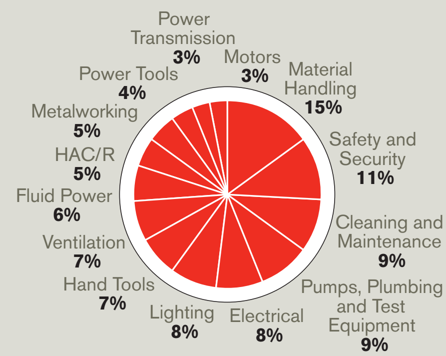
Grainger operates in the United States and Puerto Rico through a highly integrated network of 428 branches, 9 distribution centers and its Web site, grainger.com. In 2007, the company plans to drive additional market share growth through its Market Expansion program (see page 6).

Grainger sells primarily to industrial and commercial maintenance departments, contractors and government customers. Sales in 2006 were made to approximately 1.3 million customers, with growth occurring in all customer end-markets.

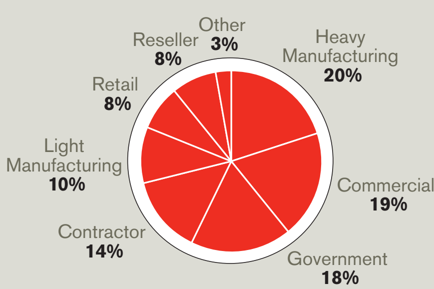
Grainger offers a broad line of facilities maintenance products, repair parts and specialized product sourcing. In 2006, the company expanded its product line (see page 7), adding some 43,000 products, the largest increase in Grainger's history. In 2007, the company added an additional 25,000 products, bringing the total catalog offering to 139,000.

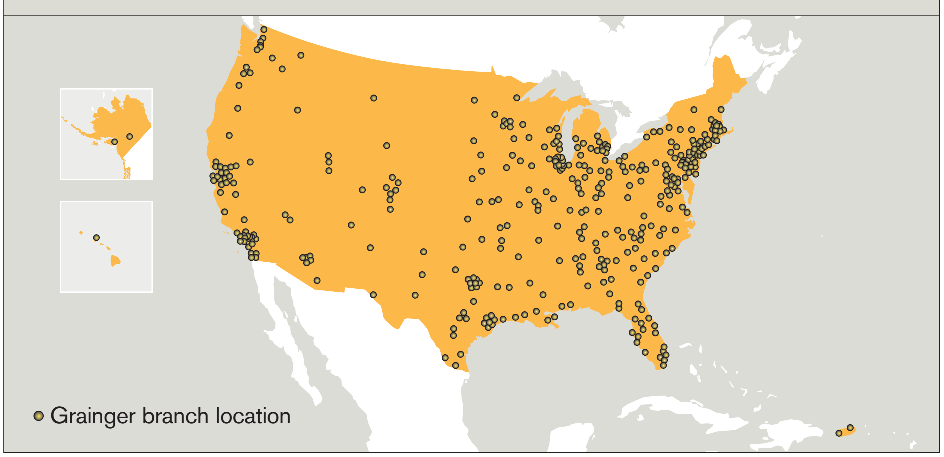
Competitors:
- Fastenal
- Ferguson
- Home Depot Supply
- McMaster-Carr
- MSC Industrial Direct
- Regional and local suppliers

2006 Sales by Product Line



2006 Sales by Customer Category





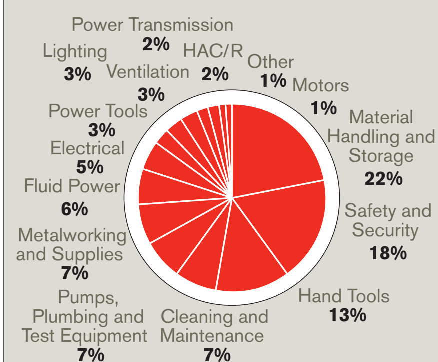
Branch-Based Business

Mexico

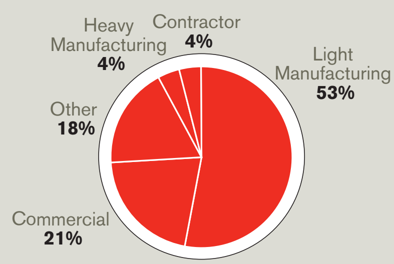
Grainger, S.A. de C.V. is Mexico's leading supplier of facilities maintenance products to businesses and institutions. Grainger's business in Mexico reaches 25,000 local customers through its outside sales and telesales forces, online at grainger.com.mx, and through its paper catalog. Customer orders are fulfilled through one distribution center and eight branches located throughout the country.

Competitors:
- Fastenal
- GE Supply
- Hagemeyer
- McMaster-Carr
- Regional and local suppliers

2006 Sales by Product Line



2006 Sales by Customer Category



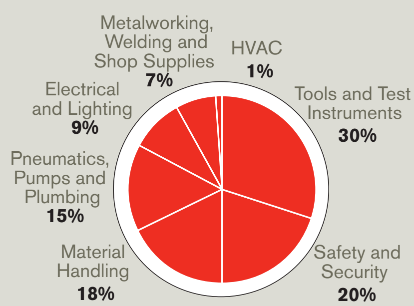
Branch-Based Business

China

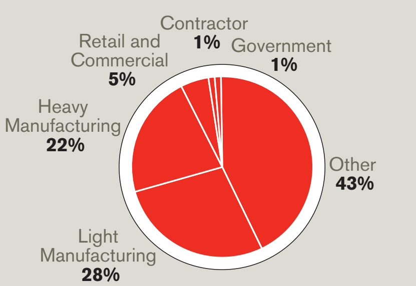
固安捷® (Gu An Jie) Grainger operates a 120,000-square-foot master branch/distribution center and a will-call express location in the Shanghai metro area. Chinese customers also have access to facilities maintenance products through a Chinese-language paper catalog containing 20,000 items or online at grainger.com.cn, Grainger's transaction-enabled Chinese Web site.

Competitors:
- Regional and local suppliers

2006 Sales by Product Line



2006 Sales by Customer Category



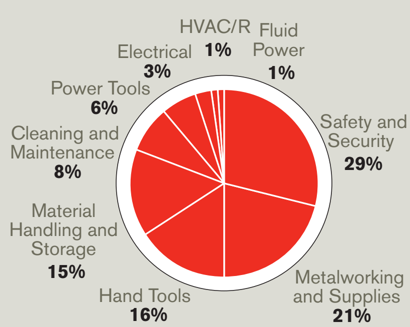
Branch-Based Business

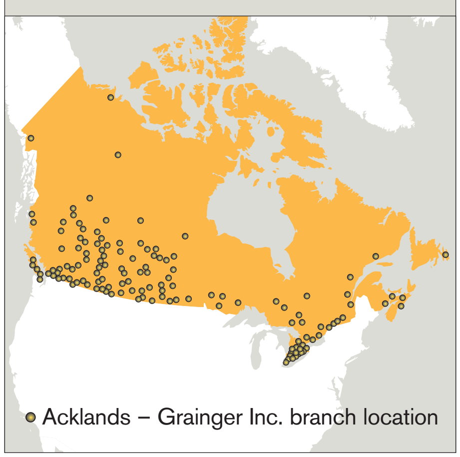
Canada

Acklands – Grainger Inc. is Canada's leading broad-line supplier of industrial, fleet and safety products. Founded 115 years ago, it serves more than 50,000 customers through 155 branches and five distribution centers across Canada. It also offers bilingual catalogs, both in paper form and on its Web site, acklandsgrainger.com.

Competitors:
- Century Vallen
- Gregg Distributors
- Weber Supply
- Fastenal
- Home Depot Supply

2006 Sales by Product Line





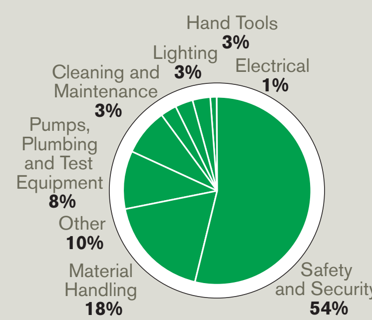
Direct Marketing Business

United States

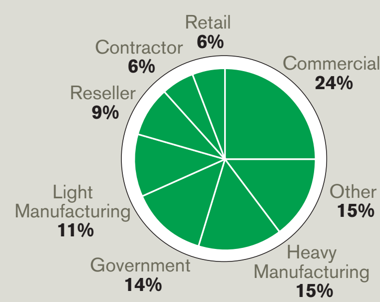
Lab Safety Supply, Inc. (LSS) reaches more than 500,000 North American customers through the distribution of a variety of branded catalogs and Web sites targeted to specific markets. It supplies companies of all sizes across diverse industries, including manufacturing, government and agriculture.

Competitors:
- Airgas Safety
- Forestry Suppliers
- Fisher Scientific
- K+K America

2006 Sales by Product Line

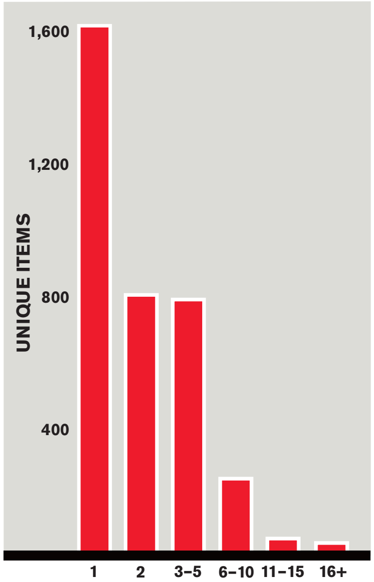


2006 Sales by Customer Category



Growth

Purchasing Pattern
Managing the unpredictable by relying on Grainger



Annual Item Purchase Frequency for a Large Media Company

Grainger provides businesses and institutions with the products they need to maintain their facilities. The company doesn't manufacture any of the products it carries, but it does make it easy for customers to find and buy those products. Grainger's success is built around the service it provides, characterized by these unique strengths:

- A broad product line to handle customers' diverse requirements
- An efficient supply chain that can get products from suppliers to customers quickly
- A local presence, so that customers have immediate access to the most frequently needed items
- An integrated information system that connects customers, products and information
- Employees who have product knowledge and a passion for customer service

Competitors may have some of these characteristics; however, no one offers all of them to the degree that Grainger does.

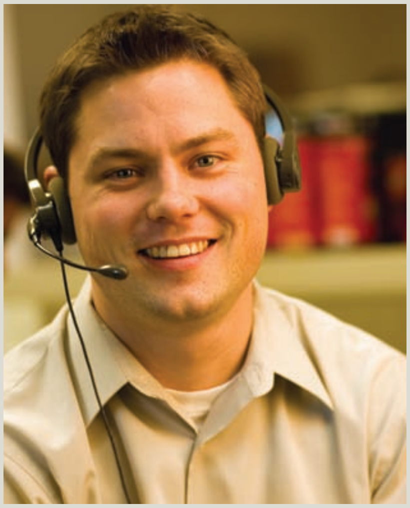
Taking the Cost Out of Procurement

Grainger customers are continually looking for ways to reduce the time and money it takes to purchase facilities maintenance products. One of the most expensive aspects of procurement is the task of sourcing the products themselves.

Take, for example, one of Grainger's customers: a large media company (see graph at left). To operate successfully, this customer needs to maintain its printing facilities. Last year, that meant buying more than 3,500 different facilities maintenance products. That's not a difficult task if you know what you need and where to buy it. The ubiquitous 4-foot fluorescent bulb – one of the most popular items Grainger sells – is easy enough to locate.

Investing in Employees

Customer Service Employees



Grainger's most frequent contact with customers comes through the nearly 600 branches and call centers scattered throughout North America. The 428 branches in the United States and Puerto Rico average 12 associates. Some of these employees serve customers who drop by the branch, helping them find and buy what they need, either from products displayed in the showroom or by retrieving products from the attached warehouse. Other employees take customers' telephone calls; their knowledge of Grainger's overall product offering is key to helping customers identify and buy the products they need. These products may be picked up at the branch or shipped from one of nine distribution centers.

Investing in Employees

A key part of serving customers involves the training and retention of employees. Grainger makes a significant investment in its employees, who in turn reward Grainger with loyal service.

	2005	2006
Number of hours of training per employee	27.2	32.0
Average years of tenure per employee	7	8

Stratified Sales Force

Grainger employs two different types of sales representatives: account managers who travel to customer locations and remotely manage relationships with large customers, and account relationship managers who connect with mid-sized customers using the telephone and other electronic means. Since 2002, Grainger has added 855 more sales representatives, an increase of 70 percent.

Sales Representatives – U.S. Branch-based Business

	2002	2003	2004	2005	2006
Account Managers	1,221	1,347	1,508	1,694	1,762
Account Relationship Managers	0	8	159	194	314

But what about a low-voltage pulse-width modulated DC adjustable speed control? Who do you call to find that? That's the sort of challenge almost every facilities maintenance customer faces at some point, because only 2 percent of the items are bought as frequently as once a month. Almost half are bought only once a year. And each year, most of the customer's purchases are for items the customer didn't buy the year before.

Here are some of the ways Grainger is helping customers reduce the time and expense of this challenge:

- Grainger employees are knowledgeable about the total range of products the company carries: 350,000 products spanning 17 categories. That expertise builds up over time; the average tenure of a Grainger customer service representative is greater than four years.
- Grainger can source items that it doesn't stock, such as product line extensions from Grainger's existing suppliers or products from other manufacturers.
- Grainger's print and online catalogs are organized to enhance the customer's experience, offering detailed, helpful technical information.
- Grainger's multiple Web sites offer search capabilities that allow customers to refine their searches using a variety of drill-down techniques.
- Grainger offers a pricing policy that discounts volume purchasing. This benefits customers wishing to consolidate their unplanned and infrequently purchased items along with items they buy regularly.

By consolidating purchases with Grainger, customers enjoy great service at competitive prices from one convenient source. And by making procurement easy, Grainger is driving growth.

Grainger employees are knowledgeable about the total range of products the company carries: 350,000 products spanning 17 categories.

Addressing Diverse Customer Needs

Customers' procurement tendencies vary depending on their size; therefore, they value different aspects of Grainger's service offering. By developing strategies to address these unique needs, Grainger is growing market share with customers both large and small.

Grainger's market share with large customers is 9 percent. These customers value the breadth of Grainger's product line and the many different ways of ordering what they need. They buy a wide range of products and appreciate the volume discount they receive for consolidating their purchasing with Grainger. A majority of the transactions from these customers are shipped from the company's nine distribution centers or four master branches in the United States.

With 3 percent market share among small and mid-sized customers, Grainger's opportunity for growth is even greater. For these customers, the branch network is invaluable. Most customers are able to drive to a branch within 20 minutes. The ability to access products locally enables them to reduce their own inventory, thereby saving space and carrying costs.

However, these customers are harder to reach. The addition of account relationship managers has helped Grainger gain share with the mid-sized customer by increasing awareness of the solutions Grainger offers. For the small customer, direct marketing raises awareness. In 2007, the company increased the number of catalogs it produces by almost 40 percent versus 2006 and plans to get these catalogs into the hands of more small customers.

Growth

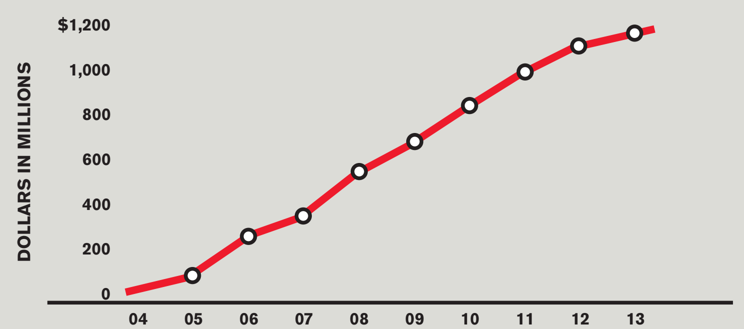
Market Expansion

Grainger's multiyear Market Expansion program is helping the company gain share in the facilities maintenance market. At the heart of the program are marked improvements in customer coverage and positioning of products and services within the top metropolitan markets in the United States. These markets represent approximately 50 percent of the country's overall facilities maintenance product opportunity.

Grainger already has a presence in these markets. But by examining branch size and location, inventory, sales coverage and marketing, the company is expanding its market share. Now halfway through the program, Grainger forecasts that incremental sales growth – that is, growth occurring faster than the market's economic growth – will be approximately 5 percent or better for each of the five years following completion of expansion activities.

Approximately half of Grainger's transactions take place at a branch; the rest are shipped from one of nine distribution centers. Because branches are the primary source of products needed immediately by customers, Grainger's market expansion program is a critical factor in helping to grow sales, particularly among smaller and mid-sized customers who are frequent users of the branches. Since the program's inception in 2004, the company has added more than

Market Expansion – Sales



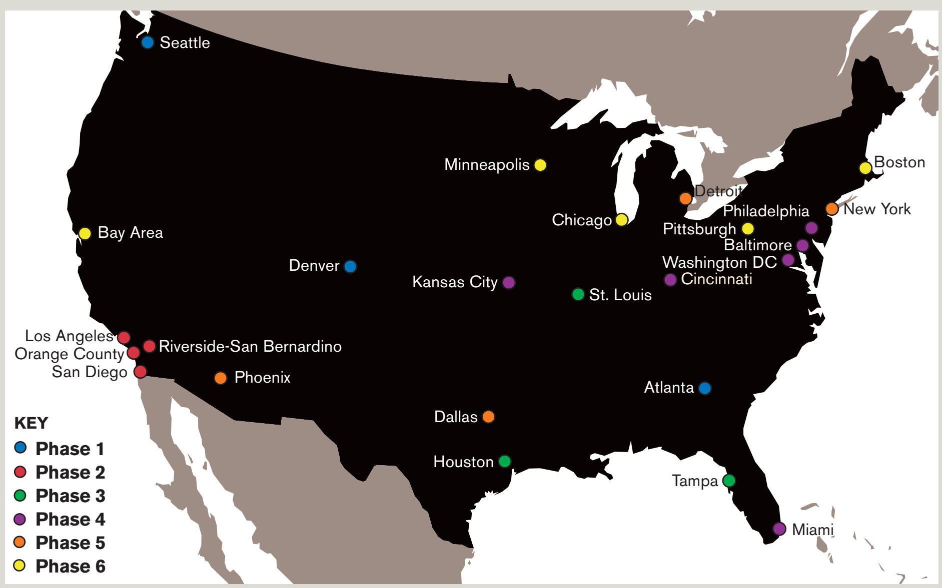
	2004A	2005A	2006A	2007E	2008E	2013E
Incremental program sales*	$41	$150	$235	$415–440	$550+	$1,100+

* *Program sales beyond normal economic growth in these markets, cumulative.*

Market Expansion

Market Expansion by the Numbers

CITY	POPULATION IN 2000 (IN MILLIONS)	BRANCH COUNT BEFORE	BRANCH COUNT AFTER	PERCENT COMPLETE 12/31/06
Atlanta	4.1	7	6	100
Denver	2.6	7	7	100
Seattle	3.6	6	8	100
So. California (4 markets)	19.2	18	24	97
Houston	4.2	7	11	82
St. Louis	2.6	3	5	100
Tampa	2.4	3	5	100
Cincinnati	2.0	4	7	100
Kansas City	1.8	2	3	100
Miami (2 markets)	3.9	7	7	100
Philadelphia	6.2	10	12	83
DC/Baltimore (2 markets)	7.6	10	10	73
Dallas/Ft. Worth	5.2	8	11	45
Detroit	5.5	7	8	50
Phoenix	3.3	4	4	40
New York (4 markets)	21.2	24	27	10
Chicago	9.2	18	19	0
Bay Area	7.0	13	13	0
Minneapolis	3.0	5	6	0
Pittsburgh	2.4	3	3	0
Boston	1.8	9	9	0



Market Expansion – Sales Results
Percentage growth in daily sales

	2004 3Q	2004 4Q	2005 1Q	2005 2Q	2005 3Q	2005 4Q	2006 1Q	2006 2Q	2006 3Q	2006 4Q
Phase 1	14	12	11	4	9	15	11	14	8	6
Phase 2		15	14	13	17	13	13	14	12	11
Phase 3			19	23	18	16	13	15	15	8
Phase 4								9	10	4
Phases 5 & 6										

Note: Sales results are reported once the phase is 50 percent or more complete. Branch count may change based on further analysis.

1 million additional square feet of capacity in its branches. Other changes include:

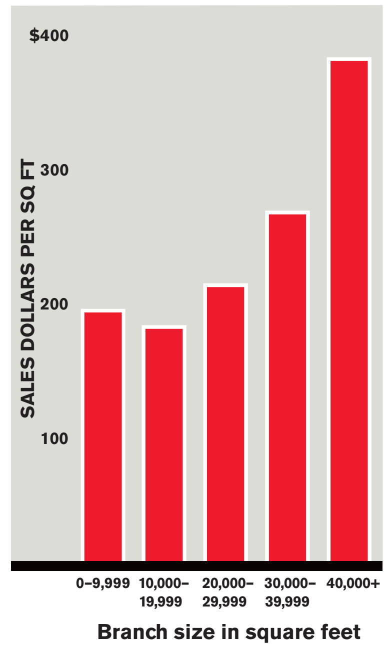
- 26 additional full-size branches
- 17 new Grainger Express® locations
- 26 branch relocations
- 49 branch expansions

More than simply adding locations, Market Expansion is about increasing the footprint of the branch. That's because Grainger traditionally enjoys higher sales per square foot in larger branches.

The company also closed 8 branches. If the company owned the branch, it was sold. To date, the company has realized net gains of $15 million through the sale of real estate.

Branch Sales per Square Foot

Bigger branches, higher sales



Product Line Expansion

The breadth and availability of its product line is a key factor that differentiates Grainger from most of its competition. Grainger carries more than 350,000 products in 17 different product categories to provide customers with products the same day (if stocked in a local branch) or the next day (if stocked in one of nine distribution centers).

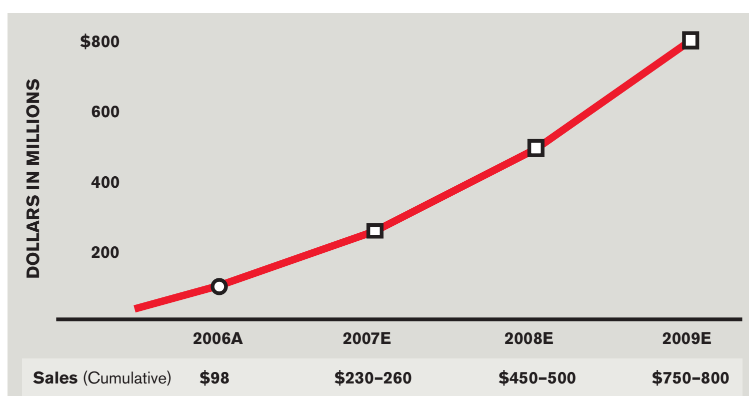
Having a supplier that can provide more types of items precisely when they're needed allows customers to reduce the number of suppliers they deal with, saving them time and money. That trend is helping drive consolidation in the industry.

Grainger is finding that selectively adding products is a way of accelerating sales growth. In 2006, the company added more than 43,000 new products – predominantly fasteners, but also electrical, cleaning and ventilation products. The newly added products contributed 1 to 2 percentage points to the company's overall growth rate. The company expects that the introduction of an additional 25,000 products will add 1 to 2 percentage points to the company's sales growth in 2007. These new products include:

- 8,500 material handling supplies, including conveyors, hoists and casters
- 6,500 plumbing products, such as high-grade pipes, valves and fittings
- 2,000 fasteners, such as nuts, bolts and screws
- 1,000 security products, such as locks and hinges

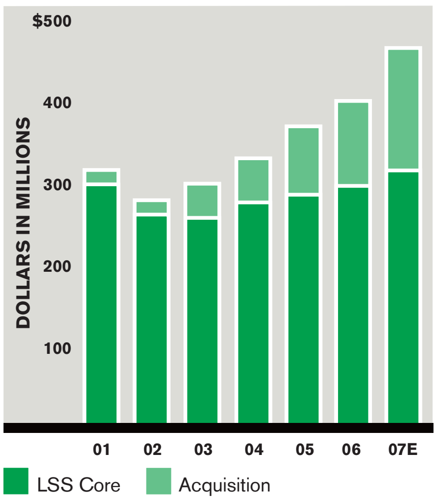
Product line expansion is another way Grainger plans to grow. Over time, Grainger expects to become the broadest facilities maintenance supplier with the best local availability of the most requested products. Grainger branches can stock an average of 25,000 different facilities maintenance products across a variety of categories, all available for pick-up within half an hour. With the remaining items ready to ship from Grainger's network of distribution centers and master branches, the company can reach 99 percent of U.S. businesses and institutions next day.

Product Line Expansion – Sales



Growth Lab Safety Supply

Lab Safety Supply
Annual sales



Lab Safety Supply, Inc. (LSS) is a leading business-to-business direct marketer of safety and industrial supplies in North America. Today, more than half of the 170,000 products LSS sells are non-safety-related, reflecting the company's strategy to diversify its customer base and product offering.

LSS offers extensive product depth, technical support and high service levels to customers representing diverse industries. Its customers prefer to order directly from a catalog or Web site. During 2006, LSS issued 13 unique catalogs covering safety supplies, material handling, lab supplies, towing/service trucks, home inspectors, and other lines targeted to specific customer groups. Customer orders are fulfilled and shipped same-day from LSS's centralized distribution center located in Janesville, Wis.

LSS is growing its business through strategic acquisitions, which diversify its customer and product base. In 2006, LSS achieved record sales of more than $400 million, an increase of 8 percent. Refining its targeted catalog media strategy and leveraging IT and other investments across the business should improve profitability in 2007.

2007 Segment Guidance

- > SALES GROWTH OF 9 TO 11 PERCENT
- > OPERATING MARGINS OF 13.5 TO 14.0 PERCENT

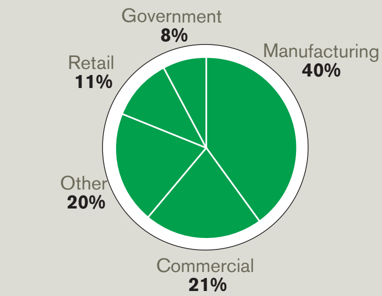
Acquisitions

Importance of Acquisitions

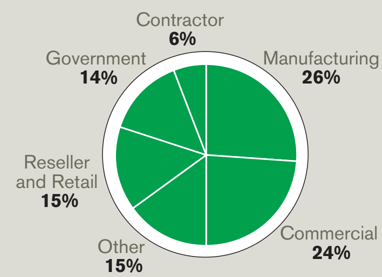
Acquisitions represent the most effective and efficient way for LSS to increase revenues and capture market share. Since 2001, LSS has acquired six direct marketing companies. Because these companies have limited customer overlap, LSS can cross-market its existing products to the new customers. The acquisitions are typically accretive in the first year and have diversified LSS' customer base and reduced its dependence on manufacturing customers.

FISCAL YEAR	ACQUISITION	MARKET OPPORTUNITY
February 2001	Ben Meadows	Natural resources and forestry management
April 2003	Gempler's	Agriculture, horticulture, grounds maintenance and contractor markets
January 2005	AW Direct	Service vehicle accessories (including auto service, utilities, government and construction)
January 2006	Rand Materials Handling Equipment	Material handling
November 2006	Professional Inspection Equipment and Construction Book Express	Building inspection, engineering and construction

2000 Sales by Customer Category



2006 Sales by Customer Category

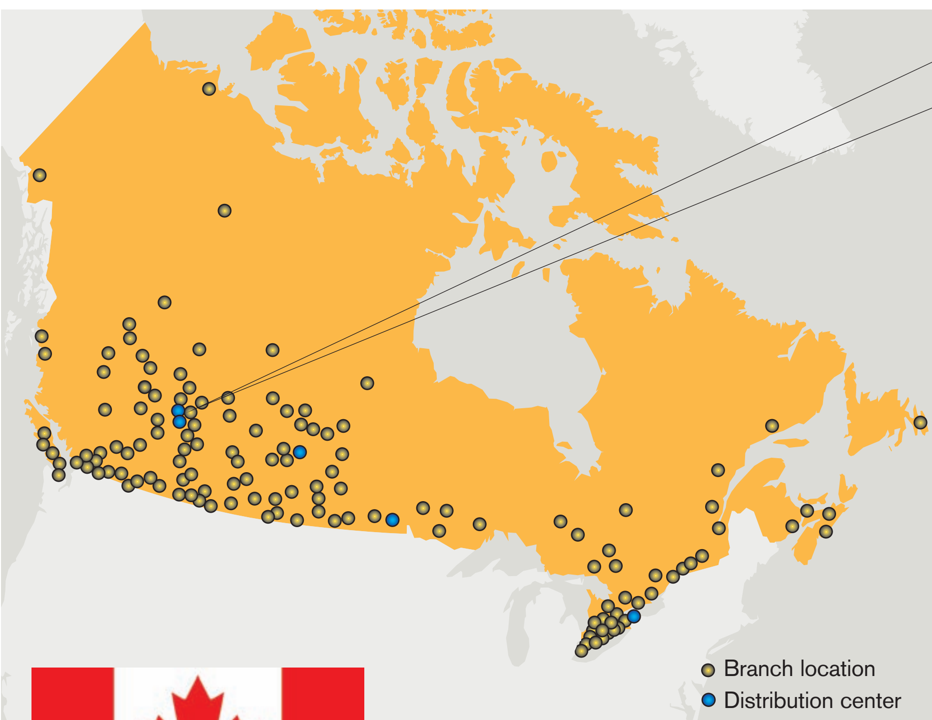


Growth Canada

Grainger's business in Canada, Acklands – Grainger Inc., is the leading broad-line distributor of industrial, fleet and safety products serving the $12 billion Canadian MRO market. Its 50,000 customers have access to more than 100,000 products. This business markets to customers through its catalog, offered in English and French, and online at acklandsgrainger.com. The company operates 155 branches and five distribution centers throughout the country.

Acklands – Grainger achieved record sales of $565 million in 2006. Accelerating sales growth and improving profitability in Canada are high priorities for Grainger. Under the direction of new Canadian leadership, the company intends to leverage many of the successful learnings from the core business in the United States to drive improvements in operating earnings, including:

- Improving distribution center and branch productivity and accuracy through process improvement
- Increasing product availability to improve service levels and reduce backorders
- Expanding gross margins through better pricing discipline, more private label brands and improved purchasing coordination with the core business
- Reducing operating expenses



Spotlight on Edmonton, Alberta: Acklands – Grainger is taking a page out of the Market Expansion Program playbook as it has begun to enhance the look and feel of its branches. Branches are receiving new signage and a showroom layout that stresses the product breadth and depth that Acklands – Grainger offers. The strategy is designed to help drive better awareness among customers and accelerate sales growth.

2007 Segment Guidance

> SALES GROWTH OF 8 TO 10 PERCENT

> OPERATING MARGINS OF 4.5 TO 5.5 PERCENT

Growth Mexico

Grainger's business in Mexico – Grainger, S.A. de C.V. – is the leading distributor of facilities maintenance products in the country. The market for these types of products is estimated to be approximately $10 billion and continues to grow. In 2006, the overall Mexican economy grew faster than that of the United States. Mexico's gross domestic product increased 4.8 percent versus 3.4 percent for United States.

Grainger is seizing this opportunity for growth. With sales up 20 percent in 2006, Grainger has launched a multiyear expansion program to reach more customers and capture additional market share. Today, customers have access to more than 35,000 products through a Spanish-language general catalog, which is customized to the local marketplace; online at grainger.com.mx; or over the counter at eight branches. During the next three to five years, this business expects to:

- Add approximately 15,000 additional products to its offering
- Open 10 to 15 additional branches
- Expand its logistics network with three new master branches

Once these enhancements are complete, this business should be able to reach 90 percent of its customers in Mexico with next day shipping.

Spotlight on Chihuahua:
The new 20,000-square-foot branch in Chihuahua that opened in October 2006 offers a look into the future for Grainger, S.A. de C.V. This is Grainger's first presence in Chihuahua, a community of 500,000 residents located 200 miles south of El Paso, Texas. Chihuahua is known for its bustling industrial economy.

The Chihuahua branch opened in a record 12 weeks. In addition, it is acquiring new customers at a pace triple the rate averaged by other newly added Mexican branches.

Growth China

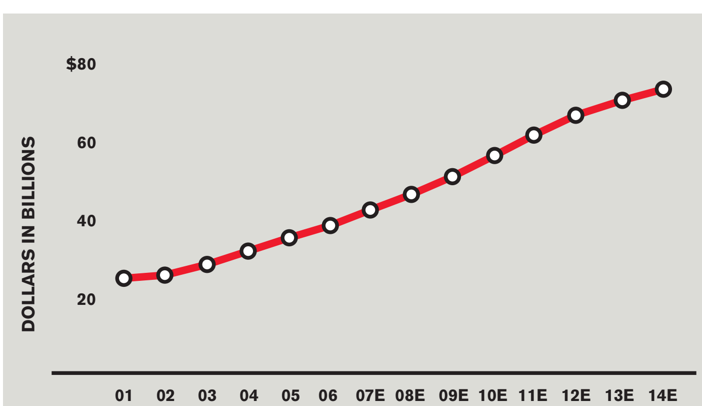
In 2006, Grainger established a distribution presence in China. This represents the company's first marketing operation outside of North America. Why China? China's economy has become the fourth largest in the world, and it has grown at an average annual rate of 9 percent over the past 10 years. At current and projected growth rates, by the year 2040, China is forecasted to have the largest economy in the world.

The expected growth of the facilities maintenance supply market is equally as robust. This highly fragmented market is anticipated to expand from an estimated $38 billion in 2006 to $70 billion in 2014. Approximately half of the market is made up of industrial customers.

Grainger launched its operations in China with a 120,000-square-foot distribution center with showroom and a will-call express location in the Shanghai metro area. Operations in Shanghai opened for business in the 2006 third quarter, complemented by a Chinese-language catalog with nearly 20,000 products and a transaction-enabled Web site, grainger.com.cn. Approximately 90 percent of the products offered by this business are sourced within China.

Grainger is branded in China as Gu An Jie, which in Mandarin stands for Stable, Safe and Fast. Plans call for several new will-call express locations within the greater metropolitan Shanghai area in 2007.

MRO Market – China



Spotlight on Shanghai:
Similar to the rest of China, the facilities maintenance market in Shanghai is highly fragmented. The many local and regional distributors tend to concentrate primarily on serving large customers. By contrast, Grainger is initially targeting smaller Chinese businesses and international corporations with facilities in and around Shanghai.

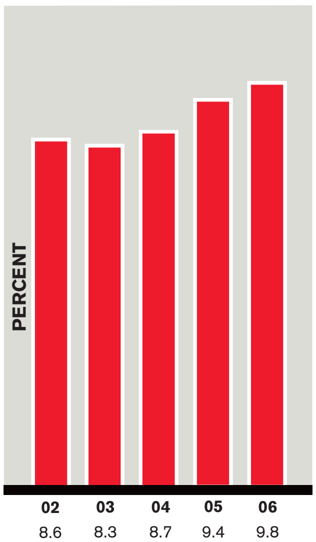
To establish and grow these relationships, Grainger is changing the way Chinese customers procure their MRO products. Traditionally, these customers have traveled to a crowded area in downtown Shanghai called the hardware district to buy maintenance supplies from a variety of suppliers with small storefront locations. With Grainger, orders can be placed over the phone, online, or in person at the distribution center or will-call express branch. Product is shipped to the customer or picked up at either Grainger location. The result is unmatched breadth and availability, coupled with convenience and dependability.

Recognizing the nuances of this new market and establishing a business in China will take time. Grainger intends to refine its business model in Shanghai before extending its presence to additional markets in China.

Profitability

Long-Term Financial Goal
Operating Margins of 10 to 12%

Operating Margin



Gross Profit Margin

In 2007, Grainger is targeting an operating margin of 10 to 10.5 percent. This compares to an operating margin of 9.8 percent in 2006. The company looks to improve its profitability by:

- Accelerating sales growth (see Growth on pages 4–11)
- Expanding gross profit margins
- Improving its cost structure

Gross Profit Margin Expansion

Grainger has a powerful combination of programs that are driving gross profit margin improvement. Between 2002 and 2006, Grainger's gross profit margins increased from 35.7 percent to 40.0 percent. At the core of this initiative are efforts to successfully manage product cost. Grainger is leveraging its industry-leading size and scale through the following initiatives:

Product Line Reviews: Grainger conducts thorough reviews of approximately one-third of its product lines every year, comparing existing suppliers against prospective ones. For these reviews, Grainger has developed a sophisticated supplier evaluation scorecard to measure, evaluate and manage supplier performance. The scorecard is a Web-based tool that can be accessed by suppliers online, 24 hours a day, seven days a week.

Private Label: Grainger first established its private label program more than 50 years ago, to enable the company to compete in a bygone era of exclusive manufacturer/distributor agreements. Since that time, private labels such as Dayton,® Speedaire® and Air Handler® have grown into established and accepted brands in the facilities maintenance industry. Customers have as much confidence and comfort with a Grainger private label product as they do with many national brands. Best of all, gross profit margins on private label products are better than the company average.

For 2006, sales of private label products represented 22 percent of total sales for the core business in the United States. By increasing the mix of private label sales – especially globally sourced sales – Grainger expects to further expand its margins and enhance profitability.

Global Sourcing: Established in 1997, Grainger's global sourcing operation procures a broad spectrum of high-quality, low-cost products from around the world. Global sourcing represents a very attractive path to improved profitability and is a capability that most of Grainger's competitors do not possess. These pr oducts are imported to North America and sold under private label by the company's other business units. Brands include Condor™ safety equipment, LumaPro® lighting products and Westward® hand and power tools.

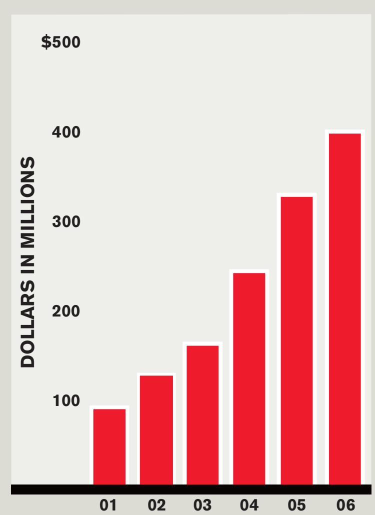
With procurement offices in Hong Kong and Shanghai, Grainger's Asian global sourcing operation is experiencing explosive growth. Product is sourced from 26 countries around the globe. These products carry gross margins that are approximately 50 percent higher than the company average. While globally sourced products represented approximately 7 percent of sales in 2006, Grainger plans to double these sales over the next three to five years, as Canada and Mexico, as well as the United States, increase the proportion of globally sourced product sales. To help drive this growth, the company plans to open a new procurement office in India in 2007.

Grainger's global sourcing operation procures a broad spectrum of high-quality, low-cost products from around the world.

Global Sourcing

KEY
Origin of Globally Sourced Products

Globally Sourced Products
Sales

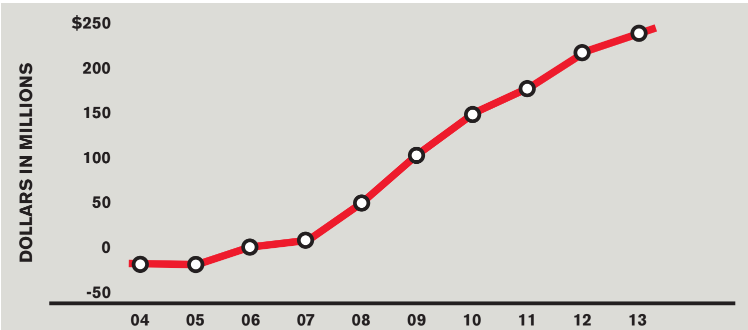


Profitability

Cost Structure Improvements

The maturation of several important growth programs is also contributing to a more efficient cost structure and improved profitability at Grainger.

Market Expansion – Earnings

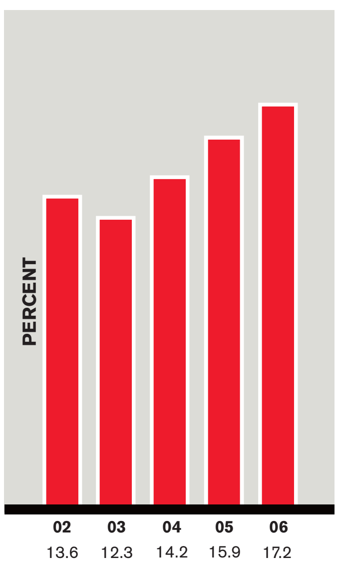


	2004A	2005A	2006A	2007E	2008E	2013E
Program operating earnings (loss)	$(20)	$(16)	$(8.6)	$10–20	$50–60	$200+

Market Expansion: The Market Expansion Program, as described on pages 6 and 7, is contributing incremental sales growth to the company. The year 2007 represents an important turning point in the profitability of this program. Due to the aggressive investments made since 2004, Market Expansion has generated an operating loss for the past three years. The company is forecasting that this program will contribute $10 million to $20 million in operating earnings in 2007, representing an $18.6 million to $28.6 million incremental benefit from the operating loss of $8.6 million reported in 2006.

Product Line Expansion: The Product Line Expansion Program, as described on page 7, contributed $98 million to sales and delivered incremental operating earnings in 2006. Based on sales growth projections for 2007, the company is forecasting an even larger operating earnings contribution in 2007.

Return on Average Total Capitalization



Electronic Ordering: Orders received through the Internet and other electronic channels deliver both incremental sales and earnings growth. By virtually every measure, Grainger customers who buy through the Web buy more and purchase more frequently. In addition, electronic channels are more profitable than traditional ones because customers perform the data entry work. What's more, nearly 90 percent of online orders are shipped -- the company's most cost-effective delivery method.

Customers' behavior regarding this channel reflects the benefit of grainger.com's round-the-clock self-service with real-time product availability, customer-specific pricing, multiple product search capability, customer personalization and links to customer support and fulfillment.

Sales through Grainger's electronic channels grew by 16 percent in 2006 and represented approximately 16 percent of total sales.

Efficient Logistics Network

In 2004, Grainger completed a comprehensive overhaul of its U.S. logistics network, providing the company with a sustainable competitive advantage. The project involved:

- Adding five new distribution centers (DCs) and retrofitting four others
- Introducing automation into each DC
- Adding one million square feet of warehousing space
- Centralizing customer shipping at the DCs
- Providing daily replenishment to the branches

This new logistics platform is enabling Grainger to enhance profitability by spurring continuous improvement in several key areas.

Product Availability: Grainger's ability to serve customers is linked directly to the availability of product. The company measures its success rate in fulfilling orders with success defined as having 100 percent of the products a customer requests in the correct quantities and available when and where the customer needs them.

Grainger's logistics platform has enabled the company to measurably improve product availability. With items available for customer pickup at 428 branches, backed by same-day shipping from its network of distribution centers, Grainger is able to meet this service threshold approximately 95 percent of the time in the United States and Puerto Rico.

Inventory Turns: In 2006, Grainger added approximately $40 million in inventory as part of product line expansion, yet inventory turns essentially remained the same as in 2005 because of better working capital efficiency. The inventory in place prior to the expansion turned faster than in 2005 to accommodate the expanded product line and hold inventory turns to 4.4.

Here are some examples of how Grainger effectively manages its inventory within the logistics network:

- **Inventory Management:** Over the past several years, Grainger has increased its inventory management capabilities. Opportunities for continuous improvement in this area include:
  - – Reducing supplier lead time and variability
  - – Improving its inventory forecast accuracy
  - – Reducing safety stock by aggregating demand
  - – Increasing service levels on products most often ordered by customers
- **Reverse Logistics:** In addition to providing customer shipping for Grainger's U.S. business, the DCs also conduct daily branch replenishment. The trucks that transport new products to the branches also return inventory from the branches to the DC. This inventory is held at the DC or redeployed to an area with higher demand for those products.
- **Improved Productivity:** As a result of additional capacity and automation at the DCs, most customer shipping is now concentrated at these facilities. Prior to this conversion, all customer shipping orders were filled in the branches. Shipping orders represent nearly 70 percent of Grainger's sales dollars, so the ability to ship orders from the DCs is driving improved productivity for the company and better profitability for its shareholders.

Profitability Improvements in Canada

The new leadership team at Acklands – Grainger Inc. is taking aggressive steps to improve profitability. This business intends to leverage many of the best practices developed in the United States to improve efficiency and expand operating margins. The company is looking to this business to move its operating margin from 2.7 percent in 2006 to a range of 4.5 to 5.5 percent in 2007.

Supplier Relationships

Grainger has strong relationships with its 1,400 North American suppliers and the 200 international suppliers that fuel its global sourcing operation. Grainger collaborates with each supplier to improve product availability and lower overall costs. In 2007, Grainger recognized those suppliers whose efforts to meet these goals have benefited customers:

Partners In Performance Award Winners

Champion, Garner Denver Co.
Custom Leathercraft
Dalloz Fall Protection/Miller
Dalloz Safety
Enerpac
E.R. Wagner Manufacturing Co.
Federal Signal Corp.
Howard Leight
IMI Norgren Actuator
Ingersoll Rand/Security Technology
Justrite Manufacturing Company, LLC
Klein Tools, Inc.
The M.K. Morse Co.
Motorola Incorporated
North Safety Equipment
Spectrum Brands/RAYOVAC Corporation
Tripp Lite
Uvex Safety Inc.
Weiler Corp.
Wells Lamont Industrial

Supplier of the Year
Custom Leathercraft

Best Small Supplier
Royal Basket Trucks

Best New Supplier
W.C. Wood Co. Inc.

Best Large Supplier
Milwaukee Electric

Most Innovative Supplier
Greenheck

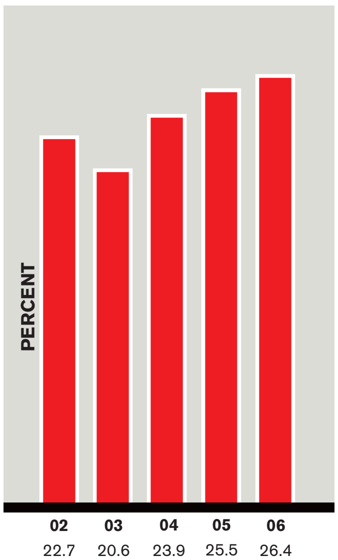
Most Improved Supplier
Fluke Corporation

Cash Flow

Long-term Financial Goal

Maintaining return on invested capital greater than 20%

Return on Invested Capital



Maintaining a pretax return on invested capital* of greater than 20 percent is one of Grainger's long-term financial goals. It demonstrates the company's commitment to grow the areas of the business earning more than the cost of capital and to improve performance in areas earning less.

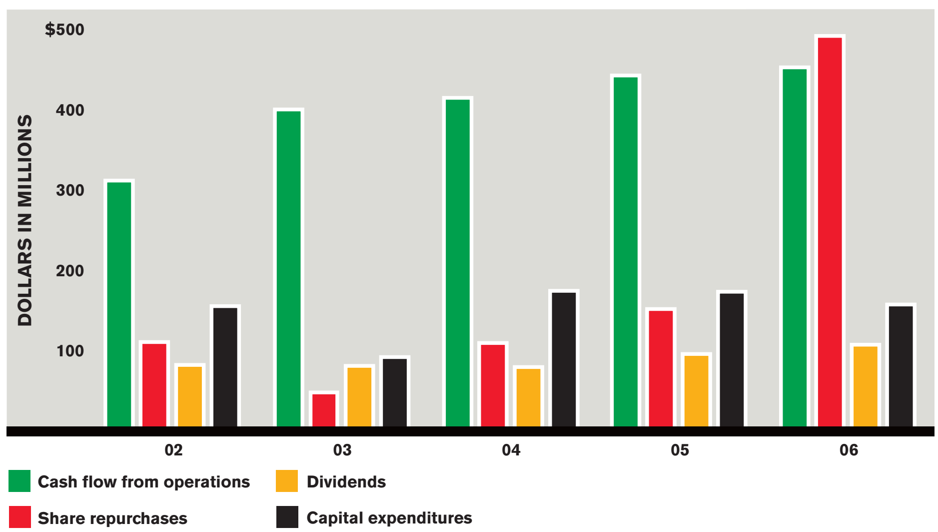
*The GAAP financial statements are the source for all amounts used in the Return on Invested Capital (ROIC) calculation. ROIC is calculated using annualized operating earnings based on year-to-date operating earnings divided by a 13-point average for net working assets. Net working assets are working assets minus working liabilities, defined as follows: working assets equal total assets less cash equivalents (nonoperating cash), deferred taxes, and investments in unconsolidated entities, plus the LIFO reserve. Working liabilities are the sum of trade payables, accrued compensation and benefits, accrued contributions to employees' profit sharing plans, and accrued expenses.

Throughout its 80-year history, Grainger has maintained a strong financial position characterized by impressive cash generation and limited debt. Grainger continued this consistent pattern in 2006, with $437 million in cash flow from operations.

Grainger has a solid record of creating value by investing for growth and by returning capital to shareholders through share repurchases and dividends. In 2006, Grainger used its cash flow, plus a portion of its cash reserve, to invest $137 million in key growth programs, pay $98 million in dividends and fund $473 million in share repurchases. Despite this aggressive outlay of capital, Grainger maintained its strong financial position and was able to hold debt as a percent of total capitalization to 0.4 percent.

Grainger maintains a debt ratio and liquidity position that allows it flexibility in managing the business, including adequate reserves to fund acquisitions, such as the six completed by Lab Safety Supply since 2001, and other projects and programs. In addition, Grainger has various sources of financing available including commercial paper sales and bank borrowings under lines of credit. At December 31, 2006, Grainger's long-term debt rating by Standard & Poor's was AA+, and its available line of credit totaled $250 million.

Uses of Cash Flow from Operations



In 2007, Grainger expects to continue its tradition of robust cash generation and is forecasting operating cash flow to be in the range of $450 million to $500 million. Grainger is committed to maintaining its strong financial position while generating attractive returns for its shareholders. Going forward, the company expects to:

- Invest in programs that will profitably grow the business and create value for shareholders
- Make acquisitions that expand the company's served markets and complement existing businesses
- Continue to return capital to shareholders through share repurchases and dividends

Capital Expenditures

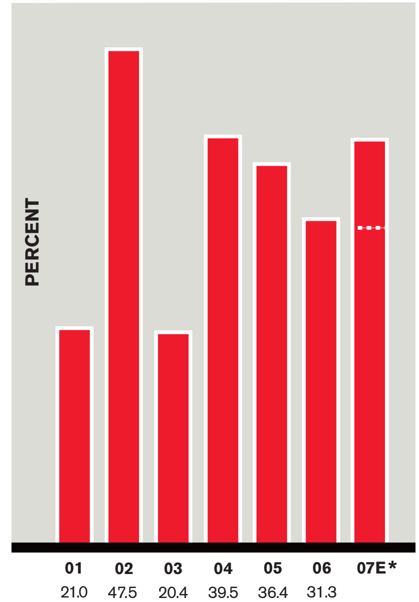
Grainger uses cash to fund initiatives that grow the business and improve efficiencies, resulting in greater profitability. Since 1999, Grainger has invested in its logistics network and information systems to improve productivity, customer service and product availability.

Capital spending in 2006 primarily supported the market expansion and product line expansion programs, Shanghai start-up costs and the SAP implementation. These programs accounted for $75 million of the total capital expenditures of $137 million.

In 2007, the company anticipates total capital expenditures in the range of $150 million to $175 million. Grainger evaluates proposed projects, other than the maintenance of its facilities, to ensure they meet or exceed the company's cost of capital. Some of the larger projects anticipated for 2007 include:

- Market expansion
- Information technology
- International
- Product line expansion

Capital Expenditures
As percent of cash flow from operations



*2007 estimated range 30–39 percent

Capital Expenditures

Market Expansion
$50 million to $80 million

Grainger's multiyear strategy to improve its local presence in top metropolitan markets across the United States is expected to generate sales growth that is on average 5 percent higher than markets not involved in this initiative. Metropolitan areas targeted in 2007 include Dallas/Fort Worth, Detroit, New York, Phoenix and the Phase 6 markets of Boston, Chicago, Minneapolis, Pittsburgh and San Francisco.

Information Technology
$10 million to $15 million

IT-driven capabilities, such as the ability to handle orders for sourced products and parts and to identify and provide sales leads to the account managers, provide Grainger with a sustainable competitive advantage. In 2006, Grainger implemented one of the world's largest instances of SAP in its U.S. business, and the company expects to realize approximately $50 million in benefits from this project. Grainger plans to extend SAP to other parts of the business over the next several years.

International
$10 million to $12 million

Grainger will continue to invest in expanding its markets that demonstrate high growth potential; in 2007, these will include China and Mexico.

Product Line Expansion
$3 million to $5 million

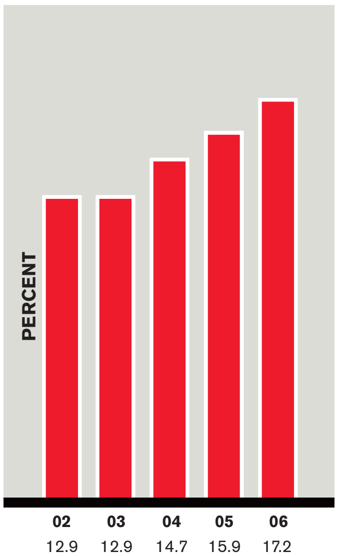
Grainger is in the midst of a multiyear expansion of its product line. To accommodate the greater breadth and depth of product offered to customers, the company expects to spend a nominal amount of capital on additional inventory storage and racking.

Cash Flow

Returning Capital to Shareholders

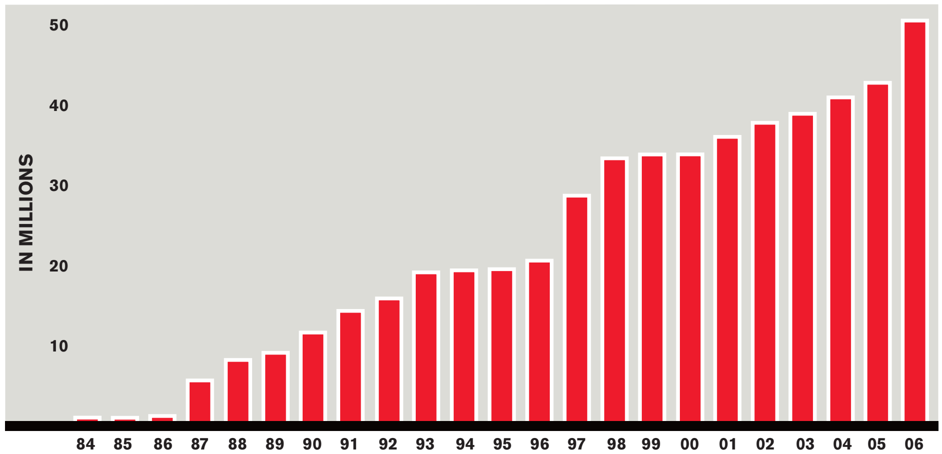
As a result of the company's strong cash flow, Grainger has consistently returned to shareholders a portion of the cash generated each year in the form of share repurchases and dividends.

Return on Equity



Shares Repurchased — Cumulative

Shares adjusted to account for stock splits

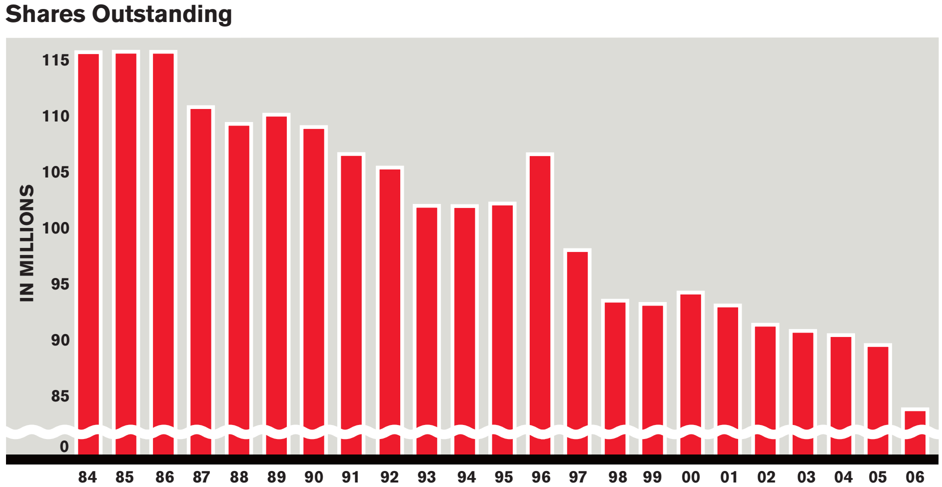


Share Repurchases

In 1984, Grainger launched a share repurchase program intended to return capital to shareholders and reduce the number of shares outstanding. Over the past 23 years, Grainger has allocated $1.9 billion in capital to purchase more than 49 million shares. This program has enhanced shareholder value by reducing total shares outstanding by 27 percent.

Grainger allocated more capital to share repurchase in 2006 than in any year since the program's inception. In 2006, Grainger bought 7 million shares of stock at an average share price of $69, ending the year with 84 million shares outstanding. In October 2006, the company's Board of Directors authorized the repurchase of an additional 10 million shares; as of December 31, 2006, approximately 7.7 million shares remained under the authorization. The company intends to allocate $250 million to $350 million in capital for share repurchases in 2007.

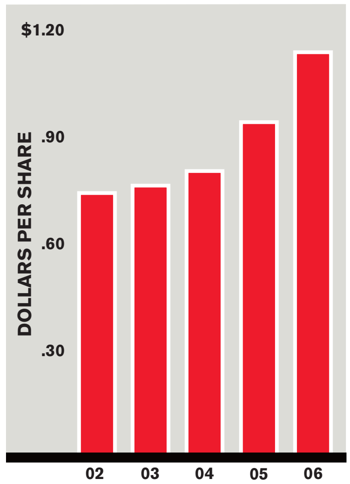
Shares Outstanding



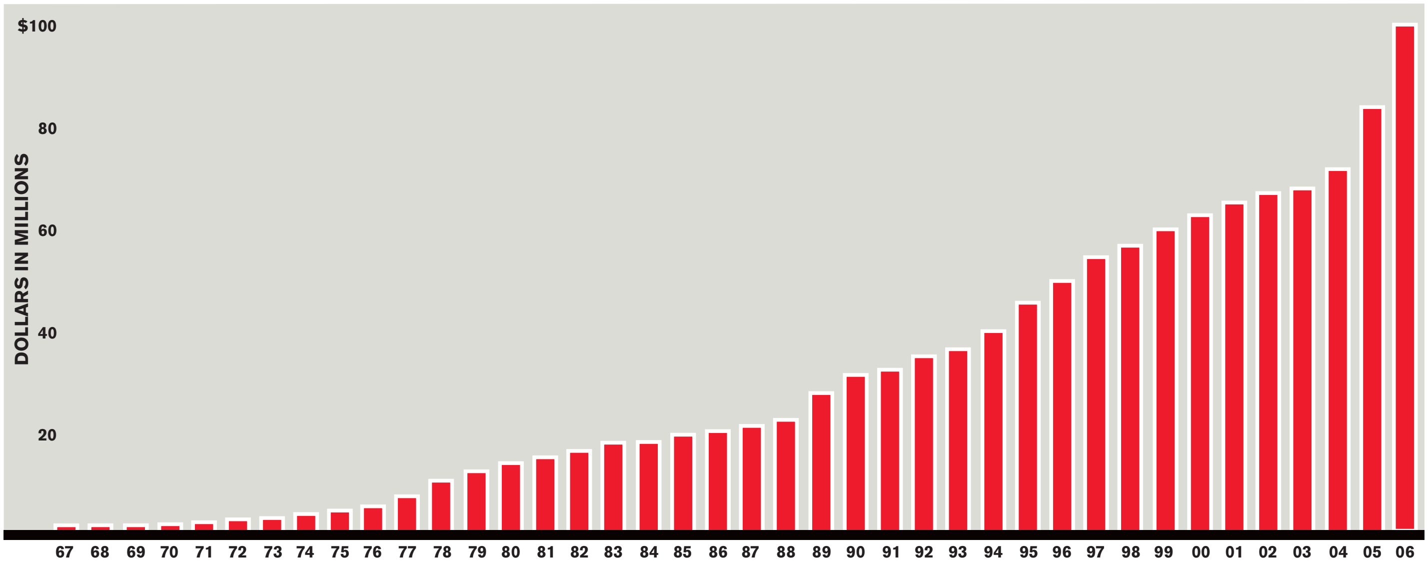
Dividends

In 2006, Grainger increased its quarterly dividend by 21 percent from 24 to 29 cents per share, and for the full year paid $98 million in dividends to shareholders. Grainger has increased dividends for 35 consecutive years, putting the company among only 25 companies in the S&P 500 with such a record. For the past eleven years Grainger has been recognized as a Dividend Aristocrat by Standard & Poor's.

Dividends Paid



Cash Dividend History



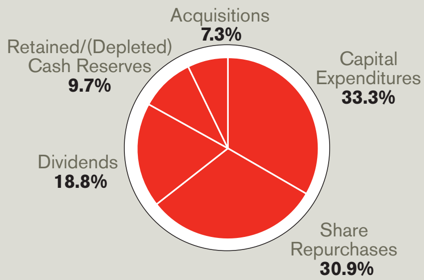
How Corporations Use Cash Flow – Grainger versus the S&P 500 (10-Year period of 1996–2005)

Use of Operating Cash	Grainger	Non-Financial S&P 500 Companies
Capital Expenditures	33.3%	56.0%
Dividends	18.8	18.0
Share Repurchases	30.9	11.0
Acquisitions	7.3	17.0
Retained/(Depleted) Cash Reserves	9.7	(2.0)
Total	100.0%	100.0%

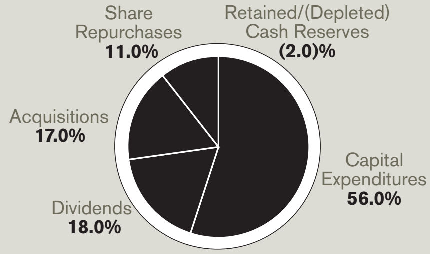
Source: Thomson Financial and company information

Over the last 10 years, Grainger's capital expenditures were substantially less, on a percentage basis, than those of the non-financial members of the S&P 500. Grainger also has returned significantly more capital to shareholders through dividends and share repurchases than this comparator group.

Grainger



Non-Financial S&P 500 Companies



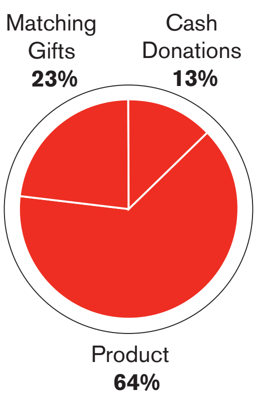
Corporate Social Responsibility

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.

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.

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℠ 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® toolkit.

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

Consolidated Statements of Earnings

(In thousands of dollars, except for per share amounts)	2006	For the Years Ended December 31, 2005	2004
Net sales	$5,883,654	$5,526,636	$5,049,785
Cost of merchandise sold	3,529,504	3,365,095	3,143,133
Gross profit	2,354,150	2,161,541	1,906,652
Warehousing, marketing and administrative expenses	1,776,079	1,642,552	1,465,624
Restructuring charge	—	—	(226)
Total operating expenses	1,776,079	1,642,552	1,465,398
Operating earnings	578,071	518,989	441,254
Other income and (expense):			
Interest income	21,496	12,882	6,376
Interest expense	(1,926)	(1,863)	(4,388)
Equity in income of unconsolidated entities – net	2,960	2,809	996
Gains on sales of unconsolidated entities	2,291	—	750
Unclassified – net	131	(143)	151
Total other income and (expense)	24,952	13,685	3,885
Earnings before income taxes	603,023	532,674	445,139
Income taxes	219,624	186,350	158,216
Net earnings	$ 383,399	$ 346,324	$ 286,923
Earnings per share:			
Basic	$ 4.36	$ 3.87	$ 3.18
Diluted	$ 4.24	$ 3.78	$ 3.13
Weighted average number of shares outstanding:			
Basic	87,838,723	89,568,746	90,206,773
Diluted	90,523,774	91,588,295	91,673,375

Segment Information

(In thousands of dollars)	2006	2005	2004
Sales			
Grainger Branch-based	$4,910,836	$4,649,200	$4,283,272
Acklands – Grainger	565,098	502,021	434,258
Lab Safety Supply	411,511	380,091	336,720
Intersegment sales	(3,791)	(4,676)	(4,465)
Net sales to external customers	$5,883,654	$5,526,636	$5,049,785
Operating earnings			
Grainger Branch-based	$ 593,455	$ 522,635	$ 444,574
Acklands – Grainger	15,242	14,003	20,967
Lab Safety Supply	52,283	52,712	45,467
Unallocated expense	(82,909)	(70,361)	(69,754)
Operating earnings	$ 578,071	$ 518,989	$ 441,254

Consolidated Balance Sheets

(In thousands of dollars)	2006	As of December 31, 2005	2004
Assets			
Current Assets			
Cash and cash equivalents	$ 348,471	$ 544,894	$ 429,246
Marketable securities at cost, which approximates market value	12,827	—	—
Accounts receivable (less allowances for doubtful accounts of $18,801, $18,401 and $23,375, respectively)	566,607	518,625	480,893
Inventories	827,254	791,212	700,559
Prepaid expenses and other assets	58,804	54,334	47,086
Deferred income taxes	48,123	76,474	86,632
Total current assets	1,862,086	1,985,539	1,744,416
Property, Buildings and Equipment			
Land	167,218	162,123	154,673
Buildings, structures and improvements	890,380	841,031	804,317
Furniture, fixtures, machinery and equipment	769,506	716,497	679,141
	1,827,104	1,719,651	1,638,131
Less accumulated depreciation and amortization	1,034,169	949,026	876,558
Property, buildings and equipment – net	792,935	770,625	761,573
Deferred income taxes	48,793	16,702	29,168
Investments in unconsolidated entities	8,492	25,155	26,126
Goodwill	210,671	182,726	165,011
Other assets and intangibles – net	123,111	127,174	83,279
Total Assets	$3,046,088	$3,107,921	$2,809,573
Liabilities and Shareholders' Equity			
Current Liabilities			
Current maturities of long-term debt	$ 4,590	$ 4,590	$ 9,485
Trade accounts payable	334,820	319,254	289,388
Accrued compensation and benefits	140,141	152,543	127,994
Accrued contributions to employees' profit sharing plans	113,014	90,478	76,052
Accrued expenses	106,681	103,932	97,860
Income taxes	7,077	24,554	35,253
Total current liabilities	706,323	695,351	636,032
Long-term debt (less current maturities)	4,895	4,895	—
Deferred income taxes	6,235	7,019	4,482
Accrued employment-related benefits costs	151,020	111,680	101,089
Shareholders' equity			
Cumulative preferred stock – $5 par value – 12,000,000 shares authorized; none issued nor outstanding	—	—	—
Common stock – $0.50 par value – 300,000,000 shares authorized; issued, 109,657,938, 109,667,938 and 109,672,938 shares, respectively	54,829	54,834	54,836
Additional contributed capital	513,667	451,578	432,171
Retained earnings	3,007,606	2,722,103	2,458,442
Unearned restricted stock compensation	(35,213)	(17,280)	(14,463)
Accumulated other comprehensive earnings	3,431	27,082	18,052
Treasury stock, at cost – 25,590,311, 19,952,297 and 19,075,511 shares, respectively	(1,366,705)	(949,341)	(881,068)
Total shareholders' equity	2,177,615	2,288,976	2,067,970
Total Liabilities and Shareholders' Equity	$3,046,088	$3,107,921	$2,809,573

Consolidated Statements of Cash Flows

(In thousands of dollars)	For the Years Ended December 31, 2006	2005	2004
Cash flows from operating activities:			
Net earnings	$ 383,399	$ 346,324	$ 286,923
Provision for losses on accounts receivable	6,057	1,326	5,159
Deferred income taxes	9,858	23,663	(4,450)
Depreciation and amortization:			
Property, buildings and equipment	100,975	98,087	85,566
Capitalized software and other intangibles	17,593	10,695	12,690
Stock-based compensation	33,754	9,015	8,226
Tax benefit of stock incentive plans	1,563	11,962	12,068
Net gains on sales of property, buildings and equipment	(11,035)	(7,337)	(1,725)
(Income) from unconsolidated entities	(2,960)	(2,809)	(996)
(Gains) on sales of unconsolidated entities	(2,291)	—	(750)
Change in operating assets and liabilities – net of business acquisitions and joint venture contributions:			
(Increase) decrease in accounts receivable	(53,056)	(36,378)	(49,935)
(Increase) decrease in inventories	(33,839)	(84,031)	(30,728)
(Increase) decrease in prepaid expenses	(3,918)	(6,251)	(9,087)
Increase (decrease) in trade accounts payable	10,888	27,121	29,302
Increase (decrease) in other current liabilities	(2,558)	43,056	64,372
Increase (decrease) in current income taxes payable	(17,395)	(10,632)	(4,268)
Increase (decrease) in accrued employment-related benefits costs	2,634	10,012	8,613
Other – net	(2,916)	(1,280)	(4,493)
Net cash provided by operating activities	436,753	432,543	406,487
Cash flows from investing activities:			
Additions to property, buildings and equipment	(127,814)	(112,297)	(128,276)
Proceeds from sales of property, buildings and equipment – net	17,314	15,037	17,616
Additions to capitalized software	(8,950)	(44,950)	(32,482)
Purchase of marketable securities	(13,187)	—	—
Proceeds from sale of unconsolidated entity	27,843	—	—
Net cash paid for business acquisitions	(34,390)	(24,817)	—
(Investments in) and loan repayment from unconsolidated entities	(3,988)	4,088	—
Other – net	3,426	(46)	750
Net cash used in investing activities	(139,746)	(162,985)	(142,392)

(In thousands of dollars)	2006	For the Years Ended December 31, 2005	2004
Cash flows from financing activities:			
Long-term debt payments	$ —	$ —	$(140,800)
Stock options exercised	64,437	65,997	72,275
Excess tax benefits from stock-based compensation	13,373	—	—
Purchase of treasury stock	(472,787)	(137,473)	(100,872)
Cash dividends paid	(97,896)	(82,663)	(71,243)
Net cash used in financing activities	(492,873)	(154,139)	(240,640)
Exchange rate effect on cash and cash equivalents	(557)	229	2,967
Net (decrease) increase in cash and cash equivalents	(196,423)	115,648	26,422
Cash and cash equivalents at beginning of year	544,894	429,246	402,824
Cash and cash equivalents at end of year	$ 348,471	$ 544,894	$ 429,246
Supplemental cash flow information:			
Cash payments for interest (net of amounts capitalized)	$ 1,413	$ 1,791	$ 3,408
Cash payments for income taxes	212,350	162,030	154,589
Noncash investing activities:			
Fair value of noncash assets acquired in business acquisitions	$ 38,430	$ 26,811	$ —
Liabilities assumed in business acquisitions	(4,040)	(1,994)	—

Historical Financial Summary

		2006	2005	2004
Financial Summary ($000)	Net sales	$5,883,654	$5,526,636	$5,049,785
	Earnings before income taxes and cumulative effect of accounting change	603,023	532,674	445,139
	Income taxes	219,624	186,350	158,216
	Earnings before cumulative effect of accounting change	383,399	346,324	286,923
	Cumulative effect of accounting change	—	—	—
	Net earnings	383,399	346,324	286,923
	Working capital	1,155,763	1,290,188	1,108,384
	Additions to property, buildings and equipment – net	127,814	112,297	128,276
	Depreciation and amortization of property, buildings and equipment	100,975	98,087	85,566
	Current assets	1,862,086	1,985,539	1,744,416
	Total assets	3,046,088	3,107,921	2,809,573
	Shareholders' equity	2,177,615	2,288,976	2,067,970
	Cash dividends paid	97,896	82,663	71,243
	Long-term debt (less current maturities)	4,895	4,895	—
Per Share ($)	Earnings – basic	4.36	3.87	3.18
	Earnings – diluted	4.24	3.78	3.13
	Cash dividends paid	1.110	0.920	0.785
	Book value	25.90	25.51	22.83
	Year-end stock price	69.94	71.10	66.62
Ratios	Percent of return on average shareholders' equity	17.2	15.9	14.7
	Percent of return on average total capitalization	17.2	15.9	14.2
	Earnings before income taxes and cumulative effect of accounting change as a percent of net sales	10.2	9.6	8.8
	Earnings before cumulative effect of accounting change as a percent of net sales	6.5	6.3	5.7
	Cash dividends paid as a percent of net earnings	25.5	23.9	24.8
	Total debt as a percent of total capitalization	0.4	0.4	0.5
	Current assets as a percent of total assets	61.1	63.9	62.1
	Current assets to current liabilities	2.6	2.9	2.7
	Average inventory turnover	4.4	4.5	4.6
Other Data	Average number of shares outstanding – basic	87,838,723	89,568,746	90,206,773
	Average number of shares outstanding – diluted	90,523,774	91,588,295	91,673,375
	Number of employees	17,074	16,732	15,523
	Number of account managers	2,699	2,507	2,154
	Number of branches	593	589	582
	Number of products in the Grainger catalog	115,000	82,400	82,300

Note: 2002 net earnings include a charge for the cumulative effect of accounting change of $23,921,000, or $0.26 per share, and special credits of $4,458,000, or $0.05 per share, for gains on sales of investment securities and $1,183,000, or $0.01 per diluted share, for the reduction of the reserves established in 2001.

2003	2002	2001	2000	1999	1998	1997	1996
$4,667,014	$4,643,898	$4,754,317	$4,977,044	$4,636,275	$4,438,975	$4,226,941	$3,616,640
381,090	397,837	297,280	331,595	303,750	400,847	389,636	348,888
154,119	162,349	122,750	138,692	123,019	162,343	157,803	140,362
226,971	235,488	174,530	192,903	180,731	238,504	231,833	208,526
—	(23,921)	—	—	—	—	—	—
226,971	211,567	174,530	192,903	180,731	238,504	231,833	208,526
926,773	898,681	838,800	735,678	600,611	541,872	649,107	704,175
74,064	133,978	100,451	65,507	111,900	132,857	105,756	62,051
74,583	75,226	77,737	81,898	72,446	58,256	63,257	61,585
1,633,413	1,484,947	1,392,611	1,483,002	1,471,145	1,206,429	1,185,283	1,320,243
2,624,678	2,437,448	2,331,246	2,459,601	2,564,826	2,103,966	2,000,116	2,119,021
1,845,135	1,667,698	1,603,189	1,537,386	1,480,529	1,278,741	1,294,661	1,462,662
67,281	66,467	65,445	62,863	58,817	56,683	53,934	50,035
4,895	119,693	118,219	125,258	124,928	122,883	131,201	6,152
2.50	2.30	1.87	2.07	1.95	2.48	2.30	2.04
2.46	2.24	1.84	2.05	1.92	2.44	2.27	2.02
0.735	0.715	0.695	0.670	0.630	0.585	0.530	0.490
20.27	18.21	17.17	16.37	15.85	13.68	13.25	13.82
47.39	51.55	48.00	36.50	47.81	41.63	48.59	40.13
12.9	12.9	11.1	12.8	13.1	18.5	16.8	15.8
12.3	13.6	10.2	11.2	11.0	16.3	15.2	14.6
8.2	8.6	6.3	6.7	6.6	9.0	9.2	9.6
4.9	5.1	3.7	3.9	3.9	5.4	5.5	5.8
29.6	31.4	37.5	32.6	32.5	23.8	23.3	24.0
7.5	7.2	7.8	17.3	23.3	15.5	10.9	10.2
62.2	60.9	59.7	60.3	57.4	57.3	59.3	62.3
2.3	2.5	2.5	2.0	1.7	1.8	2.2	2.1
4.4	4.5	4.7	4.6	4.1	4.4	4.1	3.5
90,731,013	91,982,430	93,189,132	93,003,813	92,836,696	96,231,829	100,604,518	102,295,506
92,394,085	94,303,497	94,727,868	94,223,815	94,315,479	97,846,658	102,178,952	103,272,408
14,701	15,236	15,385	16,192	16,730	15,270	15,154	14,601
1,741	1,650	1,641	1,708	1,879	1,887	1,947	1,906
575	576	579	572	562	532	522	527
88,400	98,700	99,900	85,200	81,100	78,400	78,100	67,600

Notes: 2001 net earnings include a special charge of $36,650,000, or $0.39 per share, to establish a reserve related to the shutdown of Material Logic.

2000 net earnings include gains on the sales of investment securities of $17,860,000, or $0.19 per share.

Board of Directors

Independent Members and Grainger's Senior Chairman

Brian P. Anderson is the former Executive Vice President of Finance and Chief Financial Officer of OfficeMax Inc. Prior to assuming this position in 2004, Mr. Anderson was Senior Vice President and Chief Financial Officer of Baxter International Inc., a position he assumed in 1998. He is also a director of A.M. Castle & Co., James Hardie Industries NV, and Pulte Homes, Inc. Mr. Anderson, an independent director, was first elected a director of Grainger in 1999 and is Chairman of the Audit Committee.

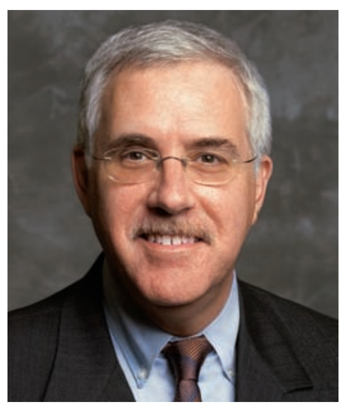
Wilbur H. Gantz is Executive Chairman of Ovation Pharmaceuticals, Inc., a privately owned specialty pharmaceutical company that focuses on under-promoted and late-stage development products. He assumed this position in 2002. Mr. Gantz previously served as Chairman and Chief Executive Officer of PathoGenesis Corporation and as President of Baxter International Inc. He is also Chairman of the Board of Harris Financial Corp. Mr. Gantz, an independent director, was first elected a director of Grainger in 1985.

V. Ann Hailey is Executive Vice President, Corporate Development of Limited Brands, Inc., a position assumed in May 2006 after serving as Executive Vice President and Chief Financial Officer. Prior to joining Limited Brands in 1997, Ms. Hailey was Senior Vice President and Chief Financial Officer of Pillsbury Company. She is also a director and Chair of the Audit Committee of the Federal Reserve Bank of Cleveland. Ms. Hailey, an independent director, first became a director of Grainger in 2006.

William K. Hall is the co-founder and Chairman of Procyon Technologies, Inc., a privately owned, Chicago-based holding company that focuses on the acquisition and growth of suppliers to the global aerospace and defense industry. He currently serves on the boards of Actuant Corporation, Great Plains Energy Incorporated, A.M. Castle & Co., and Stericycle, Inc. Mr. Hall, an independent director, was first elected a director of Grainger in 2005.

Stuart L. Levenick is Group President of Caterpillar Inc. Prior to assuming that position in 2004, Mr. Levenick served as Vice President, Caterpillar Inc. and Chairman of Shin Caterpillar Mitsubishi Ltd. from 2000 to 2004 and as Vice President, Asia Pacific Division from 2001 to 2004. He is also a director of Entergy Corporation, New Orleans, La., and the U.S.-China Business Council. Mr. Levenick, an independent director, first became a director of Grainger in 2005.

John W. McCarter, Jr., is President and Chief Executive Officer of The Field Museum of Natural History, a position assumed in 1996. Mr. McCarter served as Senior Vice President of Booz, Allen & Hamilton Inc., a management consulting firm, until 1997. He is also a director of Divergence, Inc. and Janus Funds. Mr. McCarter, an independent director, was first elected a director of Grainger in 1990 and is Chairman of the Board Affairs and Nominating Committee.



Neil S. Novich is Chairman, President and Chief Executive Officer, as well as a director, of Ryerson Inc., a major metal distributor and processor. He became Ryerson's President and Chief Executive Officer in 1996 and its Chairman in 1999. Mr. Novich, an independent director, was first elected a director of Grainger in 1999.

Michael J. Roberts is the former President and Chief Operating Officer of McDonald's Corporation. Before assuming this position in November 2004, his previous positions at McDonald's Corporation included Chief Executive Officer—McDonald's USA during 2004; President—McDonald's USA from 2001 to 2004; and President, West Division—McDonald's USA from 1997 to 2001. Mr. Roberts, an independent director, first became a director of Grainger in 2006.

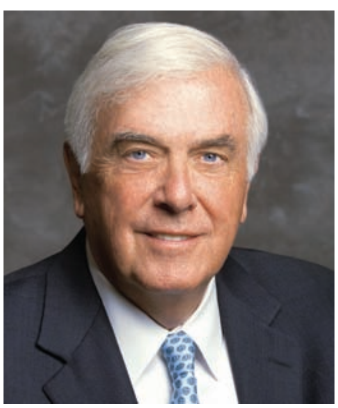
Gary L. Rogers was Vice Chairman of General Electric Company from 2001 until his retirement in December 2003. Previously, Mr. Rogers was Senior Vice President of General Electric Company and President and Chief Executive Officer of GE Plastics from 1992 to 2001. He is also a director of Rohm and Haas Company and Wyeth and is a trustee of the Florida State University Foundation. Mr. Rogers, an independent director, first became a director of Grainger in 2004.

James D. Slavik is Chairman (formerly President) and a director of Mark IV Capital, Inc., an investment company dealing in real estate development and corporate investments. Mr. Slavik, an independent director, was first elected a director of Grainger in 1987.

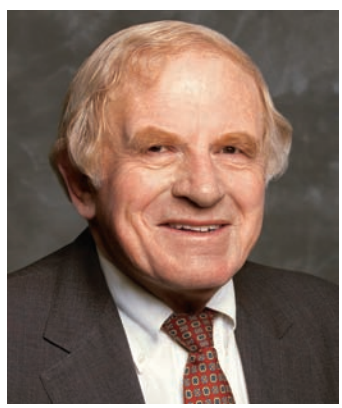
Committees of the Board

The Board has three standing committees: Audit, Board Affairs and Nominating, and Compensation. All members of these committees are required to be "independent" directors. Committee memberships are shown in the following table:

Name	Audit Committee	Board Affairs and Nominating Committee	Compensation Committee
Brian P. Anderson	Chair	Member	
Wilbur H. Gantz	Member	Member	
V. Ann Hailey	Member	Member	
William K. Hall	Member	Member	
Stuart L. Levenick		Member	Member
John W. McCarter, Jr.		Chair	Member
Neil S. Novich		Member	Member
Michael J. Roberts		Member	Member
Gary L. Rogers		Member	Member
James D. Slavik	Member	Member	
Harold B. Smith		Member	Chair



Harold B. Smith is Chairman of the Executive Committee and a director of Illinois Tool Works Inc., a worldwide manufacturer and marketer of engineered components and industrial systems and consumables. He is also a director of Northern Trust Corporation. Mr. Smith, an independent director, was first elected a director of Grainger in 1981 and is Chairman of the Compensation Committee.



David W. Grainger is the company's Senior Chairman, a position assumed in 2007 after serving as Senior Chairman of the Board. Mr. Grainger joined the company in 1952 and was first elected a director in 1953. In February 2007, Mr. Grainger announced his intention not to stand for reelection to the Board of Directors.

Director Ownership

The following chart shows the "beneficial ownership" of Grainger common stock as of January 31, 2007, by David W. Grainger, James D. Slavik and all directors and executive officers as a group:

David W. Grainger	9.6%
James D. Slavik	5.1%
Directors and executive officers as a group	16.8%

Management

Richard L. Keyser
Chairman of the Board and Chief Executive Officer

Richard L. Keyser was elected Chief Executive Officer in September 1995 and Chairman of the Board in September 1997. He is responsible for the strategic direction and overall leadership of the company. Prior to this appointment, Mr. Keyser served as President and Chief Executive Officer and as President and Chief Operating Officer. Mr. Keyser currently serves on the board of directors for the Rohm and Haas Company and The Principal Financial Group and chairs the Evanston Northwestern Healthcare Research Institute. He is a trustee of the John G. Shedd Aquarium and The Field Museum of Natural History and a member of the Economic Club of Chicago, the Commercial Club of Chicago and the Business Roundtable.

James T. Ryan
President and Chief Operating Officer

James T. Ryan was elected President in April 2006, and was appointed Chief Operating Officer and to Grainger's Board of Directors in February 2007. He is responsible for all of Grainger's operations, domestic and international. Previously he had been Group President since April 2004. Mr. Ryan has served Grainger in increasingly responsible roles since 1980, including Executive Vice President, Marketing, Sales and Service, Vice President, Information Services, President, grainger.com, and President, Grainger Parts. Mr. Ryan is a Trustee of the Museum of Science and Industry and a member of the Economic Club of Chicago.

Y.C. Chen
President, U.S. Branch-based Business

Y.C. Chen was named President of the U.S. Branch-based Business in February 2007. He has full profit and loss responsibility for the company's largest business unit. Prior to this role, Mr. Chen was Group President for Canada, Mexico and Puerto Rico. Mr. Chen joined Grainger in July 1996, assuming a number of leadership roles in International and Supply Chain organizations. Prior to joining Grainger, Mr. Chen served as Regional head for several multinational companies based in Asia Pacific.

Timothy M. Ferrarell
Senior Vice President,
Enterprise Processes and Systems

Timothy M. Ferrarell was named Senior Vice President, Enterprise Processes and Systems, in June 2001. He is responsible for enhancing customers' experiences through the company's process improvement and business system integration efforts. Prior to this role, Mr. Ferrarell served as Vice President, Marketing. Mr. Ferrarell serves on the board of directors for the Lincoln Foundation for Performance Excellence and is on the Board of Trustees for Lewis University.

Nancy A. Hobor
Senior Vice President,
Communications and Investor Relations

Nancy A. Hobor was named Senior Vice President, Communications and Investor Relations, in March 2003. She has been responsible for Grainger's internal and external communications, community relations and investor relations since 1999. Ms. Hobor serves as Adjunct Professor of Investor Relations at Northwestern University. She is the treasurer of the Arthur W. Page Society. She is also a member of the Visiting Committee of the Division of the Social Sciences for the University of Chicago, and the advisory board of Midwest Young Artists.

John L. Howard
Senior Vice President and General Counsel

John L. Howard joined Grainger and was elected Senior Vice President and General Counsel in January 2000. His responsibilities include supporting all of the company's legal functions. He serves on the Wilson Council of the Woodrow Wilson Center for International Scholars and on the Council of Legal Advisors of the National Legal Center for the Public Interest, both in Washington, D.C. He also serves on the board of directors of the Chicago Botanic Garden.

P. Ogden Loux
Senior Vice President, Finance and Chief Financial Officer

P. Ogden Loux was elected Senior Vice President, Finance and Chief Financial Officer in December 1997. His responsibilities include financial planning and analysis, financial process planning and control, financial reporting, internal audit, treasury operations and administrative services. Since 1987, when he joined Grainger, Mr. Loux has served in increasingly responsible roles, including Vice President and Controller, Vice President, Business Support and Vice President, Finance.

Lawrence J. Pilon
Senior Vice President, Human Resources

Lawrence J. Pilon was named Senior Vice President of Human Resources in February 2005. He is responsible for providing strategic direction and leadership for the design, development and execution of Grainger's human resource initiatives. Prior to joining Grainger, Mr. Pilon served as Executive Vice President, Human Resources for the Kellogg Company, where he was responsible for the worldwide human resources function. Mr. Pilon serves on the board of the Make-A-Wish Foundation of Illinois.

John A. Schweig
Senior Vice President, Strategy and Development

John A. Schweig was elected Senior Vice President, Strategy and Development, in March 2003. Mr. Schweig is responsible for Grainger's global sourcing activities, and for identifying and capitalizing on other strategic opportunities for company growth. Mr. Schweig joined Grainger in 1990 as Vice President, Marketing. Mr. Schweig serves on the board of the Chicago Youth Centers. He is also an Advisory Board Member of the University of Wisconsin-Madison School of Business' Center for Brand and Product Management.

William D. Chapman
Director, Investor Relations

William D. Chapman was named Director, Investor Relations, in October 1999. In this role, he serves as the company's primary contact with the investment community. Mr. Chapman is President of the Chicago Chapter of the National Investor Relations Institute and is a member of the Manufacturers Alliance Investor Relations Council. He also serves as a Director, past President and Scholarship Chairman of the Wisconsin Alumni Association-Chicago Chapter and is a Director of the National Wisconsin Alumni Association.

Management Incentive Program

The company's compensation program for its management team builds upon a philosophy that is applied to all company employees – creating shareholder value by attracting the best people and encouraging them to excel. The company uses its compensation systems to attract, reward and retain its employees and to motivate them to grow the business profitably and to improve shareholder returns.

The management featured here and other key managers participate in the Management Incentive Program (MIP), which provides for annual cash incentives based on the achievement of specified annual company-wide financial performance measures and individual performance. The company structures the MIP to motivate performance that balances short-term and long-term results and aligns the interests of management with shareholders. For 2006, MIP was based on return on invested capital (ROIC), year-over-year sales growth and the individual executive's performance. Based on ROIC of 26.4 percent and year-over-year sales growth of 6.5 percent in 2006, incentive amounts ranged from 65 to 95 percent of target.

Operating Management

Court D. Carruthers
President, Acklands – Grainger Inc.

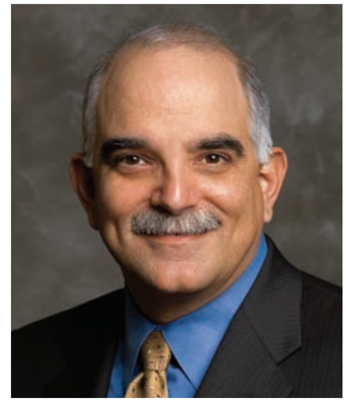
Court D. Carruthers was named President of Acklands – Grainger in October 2006. In this role he is responsible for the Canadian company in its entirety. Mr. Carruthers has been with Acklands – Grainger since 2002, assuming a number of increasingly responsible leadership roles prior to being appointed President. He is a member of the United Way of York Region Campaign Cabinet, YMCA Open Doors Fund, and the University of Alberta Business Advisory Council.

Patrick H. Davidson
Senior Vice President,
Sales and Marketing

Patrick H. Davidson was named Senior Vice President, Sales and Marketing, in September 2006. He is responsible for sales and marketing in Grainger's U.S. branch-based operations. Mr. Davidson has held increasingly responsible roles in the company's Sales, Branch Operations, Quality and Employee Development areas and was most recently Senior Vice President, Customer Service. He serves on the Board of Directors for the David Adler Music and Arts Center in Libertyville, Ill.

Cesar A. Lanuza
Vice President and Country Manager,
Grainger, S.A. de C.V.

Cesar A. Lanuza joined Grainger and was named Country Manager for Grainger S.A. de C.V. in November 2005. In this role, he has overall profit and loss responsibility for Grainger's business in Mexico. Prior to joining Grainger, Mr. Lanuza served in two management roles for GE's Healthcare business. In addition, Mr. Lanuza held different roles in sales, customer service and operations for United Technologies: Carrier division based in Mexico.



Larry J. Loizzo
Senior Vice President,
President, Lab Safety Supply, Inc.

Larry J. Loizzo was named President, Lab Safety Supply, Inc., a subsidiary of Grainger, in June 1996. He is responsible for the overall management and operations of Lab Safety Supply. Mr. Loizzo has been with Lab Safety Supply since 1987. Mr. Loizzo serves on the board of directors of GenTel BioSciences, Inc., the Safety Equipment Distributors Association and the Blackhawk Technical College Foundation. He is also a member of the University of Wisconsin at Whitewater Marketing Advisory Council.

Bonnie J. McIntyre
Vice President and General Manager,
China

Bonnie J. McIntyre was named Vice President and General Manager for the company's operations in China in September 2004. In this position, she is responsible for defining and building Grainger's presence in that country. Prior to this, Ms. McIntyre was Vice President, Integrated Services, Vice President of Grainger Special Product Services, and Product Category Manager. Prior to joining Grainger in 1999, she held a variety of after-market support and general management positions with Cummins, Inc. over an 18-year period.

Kevin A. Peters
Senior Vice President,
Supply Chain

Kevin A. Peters was named Senior Vice President, Supply Chain, in April 2006. He is responsible for the overall direction and management of Grainger's U.S. branch-based logistics network as well as Merchandising, Purchasing and Inventory Management. Mr. Peters joined Grainger in 2002 as Vice President, Inventory Management. Prior to joining Grainger, Mr. Peters held increasingly responsible roles as Vice President of Logistics for Home Depot Supply, a division of Home Depot, and Vice President and General Manager for Home Depot Commercial Direct in Canada.

Michael A. Pulick
Senior Vice President,
Customer Service

Michael A. Pulick was named Senior Vice President, Customer Service, in September 2006. He is responsible for Grainger's U.S. branch network, the development of customer on-site services and e-Business. Since 1999, Mr. Pulick has held a number of increasingly responsible positions in the company's supplier and product management areas. Most recently, he served as Vice President, Product Management. Mr. Pulick serves as an adjunct professor at the Lake Forest Graduate School of Management and is a certified purchasing manager. He also serves on the board of directors for Junior Achievement of Chicago.

Company Information

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www.grainger.com

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Bear Stearns – Duncan Thomas
Buckingham Research – Edward Wheeler
CIBC World Markets Corp. – Christopher Glynn
Cleveland Research Co. – Adam Uhlman
FTN Midwest Research – John Baliotti
Goldman Sachs – Sun Kang
J.P. Morgan – C. Stephen Tusa
Lehman Brothers – Daniel Whang
Merrill Lynch – John Inch
Morgan, Keegan & Co. – Brent Rakers
Morgan Stanley – Scott Davis
Robert W. Baird & Co. – David Manthey
Wachovia Capital Markets – Allison Poliniak
William Blair & Co. – Jeffrey Germanotta

Annual Meeting

The 2007 Annual Meeting of Shareholders will be held at the company's headquarters in Lake Forest, Ill., at 10:00 a.m. CDT on Wednesday, April 25, 2007.

Expected Earnings Release Dates

First Quarter	April 16, 2007
Second Quarter	July 16, 2007
Third Quarter	October 15, 2007
Fourth Quarter	January 2008

Issuance of Preferred Share Purchase Rights

Grainger has adopted a shareholder rights plan, under which there is outstanding one preferred share purchase right for each outstanding share of Grainger common stock. Under certain circumstances – after a person or a group (unless exempt under the plan) acquires or announces a tender offer for 15 percent or more of Grainger's common stock – each right would entitle the holder to purchase, at the then-current exercise price, stock and/or other securities or assets of the company. The rights expire on May 15, 2009, unless earlier redeemed. The rights do not have voting or dividend rights and, until they become exercisable, have no dilutive effect on the earnings of Grainger.

Auditors

Ernst & Young LLP
Sears Tower
233 South Wacker Drive
Chicago, IL 60606-6301

Common Stock Listing

The company's common stock is listed on the New York and Chicago stock exchanges under the trading symbol GWW.

Transfer Agent, Registrar and Dividend Disbursing Agent

Instructions and inquiries regarding transfers, certificates, changes of title or address, lost or missing dividend checks, consolidation of accounts and elimination of multiple mailings should be directed to:

Computershare Investor Services
P.O. Box 43078
Providence, RI 02940-3078
Telephone 781.575.2879
www.computershare.com

Dividend Direct Deposit

Shareholders of record have the opportunity to have their quarterly dividends electronically deposited directly into their checking, money market or savings accounts at financial institutions that participate in the automated clearinghouse system.

Shareholders who are interested in taking advantage of this service or would like more information on the program should contact Computershare Investor Services.

Trademarks

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All other trademarks and service marks are the property of their respective owners.

Forward-Looking Statements

Throughout this Fact Book are forward-looking statements under the federal securities laws. The forward-looking statements relate to the company's expected future financial results and business plans, strategies, and objectives and are not historical facts. They are often identified by qualifiers such as "aims," "anticipated," "believes," "estimated," "expects," "forecasting," "goals," "intends," "is positioned," "looks to," "opportunity," "plans," "potential," "projected," "projects," "should," "targeting," "will" or similar expressions. There are risks and uncertainties whose outcome could cause the company's results to differ materially from what is projected.

Factors that may affect forward-looking statements include the following: higher product costs or other expenses; a major loss of customers; increased competitive pricing pressure on the company's businesses; failure to develop or implement new technologies or other business strategies; the outcome of pending and future litigation and governmental proceedings; changes in laws and regulations; facilities disruptions or shutdowns; disruption in transportation services; natural and other catastrophes; unanticipated weather conditions and other difficulties in achieving or improving margins or financial performance.

Trends and projections could also be affected by general industry and market conditions, gross domestic product growth rates, general economic conditions including interest rate and currency rate fluctuations, employment levels, global and other conflicts, and other factors.

DESIGN: Anonymous Design, Inc.

Grainger at a Glance

Headquarters

W.W. Grainger, Inc.
100 Grainger Parkway
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847.535.1000
www.grainger.com

Key Facts (as of 12/31/06)

2006 Sales
$5.9 billion

2006 Earnings per share (diluted)
$4.24

Number of employees worldwide
17,074

Number of branches
593 throughout Canada, China, Mexico and the United States

Number of distribution centers
18

Number of customers
1.8 million in 139 countries

Number of products offered
850,000 in 21 catalogs and on 11 Web sites

Number of suppliers
1,600

Years of consecutive dividend increases
35

Total number of shares repurchased since 1984
49.3 million shares for $1.9 billion

Stock trading
The company's common stock is listed on the New York and Chicago stock exchanges under the trading symbol GWW.

80 YEARS OF SERVING CUSTOMERS

1927
Company founded in Chicago, Ill.; generates sales through an eight-page catalog – The Motorbook

1928
Incorporated in the State of Illinois

1933
Opens first branch in Philadelphia, Pa.

1942
Expands to 24 branches and 24 sales representatives

1952
Celebrates 25th anniversary with $18 million in sales, 46 branches, 54 sales representatives and a 104-page catalog

1967
Becomes a publicly traded company under the symbol GWW

1975
Lists on the New York Stock Exchange

1977
Celebrates 50th anniversary with $499 million in sales, 141 branches, 424 sales representatives and a 756-page catalog

1984
Achieves more than $1 billion in annual sales

1992
Acquires Lab Safety Supply

1995
Launches Web site, www.grainger.com

1996
Acquires Acklands Limited

2002
Celebrates 75 years of serving customers with $4.6 billion in sales, 576 branches, 1,650 sales representatives and a 3,938-page catalog

2004
Breaks the $5 billion annual sales mark

2006
Reports record sales of $5.9 billion and completes largest product line expansion in company history

2007
Celebrates 80 years of serving customers