2008 FACT BOOK

GRAINGER®

FOR THE ONES WHO GET IT DONE

Why Grainger

Founded in 1927, W.W. Grainger, Inc. (Grainger) is a leading broad-line supplier of facilities maintenance products throughout North America. The company also has operations in Asia. Some 1.8 million businesses and institutions depend on Grainger for tools, fasteners, lighting, motors, material handling and other equipment to keep their operations running.

Grainger reaches customers through:

- **Branch-based distribution of a broad offering of maintenance, repair and operating (MRO) products, and**
- **Direct marketing of the company's products to specific market segments.**

Like earlier editions, this fact book presents a variety of data, charts and other business-related information* in three categories: growth, profitability and cash flow.

Performing well against each of these criteria is key to increasing shareholder value. Great service, a Grainger hallmark that has produced strong and lasting customer relationships, drives performance.

Yet, the numbers by themselves don't tell the story. Please read on.

CONTENTS

* *Unless otherwise noted, information is through March 31, 2008.*

GETTING PRODUCTS TO PEOPLE

Grainger's customers maintain, repair and operate facilities. The company assists these individuals by stocking hundreds of thousands of items – everything from motors to mops to material-handling equipment – and making them available quickly.

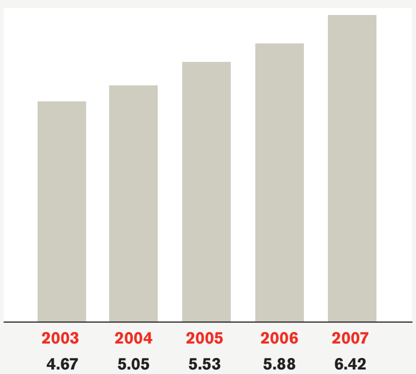
Grainger serves a diverse group of customers, including commercial and industrial establishments, contractors, hotels, government agencies, retailers, hospitals, educational facilities, mining operations and agricultural businesses.

As a service business specializing in product distribution, Grainger links manufacturers and end users through a dedicated sales force, a vast logistics system, integrated information technology and 18,000 employees intent on delivering great service.

The company uses multiple channels – an extensive branch network, sales representatives, service centers, catalogs, other direct marketing materials and the Internet – to help customers find and buy products efficiently.

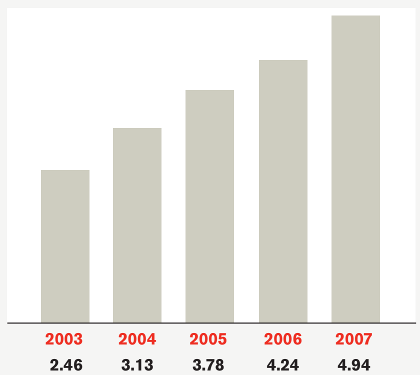
SALES

Dollars in billions



EARNINGS PER SHARE – DILUTED

Dollars



	LONG-TERM GOALS	2007	2008 GUIDANCE
Sales	7 to 10%	9%	7 to 10%
Operating margins	10.0 to 12.0%	10.5%	10.8 to 11.2%
ROIC* (pretax)	>20%	28.5%	>20%

* *For a definition of ROIC, see page 16.*

HIGHLIGHTS OF 2007

- Posted record revenues of $6.4 billion, up 9 percent
- Reported record earnings per share of $4.94, up 17 percent
- Increased operating margin 70 basis points, to 10.5 percent
- Generated pretax return on invested capital of 28.5 percent
- Repurchased 7.1 million shares
- Raised quarterly dividend 21 percent, to $0.35 per share

GOALS FOR 2008

- Increase sales by 7 to 10 percent
- Achieve operating margins of 10.8 to 11.2 percent
- Deliver earnings per share of $5.65 to $6.00
- Complete market expansion in the top 25 U.S. metro areas

GRAINGER® FOR THE ONES WHO GET IT DONE

GRAINGER FACTS AT A GLANCE

FAST FACTS (12/31/07)

TOTAL COMPANY

2007 Sales
$6.4 billion

2007 e-commerce sales
$1.3 billion

2007 EPS (diluted)
$4.94

Employees
18,000

Branches
610

Distribution centers
18

Customers
1.8 million in 150 countries

Products offered
870,000

Suppliers
3,000

Years of consecutive dividend increases
36

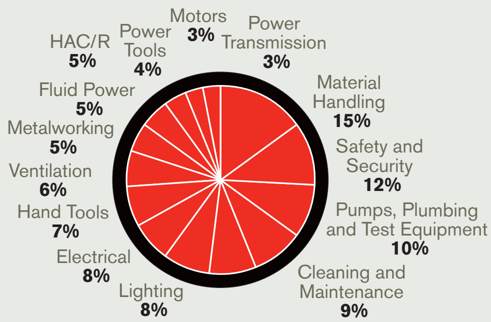
Shares repurchased in 2007
7.1 million

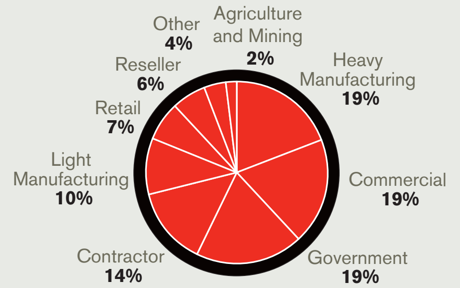
Stock trading
Grainger's common stock is listed on the New York and Chicago stock exchanges under the trading symbol GWW.

BUSINESS MODEL	*LOCATION/MARKET*
BRANCH-BASED BUSINESSES	**UNITED STATES** **Grainger** operates in the United States and Puerto Rico through a highly integrated network of 438 branches, nine distribution centers and the Web site, grainger.com®. In 2007, Grainger's U.S. business served some 1.4 million customers, who primarily represent industrial, commercial and government maintenance departments.
	MEXICO **Grainger, S.A. de C.V.** is a leading supplier of facilities maintenance products to businesses and institutions across Mexico. Currently, the company serves approximately 30,000 customers through 15 branches, a distribution center, a Spanish-language catalog and grainger.com.mx.
	CHINA **固安捷® (Gu An Jie)** Grainger, which established its physical presence in China in 2006, currently operates a 126,000-square-foot distribution center and six will-call express locations in greater Shanghai. Customers also can access facilities maintenance products through a Chinese-language print catalog containing 33,000 items, and online at Grainger's Chinese Web site, grainger.com.cn.
	CANADA **Acklands – Grainger,** whose origins date to 1889, is Canada's leading broad-line supplier of industrial, safety and fastener products. The company serves approximately 45,000 customers across Canada through 153 branches and five distribution centers. Its catalog, in both English and French, is available in print form and on acklandsgrainger.com.
DIRECT MARKETING BUSINESS	**UNITED STATES AND CANADA** **Lab Safety Supply (LSS®)** provides safety and other products to more than 800,000 customers in North America. It reaches them through a variety of branded catalogs, flyers and Web sites targeted to specific niche markets. Customers represent all sizes and a range of sectors, including manufacturing, government and agriculture.

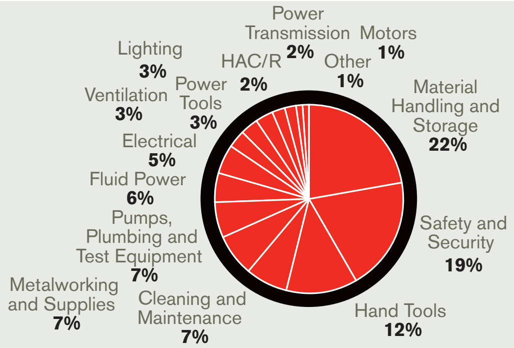
COMPETITORS	***2007 SALES BY PRODUCT LINE***	***2007 SALES BY CUSTOMER CATEGORY***

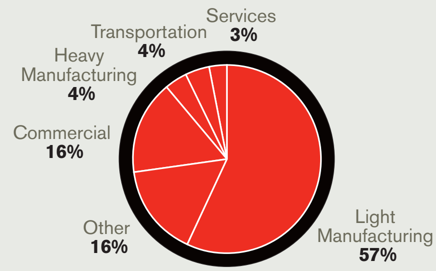
- Fastenal
- Ferguson
- Home Depot Supply
- McMaster-Carr
- MSC Industrial Direct
- Regional and local suppliers



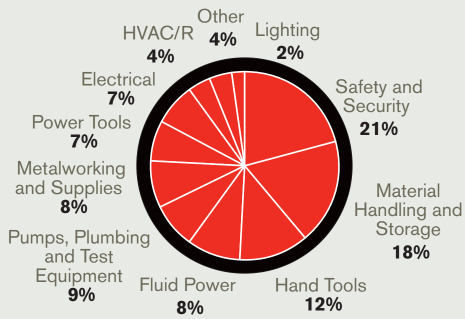


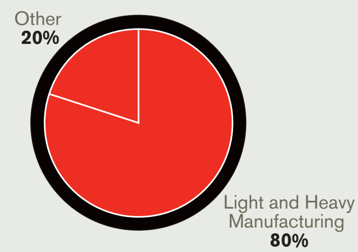
- Fastenal
- Gexpro
- Hagemeyer
- McMaster-Carr
- Regional and local suppliers



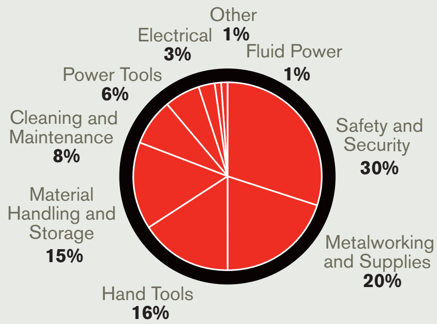


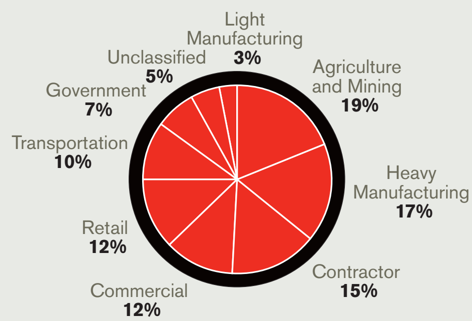
- Regional and local suppliers



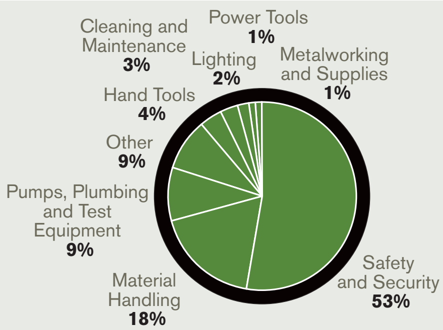


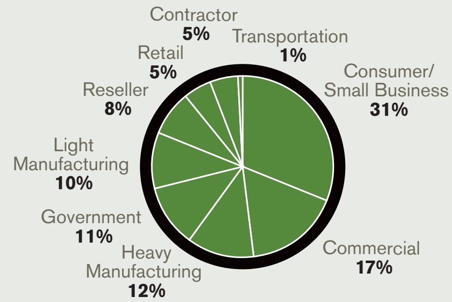
- Century Vallen
- Fastenal
- Gregg Distributors
- Home Depot Supply
- Weber Supply
- Regional and local suppliers





- Airgas Safety
- Forestry Suppliers
- K+K America
- McMaster-Carr
- ThermoFisher Scientific





Why Grainger

- **The company is aggressively taking share in a highly fragmented market.**
- **Grainger's investments in market expansion and product-line expansion are driving sales growth.**
- **Grainger has grown its top line at a rate considerably faster than the growth in GDP.**

Long-term financial goal:
Average annual sales growth of 7 to 10 percent through an economic cycle

FAST FACTS – COMPANY

- MRO market potential worldwide: approximately $540 billion
- Total sales in 2007: $6.4 billion, up 9 percent
- 2007 e-commerce sales: a record $1.3 billion, up 21 percent
- Sales CAGR: approximately 8 percent from 2003-2007
- Projected 2008 sales growth: 7 to 10 percent

GROWTH

Grainger's steady success is attributable to a combination of factors: standout service, immediate product availability and flawless execution. The company has developed:

- a broad product line to handle customers' diverse maintenance, repair and operating (MRO) requirements
- an efficient supply chain that quickly moves products from suppliers to customers
- a local presence, giving customers immediate access to the most frequently needed items
- an integrated information platform that connects customers, products and information.

Reducing the cost of procurement

The global economy is pushing businesses to find new ways to operate more efficiently. For facilities of all types, finding, ordering and storing MRO products represent a new frontier for cost savings and, in turn, for improving the ability to compete.

Buying MRO products can be an expensive process. One of the costliest aspects of procurement is the task of sourcing the products themselves, particularly items that are bought infrequently. According to the Aberdeen Group, such items represent 16 percent of all purchase transactions, yet 62 percent of requisition costs. What's more, only 60 percent of the total cost is represented by the piece price. The remaining 40 percent reflects "process" costs.

Still other costs add to the price tag. Consider the warehousing cost for items that might be needed quickly sometime in the future. Consider the opportunity cost of holding products that are not central to the operations of a particular plant or warehouse.

More and more customers see the merits of reducing the cost and hassle of maintaining MRO products by working with a supplier that can provide needed goods fast, reliably and economically. Grainger is that supplier.

By consolidating purchases with Grainger, customers can access the company's multiple channels to help lower costs, improve productivity and receive competitive pricing from a single, convenient source. In short, Grainger makes procurement easy and cost-effective, which translates into savings of money and time for facilities operators.

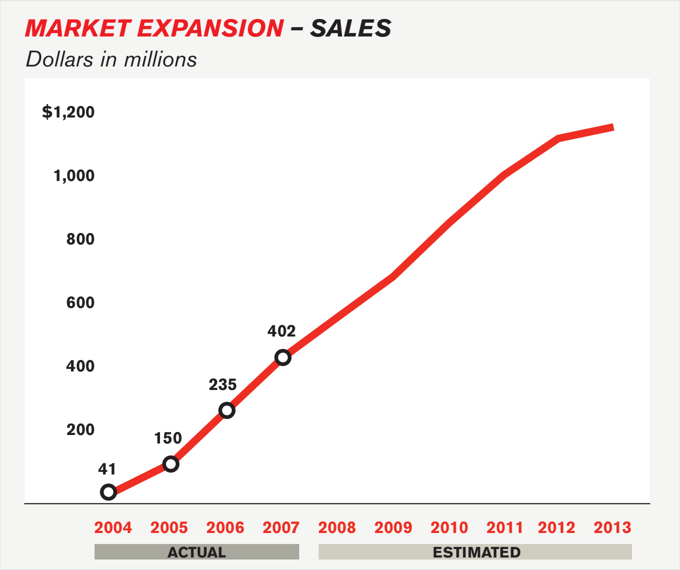
The program to strengthen Grainger's presence in the top 25 U.S. metropolitan markets is expected to conclude in 2008. Among markets slated for completion is Minneapolis (pictured above).

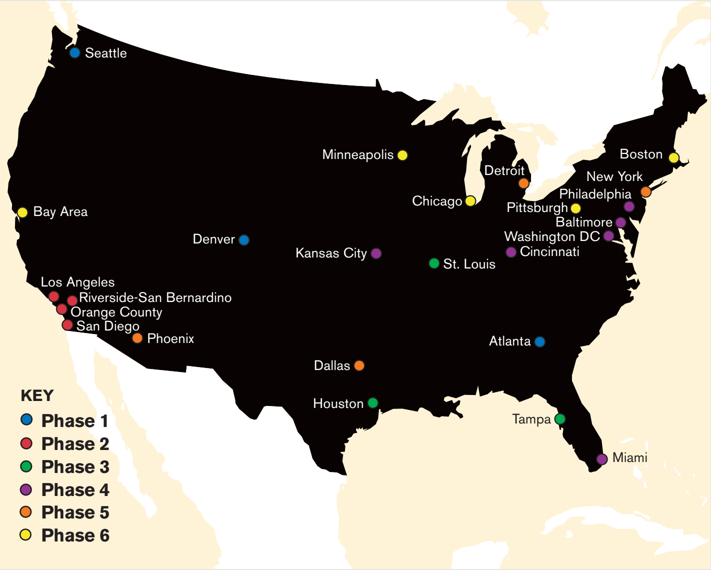
UNITED STATES

Market expansion

Expected to conclude in 2008, Grainger's multiyear market-expansion program has powered growth in the top 25 metropolitan markets in the United States. These markets represent about 50 percent of the country's overall MRO product opportunity.

Grainger already has a presence in these markets. Yet by examining branch size and location, inventory, sales coverage and marketing, the company is expanding its market share. The company anticipates incremental sales growth – that is, growth occurring faster than the underlying market's economic growth – several percentage points higher for each of the five years following completion of the expansion.





MARKET EXPANSION – PERCENTAGE GROWTH IN DAILY SALES

	2004		2005				2006				2007				Project
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	percent complete
Phase 1	14	12	11	4	9	15	11	14	8	6	14	12	16	19	100
Phase 2		15	14	13	17	13	13	14	12	11	6	5	7	7	100
Phase 3			19	23	18	16	13	15	15	8	16	11	14	12	100
Phase 4								9	10	4	11	12	8	9	100
Phase 5												10	8	8	75
Phase 6														8	65

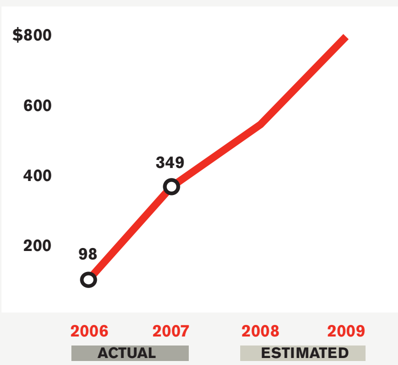
Note: Sales results are reported once the phase is 50 percent or more complete.

GROWTH




PRODUCT LINE EXPANSION – SALES

Dollars in millions



Product line expansion

The span and availability of Grainger's product line further distinguish the company from most of its competition. Grainger carries hundreds of thousands of items in 17 categories and can make them available to customers the same day (when stocked in a local branch) or the next day (if stocked in the nine distribution centers). Put another way, the company can get products to 99 percent of U.S. businesses and institutions by the next day.

Grainger has found that selectively adding products is a way to accelerate sales growth. It's also an important way to take advantage of the trend of supplier consolidation. Products added in 2006 and 2007 delivered $349 million in incremental sales.

Electronic purchasing

On average, Grainger customers who purchase through the Web not only buy more products, but they also purchase more frequently. In addition, electronic sales channels are more profitable than traditional ones because customers do the data entry. What's more, some 90 percent of online orders are shipped – the company's most cost-effective form of delivery.

2008 Segment Guidance

Grainger Branch-based (U.S., Mexico and China)

> SALES GROWTH OF 7 TO 10 PERCENT

> OPERATING MARGINS OF 13.0 TO 13.5 PERCENT

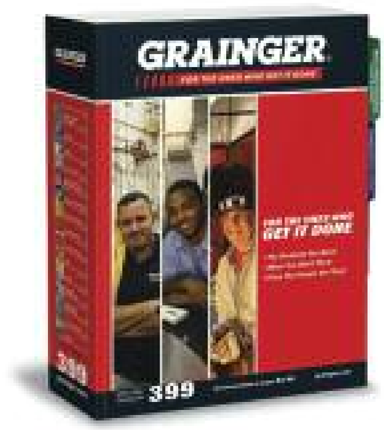
For the U.S. Branch-based business, 2007 e-commerce sales grew by 19 percent, representing 22 percent of total sales.

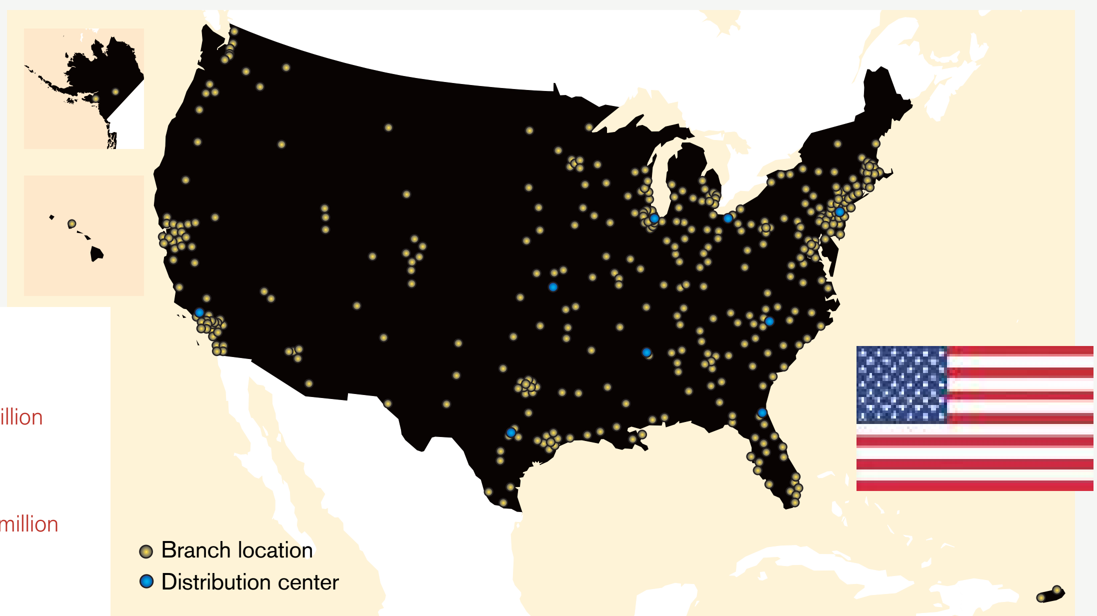
Orders received through the Internet and other electronic channels produce incremental sales as well as earnings growth. In 2007, e-commerce sales – $1.2 billion – grew by 19 percent, representing 22 percent of total sales for the U.S. Branch-based business. Sales through Grainger's electronic channels contributed to the improvement in operating earnings.

New services

To access previously untapped markets and boost revenues, Grainger is pursuing new ways to reach potential and existing customers. Recent initiatives include the restocking of MRO inventory at customers' locations. For certain products such as fasteners or electrical components, Grainger employees replenish bins on a regular schedule. In other cases, customers scan empty containers and the information is then transferred to Grainger for immediate picking, packing and shipping.

Grainger's sales to these customers have grown incrementally faster than the sales growth rate of customers not participating in the program.





FAST FACTS – U.S. BRANCH-BASED

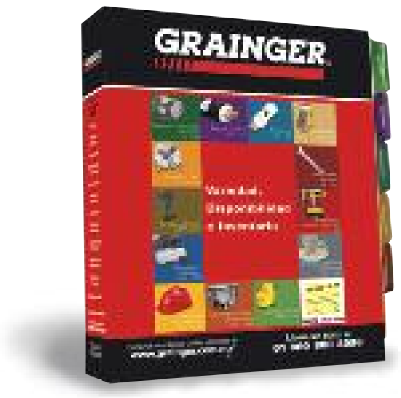
- MRO market potential: $116 billion
- Grainger's share of market: approximately 4 percent
- Customers: approximately 1.4 million
- Branches: 438*
- Distribution centers: 9
- Products in catalog: 183,000
- Products offered through grainger.com: 400,000
- 2007 e-commerce sales: $1.2 billion
- Suppliers for products sourced within the U.S.: nearly 1,200
- Suppliers for products sourced outside the U.S.: 230
- Total square feet in branches and DCs: 14.8 million

* *As of February 29, 2008*

SALES REPRESENTATIVES – U.S. BRANCH-BASED BUSINESS

	2003	2004	2005	2006	2007
Account Managers	1,258	1,366	1,472	1,506	1,466
Account Relationship Managers	8	159	194	313	424
Total	1,266	1,525	1,666	1,819	1,890

INTERNATIONAL GROWTH — MEXICO



Grainger, S.A. de C.V. is a leading supplier of facilities maintenance products to businesses and institutions across Mexico. Currently, the company serves customers through a nationwide sales force, a Spanish-language catalog and grainger.com.mx. The current market size is $10 billion, and Grainger's share is roughly 1 percent.

The MRO market in Mexico is highly fragmented and lacks a nationwide supplier. Grainger intends to be the first. The business is growing fast, registering a 23 percent sales increase in 2007.

To capitalize on the country's economic growth and help Grainger become the first countrywide MRO supplier in Mexico, the business expanded its network – adding five branches and two master branches in 2007. This increased presence gives customers greater access to company products.

Within the next few years, the business expects to offer next-day delivery to 90 percent of its customers across Mexico. It also plans to double the number of branches in that period.

FAST FACTS – MEXICO

- MRO market potential: $10 billion
- Grainger's share of market: 1 percent
- Customers: 30,000
- Branches/master branches: 15*
- Distribution centers: 1
- Products: 35,000
- Total square feet in branches and DCs: 378,000

* *Including one branch in the distribution center*

GOALS

- **Grow sales 25 to 35 percent in 2008**
- **Over the next several years, double the branch count**
- **Over the next several years, double sales and triple earnings**
- **Leverage other Grainger businesses**

INTERNATIONAL GROWTH — CHINA

Grainger operates a 126,000-square-foot distribution center, which contains a showroom and six will-call express sites in greater Shanghai. Customers also can access products through a Chinese-language print catalog and online at Grainger's Chinese Web site, grainger.com.cn. More than 90 percent of products offered are sourced within China.

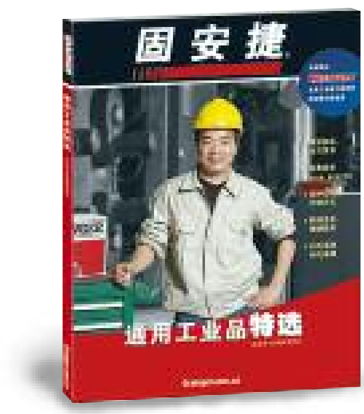
Abundant opportunity

China's fast-growing economy is expected to be the world's largest by 2040. Because manufacturing is the most MRO-intensive sector, growth within the maintenance supply market should be equally explosive. Chinese manufacturers represent a growing force in global manufacturing.

The maintenance-supply market is especially fragmented in China. In Shanghai, for example, consumers have bought goods from small, storefront suppliers clustered in one part of the city for centuries. Grainger aims to capture more market share by influencing the way Chinese customers procure MRO products.

The company offers purchasers easy, one-stop access to a broad array of authentic products as well as ordering and delivery options. The result: Grainger can help customers save money and time. As Chinese consumers learn about the ease of shopping in large emporiums where more of their needs are met, the Grainger approach should become accepted…even expected.

Currently, Grainger is targeting smaller businesses and international corporations with facilities in metropolitan Shanghai. The company plans to establish a stronger foothold in the Yangtze Delta to deliver sustainable, profitable growth before entering other high-potential markets in China.



GOALS FOR 2008 INCLUDE:

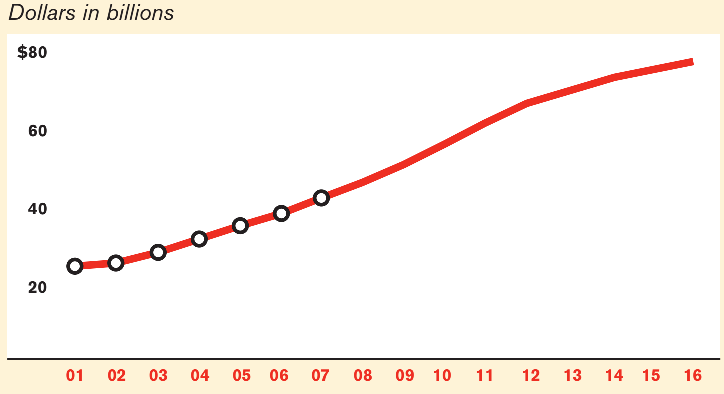
- Sales approaching $9 million (up from nearly $3 million in 2007)
- Greater market penetration in and around Shanghai

FAST FACTS – CHINA

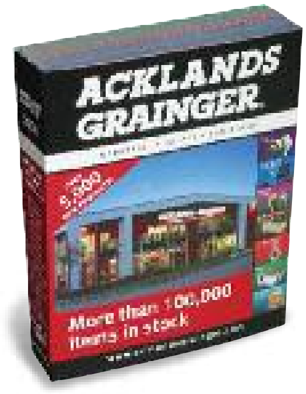
- MRO market potential: $75 billion by 2016
- Customers: 4,000+
- Will-call express locations: 6
- Distribution centers: 1
- Products: 33,000
- Sales force: more than 100
- Total employees: 260
- Total square feet in DC: 126,000

MRO MARKET – CHINA

Dollars in billions



INTERNATIONAL GROWTH — CANADA



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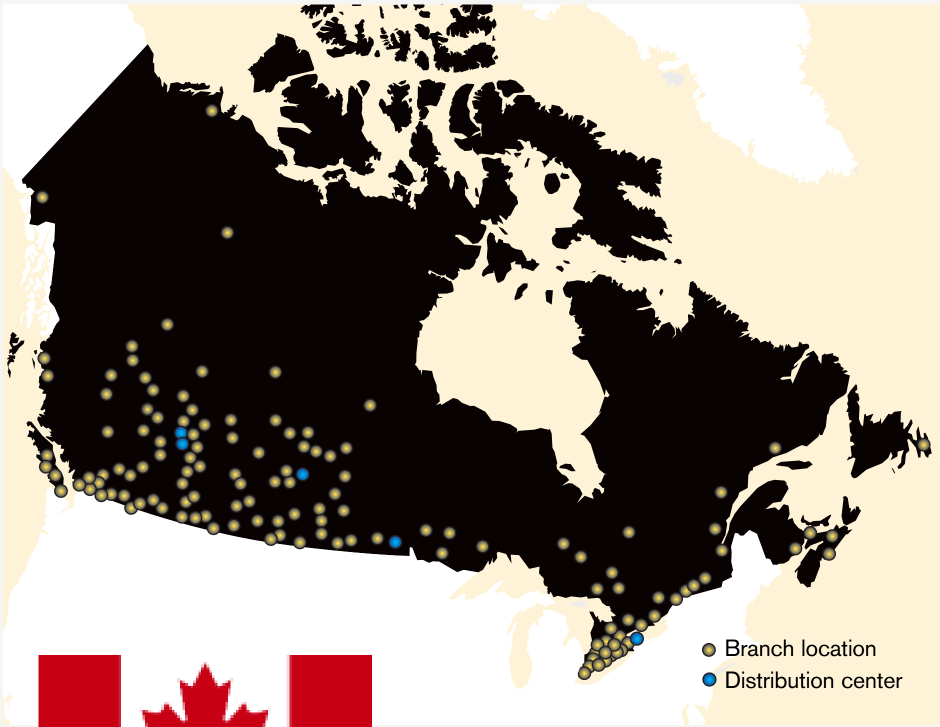
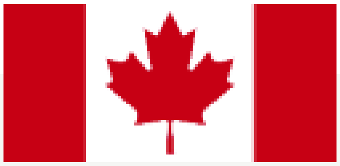
In 2007, Acklands – Grainger recorded sales of $680.2 million (Canadian), a 6 percent rise, or $636.5 million (U.S.), up 13 percent. Currently, the business has about 5 percent of Canada's MRO market.

For 2008 and beyond, Acklands – Grainger intends to boost sales and improve operating margins through such efforts as:

- product line expansion
- expanded global sourcing
- greater supply-chain efficiency
- pricing discipline
- service and productivity enhancements, and
- leveraging other Grainger businesses.





FAST FACTS – CANADA

- MRO market potential: $12 billion
- Acklands – Grainger's share of market: 5 percent
- Customers: 45,000
- Branches: 153
- Distribution centers: 5
- Products: 100,000+
- Total square feet in branches and DCs: 2.16 million

2008 Segment Guidance

> SALES GROWTH OF 8 TO 10 PERCENT

> OPERATING MARGINS OF MORE THAN 7 PERCENT

DIRECT MARKETING GROWTH — LAB SAFETY SUPPLY

Direct marketer Lab Safety Supply (LSS) provides safety and other specialized products to more than 800,000 customers in the U.S. and Canada. It reaches them through a variety of branded catalogs and Web sites targeted to specific markets. Customers represent all sizes and a range of sectors, including manufacturing, government and agriculture. In 2007, sales were $434.7 million, up 6 percent from 2006.

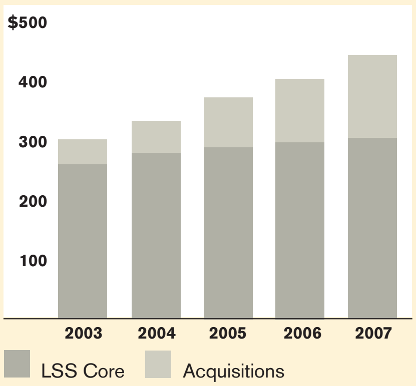
LSS' direct marketing model is less capital intensive, calling for few distribution centers and no branches or field sales representatives. Geared to business customers who do not require direct sales contact, the model is a cost-effective way to enter new vertical markets and new geographies.

For LSS, acquisitions are expected to be a source of growth and diversification. Sales from acquisitions that came on line in November 2006 and May 2007 contributed some 6 percentage points to sales growth in 2007. Criteria for acquisitions include a direct marketing channel, focus on a market niche, limited customer overlap, good growth potential and accretion to earnings the first year.

Opportunities for 2008 include continued refinement of catalog circulation, product-line expansion and additional investments in e-commerce.

LAB SAFETY SUPPLY – SALES

Dollars in millions



FAST FACTS – LSS

- MRO market potential: approximately $126 billion
- Lab Safety's share of market: less than 1 percent
- Customers: 800,000+
- Distribution centers: 2
- Products: 163,000
- Unique catalogs issued in 2007: 13
- Web sites: 8
- Total square feet in DCs: 813,000

2008 Segment Guidance

> SALES GROWTH OF 10 TO 15 PERCENT *

> OPERATING MARGINS OF 13.0 TO 13.5 PERCENT *

* *Depending on acquisitions*

Why Grainger

- **By adding products, exiting low-margin contracts and sourcing globally, Grainger has steadily improved gross margins.**
- **In recent years, the company has expanded its operating margins.**
- **Because all of Grainger's businesses are in the same business – MRO supplies – the company can share expertise across organizations and geographies.**

Long-term financial goal:
Operating margins of 10 to 12 percent

FAST FACTS

- 2007 operating margin: 10.5 percent
- 2008 range for operating margin: 10.8 to 11.2 percent
- Number of countries sourced for products: 27
- 2007 EPS (diluted): $4.94, up 17 percent
- Anticipated 2008 EPS range: $5.65 to $6.00

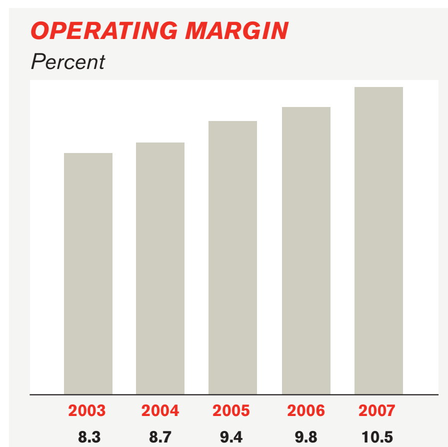
PROFITABILITY

Since 2003, Grainger has increased its operating margin from 8.3 percent to 10.5 percent. Recent improvement in operating margins has come largely from improved gross profit margins. Going forward, the company expects a better balance between improved gross profit margins and operating leverage of its cost structure.

For 2008, Grainger expects to post operating margins of 10.8 to 11.2 percent, compared with 10.5 percent recorded in 2007. The company aims to achieve greater profitability by:
- leveraging sales growth (discussed on pages 4-11)
- expanding gross profit margins
- lowering its cost structure as a percentage of sales.

Expanding gross profit margins

Several product-related programs have contributed to Grainger's multiyear improvement in profitability, helping the company increase gross profit margins from 36.2 percent in 2003 to 40.6 percent in 2007. Grainger uses its industry-leading size and scale to manage product costs effectively.



Here is a look at major product-related initiatives that are driving profits:

Product line reviews

Each year, Grainger's U.S. Branch-based business conducts thorough reviews of approximately one-third of its product lines, comparing existing suppliers to prospective ones. Grainger uses a sophisticated supplier evaluation scorecard to measure, evaluate and manage supplier performance. A Web-based tool, the scorecard is accessible to suppliers online, every day, around the clock.

By adding the purchasing volume of its businesses in Canada and Mexico, Grainger is able to leverage its substantial scale and increase its product cost advantage.

Customers enjoy the high quality, lifetime guarantee and attractive pricing that come with Westward® hand tools.

Private label

The company established its private label program 70 years ago. In the intervening years, such private labels as Dayton® and Westward® have grown into established, valued brands. Customers have confidence in a Grainger private label product just as they do in national brands; indeed, many customers prefer Grainger's proprietary brands. Gross profit margins on private label products are better than the company average.

In 2007, sales of private label items were 23 percent of total sales for the core business in the U.S. The goal is to increase the mix of private label sales – especially Grainger's globally sourced products – to expand margins further and increase overall profitability.

Global sourcing

Grainger finds and procures a broad range of products from around the world. Since the company started its global sourcing operation more than a decade ago, the initiative has been part of improving profitability. Products are imported to North America and sold under a private-label brand by the company's business units. Global sourcing is a capability that most Grainger competitors do not have.

The company's global sourcing operation is growing fast. With procurement offices in Chicago, Hong Kong, Mumbai and Shanghai, the company sources products from 27 countries around the globe. Importantly, these products carry gross margins that are about 50 percent higher than the company average.

For 2007, Grainger's globally sourced merchandise represented 7 percent of sales. Grainger intends to double sales of such merchandise over the next five years. To help drive this growth, the company recently opened a new procurement office in Mumbai, India, and plans additional sourcing offices as it pursues more global product opportunities.

Supplier Relationships

Grainger has strong relationships with its 3,000 suppliers. The company collaborates with each supplier to improve product availability and lower overall costs. In 2008, Grainger recognized those suppliers whose efforts to meet these goals have benefited customers:

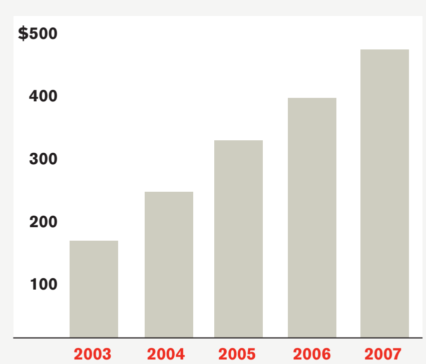
Supplier of the Year

Georgia-Pacific

Partners In Performance Award Winners

Acuity Brands Lighting, Inc.
Advance Transformer Co.
Aigner Index, Inc.
Columbia Sanitary Products
Cotterman Company
CRC Industries, Inc.
E-Z LOK
Georgia-Pacific
Grane Transportation
Lockwood Products Inc.
Maxit Designs
Mechanical Plastics Corporation
J.C. Parry & Sons, Inc.
Perma-Patch
Pitt Plastics, Inc.
Reelcraft Industries, Inc.
Shop Vac Corporation
Superior Manufacturing

GLOBALLY SOURCED PRODUCTS – SALES *Dollars in millions*



PROFITABILITY

Improving the cost structure

To stay competitive and increase profitability, Grainger constantly looks for ways to be more productive, streamline processes, exit low-margin businesses and operate more efficiently. The company last year eliminated 125 IT positions, which will yield savings in 2008 of about $12 million.

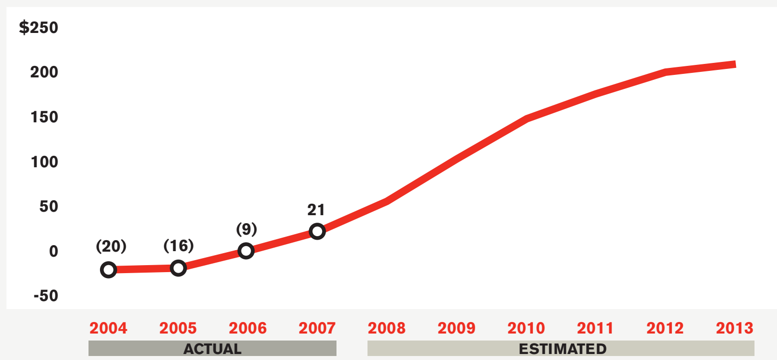
Also contributing to improved productivity are Lean and Six Sigma techniques applied in the distribution centers (DCs) and branches. (See examples at left.) Additionally, the company essentially completed the wind-down of integrated supply contracts in 2007. Exiting this low-margin business has helped increase margins for the past three years.

Investments in key growth programs, such as the ones described below, also are contributing to a more efficient cost structure and improved profitability:

Enhancing productivity…
Lean and Six Sigma in the U.S. Branch-based business

- By applying Lean and Six Sigma principles to its U.S. distribution centers (DCs), Grainger is making better use of these facilities. Improved "slotting" of items has led to more efficient picking processes.
- Although inventory dollars have increased in the DCs, due largely to product expansion and reverse logistics of branch inventory, square footage in use has declined. DCs in the U.S. are making better use of space by improving slotting. In the Kansas City DC, for example, productivity measures have freed up space, allowing it to house more globally sourced products.
- The average outbound cycle time – to pick, pack and ship – has decreased 25 percent, from 120 minutes to 90 minutes.
- The company is seeing a 10 percent to 20 percent improvement in functional process performance. The two U.S. DCs that were early adopters of Lean and Six Sigma are experiencing two times the productivity improvement of the other seven. Based on that result, the U.S. Branch-based business is rolling out Lean practices across its other DCs.

MARKET EXPANSION – EARNINGS
Dollars in millions



Market expansion

The market expansion program, described on page 5, is contributing incremental sales growth. The year 2007 signaled an important turning point in the profitability of this program. Up until then, due to the aggressive investments made since 2004, market expansion had produced an operating loss.

The company expects this program to contribute $50 million to $60 million in operating earnings in 2008, representing about a $30 million to $40 million incremental benefit from the 2007 figure of $21 million.

Product line expansion

Because of earlier investments in expanding the logistics network by 1 million square feet and the branch footprint by 1 million square feet, capital expenditures to support product line expansion have been modest. That makes the program's profitability quite attractive.

The only capital expenditures for product line expansion so far have been for racking in the DCs. Gross profit margins for product additions have approximated the company average.

Electronic purchasing

Company investments in a tightly integrated, highly scalable IT network likewise are boosting profitability. Grainger's customers like the convenience and speed of placing orders electronically. Through grainger.com, online purchasers have 24/7 access to real-time product availability, customer-specific pricing, links to customer support and fulfillment, and more.

Grainger customers who purchase through the Web not only buy more products but also purchase more frequently. In addition, electronic sales channels are more profitable than traditional ones because customers do the data entry and some 90 percent of online orders are shipped – the company's most cost-effective form of delivery.

Orders received through the Internet and other electronic channels generate incremental sales as well as earnings growth. In 2007, sales through Grainger's electronic channels eclipsed the $1 billion threshold for the first time. For the year, e-commerce sales grew to $1.3 billion.

Logistics' central role

Maintaining a logistics network the size and intricacy of Grainger's requires smart planning, flawless coordination and constant attention. The company regularly assesses its supply-chain network to make sure it runs as efficiently as possible and can meet customers' future needs.

In the area of logistics, Grainger is beginning to leverage a number of successes in the United States across its North American platform, such as the review of common suppliers. Acklands – Grainger is coordinating more of its purchasing with Grainger Industrial Supply, negotiating joint agreements with more than 40 common suppliers. For Acklands – Grainger, the resulting savings in product cost in 2007 represented 100 basis points of gross margin improvement.

Grainger's enhanced logistics platform has spawned continual improvement, helping the company increase profitability in such areas as:

Availability of products

Grainger has strong relationships with its 3,000 suppliers, including those who support its global sourcing activities. By collaborating and sharing best practices with them, the company is improving product availability, while lowering its overall costs.

Inventory management

Despite the rapid addition of products in recent years, inventory turns have remained steady at 3.1 times (4.3 times on a LIFO basis). This compares favorably to the rate of similar competitors. For Grainger, the result is better working capital management and increased cash flow, all while maintaining high service levels.

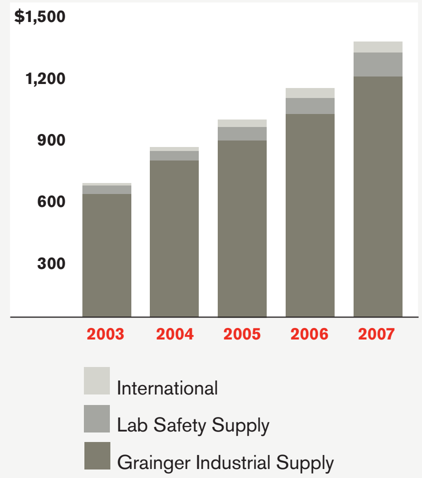
That solid performance results from several factors, including:

• Improved management of inventory: In recent years, Grainger has increased its ability to manage inventory substantially. It continues to seek improvement by, among other things, reducing supplier lead time and forecasting inventory more accurately.

• Reverse logistics: In the U.S., Grainger's DCs do double duty: They ship products directly to customers, and they replenish stock in the branches. In addition, branches can return unsold inventory to the DCs for redeployment to locations needing those products. This reduces obsolete inventory and increases the potential for sale. It also improves inventory turns overall.

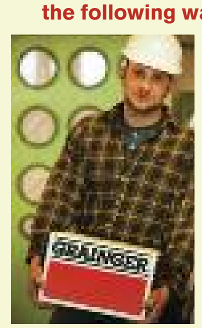
E-COMMERCE SALES – SEGMENT

Dollars in millions



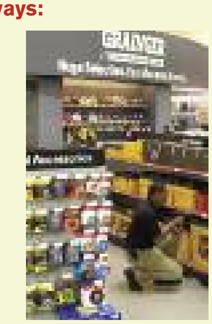
1. Grainger DCs receive bulk shipments from suppliers

2. Customers receive product in the following ways:



Shipped directly from the DCs.

To reduce costs, Grainger contracts with dedicated national shippers.



Picked up at local branches.

By replenishing daily, less inventory needs to be stocked in branches, freeing up space to house a broader range of products.

Why Grainger

- The company generates substantial free cash flow.
- Grainger has consistently returned two thirds of its cash flow to shareholders through dividends and share repurchases.
- Grainger has increased its dividend annually for the past 36 years.
- The company has reduced its shares outstanding considerably.
- Grainger has a solid balance sheet and strong operating cash flow.

Long-term financial goal:
Pretax ROIC exceeding 20 percent.

FAST FACTS

- 2007 cash flow from operations of $469 million, up 7 percent
- 2007 capital expenditures totaled $197 million, up 44 percent
- Dividends paid to shareholders in 2007: $113 million
- Shares repurchased in 2007: 7.1 million, representing $647 million
- Total debt as percent of total capital structure: 5 percent
- Long-term debt rating (S&P): AA+

CASH FLOW

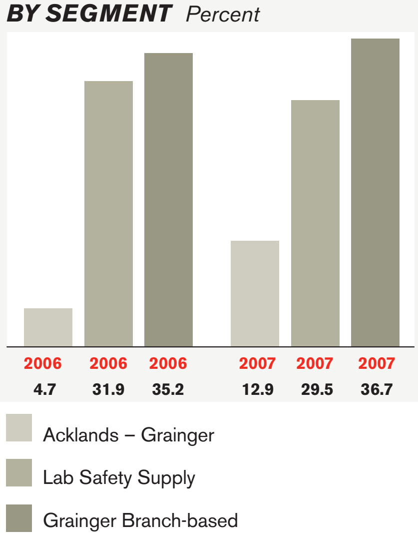
Strong financial fundamentals are a Grainger hallmark, evidenced by significant cash generation and limited debt. Notably in 2007, operating cash flow totaled $469 million, a record for the company. Total debt as a percentage of total capitalization was 5 percent.

As in past years, management's goal is to add value in two ways: by investing in projects that will drive profitable growth over the long term and by giving cash back to shareholders through dividends and stock repurchases.

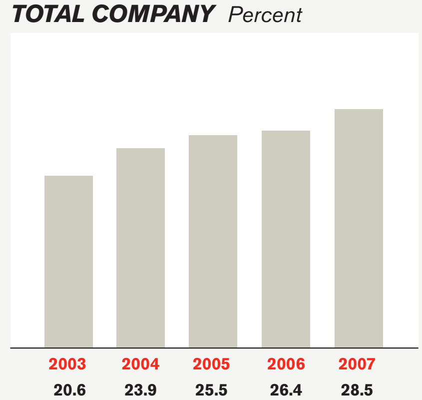
The company has used about a third of its operating cash flow for capital outlays and returned the remainder to shareholders. In 2007, internally generated cash, short-term borrowing and $350 million of the company's cash reserve funded $197 million in major growth programs, paid for $113 million in dividends and financed $647 million in share buybacks.

The company anticipates 2008 cash generation of $550 million to $600 million. Grainger plans to use that sum to:
- invest in ways that generate profitable growth, including acquisitions, and
- return capital to shareholders through dividends and share repurchases.

RETURN ON INVESTED CAPITAL – BY SEGMENT *Percent*



RETURN ON INVESTED CAPITAL*– TOTAL COMPANY *Percent*



*The GAAP financial statements are the source for all amounts used in the Return on Invested Capital (ROIC) calculation. ROIC is derived by using GAAP 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 (non-operating 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.

2008 Cash Flow Guidance

- > OPERATING CASH FLOW RANGE: $550 MILLION TO $600 MILLION
- > EXPECTED CAPITAL EXPENDITURES: $175 MILLION TO $200 MILLION
- > CAPITAL EARMARKED FOR SHARE REPURCHASE: $180 MILLION TO $220 MILLION

Consistently achieving pretax return on invested capital greater than 20 percent is one of Grainger's main financial goals. The company aims to grow areas of the business earning more than the cost of capital and improve performance in areas earning less.

In the company's view, using ROIC as a key barometer makes sense, because it instills discipline in assessing all capital projects and in deploying capital. Indeed, ROIC is part of the company's performance metrics. It is tied to rewards such as performance shares and the bonus program.

Capital expenditures

For 2007, Grainger's capital expenditures were driven largely by investments in the company's market expansion program, which totaled $88 million. During the year, the company completed phases two, three and four of this six-phase initiative. Other major uses included $6.7 million for expansion in China and $4.7 million for Lab Safety's acquisition of McFeely's.

The company expects capital spending in 2008 to be in the range of $175 million to $200 million. Cash will be deployed for major activities such as:

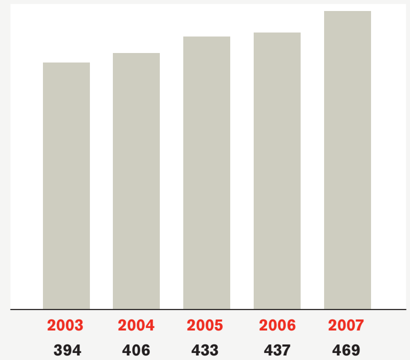
U.S. MARKET EXPANSION
$50 million to $60 million
Grainger's multiyear program to strengthen its presence in the country's top 25 metropolitan markets is expected to conclude in 2008. Slated for completion are Dallas, Detroit, New York City, Phoenix, Chicago, Minneapolis, Pittsburgh and the San Francisco Bay area.

SUPPLY CHAIN INFRASTRUCTURE
$25 million to $30 million
Another key initiative is expansion of the company's product lines. This program and other improvements are increasing Grainger's value to customers as a one-stop source for unplanned as well as planned MRO purchases.

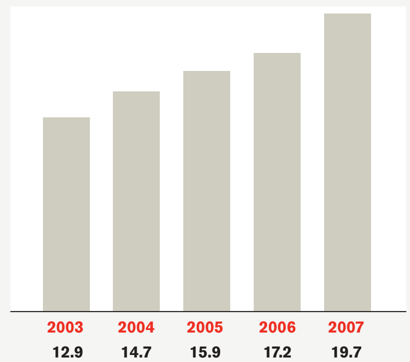
INFORMATION TECHNOLOGY
$20 million to $30 million
Reliable, sophisticated, integrated technology is the backbone of Grainger's operations and central to the company's continuing growth. Funds will be used for upgrades and other enhancements.

INTERNATIONAL EXPANSION
$15 million to $25 million
Grainger sees significant growth potential for the enterprise, not only in North America but also in Latin America and Asia.

CASH FLOW FROM OPERATIONS
Dollars in millions

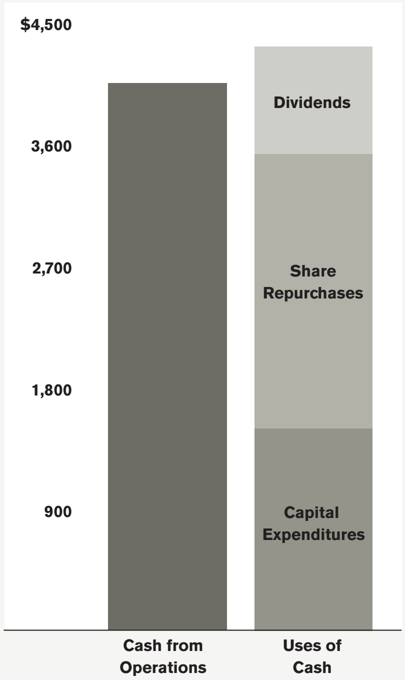


RETURN ON EQUITY
Percent



CASH FLOW

CASH DEPLOYMENT – 1997–2007
Dollars in millions



Capital returned to shareholders

Repurchasing shares

In 1984, Grainger began a share-repurchase program to return capital to shareholders by reducing the number of shares outstanding. In the ensuing years, the company has allocated $2.5 billion to purchase some 56 million shares. As a result, the company has reduced the number of shares outstanding by approximately 31 percent.

SHARES REPURCHASED – CUMULATIVE
Shares adjusted to account for stock splits
In millions

1987	1991	1995	1999	2003	2007
5.65	13.89	18.88	32.97	37.96	56.37

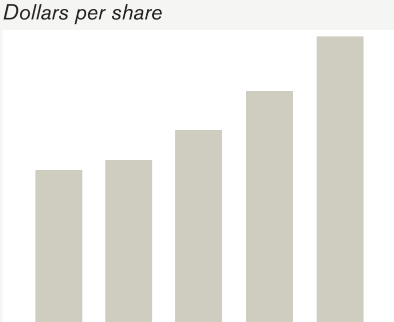
SHARES OUTSTANDING
In millions

1987	1991	1995	1999	2003	2007
110.8	105.8	101.8	93.4	91.0	79.5

Grainger announced in August 2007 an accelerated share repurchase (ASR) agreement to buy back $500 million of its outstanding common stock. Most of the shares were received immediately, with the remainder in January 2008. The total number of shares repurchased was 5.7 million. Roughly two thirds of the buyback was funded with cash and the balance with short-term borrowings.

To facilitate the agreement, Grainger's Board of Directors restored the company's share repurchase authorization to 10 million shares of common stock, including shares purchased through the ASR program. For 2008, Grainger has earmarked $180 million to $220 million in capital to repurchase shares in both the ASR and regular buyback programs.

DIVIDENDS PAID
Dollars per share



2003	2004	2005	2006	2007
0.74	0.79	0.92	1.11	1.34

Dividends

Grainger in 2007 raised the quarterly dividend 6 cents, or 21 percent, to 35 cents per share. This action marked the 36th consecutive year of dividend increases. Grainger is one of only 25 companies in the S&P 500 to claim such a record. For the past 11 years, the company has been singled out as a Dividend Aristocrat by Standard & Poor's.

CORPORATE SOCIAL RESPONSIBILITY

Grainger interprets corporate social responsibility broadly – from philanthropy and volunteerism to corporate governance. The company is especially strong in – and widely known for – its philanthropic and volunteer programs.

Focused giving for maximum impact

The company can do considerable long-term good by directing its philanthropy to two main areas that reflect its brand: disaster relief and technical education. Both are well suited to Grainger's expertise, product resources and broad geographic coverage.

Disaster relief

Grainger's close affinity with the mission of the American Red Cross led to the company's national founding sponsorship of Ready When the Time Comes, a Red Cross program that trains corporate volunteers in providing aid to disaster victims.

In 2007, the company and employee volunteers helped launch Ready When the Time Comes training in Kansas City; Orange County, California; St. Louis; Baltimore; San Francisco; Houston; Dallas; and Mobile, Alabama.

Launches in 2008 include New York; Cincinnati; Long Beach, California; Baton Rouge; Greenville, South Carolina; Columbus, Ohio; San Diego; and Washington, D.C.

The company supports disaster-struck communities in other ways. Because aid to small businesses can be scarce, Grainger established a program called Grainger Rebuilding America®, which disburses up to $100,000 a year. Contributions go to local nonprofit foundations or economic development organizations, which distribute the funds to qualifying small businesses, helping them rebuild.

In January 2008, Dick Keyser (center) served a dual role on the floor of the New York Stock Exchange, ringing the opening bell and helping launch the Ready When the Time Comes program in greater New York. Grainger is the national founding sponsor and a key supporter of the American Red Cross effort.
Courtesy NYSE Euronext/Photo by M. Nudelman

Why Grainger

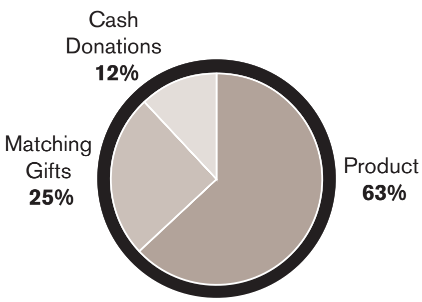
- **For years, Grainger has been a great partner to local communities, leading to strong relationships and considerable goodwill.**
- **Grainger highly values its reputation and works hard to protect it.**
- **The company partners with the American Red Cross to train corporate volunteers in disaster relief.**
- **Grainger is helping students pursue careers in numerous technical fields through scholarships and other support.**

FAST FACTS – GRAINGER

- Is national founding sponsor of the American Red Cross' disaster volunteer effort, Ready When the Time Comes
- Donated more than $6 million worth of products in 2007
- Made $100,000 in grants to help small businesses rebound from disasters in 2007
- Gave more than $2.5 million in matching donations in 2007

CORPORATE SOCIAL RESPONSIBILITY

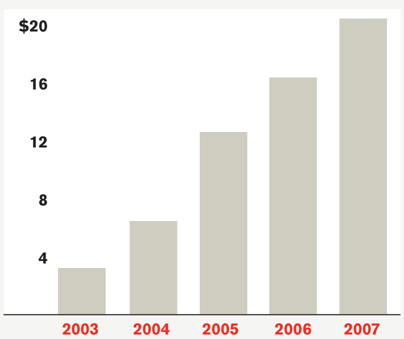
CHARITABLE CONTRIBUTIONS



Officials with the Red Cross of Mexico load hurricane preparedness kits filled with Grainger supplies. The kits, assembled by Grainger volunteers, will help residents recover from disasters.

CUMULATIVE CASH DONATIONS

Dollars in millions



Technical education

There's a growing shortage of skilled laborers, due in part to the increasing number of older workers leaving the labor force. To help make sure there are enough trained people for the trades, the company is investing in the future workforce through a number of programs, including the Grainger Tools for Tomorrow® program, a technical education effort launched in 2006.

Grainger designed this program to support careers in plumbing, contracting, electrical work, welding and construction. The initiative includes scholarships and tool kits for second-year students enrolled in technical programs at community colleges across the United States.

Among other programs, Grainger is supporting the development of a technical high school in Chicago. This charter school, part of the Chicago Public Schools system, will be located in an area serving a largely Hispanic population.

Product donations

In 2007, Grainger contributed products for disaster relief and education programs. Donated supplies ranged from hurricane-readiness kits to tools for students enrolled in technical training programs.

The workplace

Like other high-performing companies, Grainger offers excellent benefits and career-enriching programs to recruit and keep top talent. Notable among employee benefits are:

- The Profit Sharing Trust (PST), a retirement savings plan funded solely by Grainger.
- The matching of employees' charitable gifts three for one. Grainger is one of a small number of companies that offer such a generous program.

In addition to receiving excellent health care and other core benefits, employees can access numerous offerings for their personal and work lives. They include adoption-assistance, child- and elder-care, and employee-assistance programs. Among additional benefits, employees receive merchandise discounts and can take advantage of low-cost legal services and travel insurance.

In assessing candidates for employment, the company seeks people who are not only highly skilled but also highly principled… and who share the company's values of service, respect, diversity and integrity. Grainger expects everyone associated with the company – employees as well as suppliers and other partners – to meet the highest standards of conduct.

Employee involvement

The people of Grainger are deeply involved in – and generous contributors to – the community, giving countless hours of their own time to volunteer service. Three of the many initiatives employees support are:

- Ready When the Time Comes, the American Red Cross program noted above
- The Tax Assistance Program, helping low-income families file tax returns and claim tax credits
- Junior Achievement, teaching youths the basics of economics, business and free enterprise.

RECENT AWARDS AND RECOGNITION

(partial list)

Marco Polo Award, 2007 – U.S.-China Foundation for International Exchanges

100 Best Corporate Citizens of 2007 – *Corporate Responsibility Officer* Magazine

One of America's Safest Companies in 2007 – *Occupational Hazards* Magazine

One of America's 100 Most Trustworthy Companies – *Forbes*, March 2007

Henry P. Davison Heritage of Service Award for community service excellence 2007 – American Red Cross

WHY GRAINGER EMPLOYEES VOLUNTEER

"I became a volunteer for the Red Cross' Ready When the Time Comes program after helping out at Grainger's Varick Street branch in New York after 9/11. The branch stayed open 24 hours a day and the staff went the extra mile, comforting the community by letting them know they were not going through this alone."
Tyrone Rouse
Distribution Center Team Leader

"I decided to become a volunteer because I want to make a difference. It pleases me to know that the company I have worked for for almost 10 years wants to help me help others."
Judith Daigle
Sales Specialist

"Ever since I was little, I've had the urge to help others. I'm currently working on forming my own nonprofit organization that supplies books and educational materials for the less fortunate. Education is extremely important to me, and I want to make whatever difference I can."
Ray Vaccaro
Account Relationship Manager

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands of dollars, except per share amounts)	For the Years Ended December 31, 2007	2006	2005
Net sales	$6,418,014	$5,883,654	$5,526,636
Cost of merchandise sold	3,814,391	3,529,504	3,365,095
Gross profit	2,603,623	2,354,150	2,161,541
Warehousing, marketing and administrative expenses	1,932,970	1,776,079	1,642,552
Operating earnings	670,653	578,071	518,989
Other income and (expense):			
Interest income	12,125	21,496	12,882
Interest expense	(2,974)	(1,926)	(1,863)
Equity in net income of unconsolidated entities	2,016	2,960	2,809
Gain on sale of unconsolidated entity	—	2,291	—
Unclassified – net	41	131	(143)
Total other income and (expense)	11,208	24,952	13,685
Earnings before income taxes	681,861	603,023	532,674
Income taxes	261,741	219,624	186,350
Net earnings	$ 420,120	$ 383,399	$ 346,324
Earnings per share:			
Basic	$ 5.10	$ 4.36	$ 3.87
Diluted	$ 4.94	$ 4.24	$ 3.78
Weighted average number of shares outstanding:			
Basic	82,403,958	87,838,723	89,568,746
Diluted	85,044,963	90,523,774	91,588,295

Segment Information

(In thousands of dollars)	2007	2006	2005
Sales			
Grainger Branch-based	$5,352,520	$4,910,836	$4,649,200
Acklands – Grainger	636,524	565,098	502,021
Lab Safety Supply	434,663	411,511	380,091
Intersegment sales	(5,693)	(3,791)	(4,676)
Net sales to external customers	$6,418,014	$5,883,654	$5,526,636
Operating earnings			
Grainger Branch-based	$ 669,441	$ 593,455	$ 522,635
Acklands – Grainger	44,218	15,242	14,003
Lab Safety Supply	54,287	52,283	52,712
Unallocated expense	(97,293)	(82,909)	(70,361)
Operating earnings	$ 670,653	$ 578,071	$ 518,989

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)	As of December 31, 2007	2006	2005
Assets			
Current Assets			
Cash and cash equivalents	$ 113,437	$ 348,471	$ 544,894
Marketable securities at cost, which approximates market value	20,074	12,827	—
Accounts receivable (less allowances for doubtful accounts of $25,830, $18,801 and $18,401, respectively)	602,650	566,607	518,625
Inventories	946,327	827,254	791,212
Prepaid expenses and other assets	61,666	58,804	54,334
Deferred income taxes	56,663	48,123	76,474
Total current assets	1,800,817	1,862,086	1,985,539
Property, Buildings and Equipment			
Land	178,321	167,218	162,123
Buildings, structures and improvements	977,837	890,380	841,031
Furniture, fixtures, machinery and equipment	848,118	769,506	716,497
	2,004,276	1,827,104	1,719,651
Less accumulated depreciation and amortization	1,125,931	1,034,169	949,026
Property, buildings and equipment – net	878,345	792,935	770,625
Deferred income taxes	54,658	48,793	16,702
Investments in unconsolidated entities	14,759	8,492	25,155
Goodwill	233,028	210,671	182,726
Other assets and intangibles – net	112,421	123,111	127,174
Total Assets	$3,094,028	$3,046,088	$3,107,921
Liabilities and Shareholders' Equity			
Current Liabilities			
Short-term debt	$ 102,060	$ —	$ —
Current maturities of long-term debt	4,590	4,590	4,590
Trade accounts payable	297,929	334,820	319,254
Accrued compensation and benefits	182,275	140,141	152,543
Accrued contributions to employees' profit sharing plans	126,483	113,014	90,478
Accrued expenses	102,607	106,681	103,932
Income taxes	10,459	7,077	24,554
Total current liabilities	826,403	706,323	695,351
Long-term debt (less current maturities)	4,895	4,895	4,895
Deferred income taxes and tax uncertainties	20,727	6,235	7,019
Accrued employment-related benefits costs	143,895	151,020	111,680
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, 109,659,219, 109,657,938 and 109,667,938 shares, respectively	54,830	54,829	54,834
Additional contributed capital	475,350	478,454	451,578
Retained earnings	3,316,875	3,007,606	2,722,103
Unearned restricted stock compensation	—	—	(17,280)
Accumulated other comprehensive earnings	72,171	3,431	27,082
Treasury stock, at cost – 30,199,804, 25,590,311 and 19,952,297 shares, respectively	(1,821,118)	(1,366,705)	(949,341)
Total shareholders' equity	2,098,108	2,177,615	2,288,976
Total Liabilities and Shareholders' Equity	$3,094,028	$3,046,088	$3,107,921

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)	For the Years Ended December 31, 2007	2006	2005
Cash flows from operating activities:			
Net earnings	$ 420,120	$ 383,399	$ 346,324
Provision for losses on accounts receivable	15,436	6,057	1,326
Deferred income taxes and tax uncertainties	(18,632)	9,858	23,663
Depreciation and amortization:			
Property, buildings and equipment	106,839	100,975	98,087
Capitalized software and other intangibles	25,160	17,593	10,695
Stock-based compensation	35,551	33,741	9,015
Tax benefit of stock incentive plans	3,193	1,563	11,962
Net gains on sales of property, buildings and equipment	(7,254)	(11,035)	(7,337)
Income from unconsolidated entities	(2,016)	(2,960)	(2,809)
Gain on sale of unconsolidated entity	—	(2,291)	—
Change in operating assets and liabilities – net of business acquisitions:			
(Increase) decrease in accounts receivable	(41,814)	(53,056)	(36,378)
(Increase) decrease in inventories	(97,234)	(33,839)	(84,031)
(Increase) decrease in prepaid expenses	(2,342)	(3,918)	(6,251)
Increase (decrease) in trade accounts payable	(39,436)	10,888	27,121
Increase (decrease) in other current liabilities	54,457	(2,558)	43,056
Increase (decrease) in current income taxes payable	2,304	(17,395)	(10,632)
Increase (decrease) in accrued employment-related benefits costs	17,705	2,634	10,012
Other – net	(3,162)	(2,903)	(1,280)
Net cash provided by operating activities	468,875	436,753	432,543
Cash flows from investing activities:			
Additions to property, buildings and equipment	(188,867)	(127,814)	(112,297)
Proceeds from sales of property, buildings and equipment – net	12,084	17,314	15,037
Additions to capitalized software	(8,556)	(8,950)	(44,950)
Proceeds from sale of marketable securities	12,765	—	—
Purchase of marketable securities	(17,079)	(13,187)	—
Proceeds from sale of unconsolidated entity	—	27,843	—
Net cash paid for business acquisitions	(4,698)	(34,390)	(24,817)
(Investments in) and loan repayment from unconsolidated entities	(2,138)	(3,988)	4,088
Other – net	(468)	3,426	(46)
Net cash used in investing activities	(196,957)	(139,746)	(162,985)

(In thousands of dollars)	For the Years Ended December 31, 2007	2006	2005
Cash flows from financing activities:			
Net increase in commercial paper	$ 95,947	$ —	$ —
Borrowings under line of credit	14,107	—	—
Payments against line of credit	(7,751)	—	—
Stock options exercised	113,500	64,437	65,997
Excess tax benefits from stock-based compensation	30,696	13,373	—
Purchase of treasury stock	(647,293)	(472,787)	(137,473)
Cash dividends paid	(113,093)	(97,896)	(82,663)
Net cash used in financing activities	(513,887)	(492,873)	(154,139)
Exchange rate effect on cash and cash equivalents	6,935	(557)	229
Net (decrease) increase in cash and cash equivalents	(235,034)	(196,423)	115,648
Cash and cash equivalents at beginning of year	348,471	544,894	429,246
Cash and cash equivalents at end of year	$ 113,437	$ 348,471	$ 544,894
Supplemental cash flow information:			
Cash payments for interest (net of amounts capitalized)	$ 4,409	$ 1,413	$ 1,791
Cash payments for income taxes	244,541	212,350	162,030
Noncash investing activities:			
Fair value of noncash assets acquired in business acquisitions	$ 5,039	$ 38,430	$ 26,811
Liabilities assumed in business acquisitions	(341)	(4,040)	(1,994)

HISTORICAL FINANCIAL SUMMARY

		2007	2006	2005
Financial Summary ($000)	Net sales	$6,418,014	$5,883,654	$5,526,636
	Earnings before income taxes and cumulative effect of accounting change	681,861	603,023	532,674
	Income taxes	261,741	219,624	186,350
	Earnings before cumulative effect of accounting change	420,120	383,399	346,324
	Cumulative effect of accounting change	—	—	—
	Net earnings	420,120	383,399	346,324
	Working capital	974,414	1,155,763	1,290,188
	Additions to property, buildings and equipment	188,867	127,814	112,297
	Depreciation and amortization of property, buildings and equipment	106,839	100,975	98,087
	Current assets	1,800,817	1,862,086	1,985,539
	Total assets	3,094,028	3,046,088	3,107,921
	Shareholders' equity	2,098,108	2,177,615	2,288,976
	Cash dividends paid	113,093	97,896	82,663
	Long-term debt (less current maturities)	4,895	4,895	4,895
Per Share ($)	Earnings – basic	5.10	4.36	3.87
	Earnings – diluted	4.94	4.24	3.78
	Cash dividends paid	1.340	1.110	0.920
	Book value	26.40	25.90	25.51
	Year-end stock price	87.52	69.94	71.10
Ratios	Percent of return on average shareholders' equity	19.7	17.2	15.9
	Percent of return on average total capitalization	19.2	17.2	15.9
	Earnings before income taxes and cumulative effect of accounting change as a percent of net sales	10.6	10.2	9.6
	Earnings before cumulative effect of accounting change as a percent of net sales	6.6	6.5	6.3
	Cash dividends paid as a percent of net earnings	26.9	25.5	23.9
	Total debt as a percent of total capitalization	5.0	0.4	0.4
	Current assets as a percent of total assets	58.2	61.1	63.9
	Current assets to current liabilities	2.2	2.6	2.9
	Average inventory turnover – LIFO	4.3	4.4	4.5
	Average inventory turnover – FIFO	3.1	3.1	3.2
Other Data	Average number of shares outstanding – basic	82,403,958	87,838,723	89,568,746
	Average number of shares outstanding – diluted	85,044,963	90,523,774	91,588,295
	Number of employees	18,036	17,074	16,732
	Number of account managers	2,823	2,699	2,507
	Number of branches	610	593	589
	Number of products in the Grainger® catalog	139,000	115,000	82,400

Notes: 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.

2004	2003	2002	2001	2000	1999	1998	1997
$5,049,785	$4,667,014	$4,643,898	$4,754,317	$4,977,044	$4,636,275	$4,438,975	$4,226,941
445,139	381,090	397,837	297,280	331,595	303,750	400,847	389,636
158,216	154,119	162,349	122,750	138,692	123,019	162,343	157,803
286,923	226,971	235,488	174,530	192,903	180,731	238,504	231,833
—	—	(23,921)	—	—	—	—	—
286,923	226,971	211,567	174,530	192,903	180,731	238,504	231,833
1,108,384	926,773	898,681	838,800	735,678	600,611	541,872	649,107
128,276	74,064	133,978	100,451	65,507	111,900	132,857	105,756
85,566	74,583	75,226	77,737	81,898	72,446	58,256	63,257
1,744,416	1,633,413	1,484,947	1,392,611	1,483,002	1,471,145	1,206,429	1,185,283
2,809,573	2,624,678	2,437,448	2,331,246	2,459,601	2,564,826	2,103,966	2,000,116
2,067,970	1,845,135	1,667,698	1,603,189	1,537,386	1,480,529	1,278,741	1,294,661
71,243	67,281	66,467	65,445	62,863	58,817	56,683	53,934
—	4,895	119,693	118,219	125,258	124,928	122,883	131,201
3.18	2.50	2.30	1.87	2.07	1.95	2.48	2.30
3.13	2.46	2.24	1.84	2.05	1.92	2.44	2.27
0.785	0.735	0.715	0.695	0.670	0.630	0.585	0.530
22.83	20.27	18.21	17.17	16.37	15.85	13.68	13.25
66.62	47.39	51.55	48.00	36.50	47.81	41.63	48.59
14.7	12.9	12.9	11.1	12.8	13.1	18.5	16.8
14.2	12.3	13.6	10.2	11.2	11.0	16.3	15.2
8.8	8.2	8.6	6.3	6.7	6.6	9.0	9.2
5.7	4.9	5.1	3.7	3.9	3.9	5.4	5.5
24.8	29.6	31.4	37.5	32.6	32.5	23.8	23.3
0.5	7.5	7.2	7.8	17.3	23.3	15.5	10.9
62.1	62.2	60.9	59.7	60.3	57.4	57.3	59.3
2.7	2.3	2.5	2.5	2.0	1.7	1.8	2.2
4.6	4.4	4.5	4.7	4.6	4.1	4.4	4.1
3.3	2.9	3.2	3.3	3.2	3.2	3.4	3.2
90,206,773	90,731,013	91,982,430	93,189,132	93,003,813	92,836,696	96,231,829	100,604,518
91,673,375	92,394,085	94,303,497	94,727,868	94,223,815	94,315,479	97,846,658	102,178,952
15,523	14,701	15,236	15,385	16,192	16,730	15,270	15,154
2,154	1,741	1,650	1,641	1,708	1,879	1,887	1,947
582	575	576	579	572	562	532	522
82,300	88,400	98,700	99,900	85,200	81,100	78,400	78,100

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.

MANAGEMENT

Richard L. Keyser
Chairman of the Board*

Mr. Keyser is Grainger's Chairman of the Board. An employee since 1986, he has been Chairman since 1997 and served as Chief Executive Officer from 1995 through May 2008. Previously, he was President and Chief Executive Officer, as well as President and Chief Operating Officer. Before joining the company, Mr. Keyser was an executive with NL Industries and Cummins Engine Company.

He is a director of Principal Financial Group, Inc., and Rohm and Haas Company and chairs the Evanston Northwestern Healthcare Research Institute. In addition, Mr. Keyser is a trustee of the John G. Shedd Aquarium and The Field Museum of Natural History.

James T. Ryan
Chief Executive Officer and President*

Mr. Ryan was named Grainger's Chief Executive Officer and President, effective June 1, 2008. He has been President since April 2006 and was appointed Chief Operating Officer and to the Board of Directors in February 2007.

Mr. Ryan has held a number of other key posts since joining Grainger in 1980. They include Group President; 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 DePaul University, and a member of the Economic Club of Chicago.

Y.C. Chen
President, Grainger Industrial Supply

Mr. 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.

Since joining the company in July 1996, Mr. Chen has held a number of leadership roles in the International and Supply Chain organizations. Before then, he served as Regional head for several multinational companies based in the Asia Pacific region.

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

Mr. 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. He is a member of the board of the Lincoln Foundation for Performance Excellence and a trustee of Lewis University.

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

Ms. Hobor was named Senior Vice President, Communications and Investor Relations, in March 2003. She has led Grainger's internal and external communications, community relations and investor relations since 1999.

An Adjunct Professor of Investor Relations at Northwestern University, Ms. Hobor is treasurer of the Arthur W. Page Society. She is 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

Mr. 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 in Washington, D.C., and on the Federal Reserve Bank of Chicago's Seventh District Advisory Council. Mr. Howard also is on the board of the Chicago Botanic Garden.

** Effective June 1, 2008*

Ronald L. Jadin
Senior Vice President and
Chief Financial Officer

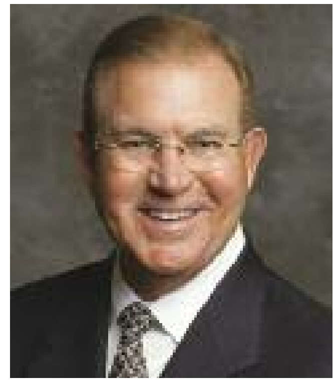
Mr. Jadin was promoted to his current role in March 2008. He had been Vice President and Controller since November 2006. His duties include financial planning and analysis, financial process planning and control, financial reporting, internal audit, treasury operations and administrative services.

He also has served as Vice President, Finance, Grainger Industrial Supply, and Director of Financial Planning and Analysis. Before joining Grainger in 1998, Mr. Jadin spent 15 years in financial analysis and management positions at General Electric.

P. Ogden Loux
Vice Chairman

Mr. Loux was named to his current position in March 2008. Previously, he was Grainger's Senior Vice President, Finance, and Chief Financial Officer since December 1997. Since joining the company in 1987, he also has served as Vice President and Controller, Vice President, Business Support, and Vice President, Finance.

Before joining Grainger, he held a variety of financial and administrative posts at General Electric.



Lawrence J. Pilon
Senior Vice President, Human Resources

Mr. 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.

Before joining Grainger, Mr. Pilon served as Executive Vice President, Human Resources, for the Kellogg Company, where he led worldwide human resources. He serves on the board of the Make-A-Wish Foundation of Illinois.

John A. Schweig
Senior Vice President, Strategy and
Development

Mr. Schweig was elected Senior Vice President, Strategy and Development, in March 2003. He is responsible for Grainger's global sourcing activities and for identifying and capitalizing on other strategic opportunities for company growth. He joined Grainger in 1990 as Vice President, Marketing.

In addition to serving on the board of the Chicago Youth Centers, Mr. Schweig is an advisory board member of the University of Wisconsin-Madison School of Business' Center for Brand and Product Management.

Laura D. Brown
Vice President, Investor Relations

Ms. Brown assumed her position as Vice President, Investor Relations, in January 2008. Previously, she was Vice President of Marketing, with responsibility for Grainger Industrial Supply's marketing organization. In that role, she also led strategy development and execution of the company's market expansion initiative.

Since joining the company as a Vice President in 2000, she has held other senior positions, including Vice President of Finance for Grainger's Field Sales, Operations, Marketing and e-Business functions. Previously, she was a vice president at Alliant Food Service and Baxter International.

William D. Chapman
Director, Investor Relations

Mr. 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 chairman of the board of the Chicago Chapter of the National Investor Relations Institute and 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 a director of the National Wisconsin Alumni Association.

OPERATING MANAGEMENT

Court D. Carruthers
Senior Vice President; President, Acklands – Grainger Inc.

Mr. Carruthers was named President of Acklands – Grainger in October 2006. In this role, he is responsible for the Canadian company in its entirety. Since joining the company in 2002, he held a number of increasingly responsible leadership roles before assuming his current position.

He is chair of the United Way of York Region Campaign Cabinet and a member of the YMCA Open Doors Fund and the University of Alberta Business School Advisory Council.

Patrick H. Davidson
Senior Vice President, Sales and Marketing

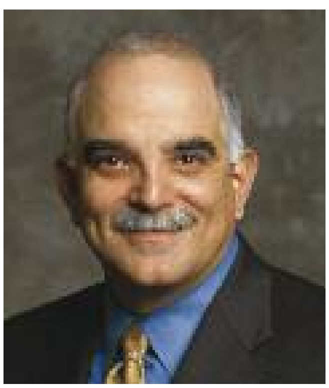
Mr. Davidson was named Senior Vice President, Sales and Marketing, in September 2006. He leads those functions in Grainger's U.S. Branch-based business. An employee since 1986, he has held other senior roles in Sales, Branch Operations, Quality, Information Services and Employee Development areas. Most recently, he was Senior Vice President, Customer Service.

Mr. Davidson chairs the board of directors of the David Adler Music and Arts Center in Libertyville, Ill.

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

Mr. Lanuza joined Grainger and was named Country Manager for Grainger, S.A. de C.V. in November 2005. In this role, he has overall responsibility for Grainger's business in Mexico.

Before joining the company, Mr. Lanuza held management positions in General Electric's Healthcare business. Earlier in his career, he served in sales, customer service and operations positions for United Technologies – Carrier division in Mexico.



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

Mr. Loizzo was named President, Lab Safety Supply, a Grainger subsidiary, in June 1996. A Lab Safety employee since 1987, he is responsible for the business' overall management and operations.

He serves on the boards of GenTel BioSciences, Inc., the Safety Equipment Distributors Association and the Blackhawk Technical College Foundation. In addition, Mr. Loizzo is a member of the marketing advisory council of the University of Wisconsin at Whitewater.

D.G. Macpherson
Senior Vice President, Supply Chain

Mr. Macpherson, who joined Grainger in February 2008, is responsible for Supply Chain operations, including the performance of Grainger's distribution centers, product offering and product availability.

He previously worked for the Boston Consulting Group (BCG), where he was Partner and Managing Director since 2002. There, he was a strategic consultant to Grainger, leading BCG's relationship with the company since 2001. Earlier, he was an operations manager for Rain Bird Sprinkler Manufacturing Company and a test engineer with the U.S. Air Force.

Bonnie J. McIntyre
Vice President, International Market Development

Ms. McIntyre was named Vice President, International Market Development, in July 2007. She oversees the planning, development and implementation of strategies to enter new international markets. Before then, she was Vice President and General Manager of operations in China, charged with defining and building Grainger's presence in that country.

Since joining the company in 1999, Ms. McIntyre has been Vice President, Integrated Services, and Vice President of Grainger Special Product Services. Earlier, she spent 18 years with Cummins, Inc., in various executive capacities, including international roles.

Michael A. Pulick
Senior Vice President,
Customer Service

Mr. Pulick was named Senior Vice President, Customer Service, in September 2006. He is responsible for Grainger's U.S. branch network, development of customer on-site services and e-Business. Since joining Grainger in 1999, Mr. Pulick has assumed increasingly responsible roles in supplier and product management. Most recently, he was Vice President, Product Management.

A certified purchasing manager, he is an adjunct professor at the Lake Forest Graduate School of Management. He serves on the board of Junior Achievement of Chicago.

Steve Yin
Vice President and General Manager, China

Mr. Yin joined Grainger in January 2007. After spending time in both Chicago and Shanghai, he assumed leadership of all aspects of Grainger's China distribution business in July 2007. Mr. Yin has more than 10 years of executive experience in China.

Previously, he was Global Managing Director of the Cosmetic Packaging Division for Rexam PLC, stationed in Beijing. Earlier in his career, Mr. Yin served as Managing Director of Kimberly-Clark China.

Management incentive program

Executives featured on these pages and other key managers participate in the Management Incentive Program (MIP). Grainger structures the MIP to motivate performance that balances short-term and long-term results and aligns the interests of management with those of shareholders.

The program provides for annual cash incentives based on achieving specified annual company-wide financial performance measures.

For 2007, the MIP was based on return on invested capital (ROIC), year-over-year sales growth and the individual executive's performance.

BOARD OF DIRECTORS

Brian P. Anderson
Former Executive Vice President
and Chief Financial Officer,
OfficeMax Incorporated,
Itasca, Ill.
(1*, 2)

Wilbur H. Gantz
Executive Chairman,
Ovation Pharmaceuticals Inc.,
Deerfield, Ill.
(1, 2)

V. Ann Hailey
Former Executive Vice President,
Limited Brands, Inc.,
Columbus, Ohio
(1, 2)

William K. Hall
Co-founder and Chairman,
Procyon Technologies Inc.,
Downers Grove, Ill.
(1, 2)

Richard L. Keyser
Chairman of the Board**
W.W. Grainger, Inc.
Lake Forest, Ill.

Stuart L. Levenick
Group President,
Caterpillar Inc.,
Peoria, Ill.
(2, 3)

John W. McCarter, Jr.
President and Chief Executive Officer,
The Field Museum of Natural History,
Chicago, Ill.
(2*, 3)

Neil S. Novich
Former Chairman, President and
Chief Executive Officer,
Ryerson Inc.,
Chicago, Ill.
(2, 3)

Michael J. Roberts
Chief Executive Officer and Founder,
Westside Holdings, LLC,
Chicago, Ill.
(2, 3)

Gary L. Rogers
Former Vice Chairman,
General Electric Company,
Fairfield, Conn.
(2, 3)

James T. Ryan
Chief Executive Officer and President**
W.W. Grainger, Inc.
Lake Forest, Ill.

James D. Slavik
Chairman,
Mark IV Capital, Inc.,
Newport Beach, Calif.
(1, 2)

Harold B. Smith
Chairman of the Executive Committee,
Illinois Tool Works Inc.,
Glenview, Ill.
(2, 3*)

(1) Member of Audit Committee
(2) Member of Board Affairs and Nominating Committee
(3) Member of Compensation Committee
* Committee Chair
** Effective June 1, 2008

CORPORATE GOVERNANCE AT A GLANCE

Board Accountability	
Board is elected by majority vote	Yes
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 (Operating Principles) approved by the Board	Yes
Independent Directors hold meetings without management present	Yes
Board-approved succession plan in place	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
All Directors attended at least 75 percent of Board and Committee meetings	Yes
Directors must tender resignation upon a substantive change in career	Yes
Each Director serves on fewer than six boards of directors	Yes
All Directors attended the annual shareholders meeting on April 25, 2007	Yes

Executive Compensation	
Independent Compensation Committee	Yes
Board Compensation Committee has independent compensation consultant	Yes
Executive compensation is tied to performance; numeric criteria are disclosed	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 tabulator tabulates shareholder votes	Yes
Company has a shareholder rights plan	Yes
Company posts its articles of incorporation and bylaws on Web site	Yes

Corporate Behavior	
A Company employee is 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 external best practices	Yes
Company has program to monitor its policies on corruption and bribery	Yes
Company has a code of ethics (Business Conduct Guidelines)	Yes
Company has an ethics officer function	Yes
Training on ethical behavior is required for all employees	Yes

‡ Effective June 1, 2008, positions will be separated.

COMPANY INFORMATION

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Bear Stearns — Scott Graham
Buckingham Research — Edward Wheeler
Cleveland Research Co. — Adam Uhlman
FTN Midwest Research — John Baliotti
Goldman Sachs — Sun Kang
J.P. Morgan — C. Stephen Tusa
Merrill Lynch — John Inch
Morgan, Keegan & Co. — Brent Rakers
Morgan Stanley — Scott Davis
Oppenheimer & Co. — Christopher Glynn
Robert W. Baird & Co. — David Manthey
Wachovia Capital Markets — Allison Poliniak
William Blair & Co., LLC — Jeffrey Germanotta

Annual Meeting
The 2008 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 30, 2008.

Expected Earnings Release Dates

First Quarter	April 14, 2008
Second Quarter	July 15, 2008
Third Quarter	October 14, 2008
Fourth Quarter	January 26, 2009

Transfer Agent, Registrar and Dividend Disbursing Agent
Computershare Investor Services
P.O. Box 43078
Providence, RI 02940-3078
800.446.2617
www.computershare.com

Auditors
Ernst & Young LLP
Sears Tower
233 South Wacker Drive
Chicago, Illinois 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.

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Forward-Looking Statements
The 2008 Fact Book contains statements that are not historical in nature but concern future results and business plans, strategies and objectives, and other matters that may be deemed to be "forward-looking statements" under federal securities laws. Grainger cannot guarantee that any forward-looking statement will be realized although Grainger does believe that its assumptions underlying its forward-looking statements are reasonable. Achievement of future results is subject to risks and uncertainties which could cause Grainger's results to differ materially from those which are presented.

The forward-looking statements should be read in conjunction with the company's most recent annual report and Form 10-K as well as other reports filed with the Securities and Exchange Commission containing a discussion of the company's business and of the various factors that may affect it. Caution should be taken not to place undue reliance on Grainger's forward-looking statements and Grainger undertakes no obligation to publicly update the forward-looking statements, whether as a result of new information, future events or otherwise.

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GRAINGER HISTORICAL TIMELINE

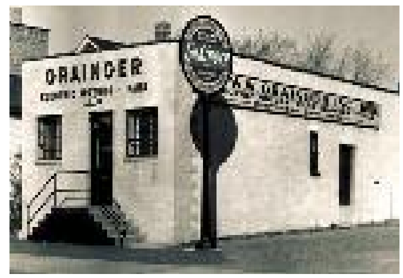
1927
Company founded in Chicago, Ill. Generates sales through an eight-page catalog – The Motorbook

1928
Incorporates 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



Minneapolis, 1951

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
Reaches $1 billion in annual sales

1992
Acquires Lab Safety Supply

1995
Launches Web site, www.grainger.com

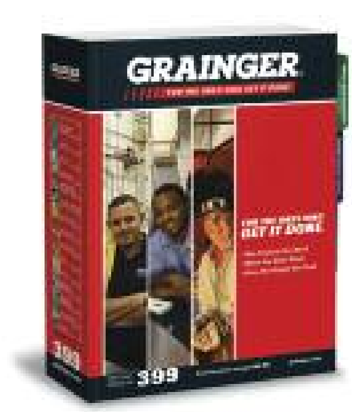
1996
Acquires Acklands Limited in Canada

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
Opens first distribution center in China

2007
Eclipses $6 billion in annual sales. Posts a record $1.3 billion in sales via e-commerce channels



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