

People rely on us
Businesses depend on us
Communities trust us



Grainger plays a critical role in keeping the North American economy going. As the leading broad-line supplier of facilities maintenance products – motors, tools, lighting, fasteners, safety gear, material handling and other equipment – Grainger is the reliable resource for people, businesses and communities. In addition, Grainger’s healthy balance sheet, strong cash flow and commitment to increasing shareholder value make the company’s stock an attractive investment.

People rely on us



Businesses depend on us



Communities trust us



Growing shareholder value drives us

On the Cover

The Grainger branch in Mobile, Alabama, provided essential products to businesses and institutions in the local community and served as a staging area to deliver generators, pumps, chainsaws and other supplies to customers in need following Hurricane Katrina. The new branch, which opened the day before the hurricane hit, is one of nearly 20 branches that serve the Gulf Coast. These branches, along with Grainger’s logistics network, helped the company provide more than 70 full truckloads of emergency supplies to the region within days.

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Financial Highlights

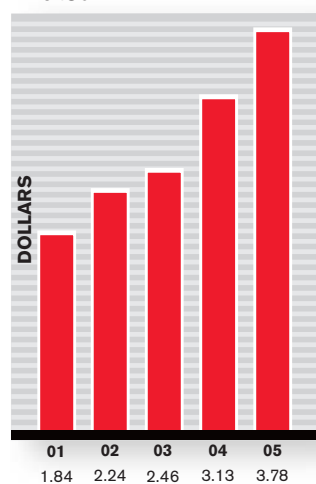
(In thousands of dollars, except for per share amounts)

	2005	2004	% Change
Income Statement			
Net sales	\$5,526,636	\$5,049,785	9.4%
Gross profit	2,161,541	1,906,652	13.4%
As a percent of net sales	39.1%	37.8%	
Operating earnings	518,989	441,254	17.6%
As a percent of net sales	9.4%	8.7%	
Earnings before income taxes	532,674	445,139	19.7%
As a percent of net sales	9.6%	8.8%	
Net earnings	\$346,324	\$286,923	20.7%
As a percent of net sales	6.3%	5.7%	
Per Share			
Earnings – diluted	\$3.78	\$3.13	20.8%
Cash dividends paid	0.920	0.785	17.2%
Average number of shares outstanding – diluted	91,588,295	91,673,375	(0.1)%
Balance Sheet and Cash Flow			
Working capital	\$1,270,904	\$1,092,279	16.4%
Cash flow from operations	432,543	406,487	6.4%
Additions to property, buildings and equipment – net	112,297	128,276	(12.5)%
Financial Ratios and Other Data			
Return on average shareholders' equity	15.9%	14.7%	
Return on average total capitalization	15.9%	14.2%	
Return on invested capital (ROIC)*	25.9%	24.2%	
Number of branches	589	582	
Number of employees	16,732	15,523	

Sales



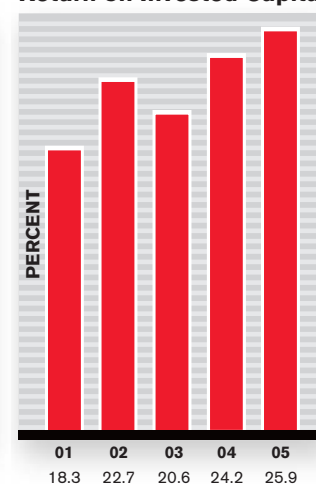
Earnings per Share - Diluted



Return on Average Total Capitalization



Return on Invested Capital*



* See page 13 for definition

Our Fellow Shareholders



Richard L. Keyser
Chairman and
Chief Executive Officer

“Customer service is our passion and our path to enhanced shareholder value.”

In 2005, Grainger reached new heights: record sales of \$5.5 billion, net earnings of \$346 million, and diluted earnings per share of \$3.78, up 21 percent versus 2004. We generated \$433 million of operating cash, and with that cash made investments to grow our business while returning \$220 million to shareholders in the form of dividends and share repurchases.

Our goal is to profitably grow the business by continuously improving customer service while increasing internal efficiencies. Reliable service delivered quickly and accurately is key to our growth.

Dependable service requires a knowledgeable sales force to help customers find the best solution, a broad product line to solve multiple problems, well-designed catalogs and Web sites to help customers navigate to products quickly and easily, an efficient supply chain to deliver those products quickly with high availability, and an integrated system to tie together the millions of customers, thousands of products and hundreds of locations. These capabilities fuel our steady growth.

Many accomplishments contributed to our success in 2005. Here are some of the most important:

- We completed the design and testing of a new SAP system in 2005, and implemented it in January 2006 for most of the U.S. business. In 2006, we will continue to work on the implementation of SAP for operations in Mexico and Canada to create a single North American platform.
- Our market expansion program strengthened our presence in 15 of the top U.S. metropolitan markets, with more markets to come in 2006.

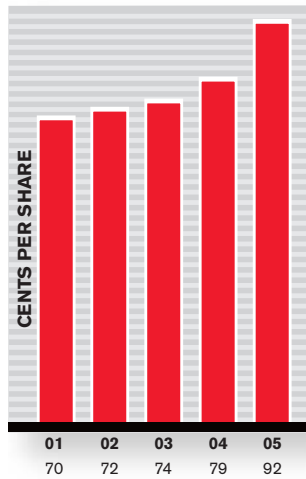
- We expanded our sales force by more than 450 representatives throughout the United States to grow sales with even more customers. Our stratified sales coverage builds deeper relationships with thousands of customers. We will continue to further penetrate customer accounts in 2006 thanks to the improved focus of our sales force.

- By sourcing select products from 25 countries around the globe and refining our product line review process, we improved gross profit margins in 2005. Beginning in 2006, we are aggressively expanding our product line to give customers more reasons to come to Grainger.

- We added 33 sales representatives in Mexico as we continued to grow strongly. To keep the momentum going in 2006, we plan to extend our reach by further expansion of our branch coverage.

- Sales at our Canadian business, Acklands – Grainger Inc., grew aided by a robust natural resource extraction industry and a strong Canadian dollar. This business’ systems and processes need to be improved in order to deliver appropriate returns, so our focus in 2006 and 2007 is to integrate this business onto the SAP platform.

- Lab Safety Supply acquired the AW Direct business. The acquisition of this \$28 million direct marketer of products to the service vehicle accessories market further expands our customer file and leverages product lines. We continue to seek attractive acquisitions that are accretive to the business. Early in 2006 we acquired the business of Rand Materials Handling Equipment Co., a \$16 million direct marketer of material handling and packaging products.

Cash Flow from Operations**Dividends Paid****Share Repurchase**

- We began to build a distribution presence in China, a market which represents approximately \$30 billion in facilities maintenance products. In 2006, we plan to open a distribution center in Shanghai and launch a catalog with about 20,000 products.

We plan to continue to use our strong cash flow to benefit shareholders by making strategic investments that grow the business, increasing dividends and repurchasing shares.

Grainger also gave back to the community in ways that we are uniquely equipped to do. After the devastating hurricanes and other natural disasters in 2005, Grainger employees provided customers with what they needed to get back up and running. Beyond serving customers, employees contributed both time and money to help those affected. That's why we received the Circle of Humanitarians Award from the American Red Cross.

Looking ahead, Grainger is positioned for continued success. Our goals for 2006 and beyond reflect our ongoing efforts to strengthen our service offering and gain market share.

We are succeeding because at Grainger we engineer customer service into everything we do. Customer service is our passion and our path to enhanced shareholder value.

In closing, I'd like to welcome three new board members: William Hall, co-founder of Procyon Technologies, Inc.; Stuart Levenick, Group President of Caterpillar Inc.; and Michael Roberts, President and Chief Operating Officer of McDonald's Corporation. In addition to the current members, the board has proposed a new member, V. Ann Hailey, Executive Vice President of Limited Brands, Inc., who will stand for election at the 2006 annual meeting.

Our team has talent, heart and the drive to win. And we are nowhere near done. I'd like to thank the 16,732 employees who make Grainger the place to go for the ones who get it done.

R.L. Keyser
February 28, 2006

2005 Highlights

- Reported record sales of \$5.5 billion
- Reported record net earnings and earnings per share
- Completed Lab Safety Supply's 2005 acquisition, AW Direct
- Opened 22 branches and 5 Grainger Express® locations
- Raised dividends for the 34th consecutive year

2006 Goals

- Continue market expansion program into additional markets
- Roll out SAP to additional Grainger operations
- Expand U.S. product offering
- Integrate Lab Safety Supply's new acquisition, Rand Materials Handling Equipment
- Open distribution business in China



Customers can choose the best way to order what they need from Grainger – with a salesperson, at their local branch, over the telephone or on the Internet. They can pick up the product from a branch or have it shipped same day from one of Grainger’s distribution centers. At Lab Safety Supply, technical service experts assist customers over the phone or online, then other employees pick and pack products for same-day shipping. When customers call either Grainger or Lab Safety Supply, they are greeted within seconds by a live customer representative ready to assist and take orders.

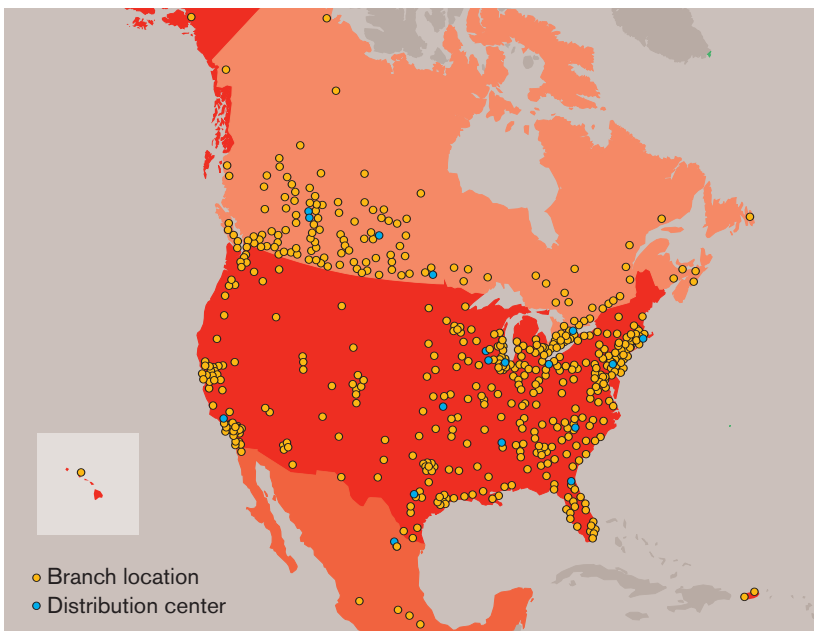
It’s 5 a.m. on a rainy November day in Seattle and Marisol, a facilities manager, knows that several thousand employees will bring that rain inside with them over the next few hours, resulting in possible safety issues and business disruptions. In fact, she knows there are more than 250,000 slip and fall accidents in the United States each year, many of which involve days away from work. Keeping those employees safe is her team’s job. She relies on Grainger to have the products she needs to maintain the facility – from hand tools to fix the boiler and lamps to illuminate the hallway, to replacement parts for the automatic doors and even mops for the floors.

Like Marisol, more than 1.7 million customers rely on Grainger for their facility maintenance needs, whether they use the branch-based network or Lab Safety Supply’s direct marketing model.

Customers buy facilities maintenance products based on the situations they face. While Grainger provides products to customers for every situation, its greatest value to the customer is in unplanned situations involving infrequently purchased items. Unplanned purchases represent about 40 percent of customers’ facilities maintenance spend. Because sourcing products from many suppliers is very costly and most distributors are not set up to handle customers’ unplanned purchases, Grainger’s broad, locally available product offering represents an attractive solution.

In the United States, Grainger is in the process of further improving its local availability through a multiyear market expansion program. Grainger already has a national presence. The market expansion process examines existing branch size and location, inventory breadth and depth, sales coverage and marketing to create a better match of local service capabilities to customer needs. The local economy, competitive landscape, traffic patterns, employment trends and recent sales performance are some of the factors considered when assessing markets and new branch locations. The program targets top metropolitan areas in the United States, which represent around 50 percent of the overall facilities maintenance market opportunity.

In 2005, Grainger added more than 345,000 additional square feet in branch showroom and warehouse capacity. Sales growth in the expanded markets is expected to be 5 to 10 percentage points greater than the growth experienced in the rest of the country. Grainger will address additional markets in 2006.



Grainger serves customers through a network of approximately 600 branches and 18 distribution centers for the U.S., Canadian and Mexican branch-based businesses as well as for Lab Safety Supply. When customers need a product, they often need it right away. That’s why having a local presence backed by a national logistics network is essential. This combination helps Grainger provide customers what they need, when and where they need it. Grainger does this approximately 115,000 times each day across North America.



People rely on us



Each day people rely on Grainger to have the right products so they can get their jobs done. One day they may need safety products like traffic cones to alert pedestrians to a dangerous worksite, another day it's a replacement motor to operate a dock door.





When the boiler in this office building breaks, more than 3,000 employees feel it. That's why Grainger works with more than 1,200 suppliers around the world to ensure that products and repair parts are readily available to keep businesses and institutions up and running.



Businesses depend on us

Just as Grainger depends on UPS more than 63,000 times each day to deliver facilities maintenance products to customers, UPS depends on Grainger to have the products it needs to keep its 2,000 U.S. locations up and running.

When Hurricane Katrina severely damaged its distribution hub in eastern New Orleans, UPS came to Grainger for quick access to the right products to help get them back to work. Grainger had what UPS needed for its facility from Grainger's branch just 20 minutes away. UPS was able to restart operations and serve customers, and that helped Grainger provide for the rest of its customers in the greater New Orleans area.

Access to 800,000 products in 14 product categories is one reason why businesses like UPS depend on Grainger. Customers have told Grainger that they want a broad product offering in close proximity and reliable service. In other words, they want Grainger to meet their needs by having the right products when and where they need them so they can spend more time focused on their businesses.

As customers look to save time and money by reducing their supplier base, they pick the supplier with the broadest product line that can handle both their planned and unplanned facilities maintenance product needs. Grainger has a diverse product line and will further expand that line beginning in 2006. Grainger is working with suppliers globally to aggressively add more products that customers need. Grainger is expanding the number and types offered by its U.S. business in categories like Cleaning, Electrical, Fasteners, Pumps and Plumbing, Material Handling, Safety and Security, and Ventilation.

Grainger's 2006 catalog features more than 115,000 products as compared to 82,400 products in its 2005 catalog. The company offers 300,000 products from its Web site, and as many as 500,000 more can be accessed through Grainger's sourcing service. Product line expansion is forecasted to contribute about 1 percentage point of Grainger's planned sales growth for 2006.

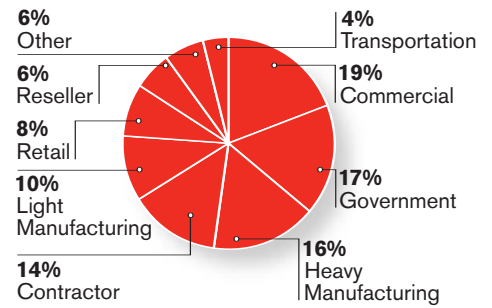
Much of this broad product line is available for same-day pickup at one of Grainger's branches or shipped next-day from one of Grainger's distribution centers. Customers experience exceptional service levels for all products, even those they may need only once or twice a year. Grainger can do that because of its ability to aggregate demand across the entire branch and distribution center network. Grainger's size and scale allow it to be the best-positioned facilities maintenance product supplier in the industry.



Grainger's many customers may have different needs, from service technicians looking for a repair part to facilities maintenance supervisors in search of the right cleaning solvents. But they have one thing in common: when they need a product, they want it fast. Grainger consistently monitors the product needs of customers and quickly responds. Beginning in 2006, Grainger is expanding the number and types of products in key product categories offered by its U.S. business.

Grainger – United States

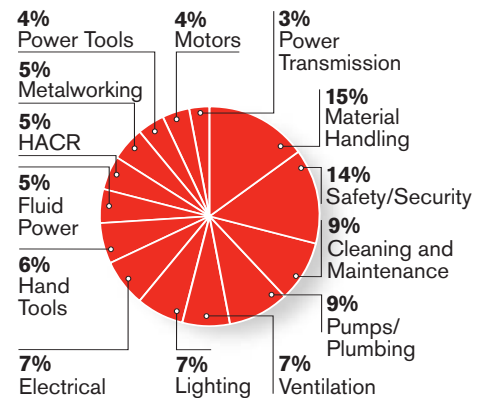
2005 Sales by Customer Category



Grainger serves customers in diverse businesses with a wide variety of product needs. Some of Grainger's customers are corporate account customers that each typically spend more than \$5 million annually on facilities maintenance products. Corporate account customers represent approximately 25 percent of Grainger's total U.S. sales.

Grainger – United States

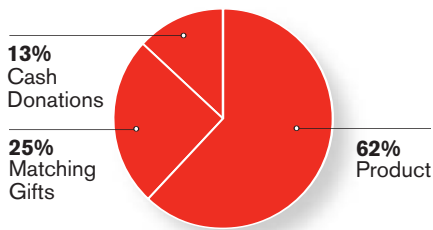
2005 Sales by Product Line



Customers buy from Grainger because they are trying to save time and money. They do this by reducing the number of facilities maintenance suppliers, establishing contracts for routine purchases, linking procurement systems over the Internet and relying on Grainger's local inventory availability. Grainger's broad product line offers customers extensive options from one supplier.

Charitable Contributions

2005



Each year Grainger donates to communities through cash and product donations and a three-for-one matching charitable gifts program. The company is among less than 1 percent of U.S. companies that match employee contributions three-for-one. In January 2005, Grainger expanded its matching charitable gifts program to provide a four-for-one match for employees who contributed to the American Red Cross International Response Fund following the tsunami in Southeast Asia, resulting in a contribution of more than \$300,000 to this fund. In September 2005, Grainger once again expanded its matching charitable gifts program following Hurricane Katrina, contributing \$1.2 million to the American Red Cross Disaster Relief Fund.

While most residents of Beaumont, Texas, were evacuating in preparation for Hurricane Rita, Grainger Branch Manager Mark Gour headed back to the Grainger branch. A nearby hospital was in need of generators to provide critical power for patients in the intensive care unit and Mark made sure the hospital had them. “This was a Level 5 hurricane,” Mark said. “There was absolutely no way I could let my customer down in those circumstances.”

Grainger employees are dedicated to their customers and to their communities. To help strengthen the communities where Grainger employees live, Grainger contributed \$15.7 million to not-for-profit organizations in 2005. Beyond financial contributions, Grainger encourages employees to volunteer time to their communities by working hand-in-hand with select organizations and donating time off to enable employees to participate.

One such organization is the American Red Cross of Greater Chicago. Grainger employees serve as “Ready When the Time Comes” volunteers. The program trains employees as volunteers to support local disaster relief efforts. In 2006, Grainger will expand this program across the United States as the National Founding Sponsor.

Grainger’s principal focus is in two key areas:

Disaster Relief

In 2005, Grainger donated more than \$1.5 million in cash and product to American Red Cross chapters to help communities affected by disasters. Grainger received the American Red Cross Circle of Humanitarians Award in both 2004 and 2005 for its disaster relief efforts.

Through the Grainger Rebuilding America® program, the company awards grants to not-for-profit organizations in communities severely affected by natural disasters. The contribution is disbursed to small, independent businesses in the community as seed money to begin rebuilding.

Vocational Support and Education

Grainger is committed to helping provide the resources students need to succeed. Through scholarships and product donations, Grainger is involved in several vocational and educational programs across the United States. Grainger provides The Atlanta Technical College Foundation with both student and faculty scholarships for qualified vocational or technical degree candidates and teachers. Lab Safety Supply provides similar support to the Blackhawk Technical College in Janesville, Wisconsin.



When Hurricanes Katrina and Rita devastated the Gulf Coast, Grainger and employees like Mark Gour were ready for action. The Grainger team worked around the clock to get products – including generators, flashlights, hazmat suits, batteries and cleaning supplies – to affected areas. Following Hurricane Katrina, Grainger developed a new way to ensure that Red Cross volunteer units received product donations quickly, by creating special accounts at local Gulf Coast branches.

GRAINGER.

FOR THE ONES WHO GET IT DONE

Communities trust us



Supporting the community through donations of time, product and money is just one of the ways Grainger demonstrates its commitment to corporate responsibility. Grainger also has in place business conduct, environmental and workplace safety guidelines. Protecting employees, suppliers, customers, and the communities in which the company operates is part of Grainger's way of doing business.



Historical Financial Summary

		2005	2004	2003
Financial Summary (\$000)	Net sales	\$5,526,636	\$5,049,785	\$4,667,014
	Earnings before income taxes and cumulative effect of accounting change	532,674	445,139	381,090
	Income taxes	186,350	158,216	154,119
	Earnings before cumulative effect of accounting change	346,324	286,923	226,971
	Cumulative effect of accounting change	—	—	—
	Net earnings	346,324	286,923	226,971
	Working capital	1,270,904	1,092,279	926,773
	Additions to property, buildings and equipment – net	112,297	128,276	74,064
	Depreciation and amortization of property, buildings and equipment	98,087	85,566	74,583
	Current assets	1,997,868	1,754,713	1,633,413
	Total assets	3,107,921	2,809,573	2,624,678
	Shareholders' equity	2,288,976	2,067,970	1,845,135
	Cash dividends paid	82,663	71,243	67,281
	Long-term debt (less current maturities)	4,895	—	4,895
	Per Share (\$)	Earnings – basic	3.87	3.18
Earnings – diluted		3.78	3.13	2.46
Cash dividends paid		0.920	0.785	0.735
Book value		25.51	22.83	20.27
Year-end stock price		71.10	66.62	47.39
Ratios	Percent of return on average shareholders' equity	15.9	14.7	12.9
	Percent of return on average total capitalization	15.9	14.2	12.3
	Earnings before income taxes and cumulative effect of accounting change as a percent of net sales	9.6	8.8	8.2
	Earnings before cumulative effect of accounting change as a percent of net sales	6.3	5.7	4.9
	Cash dividends paid as a percent of net earnings	23.9	24.8	29.6
	Total debt as a percent of total capitalization	0.4	0.5	7.5
	Current assets as a percent of total assets	64.3	62.5	62.2
	Current assets to current liabilities	2.7	2.6	2.3
Average inventory turnover	4.5	4.6	4.4	
Other Data	Average number of shares outstanding – basic	89,568,746	90,206,773	90,731,013
	Average number of shares outstanding – diluted	91,588,295	91,673,375	92,394,085
	Number of employees	16,732	15,523	14,701
	Number of account managers	2,507	2,154	1,741
	Number of branches	589	582	575
	Number of products in the Grainger catalog	82,400	82,300	88,400

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.

2002	2001	2000	1999	1998	1997	1996	1995
\$4,643,898	\$4,754,317	\$4,977,044	\$4,636,275	\$4,438,975	\$4,226,941	\$3,616,640	\$3,344,064
397,837	297,280	331,595	303,750	400,847	389,636	348,888	312,149
162,349	122,750	138,692	123,019	162,343	157,803	140,362	125,484
235,488	174,530	192,903	180,731	238,504	231,833	208,526	186,665
(23,921)	—	—	—	—	—	—	—
211,567	174,530	192,903	180,731	238,504	231,833	208,526	186,665
898,681	838,800	735,678	600,611	541,872	649,107	704,175	618,524
133,978	100,451	65,507	111,900	132,857	105,756	62,051	111,935
75,226	77,737	81,898	72,446	58,256	63,257	61,585	57,760
1,484,947	1,392,611	1,483,002	1,471,145	1,206,429	1,185,283	1,320,243	1,062,660
2,437,448	2,331,246	2,459,601	2,564,826	2,103,966	2,000,116	2,119,021	1,669,243
1,667,698	1,603,189	1,537,386	1,480,529	1,278,741	1,294,661	1,462,662	1,179,109
66,467	65,445	62,863	58,817	56,683	53,934	50,035	45,227
119,693	118,219	125,258	124,928	122,883	131,201	6,152	8,713
2.30	1.87	2.07	1.95	2.48	2.30	2.04	1.84
2.24	1.84	2.05	1.92	2.44	2.27	2.02	1.82
0.715	0.695	0.670	0.630	0.585	0.530	0.490	0.445
18.21	17.17	16.37	15.85	13.68	13.25	13.82	11.59
51.55	48.00	36.50	47.81	41.63	48.59	40.13	33.13
12.9	11.1	12.8	13.1	18.5	16.8	15.8	16.9
13.6	10.2	11.2	11.0	16.3	15.2	14.6	16.4
8.6	6.3	6.7	6.6	9.0	9.2	9.6	9.3
5.1	3.7	3.9	3.9	5.4	5.5	5.8	5.6
31.4	37.5	32.6	32.5	23.8	23.3	24.0	24.2
7.2	7.8	17.3	23.3	15.5	10.9	10.2	4.5
60.9	59.7	60.3	57.4	57.3	59.3	62.3	63.7
2.5	2.5	2.0	1.7	1.8	2.2	2.1	2.4
4.5	4.7	4.6	4.1	4.4	4.1	3.5	3.7
91,982,430	93,189,132	93,003,813	92,836,696	96,231,829	100,604,518	102,295,506	101,630,162
94,303,497	94,727,868	94,223,815	94,315,479	97,846,658	102,178,952	103,272,408	102,482,434
15,236	15,385	16,192	16,730	15,270	15,154	14,601	11,853
1,650	1,641	1,708	1,879	1,887	1,947	1,906	1,496
576	579	572	562	532	522	527	344
98,700	99,900	85,200	81,100	78,400	78,100	67,600	61,800

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

Brian P. Anderson (1*) (2)

Former Executive Vice President and Chief Financial Officer of OfficeMax Incorporated, Itasca, IL

Wilbur H. Gantz (1) (2)

Executive Chairman of Ovation Pharmaceuticals Inc., Deerfield, IL

David W. Grainger

Senior Chairman of the Board

William K. Hall (1) (2)

Co-founder and Chairman of Procyon Technologies Inc., Downers Grove, IL

Richard L. Keyser

Chairman of the Board and Chief Executive Officer

Stuart L. Levenick (2) (3)

Group President of Caterpillar Inc., Peoria, IL

John W. McCarter, Jr. (2*) (3)

President and Chief Executive Officer of The Field Museum of Natural History, Chicago, IL

Neil S. Novich (2) (3)

Chairman, President and Chief Executive Officer of Ryerson Inc., Chicago, IL

Michael J. Roberts (2) (3)

President and Chief Operating Officer of McDonald's Corporation, Oakbrook, IL

Gary L. Rogers (2) (3)

Former Vice Chairman of General Electric Company, Fairfield CT

James D. Slavik (1) (2)

Chairman of Mark IV Capital, Inc., Newport Beach, CA

Harold B. Smith (2) (3*)

Chairman of the Executive Committee Illinois Tool Works Inc., Glenview, IL

(1) Member of Audit Committee

(2) Member of Board Affairs and Nominating Committee

(3) Member of Compensation Committee

* Committee Chair

Management

Timothy M. Ferrarell

Senior Vice President, Enterprise Systems

David W. Grainger

Senior Chairman of the Board

Douglas J. Harrison

President, Acklands – Grainger Inc.

Nancy A. Hobor

Senior Vice President, Communications and Investor Relations

John L. Howard

Senior Vice President and General Counsel

Richard L. Keyser

Chairman of the Board and Chief Executive Officer

Larry J. Loizzo

Senior Vice President; President, Lab Safety Supply, Inc.

P. Ogden Loux

Senior Vice President, Finance and Chief Financial Officer

Lawrence J. Pilon

Senior Vice President, Human Resources

James T. Ryan

Group President

John A. Schweig

Senior Vice President, Strategy and Development

Corporate Governance at a Glance (As of 02/28/06)

Board Accountability

Size of Board	12
Number of Independent Directors	10
Separate Chairman and CEO	No
Independent Director with leadership role	Yes
Independent Compensation Committee	Yes
Independent Board Affairs and Nominating Committee	Yes
Number of 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
There is a Board-approved succession plan in place for the CEO	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
A former CEO of the company serves on the Board	Yes
Board orientation/education program	Yes
Board is elected by majority vote	Yes

Each director serves on fewer than six boards of directors	Yes
Audit Committee members serve on three or fewer public companies' audit committees	Yes
All directors attended at least 75 percent of Board meetings	Yes

Corporate Behavior

Company has employee tasked with environmental responsibilities	Yes
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 environmental, health and safety guidelines	Yes
Company has code of ethics	Yes
Company has an ethics officer function	Yes
Training on ethical behavior is required for all employees	Yes
Environmental and workplace safety policy is disclosed	Yes
Environmental performance is audited by an independent outside firm	No

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 is engaged to tabulate shareholder votes	Yes
Company has a poison pill in place	Yes

Shareholder and Media Information

Annual Meeting

The 2006 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 26, 2006.

Company Headquarters

W.W. Grainger, Inc.
100 Grainger Parkway
Lake Forest, IL 60045-5201
847.535.1000 Phone
847.535.0878 Fax
www.grainger.com

Investor Relations Contacts

Nancy A. Hobor
Senior Vice President, Communications
and Investor Relations
847.535.0065

William D. Chapman
Director, Investor Relations
847.535.0881

Grainger's 2005 Annual Report, 2006 Fact Book, Form 10-K, Form 10-Q, proxy statement and other filings with the Securities and Exchange Commission, as well as news releases and other financial data such as quarterly supplemental financial information and monthly sales data, can be accessed free of charge at the investor relations section of the company's Web site at www.grainger.com/investor. For more information, contact Investor Relations at 847.535.1000.

Information with respect to the company's activities in employment, environmental concerns and other areas is available from Laurence M. Trusdell, Corporate Secretary, at the company's headquarters.

Media Relations Contacts

Ernest L. Duplessis
Director, External Communications
847.535.4356

Michael E. McGrew
Regional Communications Director,
Eastern Region
847.535.4196

Erin G. Ptacek
Regional Communications Director,
Western Region
949.255.1368

Robb M. Kristopher
Manager, External Communications
847.535.0879

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 43023
Providence, RI 02940-3023
Telephone 781.575.2879

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 of record who take advantage of dividend direct deposit will have their Grainger dividend payments deposited into the specified accounts on the dividend payment dates.

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

Note on ROIC

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.

Trademarks

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

Forward-Looking Statements

Throughout this Annual Report and Form 10-K 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 "believes," "expected," "forecasted," "gaining," "goals," "growing," "in the process," "increasing," "intended," "looking ahead," "plan," "potential," "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.

GRAINGER®

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Grainger at a Glance

Founded by William W. Grainger in 1927, Grainger began as a wholesale electric motor sales and distribution business in Chicago. The following year, the business was incorporated in Illinois as W.W. Grainger, Inc.

Sales were generated primarily through mail order via post cards and an eight-page catalog, The Motorbook. To improve customer service, Grainger opened its first branch in 1933 and by 1936 had 15 branches located across the country.

In 1967, with nearly 100 branches, Grainger became a public company, and its stock began trading under the GWW symbol.

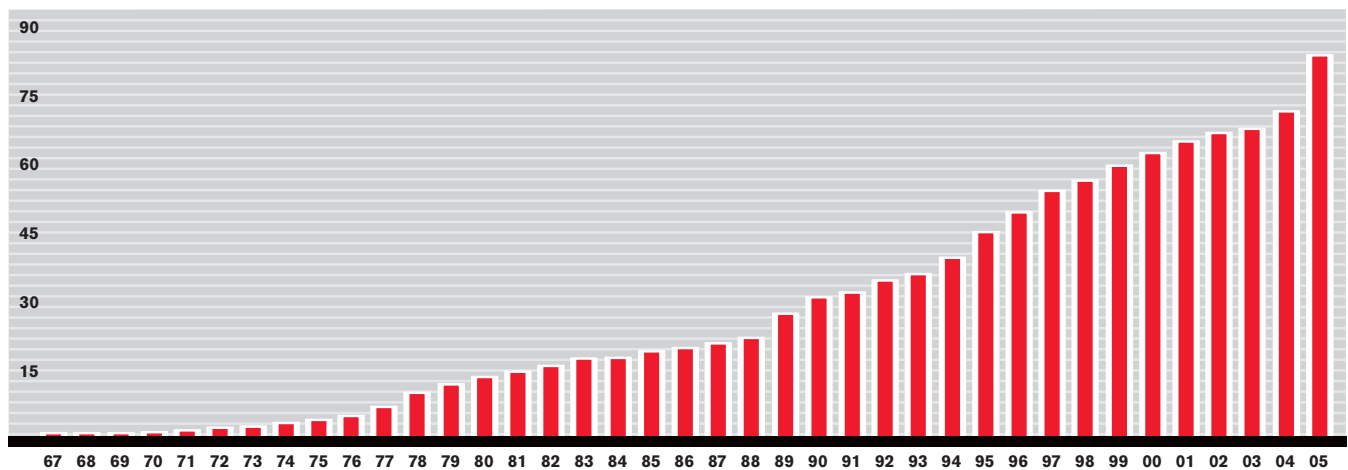
Grainger seized technology opportunities early. In 1976, Grainger became the first in its industry to implement optical character recognition equipment. In 1991, Grainger introduced the first comprehensive electronic facilities maintenance supply catalog on CD-ROM, and the company launched online ordering in 1996. In 2004, Grainger

implemented voice over IP in all U.S. branches to improve service and enable live assistance for after-hours calls. In 2006, Grainger continued this track record by executing one of the world's largest systems integrations to streamline its information processes to better serve customers.

Today, Grainger's sales exceed \$5.5 billion and the company has nearly 600 branches across North America. With its catalogs, call centers, Web sites and sourcing capability offering more than 800,000 products, Grainger reaches customers in more than 125 countries worldwide.



Cash Dividend History (\$ in millions)



Grainger has returned cash to shareholders in the form of dividends since 1967 and has increased dividends for 34 consecutive years.