

GROWTH

PROFITABILITY

CASH FLOW

Drive Shareholder Value



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 keeps businesses running. And customers can also save time and money maintaining their facilities because Grainger provides a wide range of products when and where they need them.

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

GROWTH



\$5.5 billion in sales for 2005, up 9.4 percent (page 4)

Initiated six markets in market expansion program (page 6)

Launched largest product line expansion in 79-year history (page 7)

PROFITABILITY



21 percent increase in EPS in 2005 (page 1)

Operating margins grew to 9.4 percent (page 10)

Reduced product cycle time from supplier to available for sale by 5 percent (page 12)

CASH FLOW



Increased dividends by 20 percent (page 14)

2.4 million shares repurchased in 2005 (page 16)

Invested \$157 million in property, plant and equipment, and capitalized software (page 17)

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Grainger's Strategy

Customer service motivates us. It's what drives growth, profitability and cash flow, creating shareholder value.

Grainger is an essential partner to businesses across North America. As the leading broad-line supplier of facilities maintenance products, we ensure that our customers can get the products – motors, tools, safety gear, cleaning supplies – to get the job done.

The total North American market for the kinds of products we supply is more than \$140 billion. We have a few large competitors, but our primary competition comes from smaller, local or regional suppliers specializing in specific product lines. We deliver shareholder value by building on our reputation for integrity, unparalleled service, innovation, partnerships, and technology leadership. *Fortune* magazine ranks us among America's 100 most admired companies.

Proven performance

Our 2005 performance demonstrates our scale and service advantage: record sales of \$5.5 billion, up 9 percent; record earnings per share of \$3.78, up 21 percent. We posted these results while executing on key initiatives including our market and product line expansion programs and systems integration.

Our healthy balance sheet and strong cash flow enabled Grainger to return more than \$220 million to shareholders in the form of share repurchases and dividends in 2005. Grainger has 34 consecutive years of increasing dividends, one of only 57 companies in the S&P 500 with such a record.

Future outlook

Our long-term financial goals of average annual sales growth between 7 and 10 percent and pretax return on invested capital greater than 20 percent remain unchanged. Because our strategies have delivered improved performance, last year we raised our long-term operating margin range goal from 9 to 10 percent to 10 to 12 percent.

To achieve these goals, we must execute our strategic initiatives. We intend to continue to implement the market expansion program in the top U.S. metropolitan markets; roll out SAP to additional Grainger operations; expand our U.S. product line; find more bolt-on acquisitions for Lab Safety Supply to increase customer reach; continue to increase the overall profitability of the business, particularly Canada; and open a presence for Grainger distribution in China.

Every day our dedicated employees work hard to get the job done for our customers. We are confident that our sales growth, higher operating margins and investments in projects that return more than our cost of capital create tremendous value for our shareholders. The Grainger team has talent, heart and the passion to succeed. And we are nowhere near done.



Richard L. Keyser
Chairman and
Chief Executive Officer

R.L. Keyser

Long-term financial goals:

Sales Growth

7 to 10%

Operating Margins

10 to 12%

Return on Invested Capital

Greater than 20%

Five-year results:

