

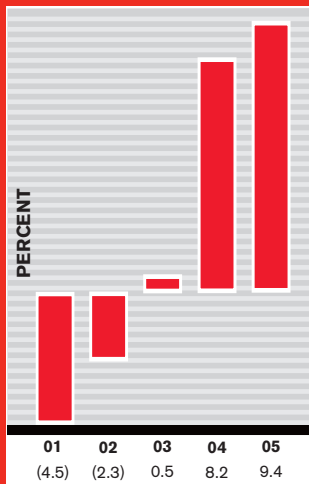
GROWTH

Long-term financial goals:

Average annual sales growth
7 to 10%

Five-year results:

Sales Growth



The company looks to grow sales by giving customers no reason to make unplanned purchases anywhere else. Grainger is targeting sales growth in the range of 8 to 11 percent for 2006.

Four strategic initiatives drive growth:

- Selling customers on Grainger's unique value proposition
- Enhancing Grainger's presence in local markets
- Increasing the number of products available
- Making acquisitions to complement Lab Safety Supply

Grainger makes it easy for customers to find, buy, receive and manage facilities maintenance products. That's what keeps customers coming back to Grainger and what spurred record sales of \$5.5 billion in 2005, up 9 percent.

Grainger continues to grow profitably by providing the industry's best:

- **Search and selection** – catalogs and Web sites with additional help from sales representatives, customer service associates, and technical support to find the products customers need
- **Products** – a broad array of more than 800,000 products available through catalogs, Web sites, and visual displays at branches, with special order sourcing for other needs
- **Ordering process** – phone, branch counter, Web site, fax, EDI, customer e-Procurement systems
- **Fulfillment** – North American branch network offering same-day fulfillment supported by 18 distribution centers providing shipping to customers

By giving customers no reason to purchase facilities maintenance products anywhere else, Grainger expects to take market share from competitors over the coming years.



The new branch in Mobile, Ala., played an essential role following Hurricane Katrina by providing emergency supplies to get businesses up and running.

Purchasing Pattern

Managing the unpredictable by relying on Grainger

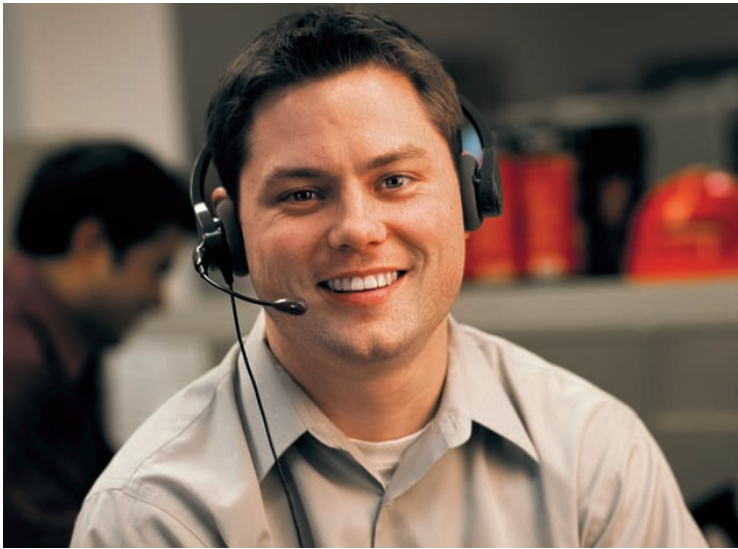


Growing with the Grainger Value Advantage

Grainger's customers are more than 1.7 million businesses and institutions worldwide. Grainger sells principally to industrial and commercial maintenance departments, contractors and government customers.

Customers are looking for ways to reduce the time and money it takes to purchase facilities maintenance products. Many are using the same techniques they use to reduce acquisition costs for raw materials and production consumables by consolidating suppliers and leveraging volume to negotiate a better price. It's an effective strategy when usage or demand is planned. Unplanned is the challenge.

This international package delivery company with more than 400,000 employees ordered 24,737 unique items from Grainger last year. The company purchased 19,726 items one to five times – 51 percent of them only once.



Grainger's stratified sales force provides targeted customer coverage. Large, complex customers receive frequent contact; small and mid-sized customers have dedicated sales people who reach them either in person or over the telephone. For 2006, Grainger plans to increase the number of sales representatives by more than 15 percent – with the majority of them targeting small to mid-sized customers.

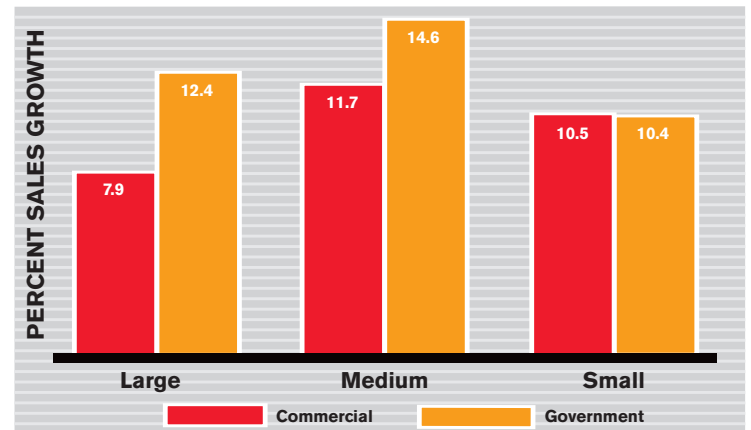
Customer coverage

Over the past four years, Grainger has expanded and stratified its sales force to provide the most comprehensive coverage in the industry. The U.S. sales force covers 15 percent of Grainger's accounts, but these accounts represent around 75 percent of the company's revenue.

Four years ago, Grainger had sales people calling on accounts of all types and sizes. Today, the sales force is specialized to provide targeted service to customers. Grainger expects to end 2006 with about 2,000 sales representatives in the United States. In 2005, Grainger added 33 telesales and sales representatives to extend customer coverage in Mexico.

These men and women will help customers understand how Grainger helps them save time and money.

U.S. Sales Growth – 2005 compared to 2004



Grainger's specialized sales force has driven growth among targeted customers in all segments.

While Grainger serves planned customer needs, its special value to customers is with unplanned product needs. Some 40 percent of customers' facilities maintenance product purchases are random and infrequent – those one-off buys that are needed immediately to keep a facility up and running. Over the period of a year, customers rarely purchase these same items twice. And product purchases seldom repeat from one year to the next. Sourcing these products is very costly, both in time and money. By consolidating with Grainger, customers are able to get great service at competitive prices from one convenient source.



Grainger branches are staffed by knowledgeable employees who quickly help customers get the right products and information to get the job done.

What distinguishes Grainger from its largest competitors is its branch network where customers can pick up a broad array of facilities maintenance products. Grainger estimates that two-thirds of U.S. businesses are within 20 minutes of a Grainger branch.

Market expansion

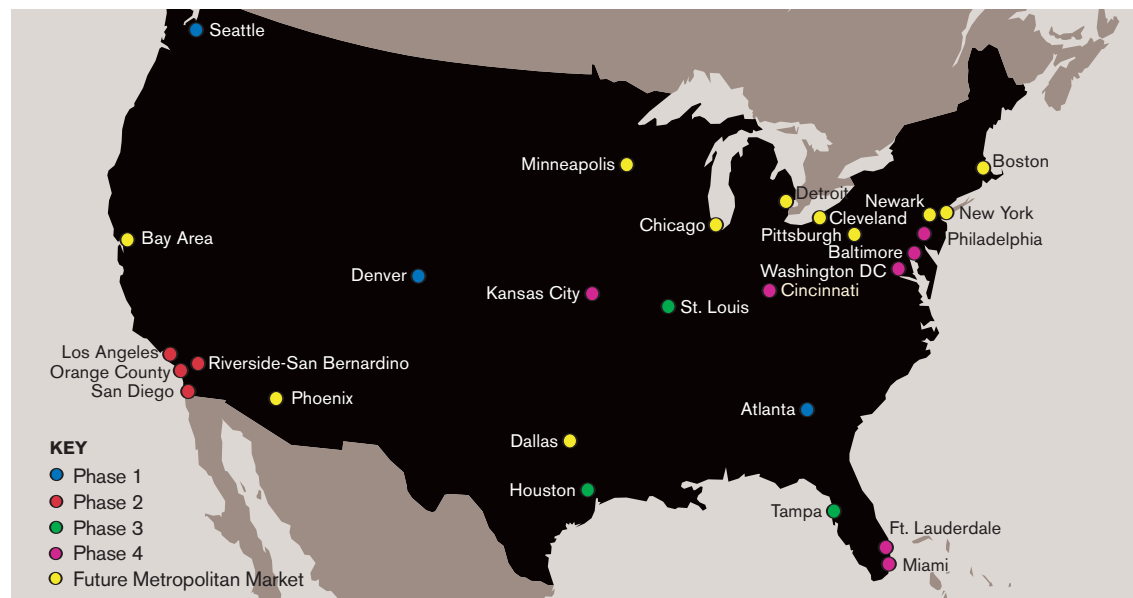
Grainger is in the process of a multiyear market expansion program to gain share by improving customer coverage and the overall positioning of its product and service offering. The program targets top metropolitan markets in the United States, which represent around 50 percent of the overall facilities maintenance products opportunity in the United States.

Grainger already has a national presence. The market expansion program improves this presence by examining branch size and location, inventory, sales coverage and marketing. The Grainger team uses a comprehensive process to determine which markets to tackle and where to place branches to capture the largest market share.

In 2005, Grainger added more than 345,000 additional square feet in branch showroom and warehouse capacity. For the program in 2005, Grainger opened nine full-size branches and five Grainger Express® locations, relocated eight branches, expanded 11 existing branches and closed four. It also increased sales coverage in the expansion markets by more than 25 percent. Last year, Grainger:

- completed three markets – Atlanta, Denver and Seattle
- implemented seven markets – Houston, St. Louis, Tampa and four markets in Southern California
- launched initiatives in six markets – Baltimore, Cincinnati, Kansas City, Philadelphia, South Florida (Miami/Ft. Lauderdale) and Washington, D.C.

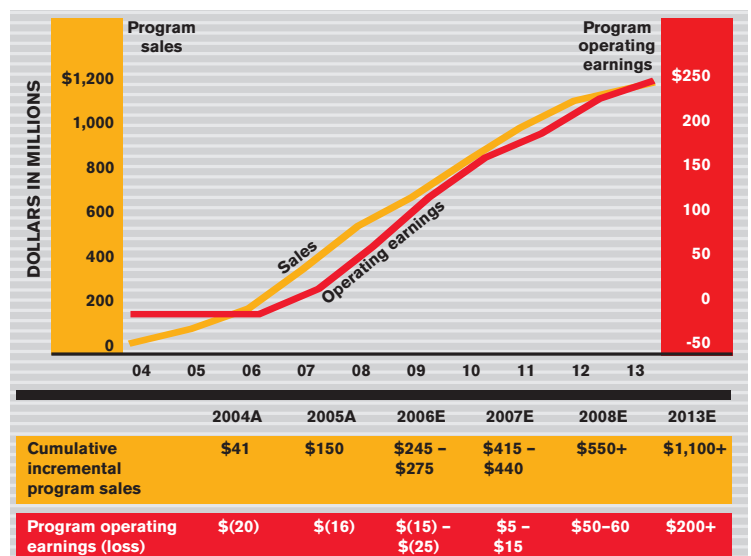
Sales growth in these markets is expected to be 5 to 10 percentage points greater than anticipated growth in markets in the rest of the country.



Market expansion financial projection

Grainger expects \$95 million to \$125 million in incremental sales from the market expansion program in 2006 over 2005. By 2013, Grainger anticipates total incremental revenue of more than \$1.1 billion, and a contribution of more than \$200 million in operating earnings. Over the past two years the company exceeded its earlier projections and revised its future outlook upward.

Mexico plans to examine its branch coverage over the next several years, adapting the market expansion program to its current presence in six markets. In 2006, it expects to open several new branches.



Product line expansion

Customers can reduce their supplier base by picking the supplier with the broadest product line that can handle planned and unplanned facilities maintenance product needs. To help fulfill more product needs, Grainger will expand its product line beginning in 2006.

The benefits of consolidating purchases for procurement professionals are easy to achieve in vertical product categories – lighting, electrical, safety, cleaning, pumps, motors, ventilation – but consolidating unplanned purchases across all categories requires a broad array of products.

Over the last few years, Grainger pruned its product line to reduce redundancy. Starting in 2006, Grainger is expanding the number and types of products in categories offered by its U.S. business.

Consider fasteners. Procurement professionals complained that they prepared for their unplanned fastener needs by storing large volumes of all different sizes and grades of fasteners in their facilities, taking up space and increasing carrying costs. By relying on Grainger for local availability, they can better manage such unplanned buying situations.

Grainger's 2006 catalog features more than 115,000 products as compared to some 82,400 products in its 2005 catalog. Grainger expects 2006 capital expenditures for the product line expansion to be \$5 million to \$10 million. Product line expansion – in safety, cleaning, security, motors, HVAC, lighting, electrical, pumps, plumbing, test equipment, material handling, tools and fasteners – should represent about 1 percentage point to the planned sales growth for 2006.



Fastener line expansion

With the publication of Catalog 397, Grainger launched the biggest product expansion in its 79-year history. The U.S. catalog will feature more than 39,000 new products. Over the next three to five years, the company intends to add more new products.

Grainger is taking an aggressive step into the \$8 billion facilities maintenance fastener market. The new 4,007-page catalog includes 31,000 fasteners over and above the 3,500 that Grainger already offered customers. The expanded line consists of 20 categories of fasteners – both national and private label brands – to address customers' unplanned needs. Fasteners have higher gross profit margins than the 39 percent total company average of Grainger's other products.

More than 4,000 fasteners will be readily available in local branches and Grainger will fill orders for the entire line from its distribution centers, shipping next day to the majority of its customers.

The decision to add these products came from extensive customer research. Grainger believes adding new products enhances its brand and reputation for having more of the hard-to-find, unplanned products.



Grainger has more than 4,000 fastener stock keeping units in each branch.



LSS offers extensive product depth, technical support and high service levels to customers representing diverse industries across North America. During 2005, LSS issued 10 unique catalogs covering safety supplies, material handling, lab supplies, security and other products targeted to specific customer groups.

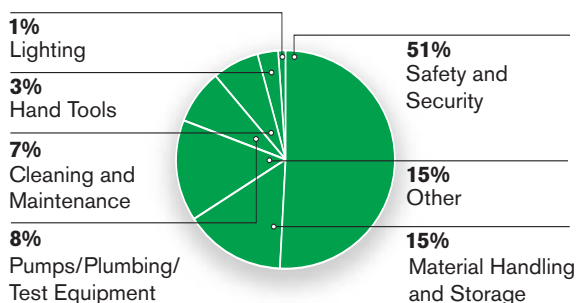
Lab Safety Supply

Lab Safety Supply, Inc. (LSS) helps save customers time and money in purchasing safety and other industrial products. With access to more than 130,000 products and superior customer service, LSS is a leading business-to-business direct marketer of safety and industrial supplies in North America. Approximately half of the products LSS sells are non-safety related, with only half safety focused.

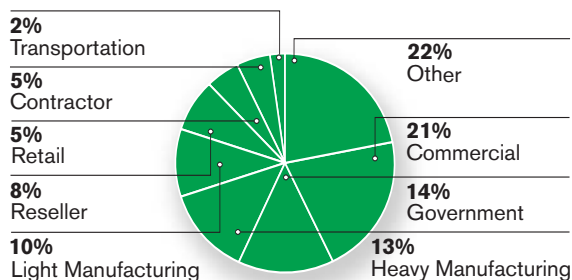
LSS serves customers who use a catalog or Web site and purchase online or over the phone. The competition for this business is largely a variety of small, specialized direct marketing competitors. LSS has the opportunity to expand its customer base and increase sales through strategic acquisitions.

What distinguishes LSS is its ability to acquire other direct marketing companies with limited customer overlap. It can then cross market a full array of products that are already part of LSS, enhancing its growth and making the acquisitions accretive in the first year.

Lab Safety Supply – 2005 Sales by Product Line



Lab Safety Supply – 2005 Sales by Customer Group



Acquisition Criteria

- Market leader
- High ROIC
- Growth potential
- Limited customer base overlap

FISCAL YEAR	ACQUISITION	OPPORTUNITY
February 2001	Ben Meadows	Direct marketer specializing in equipment for the natural resources and forestry management markets.
April 2003	Gempler's	Direct marketer serving the agricultural, horticultural, grounds maintenance and contractor markets.
January 2005	AW Direct	Direct marketer of products to the service vehicle accessories market, which includes the auto service, utilities, government and construction markets.
January 2006	Rand Materials Handling Equipment	Direct marketer of warehouse, storage and packaging supplies to the material handling market.

International growth

Grainger serves customers in more than 125 countries around the world. They value the broad product line and reliable delivery no matter where their facilities are located. Customers in emerging markets are a key growth opportunity for Grainger. In particular, Grainger has targeted Asia for potential growth opportunities.

Through export, Grainger ships products world-wide to customers who do not have a reliable local source of facilities maintenance products, especially items that are hard to find. Grainger helps customers through its network of U.S. and foreign-based territory managers. A centralized distribution platform provides order consolidation for customers.

The industrial distribution business is fundamentally a regional business. Already having a North American presence, the company sees opportunities in Asia.



In 2006, Grainger will launch its first catalog in China. The catalog will feature some 20,000 products sourced from manufacturers in China and other countries.

China

Grainger is developing a distribution presence in China. Much like the market in the United States, the market in China is highly fragmented and offers long-term growth potential. The facilities maintenance product market in China today is estimated at approximately \$30 billion, with half of that to industrial customers. In 2006, Grainger will formally open its operations in Shanghai, which accounts for about 6 percent of the total Chinese market for facilities maintenance products, and launch a catalog with some 20,000 products.

Mexico

Grainger, S.A. de C.V. – Grainger's business in Mexico – is the leading distributor of facilities maintenance products in Mexico. The country has a market opportunity estimated at \$10 billion.

Customers have access to more than 35,000 products through a Spanish-language general catalog, which is customized to the local marketplace; online at grainger.com.mx; or over the counter at one of six branches. In 2006, Grainger looks to add several new branches to better serve customers.

Canada

Grainger's business in Canada, Acklands – Grainger Inc., is the nation's leading broad-line distributor of industrial, fleet and safety products. The Canadian market opportunity is estimated at \$12 billion.

Acklands – Grainger offers more than 180,000 in-stock items to more than 51,000 customers. Customers have access to products online at acklandsgrainger.com and through a catalog, both in English and French. The company operates 165 branches and five distribution centers throughout the country. In 2006, the Canadian business plans to focus on preparing to implement SAP by examining its processes and improving the way it delivers service.



The branch in Queretaro, Mexico, is one of six in the country. Customers can also purchase products using a Spanish-language general catalog or through grainger.com.mx.