

## Corporate Social Responsibility

### A LEGACY OF ACHIEVEMENTS

- 1927**  
Company founded in Chicago, Ill.; generates sales through an eight-page catalog – The Motorbook
- 1928**  
Incorporated in the state of Illinois
- 1933**  
Opens first branch in Philadelphia, Pa.
- 1942**  
Expands to 24 branches and 24 territory sales representatives
- 1952**  
Celebrates 25th anniversary with 46 branches, 54 territory sales representatives and 104-page catalog
- 1967**  
Becomes publicly traded company under the symbol GWW
- 1975**  
Lists on New York Stock Exchange
- 1977**  
Celebrates 50th anniversary with \$499 million in sales
- 1984**  
Achieves more than \$1 billion in annual sales
- 1992**  
Acquires Lab Safety Supply
- 1995**  
Launches Web site, www.grainger.com
- 1996**  
Acquires Acklands Limited
- 2002**  
Celebrates 75 years of serving customers
- 2004**  
Breaks \$5 billion annual sales mark
- 2005**  
Sets records in customer service levels



**Grainger is committed to conducting business honestly and accepts the responsibility to protect and respect its employees, suppliers, customers, shareholders and the communities in which the company conducts business.**

**C**ustomers want to do business with companies they can depend on. Employees want to work for companies that reward them appropriately, that allow them to contribute and grow, and that are involved in their communities. Shareholders want to invest in companies that are financially sound.

Grainger has built trust with customers, employees and shareholders by upholding the highest ethical standards and forging strong relationships with community partners. The fundamental management principles upon which the company was founded still govern Grainger today. Conservative financial practices, open and honest communication and an easily understood operating model remain the hallmarks of how Grainger does business.

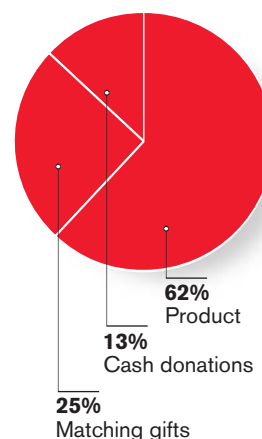
### Community involvement

**F**or the past 79 years, Grainger has contributed to local communities. In 2005, Grainger gave more than \$15.7 million to not-for-profit organizations. In addition, Grainger enabled employees to significantly help their communities by donating \$3.9 million through its 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. Grainger employees and the company contributed more than \$300,000 to this fund. In September 2005, Grainger once again expanded its matching charitable gifts program to provide a four-for-one match following Hurricane Katrina, contributing \$1.2 million to the American Red Cross Disaster Relief Fund.

Beyond financial contributions, Grainger employees volunteer their time to their communities. Grainger encourages this by working hand-in-hand with select organizations and donating time off to allow employees to participate.

### 2005 Charitable Contributions



## Partnership by the numbers

1,800+

Number of employees and retirees who participated in Grainger's match of donations to the American Red Cross' International Response Fund and Disaster Relief Fund.

100+

Number of Grainger volunteers trained to respond to emergencies through the *Ready When the Time Comes*, the Chicago Red Cross' workplace disaster relief program that engages corporations in providing trained disaster-relief volunteers who are ready to respond quickly in the wake of a local or national disaster. Since 2000, Grainger volunteers in Chicago and Denver have manned shelters, fireproofed homes, staffed phone banks and participated in the Top-Off II national preparedness exercise. In 2006, Grainger will expand the program across the United States as the National Founding Sponsor.

450+

Number of hours Grainger volunteers have spent taking calls from individuals seeking American Red Cross aid in response to 2005's hurricanes.

300+

Number of Red Cross volunteer resource managers who attended the 2005 Volunteer Administration Institute sponsored by Grainger.

## Disaster relief

In addition to helping customers save time and money by providing the products they need to maintain their facilities, Grainger helps ensure they're prepared to withstand and recover from a disaster. Grainger's partnership with the American Red Cross makes that possible. Grainger received the American Red Cross Circle of Humanitarians Award in both 2004 and 2005 for its disaster relief efforts throughout the United States.



**Through the American Red Cross *Ready When the Time Comes* program, Grainger employees volunteer time to staff emergency phone centers, staff shelters and distribute aid supplies to areas affected by natural disasters.**

**When natural disasters strike, Grainger helps businesses recover by funding development grants through not-for-profit organizations.**



## Grainger Rebuilding America® program

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 devastated community as seed money to begin rebuilding. Grainger launched this program in 2003 and has assisted Jackson, Tenn., following a severe tornado that destroyed the downtown area, and the Utica, Ill., downtown district following a severe tornado.

## Corporate Social Responsibility (continued)

### Product donations

In 2005, Grainger donated more than \$9.7 million in product for disaster relief and educational efforts. The company created special accounts at local branches in Baton Rouge, La., Mobile, Ala., and Jackson, Miss., to ensure that local Red Cross volunteer units serving the hardest hit areas got product donations quickly.

Other product donations went to The National Association for the Exchange of Industrial Resources, which helps Grainger make the best use of any overstocked inventory by distributing the products to schools and other organizations; and Educational Assistance, Ltd., which offers the inventory to colleges and universities in exchange for scholarships for thousands of needy students.

Grainger's distribution center in Jacksonville, Fla., provided essential support to branches and communities following the hurricanes that devastated the Southeast in 2005.



### Vocational support and education

Grainger is committed to helping several vocational and educational programs and is providing the resources students need to succeed. Each year Grainger provides more than a dozen internships and two scholarships to exceptional students through its affiliation with INROADS, a not-for-profit career development organization for minorities. In Atlanta, Grainger supports the Construction and Education Foundation of Georgia, which provides vocational training at the high school level. Lab Safety Supply provides similar support to the Blackhawk Technical College in Janesville, Wis.

In addition, Grainger supports i.c.stars and the Hispanic Alliance for Career Enhancement (HACE). i.c.stars is a Chicago-based nonprofit organization offering an educational program in technology for inner-city young adults. HACE helps Latinos through every stage of their career paths – from high school through college and into their professional careers.

### A healthy environment

More than 1.7 million customers trust that Grainger has the right products to keep their facilities up and running. That trust is the foundation of 79 years of success, and maintaining that trust is what every Grainger employee does. Grainger's Environment, Health and Safety guidelines support employees in their efforts.

Grainger offers customers the products and services needed to support their facilities environmental programs. From the manufacture of the product until its useful life is complete, Grainger offers solutions that consider the total environmental impact, including Energy Star®, Green Seal Certified, Recycled Content and Nema Premium™ Efficient products.

In addition, Grainger has a supplier approval process that is among the most comprehensive and stringent in the industry. Suppliers are required to be in compliance with relevant environmental regulations governing the manufacture and sale of their products.



## Ethical workplace principles

As a condition of employment, each year every Grainger employee commits to a set of conduct guidelines. These guidelines require all employees to operate with the highest moral, ethical and legal standards, which apply to all areas of Grainger's business. In addition, employees are provided with both ethics and diversity training to ensure compliance with the standards.

Grainger focuses on partnering with suppliers who not only provide quality products, but also help customers meet diversity requirements. Grainger is committed to promoting diversity with its supplier base. In 2005, Grainger increased the use of minority-owned, women-owned, and small business suppliers in the company's daily operations by more than 30 percent over 2004. Grainger purchases products and services for internal use, as well as to market throughout Grainger's sales channels.



**Grainger employees annually commit to Grainger's conduct guidelines as a condition of employment.**

## Corporate governance at a glance

Grainger continually reviews, evaluates and modifies its governance program to ensure the highest standards. Corporate governance policies are designed to strengthen the ability of the Board of Directors to provide counsel to management and to monitor performance, thereby helping to ensure long-term shareholder value.

Grainger believes that corporate governance is an important component of a company's overall performance. Recent corporate governance ratings place Grainger at the upper end of the top quartile.

### 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
All directors attended at least 75 percent of Board meetings	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

### 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

### 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