

# Getting it done.

80 Years of Serving Our Communities



**GRAINGER**<sup>®</sup>

////// FOR THE ONES WHO GET IT DONE

*To some, it's an attitude. To others, an outcome. However you look at it, Grainger's focus on "getting it done" defines our company. You can see it every day in our commitment to service and also in the impact our actions have on our employees, customers, investors and the world we live in.*

*How does Grainger get it done?*

*Let's take a look.*

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**Richard L. Keyser**



**James T. Ryan**

## **To our readers:**

We have a lofty goal for Grainger's first corporate social responsibility report: to capture our zeal – our passion – for serving our employees, customers, investors and communities well. Everything we do as a company follows the same philosophy: Offer the best. Leave no reason to look elsewhere. And have some fun doing it.

The heart of the effort is our employees. For the past 80 years, Grainger employees have done whatever it takes to assist our customers and the communities where they live. They take pride in working as a team, and it shows in the relationships they form. Case in point: one of our employees, Lexington, Ky., Branch Manager Penny Dever, who in her 23 years with the company has worked in several locations. "I've found over the years that customers will follow me as I move from one branch to the next," she says. "They'll call because we have that relationship. If you've helped them in the past, they will keep coming back." Our employees have proven time after time that Penny's approach works. Through such dedication, our teams have created a strong, financially sound organization characterized by open, honest communication. So we've developed innovative ways to reward them and keep them focused on our customers and getting the job done.

Operating out of some 600 locations throughout North America and with a growing presence in China, our employees have to cover a lot of ground. They've embraced the challenge, finding new and dynamic ways to make a difference – not just for customers, but also in their communities. Grainger employees volunteer within our philanthropic focus areas of disaster relief and technical education. They're also great at identifying and addressing critical community needs. For instance, several branches in the San Francisco Bay area pooled their company contribution funds and donated \$7,000 to the "Food for Bay Area Families" organization. The organization allows every dollar donated to purchase \$9 worth of food, so Grainger's donation equated to \$63,000 in food for needy families. Not a bad return on investment!

Employees are also environmentally conscious. In Lexington, Ky., the team contributes to Ducks Unlimited®, a national wetlands conservation and wildlife protection agency with a presence in many local communities. Our team there became aware of the organization through a customer – proof of the value those relationships can create.

Our employees are proud to be Grainger's local ambassadors and to serve as a conduit for the resources that Grainger, as a Fortune 500 company, can provide. All told, Grainger contributed more than \$11 million in aid to 1,900 organizations last year in the form of funding, employee volunteer time and product donations. We like to say that this commitment to service is "in our DNA." But when it comes down to it, it's really about doing what's right. And we are nowhere near done.

A handwritten signature in black ink that reads "R.L. Keyser".

**R.L. Keyser**  
Chairman and  
Chief Executive Officer

A handwritten signature in black ink that reads "Jim Ryan".

**Jim Ryan**  
President and  
Chief Operating Officer

# ***Grainger is getting it done for...***

## **Our 17,000 employees**

- Comprehensive and competitive benefits for employees
- \$103 million contributed in 2006 to a profit sharing trust to fund employees' retirement
- 32 hours of training on average per employee each year

## **Our investors**

- 36 years of consecutive increased dividends
- 50.5 million shares repurchased since 1984

## **Our 1.8 million customers**

- 18 distribution centers and around 600 branches throughout Canada, China, Mexico and the United States
- 850,000 products from 1,600 suppliers offered through 21 catalogs and on 11 Web sites
- Product support and ordering capability 24 hours a day

## **Our communities**

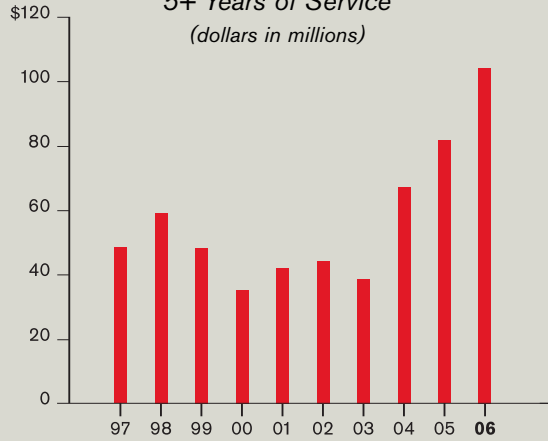
- \$30 million contributed to not-for-profit organizations in last 10 years
- \$4 million donated to the American Red Cross since 2001
- National Founding Sponsor of the American Red Cross's *Ready When the Time Comes* workplace volunteer program
- \$200,000 donated through the *Grainger Rebuilding America*® program, providing small businesses with disaster recovery grants
- *Grainger Tools for Tomorrow*™ scholarships for technical education students; additional support for trade education programs
- 3-for-1 employee matching charitable gifts program, contributing \$2.4 million in 2006
- More than \$285,000 contributed by Grainger locations to their communities

## **Our environment**

- Energy-efficient building designs and recycling programs
- Wide selection of green products, including ENERGY STAR®, Green Seal Certified, Recycled Content and NEMA Premium™
- Commitment to a safe work environment, with OSHA recordable accident rates and lost time accident rates below the wholesale industry average

## VALUING OUR EMPLOYEES

### Profit Sharing Trust Contribution: 5+ Years of Service

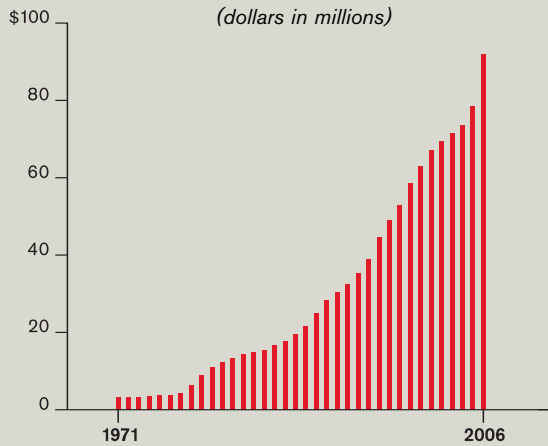


### Grainger's Retirement Vehicle

Grainger is among the top 10 percent of all companies in the Fortune 500 for retirement contributions

## CREATING SHAREHOLDER VALUE

### Cash Dividend History

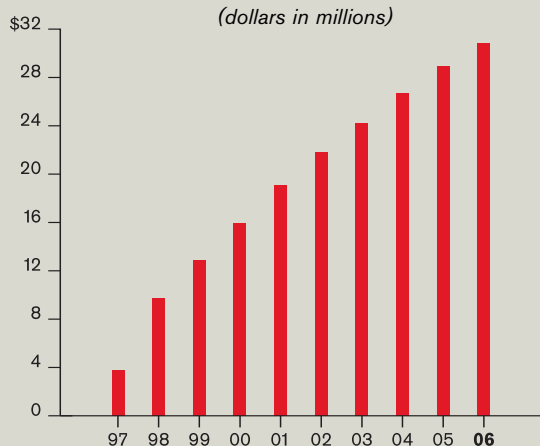


### Dividends

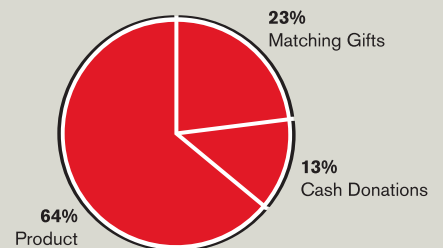
Grainger has 36 years of increasing annual dividends and is an S&P 500 Dividend Aristocrat.

## GIVING WITHIN OUR COMMUNITIES

### Cumulative Charitable Giving (10-year)



### 2006 Charitable Contributions



## DISASTER PREPAREDNESS AND RESPONSE

*Disasters happen. It's the efforts that we make to plan for and respond to those catastrophes that control the outcome. Because our job is to handle businesses' unplanned maintenance needs, Grainger is uniquely suited to the mission. And we've taken the lead in identifying ways for other companies to rise to the challenge.*

Customers often turn to Grainger in a crisis because of the solutions we provide. Need to locate an exact belt to restart a stalled production line? Looking for generators to prepare for yet another hurricane? Whatever the need, it's our people, and the tools they have at their disposal, that make the difference. When large-scale disasters occur, Grainger people are there. Given our product mix and distribution capabilities, Grainger can move critical items into hard-hit areas fast. Our support helps customers get back to business – and bring their communities back too.

We certainly don't do it alone. Typically, we work with local governments and FEMA. We also contribute to the American Red Cross. Since 2001, Grainger has partnered with the Red Cross to provide more than \$4 million worth of financial support, essential products and employee volunteer time.

### Employees at the Ready

As the saying goes, many hands make light work. If those hands belong to employees trained and ready to assist in an emergency – even better. Grainger has been a frontrunner in making more companies aware of this opportunity to help, serving as National Founding Sponsor of the American Red Cross's **Ready When the Time Comes** program. Through it, the Red Cross trains employees from many companies to support local disaster relief efforts. When an emergency occurs, these volunteers can be called up and helping within a matter of hours.

Grainger has participated in the program since it began in 2001 in Chicago. Since then, more than 400 of our employees have responded to the volunteer call. Our teams have assembled mass care shelters for flood victims in Illinois, participated in a national bioterrorism response exercise, responded to ice storms and chemical fires in Kansas City, and staffed phone centers in Chicago and Denver following Hurricane Katrina, among many other efforts. Shauna Brown, a sales associate in Denver, did marathon duty following Katrina, spending four shifts, totaling more than 28 hours, staffing phone banks. "I don't have a lot of money to contribute, and I wanted to help," she explains.

Our partnership continues to grow: In July 2006, Grainger and the Red Cross announced a plan to expand **Ready When the Time Comes** to 16 metropolitan markets across the country over two years with the help of a \$1 million grant from Grainger. In less than one year, the Red Cross has trained more than 1,600 volunteers in these areas, with plans in the works to recruit more.





Volunteer Mike Williamson, Branch Manager in Elmsford, N.Y., assisted families after severe flooding in Washingtonville, N.Y. Following his first volunteer experience, Mike recalled, "I can visualize the faces of many of the people. You can see a look of complete mental exhaustion in their eyes. Each person was so appreciative of our efforts, and knowing that we made their day just a little bit better gave me a feeling that is difficult to describe. Seeing the devastation, I wished I could do more. I remember one sweet elderly lady who asked if I was her guardian angel. I carried a case of water and some sandwiches into her home. When I returned, she asked if it was okay to hug me."

National Founding Sponsor



### *In the Spotlight*

In response to our disaster relief efforts throughout the United States, Grainger has received the following awards:

**American Red Cross Circle of Humanitarians Award**  
(2004 and 2005)

**American Red Cross of Greater Chicago Heritage Award** (2006)

**The Henry P. Davison Heritage of Service Award:** the American Red Cross inaugural community service excellence award (2007)



**Are you ready?**

For the *Ready When the Time Comes* program to have maximum effect, we need volunteers from lots of companies. Already, 60 organizations have stepped up to the plate.

For more information on how to participate, contact Martha Patterson, National Program Manager at the Red Cross: 312.729.6244; pattersonm@usa.redcross.org.

**Ready When the Time Comes**

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**National Launch date:**  
July 12, 2006

**Trained volunteers:**  
More than 1,600

**Corporate partners:**

**Baltimore, MD**  
Black & Decker\*  
Johnson, Mirmiran and Thompson  
Grainger  
Urban League

**Chicago, IL**  
Ace Hardware  
Aon  
CDW  
Crystal Lake Jaycees  
Deloitte  
GATX  
Grainger  
Hewitt  
Huron Consulting Group  
Monarch Hospice  
Moody Bible Institute  
Motorola  
Newark in One  
Robert Morris College  
Ty, Inc.

**Denver, CO**  
Grainger

**Houston, TX**  
El Paso Corporation\*  
Grainger

**Kansas City, MO**  
Grainger  
Kansas City Power and Light  
Sprint\*

**New York, NY**  
American Express  
Bears Stern  
Goldman Sachs  
Grainger  
Lehman Bros.  
Margiotis and Powell  
Royal Bank of Scotland  
TIAA-CREF  
Wachovia

**Northern Florida**  
Florida EPG  
Grainger  
Hillsborough Migrant Task Force  
IBM  
Jacksonville Electric Authority  
Landstar Corporation  
Tampa Bay County  
Commissioners  
University of South Florida

**Orange County, CA**  
Grainger  
Standard Pacific Homes\*

**San Francisco, CA**  
Bay Area African American  
Social Workers  
Gap, Inc.  
Grainger  
Oracle\*  
Pacific Gas and Electric

**Southern Florida**  
American Express  
Association of Black  
Psychologists  
Bluegreen Corporation  
Citibank  
Citrix Systems  
Cummins, Inc.  
Grainger  
Lutheran Church of God  
Loews

Mount Olive  
Perfumania  
Premier Beverages  
Senior Service Corps  
Sheridan Healthcare  
Spirit Airlines

**St. Louis, MO**  
Anheuser-Busch\*  
Citigroup  
Fleishman-Hillard  
Grainger  
Lohr Distributing Company  
State Farm

\* Local lead sponsor

## VOLUNTEER PROFILE

### Patti Rowles

E-Business Implementation Manager, Lake Forest, Ill.  
Grainger employee for eight years



*My family was involved in a tragedy back in the 1960s – we lost three children in a house fire. Community outreach was essential to my parents’ return to mental, emotional and physical health. I was the first child born after the fire, and I volunteer as a way to give back for the help my family received when they needed it most.*

Most of my volunteer involvement with Grainger has been through the Red Cross's *Ready When the Time Comes* program; I've been involved as a volunteer in Chicago since its inception in 2001. In that time, I've assisted with flood victims, providing cleanup kits and water. I also worked at a call center in downtown Chicago following 9/11, taking calls from individuals looking for family members or wanting to offer assistance. Through *Ready When the Time Comes*, I've also participated in the Red Cross's Firestoppers program, which aids in fire prevention for residents of high-risk areas. And most recently, I participated in a bioterrorism training exercise with the City of Chicago. It was at Soldier Field, and hundreds of people participated. By simulating a terrorism event, we helped the city determine how to respond to an attack and where to make improvements in the strategy.

The volunteer experience that had the greatest impact on me was probably the first one, simply because I didn't know what to expect. This was in response to the flooding that hit Chicago and outlying areas in August 2001. It was 100+ degrees outside, and there were long lines of people seeking assistance. We were supplying cleanup kits, but we'd run out of everything except for gallons of bleach. I was embarrassed to have so little to offer. One elderly woman came up to me, and when I sheepishly gave her the bleach, she had tears in her eyes. She said, "Thank you. You don't know how much you've helped me." It really showed me that it's the little things that people hold onto as a sign of hope.

## CHAMPION OF LOCAL COMMUNITIES

*The majority of Grainger's customers are small, local companies. Serving them well is our top priority. After a disaster, small business owners often fall through the cracks – the aid provided by the government and insurance doesn't always cover the damage. So Grainger created a way to help.*

In 2003, we launched **Grainger Rebuilding America**<sup>®</sup>, a program that contributes grants to communities severely affected by disaster. We grant a \$50,000 contribution to a local nonprofit or economic development organization. That organization then disperses the funding to eligible small businesses to begin rebuilding.

For the recipients, this unexpected funding can make a big difference. "We were in one of the hardest-hit areas of Jackson – everything was destroyed or had been blown away," said Eileen Brittingham, Manager of Frankie Plunk Travel Service in Jackson, Tenn. "Being a service business, we couldn't afford to stay down while repairs were being made. Instead, we operated out of my home from May to September. Within 48 hours, we were operational. We're now back in our original building, and we really appreciate all Grainger did to help us out."

**Grainger Rebuilding America**<sup>®</sup> grant recipients have ranged from music stores and florists to photography studios and attorneys. They are businesses found on every Main Street across America. We are proud to help them succeed, and in turn, benefit the larger community.

**Grainger Rebuilding America**<sup>®</sup> recipients are not the only ones to benefit from Grainger's philanthropic spirit. Employees around the country are active contributors to local causes. For instance, in June 2006, Grainger branches in the Gulf area combined their charitable giving funds into a \$15,000 donation to the Small Business Disaster Fund of the Baton Rouge Area Foundation. The foundation provided businesses around New Orleans with much-needed supplemental funding to help them recover from Hurricane Katrina's devastation.

### Product and Cash Donations

In recent years, Grainger has made significant contributions to Red Cross relief efforts following major storms:

**Hurricane Katrina:** Grainger raised its three-for-one match of employee contributions to four-for-one, contributing more than \$1.2 million to the American Red Cross Disaster Relief Fund. The company also gave \$200,000 in products.

**Southeast Asian Tsunami:** Grainger donated more than \$300,000 through the American Red Cross with a four-for-one match of its employee matching charitable gifts program.

**Hurricanes Charley, Frances and Ivan:** Grainger contributed \$1 million in emergency supplies and \$50,000 in cash.

**Hurricane Isabel:** Grainger donated more than \$80,000 in cleanup-related products.

In 2006, Grainger also contributed to the American Red Cross chapters in New England, St. Louis and Seattle following severe storms and flooding in their communities.

# Safe and sound.

Helping to create calm from chaos



**Grady Carter**

Owner of Jaco's, and one of 23 business owners in Jackson, Tenn., who received a grant through the Grainger Rebuilding America® program.

**REBUILDING AMERICA  
GRANT RECIPIENTS**

*Community Foundation of  
Johnson County  
Iowa City, Iowa*

Grant presented in June 2006.  
7 local businesses received funding for office rebuilding, storage, roof and awning repair, furniture purchases, and cleaning following tornadoes.

*Illinois Main Street Program  
Springfield and Jerome, Ill.*

Grant presented in May 2006.  
20 businesses received funding for repairs to their stores, offices and warehouses following tornadoes.

*Illinois Main Street Program  
Utica, Ill.*

Grant presented in May 2004.  
23 businesses received funding for infrastructure repairs, equipment and supply purchases, and advertising campaigns following tornadoes.

*Jackson Downtown Development  
Corporation  
Jackson, Tenn.*

Grant presented in May 2003.  
23 businesses received funding for wall and roof repairs, advertising campaigns and cleaning following tornadoes and flooding.

“I’ve been with Jaco’s since 1969, and I bought the place in 1996. We sell, lease, and rent musical equipment, band instruments and other items, almost all of which was ruined by the tornado. So we used the money to buy additional equipment. Though we had to relocate following the tornado, the folks in Jackson asked us to stay downtown, so we did. We’re now operating across the street from the old place. Business has been steady; we’re holding on.” — **Grady Carter**

# Building experience.

Committed to technical education

Grainger's *Tools for Tomorrow*<sup>SM</sup> scholarship program is helping students like Michael Guido complete the technical education program that will launch their careers.



## EDUCATION

*There's a critical and growing skills gap in industrial and technical career fields. Someday that trend could significantly impact Grainger's employees, customers and suppliers. To combat the issue, we are investing in a variety of educational programs. Many of them provide the dual benefit of supporting minority youth; all help young people get the education they need.*

### Providing Tools for Tomorrow's Workforce

Contractors. Plumbers. Electricians. Welders. Construction workers. Skilled laborers keep our national and local economies going. We want to make sure that continues to happen. So we're steadfast supporters of technical education programs, providing these craftspeople with the tools they need to get the job done.

Through the **Grainger Tools for Tomorrow**<sup>SM</sup> scholarship program, launched in 2006, outstanding second-year, technical education students receive scholarships to help them realize their educational goals. They also receive a customized Westward<sup>®</sup> toolkit once they graduate. Grainger works with the American Association of Community Colleges to identify the recipient schools. The schools select the scholarship winners based on scholastic achievement, leadership and commitment to the trades.

Fernando Gomez, a scholarship recipient and student at the College of Lake County in Grayslake, Ill., sees the scholarship as a key to future success. "As the first person in my family to go to college, it is important to me to be a leader in my school and in my community," he says.

"The **Grainger Tools for Tomorrow**<sup>SM</sup> scholarship has helped me in more ways than I can say," says Michael Guido, an architecture/construction student at Henry Ford Community College in Dearborn, Mich. "As a college student with little income, the scholarship allowed me to continue my studies without worrying about finding a way to pay my way. I was able to concentrate entirely on school."

In 2006, Grainger also awarded the Henry Ford Community College Foundation in Dearborn, Mich., with a trailer stocked with tools, safety equipment and HVAC equipment donated by Grainger suppliers. The school needed a vehicle to move materials and equipment to on-site training sessions on topics such as residential construction.

### Where can you go to see a seven-foot tall, 500-pound sculpture constructed entirely of wrenches, nuts and bolts?

Instead of heading to the Museum of Modern Art, look no further than the College of Lake County, in Grayslake, Ill. Grainger commissioned the sculpture for a trade show display before donating it to the college's permanent art collection.



### 2006 GRAINGER TOOLS FOR TOMORROW<sup>SM</sup> RECIPIENTS

#### Brandon Bogle

Electrical Engineering  
Cincinnati State Technical and  
Community College  
Cincinnati, Ohio

#### Margaret Braswell

Construction Management and  
Construction Technology  
North Lake College  
Irving, Texas

#### Fernando Gomez

Automotive Technology  
College of Lake County  
Grayslake, Ill.

#### Michael Guido

Architecture and Construction  
Henry Ford Community College  
Dearborn, Mich.

#### Troy Hastings

Construction Management  
Community College of  
Baltimore County  
Catonsville, Md.

#### Amanda Korte

Construction Technology  
St. Louis Community College  
St. Louis, Mo.

#### Stuart Nielsen

Welding Fabrication  
South Seattle Community College  
Seattle, Wash.

There soon will be two new affordable homes on the market in North Chicago thanks to local students. Through **YouthBuild of Lake County**, these young adults are earning a GED while learning hands-on skills in construction or HVAC. Grainger donated \$5,000 to the *YouthBuild* program as well as Westward® and Dayton® products for the students to use on the construction project.

### Opening Our Doors

Since 1999, Grainger has partnered with *i.c.stars*, a program providing young adults from inner city communities with technology and leadership training not readily available to them. Three years ago, Grainger created an information systems rotational program for *i.c.stars* graduates called **G-STAR** (Grainger Systems Training and Rotation). The rotational program offers a good exchange. Our employees lend their Internet and IT expertise to a diverse group of bright young adults. In return, they benefit from the students' initiative and fresh perspectives. Over the course of two years, participants receive leadership training and hands-on technical education through project-based work. To date, Grainger has hired three G-STAR graduates.

Grainger also participates in the **INROADS** program, an organization that develops and places promising minority undergraduates in two- to four-year internships that help prepare them for corporate and community leadership. Each year, Grainger has awarded more than a dozen *INROADS* internships and two scholarships. A number of these student interns have gone on to accept full-time, professional positions at Grainger upon graduation.

Grainger's Lab Safety Supply subsidiary maintains an intense focus on local education and career preparation in its hometown of Janesville, Wis. The company's many intern options and student jobs provide hands-on training for high-performing students. Lab Safety Supply regularly invites local teachers in for "externships" on how best to prepare students for business careers and success on

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**"As a two-time Grainger scholarship recipient, INROADS Intern of the Year and INROADS Senior of the Year, I am extremely grateful for Grainger's unparalleled support of my academic and career endeavors. By offering challenging assignments, strong mentorships and exposure to the company's leaders, it's no wonder that the INROADS internship program at Grainger is consistently ranked as one of the best in Chicago."**

**Octavio J. Santiago**, Investor Relations Analyst, Lake Forest, Ill.

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the job, familiarizing them with the variety of positions available and skills required at a company such as Lab Safety Supply. In addition, several Lab Safety Supply staffers are regular advisors and guest lecturers to local high school and college business programs.



### How do you transform a screwdriver into a scholarship?

Donate it. Each year, we donate products to Educational Assistance, Ltd., which offers excess inventory to colleges and universities in exchange for scholarships for thousands of students from financially disadvantaged backgrounds nationwide. We also donate products to the National Association for the Exchange of Industrial Resources. They, in turn, give them to nonprofit organizations and schools.

“YouthBuild takes a holistic approach to its trainees – teaching them skills for all aspects of their lives – that reminds me a lot of the way Grainger cares for its employees.”

— Octavia Matthews

Grainger's partnership with *YouthBuild Lake County* is just one of the ways that we're supporting technical education initiatives. **Octavia Matthews, Regional Branch Services Vice President**, saw the impact of the program firsthand when she toured the YouthBuild construction site in North Chicago, Ill.



# Engaging employees.

Encouraging volunteerism

"Grainger's willingness to offer employees the opportunity to volunteer, and even host the training on site, is great," says Kevin Henderson, Product Management Operations Manager and *Ready When the Time Comes* volunteer, pictured far right, unloading supplies donated by Grainger. "It shows that Grainger cares about the communities in which we do business – that we want to be involved in something larger than ourselves."



## ENGAGING EMPLOYEES

*Grainger's employees are the company's greatest strength, continually identifying creative ways to meet the needs of their customers. To support those efforts, we provide a variety of ways for employees to make a difference in their communities.*

### Employee Volunteerism

For many of our employees, the opportunity to volunteer on behalf of Grainger is a big benefit. Why? Reasons vary, but some of the ones we hear most frequently are:

1. It's a great way for Grainger to interact with the community on a more personal level.
2. It introduces people to the concept of volunteering.
3. It enables people to participate who might not have had an opportunity because of commitments outside of work.

Employees are rising to the challenge. Through the *Ready When the Time Comes* program, more than 400 Grainger employees from around the country are now trained and ready to respond to an emergency at a moment's notice. When the program rolled out in Houston, Grainger hosted information meetings at 17 Grainger branches in the area, resulting in nearly 100 people signing up to participate on the spot. "That kind of batting average just does not exist in volunteer recruitment," said Bob King, Director of Partner Relations at the Houston Red Cross, citing Grainger's corporate commitment and relationships with employees as the differentiators.

Employees have stepped up in other ways. Since 2002, through the **Tax Assistance Program (TAP)**, Grainger volunteers help low-income families in the Chicago area file tax returns and claim tax credits. "Taxes can be intimidating, even for the volunteers. In the past, we've taught other employee volunteers how to do the returns – what to expect – so that there's a comfort level," says Deb Cook-Ozga, Director, Federal Income Tax. "You don't have to touch a tax return if you don't want to," says Deb, who also has helped with site set-up, client greeting and site work flow. This year, Grainger is helping to expand the TAP program in the Lake County, Ill., area through a \$7,500 donation.



Across the United States, employees find many outlets for their philanthropic spirit, volunteering for charitable walks, bike rides and other community events. That drive expands beyond the U.S. border. During a recent service recognition event honoring top sales and service performers in Panama, 400 employees assembled 30 kits composed of tools and first aid, cleaning and painting supplies valued at approximately \$11,000. Through an arrangement with Panama's Ministry of Social Development, Grainger delivered these donated kits to local senior centers, orphanages and youth centers in Panama City.



**Modesta Rodriguez**, an unemployed single mother with four children, from Round Lake Park, Ill., will receive \$12,000 in tax refunds from the 2005 and 2006 filings she submitted with help from the *Tax Assistance Program*. Volunteers also helped Modesta fill out financial aid assistance forms for her and her 18-year old son. Grateful, she immediately asked to sign up as a Spanish interpreter for another TAP session. "I'd like to help out so I can give something in return for the help I received," she explained.

### Grassroots Philanthropy

Our employees will tell you that the best way to build a relationship is by working with customers on a day-to-day basis. Forming friendships. Being a trusted member of the community. Customers turn to us in emergencies, and being there plays a big role in meeting their needs when it matters most.

Beyond selling products, Grainger funds causes on the local level. When teams spot a worthwhile cause, they can donate money at their discretion.

To assist with work/family issues in the community, Lab Safety Supply is a founding member and director of the Rock County Child Care Consortium, which subsidizes convenient drop-in and late-night care for children of local employees.

When field teams collaborate, donations can make a meaningful difference. For instance, branches in North Carolina and Virginia recently banded together to donate more than \$12,000 to the Multiple Sclerosis Society, and two branch managers from the area participated in the organization's annual bike tour – a 150-mile trip – in support of the charity. In the Midwest, Grainger branches pooled their resources to make a \$3,000 donation to the Boys & Girls Clubs of the Twin Cities. And in Wisconsin, branches made a combined donation of \$3,500 to the Children's Hospital of Wisconsin as a sponsor of Al's Run & Walk, an event at which 25 employees also volunteered. "Our team is proud to have been part of this event in the local community and proud that, through the Branch Contribution Fund, we can help make a difference on a local level," said Keith Stuff, Branch Manager in Milwaukee.

Employees at our distribution center in Jacksonville, Fla., elected to purchase and donate school supplies to the local St. Clair Evans Academy School. And each year, the Dallas, Texas, distribution center conducts a food drive to benefit the Tarrant County Food Bank in Fort Worth. They also have donated pallets of bottled water. "It's nice to know that large corporations such as Grainger contribute to help people who can't always help themselves," says Elizabeth Valley, Support Specialist at the Dallas Distribution Center. "It makes me feel good to know that I can be a part of that contribution!"

### Matching Charitable Gifts Program

Beyond our corporate and field philanthropic programs, Grainger also supports causes important to individual employees and retirees through our matching charitable gifts program. Each calendar year, Grainger will match each employee's contributions to nonprofit organizations three times over, up to a total of \$7,500. In 2006, Grainger gave more than \$2 million to educational, civic and community, culture and arts, and community health and human services organizations through this program. It's a uniquely generous program: only 2 percent of U.S. companies match employee contributions three-for-one.



**Grainger matched contributions to 1,825 charitable organizations in 2006. Top recipients included:**

- American Cancer Society
- Leukemia & Lymphoma Society
- American Red Cross
- Cystic Fibrosis Foundation
- Juvenile Diabetes Research Foundation
- National Multiple Sclerosis Society
- American Heart Association
- Avon Products Foundation (for breast cancer research)
- St. Jude Children's Research Hospital
- Y-Me



## EMPLOYEE PROFILE

### **Jerry Smith**

Distribution Center Associate  
Jacksonville, Fla.  
Grainger employee for four years

*My son, Cory, was killed in a lawnmower accident in 2000, and that year, we established the Cory Soles Foundation in his name. It helps families without insurance cover costs if they lose a child. It also provides scholarships to students at Baldwin High School, where Cory attended.*

I joined Grainger when the distribution center opened here in 2003. When the employees and management heard about our foundation, they took the cause to heart. We host a golf tournament each year, and this year, we'll have 36 foursomes participating. A third of those players are Grainger employees at the distribution center. Other employees volunteer at the tournament. And Grainger is a sponsor. We also have employees who donate to the foundation, and Grainger's three-for-one match of those contributions makes that money go even farther.

All told, we raised about \$20,000 this year, of which \$6,000 came from Grainger's matching gifts program. From the managers down to line employees, everyone just took the ball and ran. It's wonderful. It's amazing what they've helped us do.

# Benefits at work.

Employees are the soul of Grainger's operations



## WORKPLACE BENEFITS

*Grainger is always striving to be the best: finding, hiring, and retaining the best people to provide premier service to every customer. We want to ensure that employees can devote all of their energy to customers' problems, not their own. The key: taking those needs off the table, with programs that promote their health and development and provide financial security for their future.*



### For the Ones Who Get It Done

Employees are the soul of Grainger's operations. They know facilities maintenance inside and out. And they make the process fun for our customers by treating them like the old friends many of them have become. Our employees' mantra: do whatever it takes to serve the customer well. Grainger's philosophy: do whatever it takes to make sure employees can.

"Grainger helps me succeed by continually providing an abundance of tools and investments for consumption in the field," explains Doug Coleman, Branch Manager in O'Fallon, Mo. "Over the last few years, investments made in SAP and market expansion – as well as enhancements made in sales and marketing – have contributed to the success of my branch."

### Industry-Leading Benefits

With competitive pay and comprehensive benefits that provide for their health and financial security, employees can preserve a healthy work-life balance. We invest in our employees and their families, helping with health, dental, vision, life insurance, long-term care and disability plans. We also assist with adoption, mortgages, legal services, and personal counseling. "We recently adopted a son and were able to have some of the cost defrayed by using Grainger's adoption service program," said Ben Wise, Branch Manager, Bakersfield, Calif. Knowing that Grainger is there for you during the moments in your life that count is phenomenal."



**Ben Wise**  
Branch Manager, Bakersfield, Calif.  
Grainger employee for eight years

## WORKPLACE BENEFITS

### Encouraging Employee Commitment

When employees have a stake in the company's success, they accomplish more. Grainger's benefits encourage and reward this commitment to company performance.

For example, Grainger shares its profits with employees through participation in the Grainger Profit Sharing Trust (PST), a Grainger program since 1941. The PST is a retirement savings plan driven by Grainger's profitability. Unlike a 401(k), which matches an employee's contributions up to a certain percentage, the PST contribution is made solely by the company based on the previous year's performance. It involves no employee contribution other than hard work.

The PST represents "a nice reward to Grainger employees for a job well done," says Ed Kelley, Business Systems Analyst in Lake Forest, Ill. "This is the way more things should work: Roll up your sleeves, work hard, and good things happen. It's nice to have my retirement savings taking care of itself while I'm taking care of my job and Grainger customers."

The PST is unique because it creates something akin to an ownership interest in the business – everyone, from shipping clerk to CEO, has an equal right to share in the profits. And because of that, everyone has an identical reason to help the company drive sales, control costs and use assets well. The result: a strong sense of teamwork as well as alignment with shareholders.

Six years ago, Grainger started a broad-based stock option award program for all U.S. employees with five or more years of service who don't participate in any other long-term incentive program. Once they reach the five-year milestone, and every five years thereafter, employees have received 100 option shares. As the following table shows, employees have seen their options values increase, further aligning their financial interests with the shareholders. These options have the same vesting schedule as all options.

<i>Effective date</i>	<i>Value</i>
06/13/01	\$44.05
02/06/02	\$53.50
02/19/03	\$47.12
02/11/04	\$48.12
02/02/05	\$61.76
02/09/06	\$71.50
02/08/07	\$78.69

### Profit Sharing Trust At a Glance

#### 2006 Award:

- Represented almost 20 percent of pay for employees with 5+ years of service
- Traditional pensions and 401(k)s contribute only an average of 8 to 9 percent of pay in total

#### Plan Particulars:

- Retirement savings plan
- Contribution made solely by Grainger
- Annual contribution rate based on company profits
- After 5 years of service, the contribution is based on 100 percent of employees' recognized compensation
- Income is tax deferred
- Withdrawals and loans are available and funds are transferable if employee leaves Grainger, just like a 401(k)

First, we calculate annual earnings for those business units participating in the PST. (This is not the same number that is reported in the annual report). Next we calculate net worth and long-term debt. Taken together, these amounts represent the capital that investors have provided to the company. We multiply net worth plus long-term debt by 15 percent, and this is the required return for our investors. Finally, we subtract the required return from annual earnings. The PST contribution is equal to 25 percent of whatever is left (25% being the IRS limitation).

**Annual Earnings**  
– **Required Return**

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**Share 25% of difference up to 25%  
of eligible payroll**

### **Enabling Education**

Education is paramount to success. That's why Grainger offers benefits that make it easier for our employees to take advantage of educational opportunities.

Grainger's Learning Center is the company's primary source of in-house training. Through it, Grainger provides traditional classroom learning, on-the-job training and self-study opportunities, as well as a wide array of online courses. In 2006, the center administered 960 instructor-led courses as well as e-learning sessions serving more than 13,000 employees.

Beyond in-house training opportunities, full-time employees can receive reimbursement for education-related expenses, such as tuition, if enrolled in degree programs related to their jobs. In addition, the company provides employees, retirees and their extended families options for financing their education through the Wells Fargo ConSern Education Program®. Grainger, in conjunction with the National Merit Scholarship Corporation, also annually awards 10 four-year, renewable scholarships to the children of full-time employees and retirees based on academic and leadership skills. We've provided more than 350 scholarships through this program over the last 40 years.

### **Promoting a Diverse Workplace**

We are committed to promoting diversity within our company and our supplier base. Fostering interaction among groups of talented people representing a variety of cultural backgrounds, opinions, ideas, and perspectives makes good business sense. We have supported the National Minority Supplier Development Council and partner with suppliers who not only provide quality products, but also meet diversity purchasing requirements. For example, Limited Brands, a major U.S. retailer, recently recognized Grainger with its Championing Diversity Award for its efforts to help Limited Brands identify and purchase products from minority- and women-owned suppliers through a customized web portal. Grainger purchases products and services from such suppliers for internal use and to market through its sales channels. In 2006, we increased our sales of products provided by minority-owned and women-owned suppliers by more than 35 percent versus 2005.

### **Supporting Our Troops**

One day, they're serving our customers. The next, they're serving our country. In the spring of 2007, 106 Grainger employees were members of military reserves, with 12 on active duty. It's never easy leaving home. So we try to take a little of the strain off by making sure ends meet while our troops are gone.

When a reservist or National Guard member is called to active duty, we pay their salary for up to 12 months on top of the pay they receive from the military. We also continue their health, dental and life insurance benefits during this time. Employees who are eligible for PST receive their annual profit sharing contribution for as long as they are paid by the company. And when they come back, they're entitled to all pay increases and other benefits they would have received had they never left.

Our support of the military is important to us – and to the 90 employees who have taken advantage of these benefits since 2001. It's gotten notice elsewhere too. Grainger was cited by the Reserve Officers Association® as being one of three companies providing the most generous support to employees involuntarily called into military duty. In addition, Grainger is a strong supporter of veterans, recruiting military personnel as they transition into civilian life.

Grainger also has been a loyal supporter of troops stationed at nearby military facilities. Employee volunteers have hosted Thanksgiving dinners at our headquarters for more than 100 sailors at Great Lakes Naval Station who couldn't return home for the holidays. In recent years, we've welcomed 125 Marines based at Great Lakes Naval Station and their families for a holiday event, "Operation: Candy Cane," after those troops returned from Iraq.



#### **Shannon Bibbee**

Account Manager  
Columbus, Ohio  
Grainger employee for one year

Shannon is a 1st Lieutenant and member of the 384th Military Police Battalion deployed to Iraq.

# Doing it right.

Working safely. Acting responsibly.

*Doing things right the first time is good for business, particularly in terms of quality and customer service. But it has an even greater tie to sustainability in the environment, as well as health and safety in the workplace.*

## Environmental Awareness

Long concerned about protecting the environment, Grainger has used soy ink for 10 years to produce our catalog. We were also one of the first companies to participate in the EPA's Green Lights Program.

As a distributor, Grainger's operations have less of a direct impact on the environment than do other industries. That doesn't mean we're off the hook. We've found ways to support environmental sustainability within our operations, product offerings and building designs.

We participate in recycling programs for cardboard, paper, and batteries. In many branches, customers can return used lead/acid batteries to be recycled, keeping them out of landfills. And energy-efficient building designs limit and control heating, cooling and lighting usage in many of our warehouses and showrooms.

We also offer many of the products and services customers need to manage their own environmental programs. Grainger offers solutions that are recognized as ENERGY STAR®, Green Seal Certified, containing Recycled Content, and NEMA Premium™



### Fact:

In 2006, Grainger recycled 410 tons of paper and cardboard.

### When a large retailer turned to Grainger to help it reduce the amount of waste it produces, Grainger took the problem to its suppliers.

Working with Rubbermaid, Grainger developed programs that are helping customers separate their recyclables and dispose of them more efficiently. As a result, the retailer recognized Grainger as a company that cares about the environment and wants to help customers be responsible corporate citizens.

## ENVIRONMENTAL STEWARDSHIP



### Safe Working Conditions

Creating a safe working environment takes a team effort. Managers and supervisors ensure that employees are properly trained. After that, all employees shoulder the responsibility of working safely, following company policies and procedures and reporting any issues.

Safety is particularly important in warehouse environments at our branches and distribution centers where equipment and employees are constantly in motion. In addition to hosting monthly training sessions on safety topics – conveyor safety, lifting practices and others – management at the distribution centers share information about accident prevention with their teams. “The biggest threat we face every day is complacency,” says Dean Kellogg, director of our distribution center in Dallas, Texas. “My managers make it a priority to keep safety awareness and accident prevention top of mind.”

At the Cleveland, Ohio, distribution center, employees volunteer on a safety committee that designs reward and recognition programs for safety performance, keeping incentives fresh and safety a priority. “We used to reward employees by department; now it’s building-wide,” says Safety Team Leader Glen Brooks. “After all, our company’s success depends on everyone’s efforts. It’s about teamwork. Using the monthly safety update helps the employee to watch out for themselves and their fellow workers. Our goal is every day to create a safe work place for everyone to work.”

The safety committee’s efforts to standardize safety practices have made a noticeable impact. Since the committee took the initiative to test box cutters and approved one with a safety release throughout the facility, the center has had no knife-related accidents.

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“The biggest threat we face every day is complacency. My managers make it a priority to keep safety awareness and accident prevention top of mind.”

**Dean Kellogg**, Distribution Center Director, Dallas, Texas

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In fact, Grainger’s attention to safety is paying off across our operations. Our OSHA Recordable Accident Rate and Lost Time Accident Rate for 2006 both were lower than the wholesale industry average. Our employees at Grainger’s distribution centers in Cleveland, Ohio, Dallas, Texas, and Jacksonville, Fla., received Grainger’s Executive Safety Award for outstanding safety performance in 2006. It’s a real point of pride for the Jacksonville team. They’ve earned the award every year since the center’s opening. That’s no small achievement: the 13-point assessment is rigorous. In addition, the Greenville, S.C., and Robbinsville, N.J., distribution centers recently celebrated achieving over two million hours worked without a lost-time accident.

## INTERNATIONAL

*The solutions that Grainger provides its customers stretch far beyond the United States' borders, and so do our philanthropic efforts.*

### Canada

At Acklands–Grainger in Canada, employees are closely tied to their communities and have been active with the **United Way**® since 2000, raising \$89,000 in 2006. At a corporate level, Acklands–Grainger gave \$111,000 to regional and local charities, including an additional \$55,000 to the *United Way*.

#### Edmonton

There were a lot fewer empty stomachs in Edmonton this year after 23 volunteers served lunch to 2,200 students at 11 schools. In less than two hours, employees also collected more than 120 kilograms (264 pounds) of food for a local food bank.

#### Saskatchewan

Wishes do come true with the help of our employees. Through car washes, barbecue lunches and other events, Saskatchewan employees raise money for the **Children's Wish Foundation**, Saskatchewan Chapter, enabling families to attend Saskatoon Blades hockey games and other activities.

#### Ontario

Through significant contributions of money and volunteer time, Ontario region employees made Acklands–Grainger the leading supporter of the **YMCA of Greater Toronto**, the fourth largest charity in Canada. It serves more than 330,000 people and is the country's largest provider of not-for-profit childcare.

### China

In 2006, Grainger launched a distribution presence in China, the fourth largest economy in the world. China offers tremendous potential: it has grown at an average annual rate of 9 percent over the past 10 years. To date, Grainger has opened a distribution center and master branch, as well as a will-call express location in Shanghai, with additional locations planned in 2007.

To further develop Grainger's burgeoning relationship with China, Grainger will participate in an exchange of personnel, sponsoring American volunteer experts to complete humanitarian assignments in China. China, in turn, will send professionals to the United States for technical and administrative training.

In response to Grainger's efforts in China, the U.S.-China Foundation for International Exchanges has named Grainger's Chairman and CEO Richard Keyser a recipient of its Marco Polo Award, the highest honor granted to a foreign business leader. It is awarded to visionary corporate leaders who play a significant role in China's economic development and who demonstrate a humanitarian commitment to improving Chinese society.

### Mexico

Grainger's operations in Mexico contributed more than \$400,000 in cash and product donations to community organizations in 2006. Our employees in Mexico also participated in a number of events in support of the community. At Christmas, interested employees sold concessions, raising funds to purchase quilts, lunches, and drinks for patients at the Hospital Universitario.

In April, Grainger participated in Kids' Day at Doctor Gonzalez in Nuevo Leon with festivities for children of limited means. A main attraction was to be a giant cake, recalls Silvia Gonzalez, Treasury Supervisor – Grainger. And so it was: "When we arrived at the supermarket to pick it up, we discovered a big problem. There was no box big enough to carry the cake! In the end, we improvised using toilet paper crates to form a box, and the cake arrived perfectly for the kids." Another treat: toy cars, with batteries already installed. "These kids are used to playing with broken toys or damaged ones, but this time was different," says Silvia. "They were amazed, excited and very happy."



## AWARDS AND RECOGNITION

*Our commitment to our employees, communities and investors speaks for itself. But on occasion, others have chimed in. Below are a few of the accolades Grainger has received in recent years.*

### **Awards**

- Championing Diversity Award, 2006 – Limited Logistics Services
- Circle of Humanitarians Award, 2004, 2005 – American Red Cross
- Heritage Award, 2006 – American Red Cross of Greater Chicago
- Henry P. Davison Heritage of Service Award for community service excellence 2007 – American Red Cross
- Marco Polo Award, 2007 – U.S.-China Foundation for International Exchanges
- 100 Best Corporate Citizens of 2007 – *Corporate Responsibility Officer* Magazine
- Top 100 Best Companies to Work for in IT – *ComputerWorld*
- 100 Best Corporate Citizens 2006 – *Business Ethics*
- Leading Companies on the Forbes Global 2000 list – *Forbes*
- Barron's 500 America's Best Companies – *Barrons*
- Top 25 Military-Friendly Employers – *G.I. Jobs* Magazine
- Fortune 500, America's Top Companies – *Fortune*
- Super 500, America's Top Companies – *Forbes*
- Friendliest Companies to the Military for its Reservist Policy – *G.I. Jobs* Magazine
- Global 1000, The World's Most Valuable Companies – *BusinessWeek*
- Grainger was named to list of Most Admired Companies in 2002, 2005 and 2006 – *Forbes*

### **Recognition**

Grainger is listed in FTSE4Good Index as a Low Environmental Impact company. Companies included in the Index meet globally recognized and evolving social responsibility criteria.

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