

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**

**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.