2009 FACT BOOK

"Service Delivered"

When one of the products Grainger sells is needed by a customer, it is often needed right away. That helps explain why you don't often see an unopened Grainger box at one of our customer's facilities. Rather, you see an empty Grainger box. But that box carries a lot more than just the products that came in it. Inside is what differentiates us from the competition. Outstanding customer service, easy ways for customers to do business with us and high levels of inventory availability set us apart.

Grainger offers almost 900,000 products, from safety supplies, to pumps and motors, to electrical supplies and fasteners. Products that help keep our customers' businesses running. It's the valve that breaks on a water pipe; it's the electrical fuse that blows causing lights to go out in a hospital; it's the drill bit that breaks off during a job

that has to get done on time. It's also the everyday supplies our customers depend on such as air filters and cleaning supplies.

But just saying we have the products isn't enough. That's why Grainger provides 24/7 customer service, a network of local branches, a team of dedicated sellers who understand their customers' businesses, easy online ordering, and same- and next-day delivery.

Customers rely on Grainger to help save them time and money by consolidating the purchase of their maintenance, repair and operating supplies (MRO). So we take pride when we see an empty Grainger box at a customer's facility. It means the products we sell helped keep our customers' businesses running. We plan to keep adding products and improving our service, because an empty Grainger box means "service delivered."

GRAINGER®

FOR THE ONES WHO GET IT DONE

Why Invest in Grainger?

Any distributor can say they sell a lot of products. Any distributor can say they provide great service. Any distributor can say they can get customers what they need tomorrow. It's helpful to know the facts.

Grainger's 2009 Fact Book is intended to provide you with useful facts and information on the company. You'll also find that a story starts to emerge from its pages. The story of why Grainger (GWW), a Fortune 500 Company, continues to be ***a great company to invest in.***

Grainger has a diverse customer base, higher customer satisfaction levels, a supply chain that responds every day and a business model that delivers for customers and shareholders. You'll also find that Grainger has a strong management team and a history of supporting the local communities in which its employees live and work.

The result of all this is a strong and sound company that rewards its shareholders through its performance and 38 consecutive years of dividend increases.

So read on to find out what our customers and employees already know: Grainger is "For the Ones Who Get It Done." And if you'd like more information about the company, including a company video, please visit the Investor Relations Web site at www.grainger.com/investor.

HIGHLIGHTS OF 2008

- **Posted record revenues of $6.9 billion, up 7 percent**
- **Reported record earnings per share of $6.04, up 22 percent**
- **Increased operating margin approximately 100 basis points, to 11.4 percent**
- **Generated pretax return on invested capital of nearly 30 percent**
- **Raised quarterly dividend 14.3 percent, to $0.40 per share**

GOALS FOR 2009

- **Combine Lab Safety Supply and Grainger Industrial Supply**
- **Expand distribution center operations in North America**
- **Become more productive while reducing costs**
- **Add approximately 50,000 products to Grainger catalog 401**
- **Expand the number of green products offered from 3,000 to 10,000**
- **Grow the market share Grainger currently has in the North American market for MRO supplies**

Grainger Facts at a Glance

Fast facts (TOTAL COMPANY)

(As of 12/31/08)

2008 Sales
$6.9 billion

2008 e-commerce sales
$1.5 billion

2008 EPS (diluted)
$6.04

Employees
18,000

Branches
617

Distribution centers
18

Customers
1.8 million in 153 countries

Products offered
900,000

Suppliers
3,000

Years of consecutive dividend increases
38*

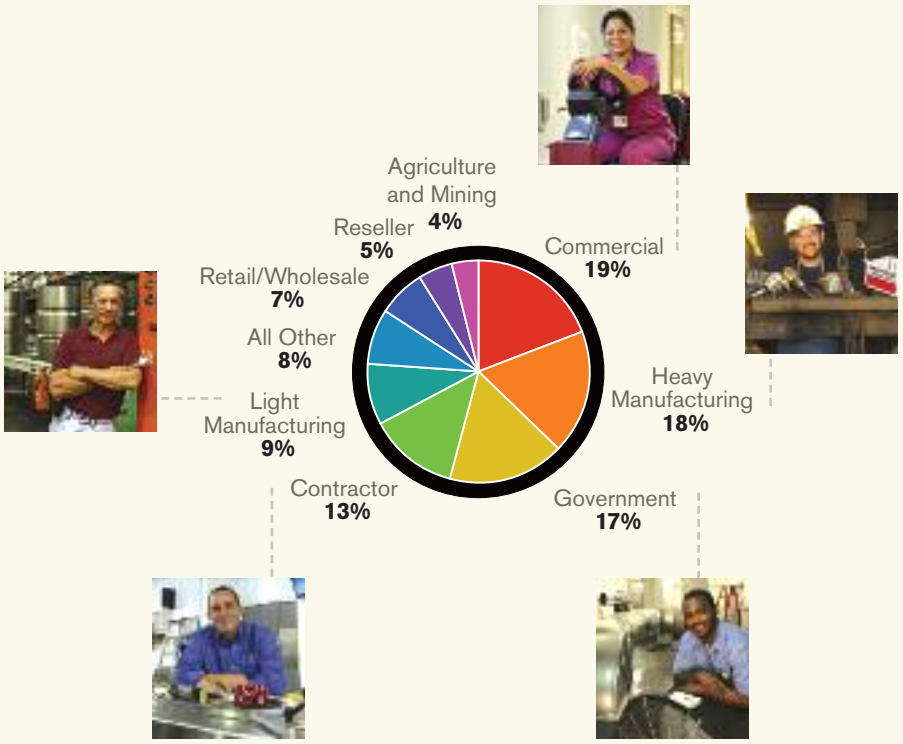
Shares repurchased in 2008
5.5 million

Stock trading
Grainger's common stock is listed on the New York and Chicago stock exchanges under the trading symbol GWW.

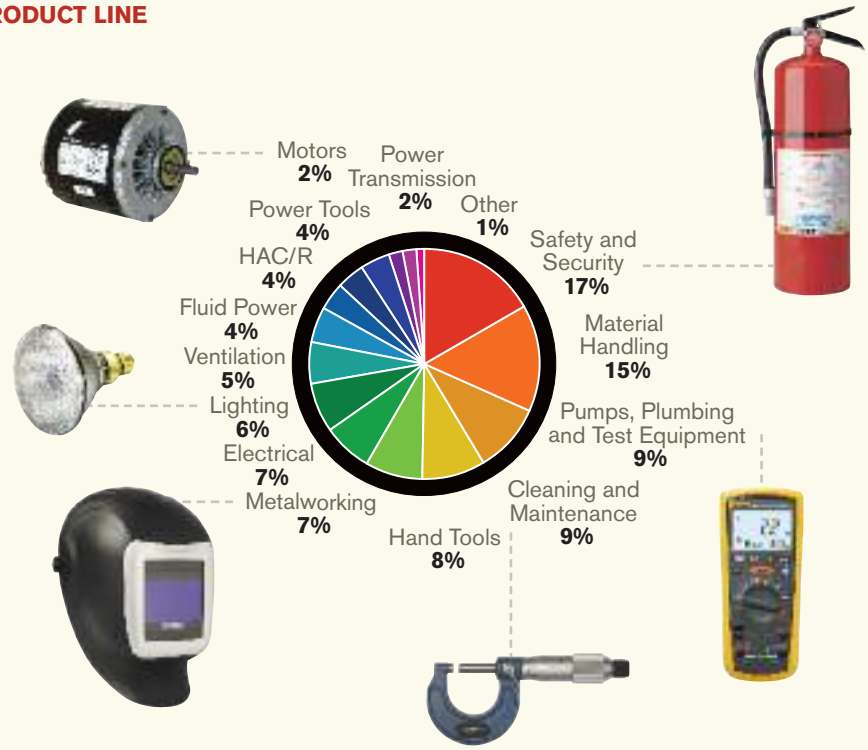
**Raised quarterly dividend in April 2009, the 38th consecutive year*

2008 Sales (TOTAL COMPANY)

BY CUSTOMER CATEGORY

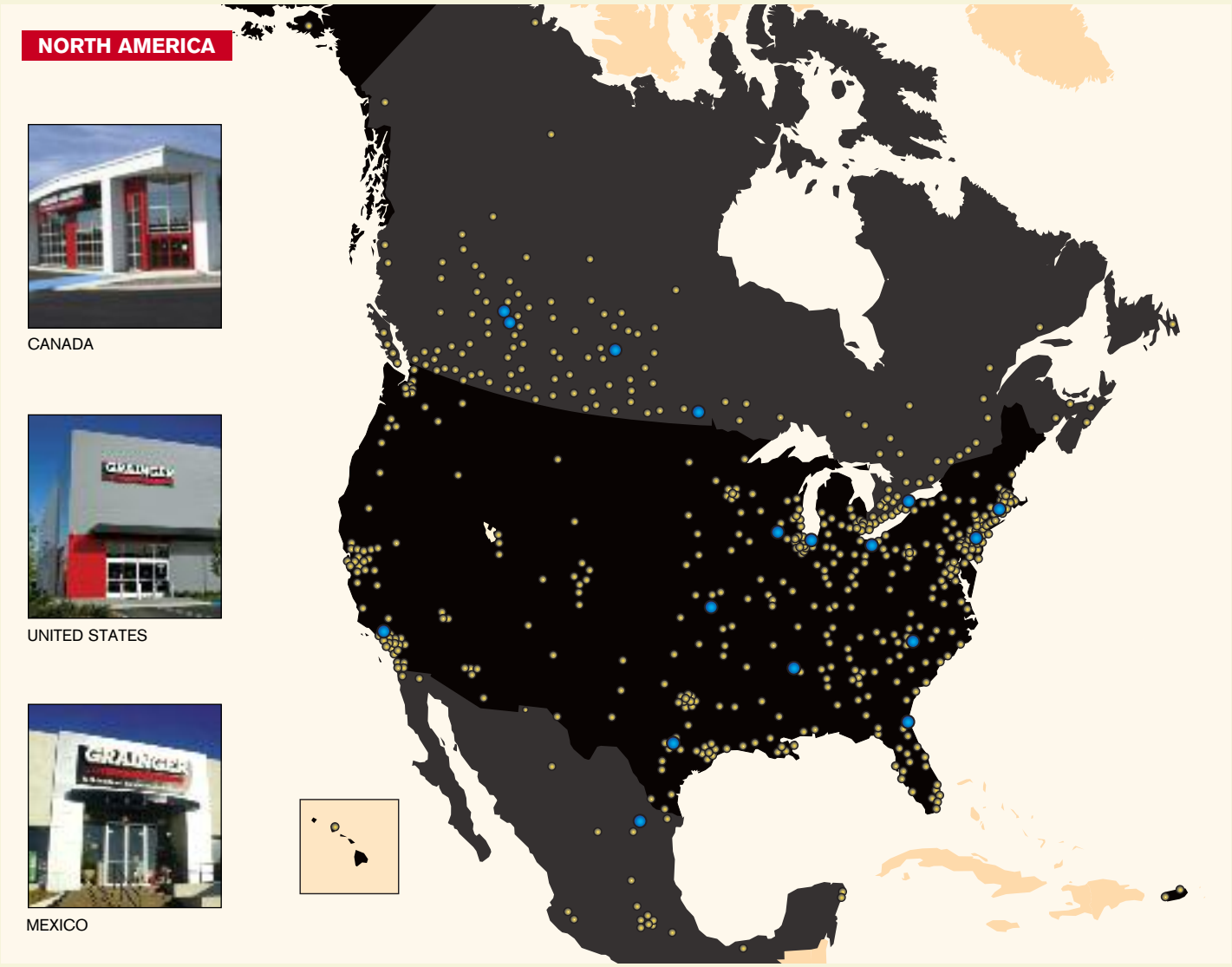


BY PRODUCT LINE



Grainger Facts at a Glance (continued)

Locations (As of 12/31/08)



Country	Branches	Distribution Centers
United States	437	11
Canada	154	5
Mexico	22	1
China	1	1
Puerto Rico	2	–
Panama	1	–
Total	**617**	**18**

Key

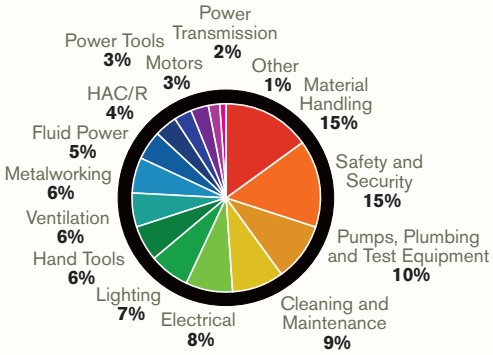
- Branch
- Distribution center

Grainger Facts at a Glance (continued)

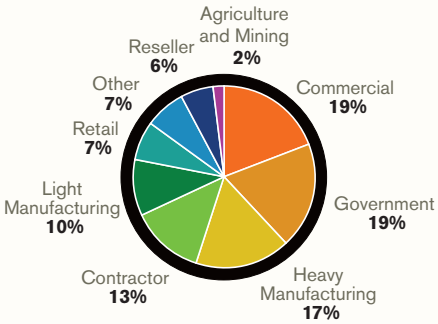
United States

Grainger operates in the United States through a highly integrated network of 437 branches, 11 distribution centers and multiple Web sites (see list to right). In 2008, Grainger's U.S. business served some 1.7 million customers, who primarily represent industrial, commercial and government maintenance departments. The MRO market size in the U.S. is estimated to be $125 billion, of which Grainger's market share in 2008 was approximately 5 percent.

2008 Sales by Product Line



2008 Sales by Customer Category



Competitors

- Airgas Safety
- Fastenal
- HD Supply
- K+K America
- McMaster-Carr
- MSC Industrial Direct
- ThermoFisher Scientific
- Regional and local suppliers

Web sites

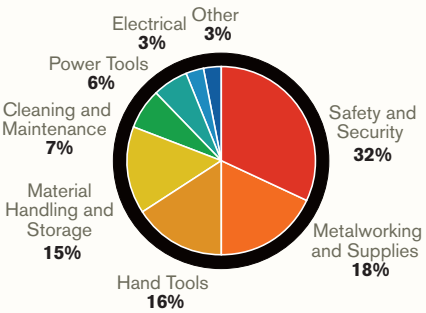
awdirect.com
benmeadows.com
constructionbook.com
gemplers.com
grainger.com
highsmith.com
LSS.com
mcfeelys.com
professionalequipment.com
randmh.com

(Click on sites to visit)

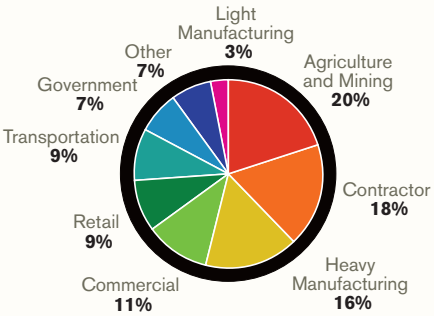
Canada

Acklands – Grainger is Canada's largest broad-line supplier of industrial, safety and fastener products. The company serves approximately 43,000 customers across Canada through 154 branches and five distribution centers. Its catalog, in both English and French, is available in print form and on acklandsgrainger.com. The MRO market size in Canada is estimated to be $13 billion, of which Grainger's market share in 2008 was approximately 6 percent.

2008 Sales by Product Line



2008 Sales by Customer Category



Competitors

- Century Vallen
- Fastenal
- Gregg Distributors
- HD Supply
- Weber Supply
- Regional and local suppliers

Web site

acklandsgrainger.com

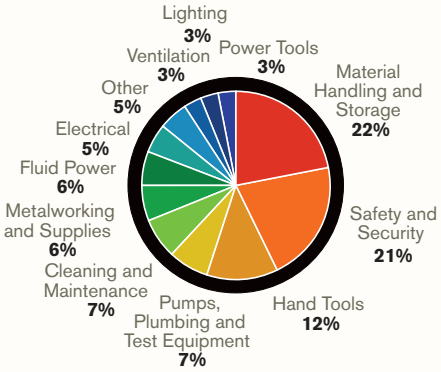
(Click on site to visit)

Grainger Facts at a Glance (continued)

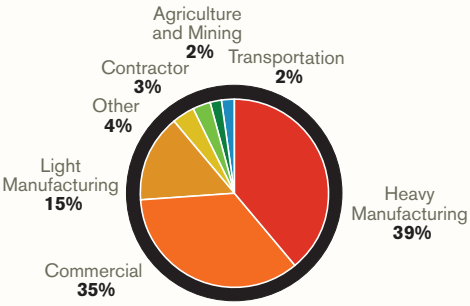
Mexico

Grainger, S.A. de C.V. is a leading supplier of facilities maintenance products to businesses and institutions across Mexico. Currently, the company serves approximately 35,000 customers through 22 branches, a distribution center, a Spanish-language catalog and grainger.com.mx. The MRO market size in Mexico is estimated to be $12 billion, of which Grainger's market share in 2008 was approximately 1 percent.

2008 Sales by Product Line



2008 Sales by Customer Category



Competitors

- Fastenal
- Gexpro
- McMaster-Carr
- Vallen
- Regional and local suppliers

Web site

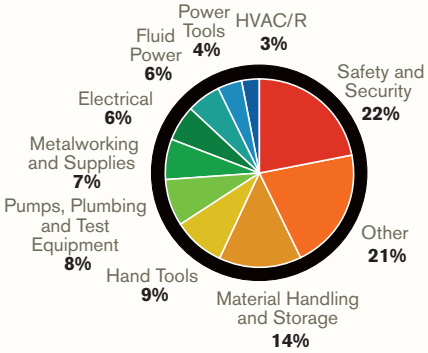
grainger.com.mx

(Click on site to visit)

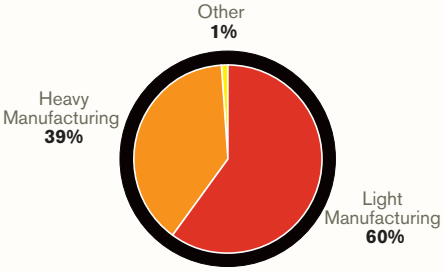
China

固 安 捷® **(Gu An Jie)** Grainger, which established its physical presence in China in 2006, currently operates a 126,000-square-foot branch and distribution center in Shanghai. Customers learn about facilities maintenance products through a Chinese-language print catalog containing 50,000 items, and online at Grainger's Chinese Web site, grainger.com.cn. The MRO market size in China is estimated to be $75 billion, of which Grainger's market share in 2008 was less than 1 percent.

2008 Sales by Product Line



2008 Sales by Customer Category



Competitors

- Rexel
- Sonepar
- Wurth
- Regional and local suppliers

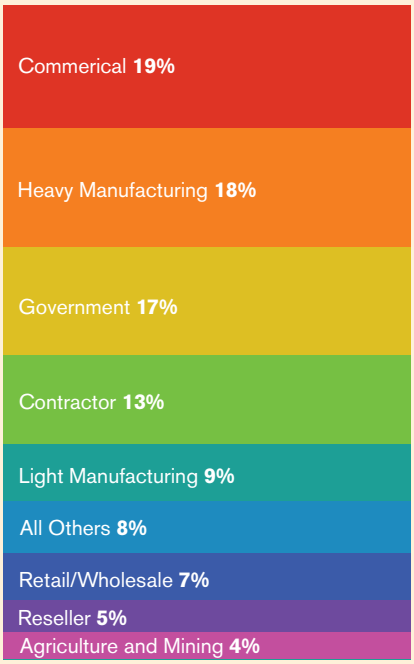
Web site

grainger.com.cn

(Click on site to visit)

The Grainger Customer

CUSTOMER CATEGORIES
2008 SALES (Total Company)



Who exactly are Grainger's customers? In 2008, Grainger sold to 1.8 million customers in the commercial, heavy manufacturing, government, light manufacturing and retail sections of the economy. In fact, no more than 20 percent of Grainger's sales last year came from one customer category and no customer represented more than 1 percent. That's good news because it means Grainger is more insulated from economic downturns than many of its competitors due to its diversified customer base.

Now, let's take a closer look at some of the types of customers who count on Grainger.

Commercial

Commercial customers represented 19 percent of Grainger's 2008 sales. This customer group includes hospitals and transportation companies that move people and products and often times are open 24/7. These customers count on Grainger to supply products for fleet vehicle maintenance, asset management and cleaning.

Heavy Manufacturing

Heavy manufacturing customers represented 18 percent of Grainger's 2008 sales. This customer group includes businesses that supply materials that are further processed or used to build consumer goods. Others

Heavy manufacturing.

AN EYE FOR RETAIL

When a U.S. optometry retailer decided it was time to look for a new national supplier to meet its janitorial and sanitation needs, they reached out to Grainger for help. The Grainger sales team brought in some of its major janitorial and sanitation suppliers to offer a solution that incorporated the latest paper towel dispensing technology, shipments direct to stores, next-day delivery and a significant reduction in the customer's product and labor costs. This customer now knows that when you do business with Grainger, seeing is believing.

GREEN GOES TO SCHOOL

When one of the largest public school districts in the United States decided it was time to go green, they turned to Grainger to find out what that meant. Grainger offered to help expand their knowledge of sustainable operations by establishing one model school as a benchmark for the other schools in the district. The green project required Grainger to work with 12 strategic suppliers to perform green assessments and provide sustainable solutions. This included lighting retrofits, lighting controls, HEPA filters, "No VOC" paint, recycling containers and LED exit signs. The school district got a lesson in what it means to go green and now knows to count on Grainger to help.

The Grainger Customer (continued)

include petro/chemicals, plastics, primary metals, lumber and rubber. They require a considerable capital investment in large machinery. They count on Grainger to provide reliable and on-time delivery of high quality, durable products to meet their demands. These customers also frequently have dangerous work environments that demand discipline centered on safety. They look to Grainger to provide safety products to help prevent accidents and protect workers from potentially catastrophic situations.

Light manufacturing.

Government

Government customers represented 17 percent of Grainger's 2008 sales. This customer group includes federal, state and local customers. They count on Grainger to have the products where and when they are needed. They also rely on Grainger's ability to provide consistent and effective customer service.

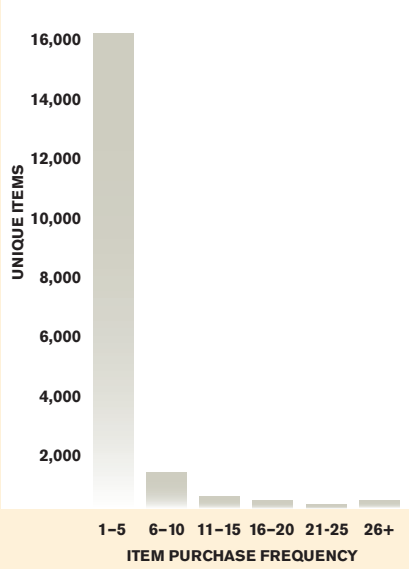
Light Manufacturing

Light manufacturing customers represented 9 percent of Grainger's 2008 sales. This customer group includes businesses that use moderate amounts of partially processed materials to produce relatively high value products. Typically, all processing, fabricating, assembly or disassembly of items takes place at a single plant location. Businesses include furniture and appliance makers, food and beverage processing plants and pharmaceutical companies. They count on Grainger to provide a broad product offering, inventory availability and fast delivery to help keep their equipment and people productive.

BREATHING EASY IN A NATURAL GAS FIELD

When a oil and gas services customer in Canada decided two months was too long to have to wait for breathable air units to be tested and refilled offsite, they looked to Acklands – Grainger to provide a solution. The Acklands – Grainger mobile unit with a technician onboard arrived onsite to inspect, test, repair and refill 42 individual breathable air units in only two days. Acklands – Grainger is able to have its National Technical Department work with its local branches to provide unique, flexible and highly valued services. For the customer, having Acklands – Grainger provide a tailored solution to a potentially deadly problem was like a breath of fresh air.

PURCHASING PATTERN – LARGE COMPANY *Annual*



Most of the products that customers purchase from Grainger are not repeat product purchases. In fact, approximately 82 percent of products purchased each year by the company's customers are purchased five times or less. That is why Grainger continues to add products each year to its already broad product offering.

Company Strategy – Market Share

In 2008, Grainger's customer satisfaction scores, which evaluate our customers' last interaction with the company, were the highest ever.

Through market expansion, product expansion, inventory availability and its Inventory Solutions offering, Grainger plans to take market share from its competitors. Even in a tough economy, customers are finding that doing business with Grainger means they'll receive great service and find the products they need.

At Grainger, the word *service* means a lot of things. It means having the product when and where the customer wants it; it means answering a customer's telephone call whether it's 2 p.m. or 2 a.m.; it means taking the time with every customer to make sure they are satisfied.

In 2008, Grainger's customer satisfaction scores, which evaluate our customers' last interaction with the company, were the highest ever. So, in light of a year that saw a slowing economy, what led to such high customer satisfaction? It was not one thing. Rather, it was many things coming together, such as:

Inventory Availability

Think about this for a moment. You are the third shift manufacturing plant maintenance supervisor, and at 5 a.m. you hear a loud pop followed by the sound of the production line going down. With money quickly bleeding from your operation, whom do you call?

Your call to a local Grainger branch is routed seamlessly to one of Grainger's 24/7 customer service centers. After describing the replacement product you need, the order can be placed for pickup at the local Grainger branch or be delivered next day from a distribution center. In an emergency, the branch manager can open up the branch for immediate availability.

Grainger can ship most products to customers for arrival the next day. Customers have told the company which products they use, but it is just as important to them that the product be available when needed.

Grainger's KeepStock inventory solution helps customers streamline processes, optimize inventory, save time and improve productivity.

Inventory Solutions

The day-to-day management of a facility can be challenging enough for customers – without the added responsibilities of purchasing, managing and controlling the products needed for daily maintenance. Grainger's Inventory Solutions offering helps customers streamline processes, optimize inventory, save time and improve productivity.

Grainger works with customers to determine whether an on-site Inventory Solution is a match for their inventory management needs. Solutions range from Inventory-Scan, a customer-managed solution, to KeepStock™, a vendor-managed solution. With KeepStock, bins are monitored and restocked by a Grainger employee on a defined schedule, ensuring customers have products on hand when they need them the most. Customers can also order other items for delivery next day helping Grainger capture additional demand.

eCommerce Solutions

E-commerce is Grainger's most efficient channel and is growing at twice the company's growth rate. Because more than 90 percent of orders placed by customers online are shipped, with the rest requested for pickup, the company gains efficiencies as well. For that reason, Grainger is investing in e-commerce to

Company Strategy – Market Share (continued)

increase the number of customers using e-commerce and the frequency of sales through the channel.

Dedicated Employees

Grainger is in a relationship business and it is critical that the company build trust with its customers. Trust is built on great service provided with integrity and that means more than just great processes and a supply chain that delivers. At Grainger, service means employees who take the time to learn about each customer's business and its issues. They then apply that knowledge to anticipate each customer's needs and save them time and money. The average tenure of a U.S. Grainger employee is nine years. That experience translates into strong relationships as customers like to do business with Grainger people they know and trust. The company continues to invest in benefits and training for its employees because people are what truly differentiate Grainger from the competition.

Product Line Expansion

In 2005, Grainger listed more than 80,000 products in its U.S. catalog. In 2009, the company featured over 230,000 products in its catalog. So why did the company triple its product offering?

Customers do business with Grainger because the company helps save them time and money by consolidating their maintenance, repair and operating purchases. Through research, Grainger has found that customers would do more of their business with it if the company carried a broader selection of products.

Under its product line expansion, Grainger adds products that either fall into the category of gap-fill or a new product category. Products that are gap-fill are those products that are added to an existing product category that Grainger carries such as power tools. Gap-fill products tend to deliver stronger sales results in the near term than new product category additions because customers are already familiar with the product category. Approximately 60 percent of Grainger's product line additions are gap-fill, while the remainder fall into new product categories.

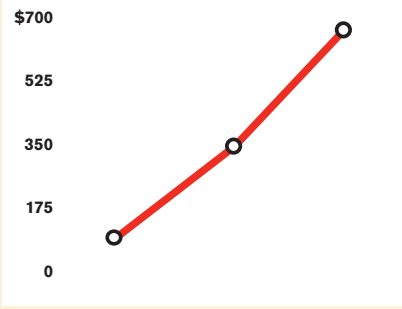
The company saw incremental revenues in 2007 of $251 million and $338 million in 2008. Grainger plans to add approximately 50,000 products to its U.S. catalog to be distributed in early 2010.

Market Expansion

In 2004, the company embarked on its multiyear market-expansion program to drive growth in the top 25 metropolitan markets in the United States. The program was completed in the fourth quarter of 2008.

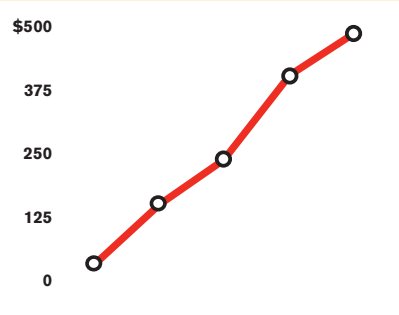
Projects included relocating branches to more visible locations, adding about 10 percent more branches, expanding branch footprints and increasing total branch square footage by about 1 million square feet bringing the total number of U.S. branches to 437. As a result, the compound annual growth rate of market expansion sales from 2004 to 2008 was 85 percent. Program incremental operating earnings were $30 million in 2007 and $22 million in 2008. The company anticipates a five year maturity to the affected branches.

PRODUCT LINE EXPANSION – SALES
Dollars in millions



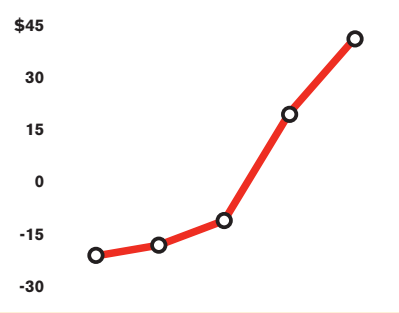
2006	2007	2008
98	349	687

MARKET EXPANSION – SALES
Dollars in millions



2004	2005	2006	2007	2008
41	150	235	402	476

MARKET EXPANSION – EARNINGS
Dollars in millions



2004	2005	2006	2007	2008
(20)	(16)	(9)	21	43

Company Strategy – Cash Generation and Deployment

CASH GENERATION

- **The company has a strong balance sheet and generates substantial free cash flow**
- **2008 cash flow from operations was $530 million, up 13 percent, versus $469 million in 2007**

CASH FLOW FROM OPERATIONS

Dollars in millions

2004	2005	2006	2007	2008
406	433	437	469	530

RETURN ON INVESTED CAPITAL*

Percent

2004	2005	2006	2007	2008
23.9	25.5	26.4	28.5	29.8

** The GAAP financial statements are the source for all amounts used in the Return on Invested Capital (ROIC) calculation. ROIC is derived by using GAAP operating earnings divided by a 13-point average for net working assets. Net working assets are working assets minus working liabilities, defined as follows: Working assets equal total assets less cash equivalents (non-operating cash), deferred taxes, and investments in unconsolidated entities, plus the LIFO reserve. Working liabilities are the sum of trade payables, accrued compensation and benefits, accrued contributions to employees' profit sharing plans, and accrued expenses.*

In 2008, Grainger continued to increase shareholder value and maintained a strong balance sheet. Cash from operations for the year totaled $530 million, a record for the company.

As in past years, management's goal is to increase shareholder value in two ways: by investing in projects that will drive profitable growth over the long term, and by giving cash back to shareholders through dividends and stock repurchases.

For the last decade, the company has used about one-third of its operating cash flow for capital outlays and returned the remainder to shareholders. In 2008, internally generated cash and long-term borrowing funded $196 million in capital projects, paid for $122 million in dividends and financed $394 million in share repurchases.

Grainger aims to grow areas of the business that earn more than its cost of capital and improve performance in areas that earn less.

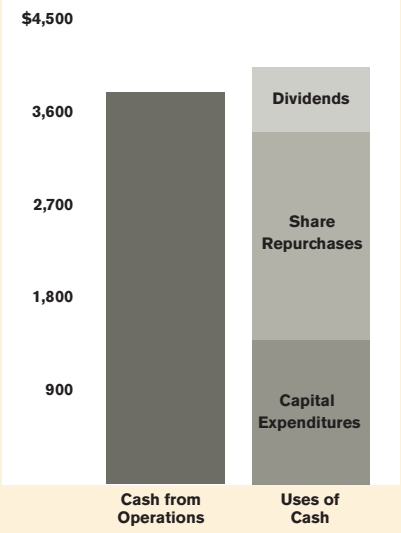
Two of the company's financial goals are achieving pretax return on invested capital (ROIC) greater than 20 percent and achieving profitable sales growth. In the company's view, using ROIC as a key barometer makes sense, because it instills discipline in assessing all capital projects, in deploying working capital and in managing operating expenses. The design of the company's Management Incentive Program encourages performance that creates shareholder value by focusing on profitable sales growth and ROIC.

Debt

In May 2008, the company entered into a $500 million, unsecured four-year bank term loan. Proceeds were used to pay down short-term debt and for general corporate purposes. The weighted average interest rate paid on the term loan during 2008 was 3.33 percent. The company, at its option, may prepay the term loan in whole or in part. Grainger was able to secure favorable loan terms due to its strong balance sheet.

CASH DEPLOYMENT – 1998–2008

Dollars in millions



CASH DEPLOYMENT

- **Shares repurchased in 2008: 5.5 million, representing $394 million**
- **Company has reduced its shares outstanding by 35 percent since 1983**
- **Dividends paid to shareholders in 2008: $122 million**
- **Company increased its dividend in 2008 for the 37th year**
- **Capital expenditures in 2008: $196 million**
- **Grainger's organic growth has been funded by capital expenditures**

Company Strategy – Cash Generation and Deployment (continued)

Capital Expenditures and Acquisitions

For 2008, Grainger's capital expenditures were driven by investments in the company's U.S. market expansion program, which totaled $40 million (Total capital expenditures for the program, from its inception in 2004 through 2008, were $272 million). During the year, the company completed the last phase of this six-phase initiative. Other major uses in 2008 included $30 million for expansion in Mexico and Panama, IT investments of $22 million and $17 million for branch maintenance and modernizations in the U.S. In addition, the company invested $27.5 million for Lab Safety's acquisition of the Highsmith business and $7.0 million for Acklands – Grainger's acquisition of the Excel business.

Grainger expects to fund 2009 capital investments from operating cash flows. Projected investments include improved productivity in distribution centers in the U.S., Canada and Mexico, information technology including upgraded electronic e-commerce platforms, and the normal, recurring replacement of equipment.

Working Capital

Internally generated funds have been the primary source of working capital and for funds used in business expansion. Working capital was $1,382.4 million at December 31, 2008, compared with $974.4 million at December 31, 2007. At these dates, the ratio of current assets to current liabilities was 2.8 and 2.2, respectively. The increase in the current ratio and working capital for 2008 primarily relates to increases in cash and inventories, due to product line expansion, and the replacement of short-term debt borrowings with the long-term debt of $500 million.

Increasing Shareholder Value

As a continued sign of the company's commitment to increasing shareholder value, Grainger's directors voted in April 2009 to raise the quarterly dividend 15 percent to 46 cents per share, marking the 38th consecutive year of dividend increases. In addition, from 1983 through 2008, the company reduced the number of shares outstanding by 35 percent through share repurchases, bringing the number of shares outstanding from 115.3 million to 74.8 million.

DEBT

- **Long-term debt of $500 million obtained in May 2008 to pay down short-term debt and for general corporate purposes**
- **Total debt as a percent of capital structure: 21 percent**
- **Long-term debt rating (S & P): AA+**

RETURN ON EQUITY

Percent

2004	2005	2006	2007	2008
14.7	15.9	17.2	19.7	23.0

WORKING CAPITAL

Dollars in millions

2004	2005	2006	2007	2008
1,108	1,290	1,155	974	1,382

SHARES OUTSTANDING

In millions

1988	1992	1996	2000	2004	2008
108.7	104.8	105.9	93.9	90.6	74.8

SHARES REPURCHASED – CUMULATIVE

Shares adjusted to account for stock splits

In millions

1988	1992	1996	2000	2004	2008
8.51	15.38	19.85	33.01	39.96	62.10

DIVIDENDS PAID

Dollars per share

2004	2005	2006	2007	2008
0.79	0.92	1.11	1.34	1.55

Company Strategy – Supply Chain

Product bar coding is shared across the company's global supply chain to improve productivity and reduce costs.

With 18 distribution centers worldwide offering 900,000 products for shipment to 1.8 million customers and more than 600 branch locations, Grainger's global supply chain is the backbone of the company.

Grainger's global supply chain connects Grainger's approximately 3,000 key suppliers to customers. Most of the products in the catalog are in stock within the system – so products are available when the customer needs them. To accomplish that, the company uses algorithms to determine stocking levels and tiers them based on demand.

While adding products and locations, Grainger's product availability improved while inventory turns remained strong at 2.9 times (4.1 times on a LIFO basis). This is a direct result of working with suppliers and internal efforts to reduce cycle time and non-productive inventory in the supply chain. Grainger continues to make great strides through continuous improvement activities. These activities have substantially improved inbound and outbound cycle times, reduced the amount of time required to pick, pack and ship orders and dramatically improved space utilization within existing buildings. In addition, best practices are consistently shared across all of Grainger's businesses resulting in service and productivity improvements in product management, inventory planning, transportation management and distribution center operations.

Grainger counts on the strong relationships it has with its suppliers to ensure the company receives quality products in a timely manner and collaborates with each supplier to improve product availability and lower overall costs. *A list of Grainger's Top 10 Suppliers can be found in the sidebar to the left.*

SUPPLIER RELATIONSHIPS

Grainger has strong relationships with its approximately 3,000 key suppliers. The company collaborates with each supplier to improve product availability and lower overall costs.

Top 10 Suppliers*

3M
Black & Decker
Filtration Group
Fluke Corporation
General Electric Lighting
Georgia Pacific Consumer Products
Ingersoll Rand
Rubbermaid Commercial Products
Square D
Stanley Proto Group

** In terms of Cost of Goods Sold*

Grainger distribution center.

Company Strategy – Supply Chain (continued)

Dayton

Speedaire

Tough Guy

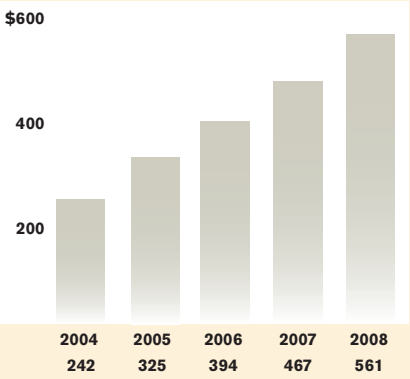
Grainger's private label sales, including Dayton®, Speedaire® and Tough Guy® products, grew to 24 percent of overall sales in 2008.

In addition, Grainger sources from manufacturers around the globe and brings product under various private labels. Grainger's global sourcing operation sourced products from 21 countries in 2008, and those products carried gross margins that were about 60 percent higher than the company average. As of the end of 2008, the company globally sourced 22,000 SKUs, which represented about 8 percent of company sales.

In 2008, the company continued to expand and grow all its private label products to 24 percent of overall sales. Brands such as Dayton® motors meet customers' needs while improving Grainger's margins.

In 2009, the company plans to expand its distribution center operations in North America. The decision to add additional capacity along the west coast of the United States reflects growth in that region and the need to compete with national and local competitors by having more products available for customers. The company also plans to improve its supply chain capacity in Canada and has moved into a new distribution center in Mexico.

GLOBALLY SOURCED PRODUCTS – SALES *Dollars in millions*



Company Strategy – Sustainability and Safety

Last year, 15 percent of Grainger's U.S. customers purchased green products. But these customers, primarily government and large commercial accounts, represented more than 75 percent of Grainger's total U.S. sales.

Grainger's 2009 Green Products Catalog.

As a result of Energy Star® products sold through Grainger in the U.S. in 2008, customers saved an estimated 152.4 million kWh/year, or electricity savings of $16.9 million*. That is enough electricity to light every household in Washington, D.C., for 115 days and the carbon emissions reduction is equivalent to removing 19,500 cars from the road.

** Estimated savings based on average energy use compared to the average energy use of non-qualified products. Actual savings may be higher or lower based on customer usage.*

The company has decided to focus on two product areas based on customer trends and company strengths: "green" products and safety items.

Why Sustainability?

Sustainability means meeting the present generation's needs without compromising the future generation's ability to meet its own needs. For Grainger, sustainability means expanding its green offering of MRO products. Green products help customers do business in an environmentally responsible manner while also helping to take costs out of their operations. The company's government, healthcare and corporate accounts are the customer segments which have been most interested in finding sustainable solutions.

Currently, Grainger carries more than 3,300 green products in the United States and the estimated green MRO market in the United States is approximately $10 billion, of which Grainger currently has a 2 percent market share. Products offered fall across many product categories and include products that help save energy, reduce water use, improve indoor air quality and reduce waste. Grainger offers products that have third party certifications such as Energy Star®, NEMA Premium™, Green Seal™ and GreenGuard®. The company also offers products that are not certified but which do have other environmentally preferred attributes such as reduced material use and lower energy consumption, as well as products which are made from renewable resources or contain recycled content.

Grainger is determined to set a new MRO standard for sustainable, environmentally safe operations. From adopting Leadership in Energy and Environmental Design (LEED) standards for its new branch construction, to participating in numerous recycling programs, to working with the United States Green Building Council, the company is striving to preserve the natural resources within the communities in which it does business.

Grainger is the first industrial distributor to have LEED certified facilities. The company opened three LEED Gold certified branches in the U.S. Gulf Region. LEED certified facilities are not only more environmentally responsible, but also reduce energy costs by 30 percent, water usage by 35–50 percent and overall waste by as much as 90 percent. Grainger's Lake Forest, Illinois, headquarters, its new Monterrey, Mexico, distribution center and headquarters and its new service center in Waterloo, Iowa, are currently awaiting certification.

A sampling of some of Grainger's green products.

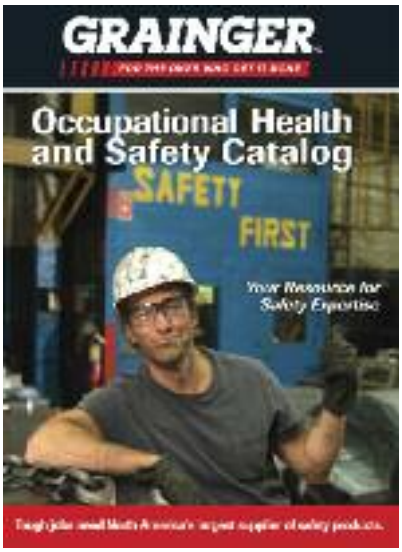
Company Strategy – Sustainability and Safety (continued)

Why Safety?

The U.S. safety market is estimated to be $14.5 billion, of which Grainger currently has a 6 percent share. Under President Obama's new administration, Grainger is anticipating the Occupational Safety and Health Administration (OSHA) will develop more stringent safety regulations. This means Grainger's customers will look to Grainger for advice and more safety products.

Acklands – Grainger currently has a larger share of the Canadian safety market, which is estimated to be $1.5 billion. Safety is the company's top selling product category and is also the fastest growing product category in Grainger's other international markets.

As the largest safety products distributor in North America, the company's safety sales specialists work with customers to help them achieve their safety goals and can bring key safety suppliers on-site to provide technical expertise that includes surveys, hazard assessments and compliance audits. Grainger also recently published a new occupational health and safety catalog (see cover at right), which organizes the company's solutions by key safety issues and OSHA standards, to help customers remain in compliance. Customers can also stay current on the latest trends in safety through the company's "On the Job" free webinars.



Grainger's 2009 Occupational Health and Safety Catalog.

To meet customer needs, Grainger doubled its safety product offering from 2008 to 2009. The company also helps customers manage their inventory of safety supplies, including first aid cabinets and eyewash stations, through its Inventory Solutions program (see page 8).

To offer even more safety products to its customers, Grainger is integrating the Grainger U.S. Business with its Lab Safety Supply business. Combining the two businesses will offer benefits for Grainger's customers and investors.

Anticipated Benefits to Customers

- Lab Safety's products will be more readily available to Grainger's U.S. customers
- Grainger's products will be available to Lab Safety's customers
- Grainger's east and west coast distribution centers will carry Lab Safety products bringing them closer to customers

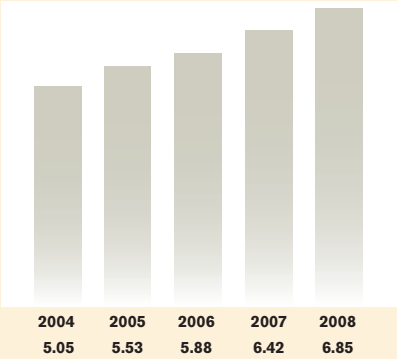
Anticipated Benefits to Investors

- $70–100 million in incremental revenue by mid-2010 as the result of Grainger's and Lab Safety's customers having easier access to more products and Grainger's sellers making customers aware of the improved safety product offering
- $20–30 million in cost savings by mid-2010 as the result of a common supply chain and IT platform, purchasing synergies with suppliers and reduced headcount.

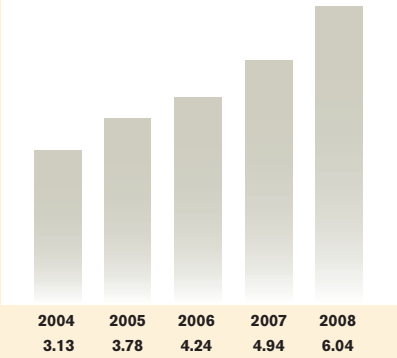
Grainger is uniquely positioned to help customers address safety issues due to its safety expertise, relevant resources and broad product offering.

Company Financial Performance

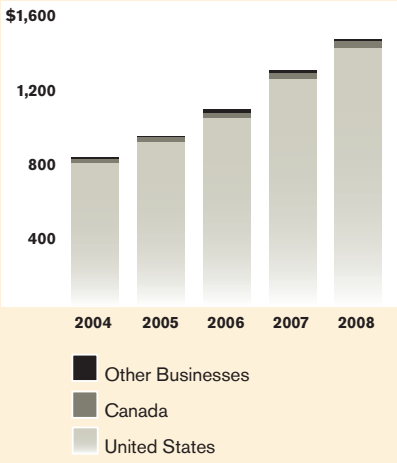
SALES
Dollars in billions



EARNINGS PER SHARE – DILUTED
Dollars



E-COMMERCE SALES
Dollars in millions



E-commerce is the company's fastest growing sales channel, because Grainger customers who order online typically buy more products and purchase more often.

Despite a challenging fourth quarter as the U.S. economy weakened, 2008 was a record year for Grainger in terms of sales, gross margin and operating margin.

Sales

For the year, the company posted $6.9 billion in sales, up 7 percent from 2007. Market expansion contributed $476 million in incremental sales in 2008 versus $402 million in 2007. Products added over the last three years, as part of product line expansion, delivered $687 million in sales.

The company's Canadian business, Acklands – Grainger, posted strong sales growth of 14 percent. Acklands – Grainger performed especially well with mining, oil and gas and government customers.

In Mexico, Grainger reached its goal of becoming the country's first national distributor of MRO supplies by opening seven additional branches in 2008, bringing the total to 22. The Mexico business also delivered strong sales growth of 12 percent.

The company also opened its first branch in Panama. In addition to its operations in China, Grainger also maintains a 49.9 percent ownership stake in Asia Pacific Brands India Ltd., a 49 percent ownership stake in MRO Korea Co., Ltd., and a 38.3 percent ownership stake in MonotaRO Co., Ltd., in Japan.

E-commerce sales rose by 13 percent to $1.5 billion. E-commerce is the company's fastest growing sales channel, because Grainger customers who order online typically buy more products and purchase more often. Sales in this channel represented 24 percent of overall sales for the U.S. business, 7 percent for the Canadian business and 9 percent for Grainger's other businesses.

Company Financial Performance (continued)

Gross Profit Margins

The company's gross profit margins expanded from 40.6 percent in 2007 to 41.0 percent in 2008. Grainger continued to work closely with its suppliers to measure, evaluate and manage supplier performance, and makes the data available to its suppliers online 24/7. In addition, as Grainger has expanded its business beyond the U.S. to Canada, Mexico, China and Panama, the company is able to leverage its global purchasing power to keep product costs down. Strong supplier relationships, a global supply chain and increased global sourcing are continuing to drive up the company's gross profit margins.

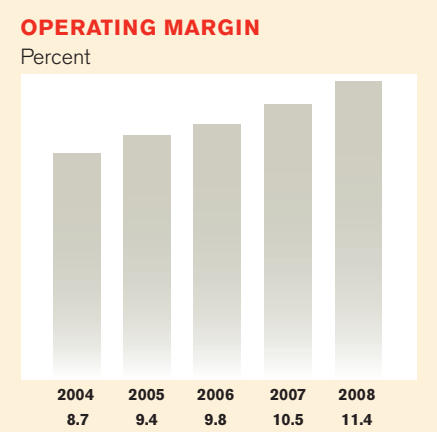
In 2008, Grainger's globally sourced products represented about one-third of private label sales, and these products carry gross margins that are about 60 percent higher than the company average. Private label products carry gross margins of approximately 53 percent, compared to the company average of 41 percent.

Operating Margin

By controlling operating expenses and expanding gross margins, the company added almost 100 basis points to the year's operating margin.

Grainger continued to apply continuous improvement techniques, including Lean and Six Sigma, in its distribution centers and branches. Such improvements have been critical as the dollar value of inventory on hand has increased in recent years due to product line expansion. Using these techniques, the company was able to increase space utilization in its distribution centers through improved slotting, which has also resulted in more efficient picking practices. The average outbound cycle time (pick, pack and ship) is now under 60 minutes, which is an improvement of 50 percent over the last two years. The company has also seen a 10–40 percent improvement in functional process performance.

The majority of orders placed on grainger.com are shipped, making it the company's most efficient form of fulfillment. The three primary eCommerce Solutions – grainger.com, Grainger Procurement Solutions and eCommerce Integration – offer customers 24/7 access to nearly 500,000 products. Customers of all sizes use Grainger's eCommerce Solutions to save time and money by consolidating purchases online, automating processes, reducing costs and increasing procurement control.



The average outbound cycle time (pick, pack and ship) is now under 60 minutes, which is an improvement of 50 percent over the last two years.

Corporate Social Responsibility

American Red Cross' Ready When the Time Comes program brings together the expertise of the Red Cross and the resources of the business community to ensure local communities are prepared to respond in times of need.

Grainger's commitment to corporate social responsibility extends into the many communities where our employees live and work. Employees have distributed hurricane relief kits to Mayan villages and sent critical supplies to earthquake victims in China. Grainger is a committed partner in local communities.

Leveraging Expertise and Resources

Through its philanthropic focus areas – disaster preparedness and relief and technical education – Grainger can make a significant impact.

Disaster Preparedness and Relief

As national founding sponsor of the American Red Cross' Ready When the Time Comes program, Grainger employees are trained ahead of disasters to provide aid and assistance across the country when disaster strikes. This unique program brings together the expertise of the American Red Cross and the resources of the business community to help ensure local communities are prepared to respond in times of need. To date more than 6,000 employees from more than 160 businesses and organizations are trained Ready When the Time Comes volunteers.

FAST FACTS

- **National founding sponsor of the American Red Cross disaster volunteer program, Ready When the Time Comes, with more than 1,000 Grainger employees trained as volunteers and at the ready**
- **Donated more than $8.7 million worth of products in 2008**
- **Made $100,000 in grants to help small businesses rebound from disasters in 2008**
- **Provided more than $2.7 million in matching gifts in 2008, a testimony to the generosity of employees and retirees**
- **Awarded 35 Grainger Tools for Tomorrow® scholarships in 2008.**

Grainger employees load hurricane relief kits for transport to a remote Mayan village.

Corporate Social Responsibility (continued)

In 2008, the company and employee volunteers helped launch the Ready When the Time Comes program in New York; Cincinnati; Long Beach, California; Baton Rouge; Greenville, South Carolina; Columbus, Ohio; and Washington, D.C. The final market launched in San Diego in early 2009.

Through cash, product and its logistics capabilities, Grainger is a resource for organizations like the American Red Cross during disasters. In 2008, Grainger provided resources to respond to multiple disasters including the Midwest flooding and Hurricanes Gustav and Ike. Over the past several years, Grainger has provided more than $6 million in cash and in-kind support to the American Red Cross for disaster relief.

As national founding sponsor of the American Red Cross' Ready When the Time Comes program, Grainger employees are trained to provide aid and assistance across the country when disaster strikes.

VOLUNTEER PROFILE

JoAnn Xarras, Services Process Manager
Ready When the Time Comes Volunteer
Chicago, Illinois

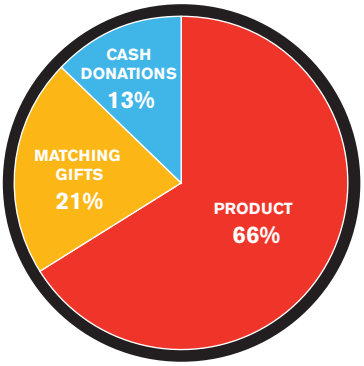
In September 2008, Hurricane Gustav forced families to evacuate to shelters across the country. JoAnn Xarras, a Grainger employee and Ready When the Time Comes volunteer, answered the call to staff a Red Cross shelter in Chicago.

On a cold, wet evening, JoAnn arrived to find a family from Louisiana with two small children inside the shelter. JoAnn happened to have a portable high chair for her grandchildren, as well as a few broken crayons, markers and books in her car. She read every book to the three year-old and played with the baby so their mom could take a break and handle some paperwork.

According to JoAnn, volunteering through Ready When the Time Comes changed her perspective. "The experience opened my eyes to how much I have and how quickly it can all be taken away. It hammered the point home that lives hold so much more value than the things we surround ourselves with."

Corporate Social Responsibility (continued)

2008 CHARITABLE CONTRIBUTIONS



In 2008, Grainger donated more than $13 million to not-for-profit organizations through cash, product donations and employee matching gifts.

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.

Relief and recovery, however, are the first steps in responding to a disaster; the rebuilding process defines a community's future. Through the Grainger Rebuilding America® program, the company provides $50,000 to small businesses that are impacted and struggling to rebuild. Contributions go to local nonprofit foundations or economic development organizations, which distribute the funds to qualifying small businesses.

Global reach, local impact

CANADA

In 2008, Acklands–Grainger Inc. contributed more than $250,000 in cash and product to local community organizations and is a strong national supporter of the United Way.

CHINA

In 2008, Grainger and its China operations responded to the catastrophic earthquake in China and tsunami in Myanmar by contributing more than $130,000 in cash, needed products and employee matching gifts.

MEXICO

In 2008, Grainger Mexico donated more than $230,000 in cash and product to local nonprofits, including supplies to create hurricane relief kits for the Mexican Red Cross and a local Mayan community.

PANAMA

Grainger's Panama business contributed $30,000 of facilities maintenance products to Sistema Nacional de Proteccion Civil (SINAPROC), the country's leading disaster preparedness and response agency. The donation included items that are vital to SINAPROC's operations, such as power saws, rescue equipment, winches, hydraulic jacks, and other tools.

Corporate Social Responsibility (continued)

SCHOLARSHIP WINNER PROFILE

Cherylle Brown, 2007 Scholarship Winner
Grainger Tools for Tomorrow® scholarship program
Community College of Baltimore County – Catonsville, Maryland

Cherylle Brown decided to study construction management as a way to help the community. She hopes to one day create a female-friendly environment for other women entering the construction field and build housing for low-income families. A constant presence in her community, Brown has volunteered for the past ten years as a computer tutor to elementary school children and is a member of numerous community and professional associations.

"I always wanted to venture into construction management, start my own company, encourage other women to enter the field, and help them develop the skills and business acumen needed to be successful in this industry," says Cherylle. "I was honored to receive the Grainger Tools for Tomorrow® scholarship and grateful that Grainger's generous contribution lifted my financial burden so I could focus on completing my education and making a positive contribution to the construction profession."

Technical Education

As older workers retire and leave the labor force and the demands of today's marketplace impose new levels of skills needed, there is a skilled workforce shortage.

Grainger sees technical education as one avenue to address this critical need. To help ensure there are enough trained people for the trades, the company has the Grainger Tools for Tomorrow® scholarship program. Launched in 2006, Grainger, together with the American Association of Community Colleges, supports preparations for careers in plumbing, contracting, electrical work, welding and construction. The initiative provides 100 scholarships and tool kits for second-year students enrolled in technical programs at 50 community colleges across the United States.

Product Donations

In addition to financial and human resources, the company provides significant in-kind support for disaster relief and education programs. In 2008, Grainger donated more than $8.7 million worth of product to nonprofit organizations.

RECENT AWARDS AND RECOGNITION

- 2008 Good Neighbor Award – Cincinnati Red Cross
- 2008 Good Neighbor Award – Baltimore Red Cross
- 2008 Mayor's Business Recognition Award – City of Baltimore
- 2009 Hal Ball Good Neighbor Award – Long Beach Red Cross

Consolidated Statements of Earnings

(In thousands of dollars, except per share amounts)	For the Years Ended December 31, 2008	% Change	2007	% Change	2006	% Change
Net sales	$6,850,032	6.7%	$6,418,014	9.1%	$5,883,654	6.5%
Cost of merchandise sold	4,041,810	6.0%	3,814,391	8.1%	3,529,504	4.9%
Gross profit	2,808,222	7.9%	2,603,623	10.6%	2,354,150	8.9%
Warehousing, marketing and administrative expenses	2,025,550	4.8%	1,932,970	8.8%	1,776,079	8.1%
Operating earnings	782,672	16.7%	670,653	16.0%	578,071	11.4%
Other income and (expense):						
Interest income	5,069	(58.2)%	12,125	(43.6)%	21,496	66.9%
Interest expense	(14,485)	387.1%	(2,974)	54.4%	(1,926)	3.4%
Equity in net income of unconsolidated entities	3,642	80.7%	2,016	(31.9)%	2,960	5.4%
Write-off of investment in unconsolidated entity	(6,031)	100.0%	—	—	—	—
Gain on sale of unconsolidated entity	—	—	—	(100.0)%	2,291	100.0%
Unclassified – net	2,351	NA	41	(69.0)%	131	191.6%
Total other income and (expense)	(9,454)	(184.3)%	11,208	(55.1)%	24,952	82.3%
Earnings before income taxes	773,218	13.4%	681,861	13.1%	603,023	13.2%
Income taxes	297,863	13.8%	261,741	19.2%	219,624	17.9%
Net earnings	$ 475,355	13.1%	$ 420,120	9.6%	$ 383,399	10.7%
Earnings per share:						
Basic	$ 6.21	21.8%	$ 5.10	17.0%	$ 4.36	12.7%
Diluted	$ 6.04	22.3%	$ 4.94	16.5%	$ 4.24	12.2%
Weighted average number of shares outstanding:						
Basic	76,579,856		82,403,958		87,838,723	
Diluted	78,750,328		85,044,963		90,523,774	

Segment Information

(In thousands of dollars)	2008	% Change	2007	% Change	2006	% Change
Sales						
United States	$6,057,828	5.7%	$5,729,327	8.7%	$5,272,780	5.8%
Canada	727,989	14.4%	636,524	12.6%	565,098	12.6%
Other Businesses	111,732	19.5%	93,516	22.4%	76,387	12.7%
Intersegment sales	(47,517)	14.9%	(41,353)	35.1%	(30,611)	9.9%
Net sales to external customers	$6,850,032	6.7%	$6,418,014	9.1%	$5,883,654	6.5%
Operating earnings						
United States	$ 840,408	14.9%	$ 731,553	12.9%	$ 647,832	12.7%
Canada	54,263	22.7%	44,218	190.1%	15,242	8.8%
Other Businesses	(11,827)	57.8%	(7,495)	325.4%	(1,762)	NA
Unallocated expenses	(100,172)	2.6%	(97,623)	17.3%	(83,241)	18.4%
Operating earnings	$ 782,672	16.7%	$ 670,653	16.0%	$ 578,071	11.4%

Consolidated Balance Sheets

(In thousands of dollars)	As of December 31, 2008	2007	2006
Assets			
Current Assets			
Cash and cash equivalents	$ 396,290	$ 113,437	$ 348,471
Marketable securities at cost, which approximates market value	—	20,074	12,827
Accounts receivable (less allowances for doubtful accounts of $26,481, $25,830 and $18,801, respectively)	589,416	602,650	566,607
Inventories	1,009,932	946,327	827,254
Prepaid expenses and other assets	73,359	61,666	58,804
Deferred income taxes	52,556	56,663	48,123
Prepaid income taxes	22,556	—	—
Total current assets	2,144,109	1,800,817	1,862,086
Property, Buildings and Equipment			
Land	192,916	178,321	167,218
Buildings, structures and improvements	1,048,440	977,837	890,380
Furniture, fixtures, machinery and equipment	890,507	848,118	769,506
	2,131,863	2,004,276	1,827,104
Less accumulated depreciation and amortization	1,201,552	1,125,931	1,034,169
Property, buildings and equipment – net	930,311	878,345	792,935
Deferred income taxes	97,442	54,658	48,793
Investments in unconsolidated entities	20,830	14,759	8,492
Goodwill	213,159	233,028	210,671
Other assets and intangibles – net	109,566	112,421	123,111
Total Assets	$3,515,417	$3,094,028	$3,046,088
Liabilities and Shareholders' Equity			
Current Liabilities			
Short-term debt	$ 19,960	$ 102,060	$ —
Current maturities of long-term debt	21,257	4,590	4,590
Trade accounts payable	290,802	297,929	334,820
Accrued compensation and benefits	162,380	182,275	140,141
Accrued contributions to employees' profit sharing plans	146,922	126,483	113,014
Accrued expenses	118,633	102,607	106,681
Income taxes payable	1,780	10,459	7,077
Total current liabilities	761,734	826,403	706,323
Long-term debt (less current maturities)	488,228	4,895	4,895
Deferred income taxes and tax uncertainties	33,219	20,727	6,235
Accrued employment-related benefits costs	198,431	143,895	151,020
Shareholders' equity			
Cumulative preferred stock – $5 par value – 12,000,000 shares authorized; none issued nor outstanding	—	—	—
Common stock – $0.50 par value – 300,000,000 shares authorized; issued, 109,659,219, 109,659,219 and 109,657,938 shares, respectively	54,830	54,830	54,829
Additional contributed capital	564,728	475,350	478,454
Retained earnings	3,670,726	3,316,875	3,007,606
Accumulated other comprehensive earnings	(38,525)	72,171	3,431
Treasury stock, at cost – 34,878,190, 30,199,804 and 25,590,311 shares, respectively	(2,217,954)	(1,821,118)	(1,366,705)
Total shareholders' equity	2,033,805	2,098,108	2,177,615
Total Liabilities and Shareholders' Equity	$3,515,417	$3,094,028	$3,046,088

Consolidated Statements of Cash Flows

(In thousands of dollars)	For the Years Ended December 31, 2008	2007	2006
Cash flows from operating activities:			
Net earnings	$ 475,355	$ 420,120	$ 383,399
Provision for losses on accounts receivable	12,924	15,436	6,057
Deferred income taxes and tax uncertainties	5,182	(18,632)	9,858
Depreciation and amortization:			
Property, buildings and equipment	112,443	106,839	100,975
Capitalized software and other intangibles	27,127	25,160	17,593
Stock-based compensation	45,945	35,551	33,741
Tax benefit of stock incentive plans	1,925	3,193	1,563
Net gains on sales of property, buildings and equipment	(9,232)	(7,254)	(11,035)
Income from unconsolidated entities	(3,642)	(2,016)	(2,960)
Gain on sale of unconsolidated entity	—	—	(2,291)
Write-off of unconsolidated entity	6,031	—	—
Change in operating assets and liabilities – net of business acquisitions:			
(Increase) in accounts receivable	(5,592)	(41,814)	(53,056)
(Increase) in inventories	(92,518)	(97,234)	(33,839)
(Increase) in prepaid income taxes	(22,556)	—	—
(Increase) in prepaid expenses	(11,073)	(2,342)	(3,918)
Increase (decrease) in trade accounts payable	(6,960)	(39,436)	10,888
Increase (decrease) in other current liabilities	199	54,457	(2,558)
Increase (decrease) in current income taxes payable	(7,784)	2,304	(17,395)
Increase in accrued employment-related benefits costs	3,216	17,705	2,634
Other – net	(924)	(3,162)	(2,903)
Net cash provided by operating activities	530,066	468,875	436,753
Cash flows from investing activities:			
Additions to property, buildings and equipment	(182,678)	(188,867)	(127,814)
Proceeds from sales of property, buildings and equipment	13,620	12,084	17,314
Additions to capitalized software	(12,297)	(8,556)	(8,950)
Proceeds from sale of marketable securities	19,848	12,765	—
Purchase of marketable securities	—	(17,079)	(13,187)
Proceeds from sale of unconsolidated entity	—	—	27,843
Net cash paid for business acquisitions	(34,290)	(4,698)	(34,390)
Investments in unconsolidated entities	(6,487)	(2,138)	(3,988)
Other – net	(351)	(468)	3,426
Net cash used in investing activities	(202,635)	(196,957)	(139,746)

Consolidated Statements of Cash Flows (continued)

(In thousands of dollars)	For the Years Ended December 31, 2008	2007	2006
Cash flows from financing activities:			
Net increase (decrease) in commercial paper	$ (95,947)	$ 95,947	$ —
Borrowings under line of credit	29,959	14,107	—
Payments against line of credit	(15,437)	(7,751)	—
Proceeds from issuance of long-term debt	500,000	—	—
Proceeds from stock options exercised	46,833	113,500	64,437
Excess tax benefits from stock-based compensation	13,533	30,696	13,373
Purchase of treasury stock	(394,247)	(647,293)	(472,787)
Cash dividends paid	(121,504)	(113,093)	(97,896)
Net cash used in financing activities	(36,810)	(513,887)	(492,873)
Exchange rate effect on cash and cash equivalents	(7,768)	6,935	(557)
Net increase (decrease) in cash and cash equivalents	282,853	(235,034)	(196,423)
Cash and cash equivalents at beginning of year	113,437	348,471	544,894
Cash and cash equivalents at end of year	$ 396,290	$ 113,437	$ 348,471
Supplemental cash flow information:			
Cash payments for interest (net of amounts capitalized)	$ 14,508	$ 4,409	$ 1,413
Cash payments for income taxes	306,960	244,541	212,350
Noncash investing activities:			
Fair value of noncash assets acquired in business acquisitions	$ 41,068	$ 5,039	$ 38,430
Liabilities assumed in business acquisitions	(6,778)	(341)	(4,040)

Historical Financial Summary

		2008	2007	2006
Financial Summary ($000)	Net sales	$6,850,032	$6,418,014	$5,883,654
	Earnings before income taxes and cumulative effect of accounting change	773,218	681,861	603,023
	Income taxes	297,863	261,741	219,624
	Earnings before cumulative effect of accounting change	475,355	420,120	383,399
	Cumulative effect of accounting change	—	—	—
	Net earnings	475,355	420,120	383,399
	Working capital	1,382,375	974,414	1,155,763
	Additions to property, buildings and equipment	182,633	188,867	127,814
	Depreciation and amortization of property, buildings and equipment	112,443	106,839	100,975
	Current assets	2,144,109	1,800,817	1,862,086
	Total assets	3,515,417	3,094,028	3,046,088
	Shareholders' equity	2,033,805	2,098,108	2,177,615
	Cash dividends paid	121,504	113,093	97,896
	Long-term debt (less current maturities)	488,228	4,895	4,895
Per Share ($)	Earnings – basic	6.21	5.10	4.36
	Earnings – diluted	6.04	4.94	4.24
	Cash dividends paid	1.550	1.340	1.110
	Book value	27.20	26.40	25.90
	Year-end stock price	78.84	87.52	69.94
Ratios	Percent of return on average shareholders' equity	23.0	19.7	17.2
	Percent of return on average total capitalization	20.3	19.2	17.2
	Earnings before income taxes and cumulative effect of accounting change as a percent of net sales	11.3	10.6	10.2
	Earnings before cumulative effect of accounting change as a percent of net sales	6.9	6.6	6.5
	Cash dividends paid as a percent of net earnings	25.6	26.9	25.5
	Total debt as a percent of total capitalization	20.7	5.0	0.4
	Current assets as a percent of total assets	61.0	58.2	61.1
	Current assets to current liabilities	2.8	2.2	2.6
	Average inventory turnover – FIFO	2.9	3.1	3.1
	Average inventory turnover – LIFO	4.1	4.3	4.4
Other Data	Average number of shares outstanding – basic	76,579,856	82,403,958	87,838,723
	Average number of shares outstanding – diluted	78,750,328	85,044,963	90,523,774
	Number of employees	18,334	18,036	17,074
	Number of account managers	2,858	2,823	2,699
	Number of branches	617	610	593
	Number of products in the Grainger® catalog	183,000	139,000	115,000

Notes: 2002 net earnings include a charge for the cumulative effect of accounting change of $23,921,000, or $0.26 per share, and special credits of $4,458,000, or $0.05 per share, for gains on sales of investment securities and $1,183,000, or $0.01 per diluted share, for the reduction of the reserves established in 2001.

2001 net earnings include a special charge of $36,650,000, or $0.39 per share, to establish a reserve related to the shutdown of Material Logic.

2000 net earnings include gains on the sales of investment securities of $17,860,000, or $0.19 per share.

Historical Financial Summary (continued)

2005	2004	2003	2002	2001	2000	1999	1998
$5,526,636	$5,049,785	$4,667,014	$4,643,898	$4,754,317	$4,977,044	$4,636,275	$4,438,975
532,674	445,139	381,090	397,837	297,280	331,595	303,750	400,847
186,350	158,216	154,119	162,349	122,750	138,692	123,019	162,343
346,324	286,923	226,971	235,488	174,530	192,903	180,731	238,504
—	—	—	(23,921)	—	—	—	—
346,324	286,923	226,971	211,567	174,530	192,903	180,731	238,504
1,290,188	1,108,384	926,773	898,681	838,800	735,678	600,611	541,872
112,297	128,276	74,064	133,978	100,451	65,507	111,900	132,857
98,087	85,566	74,583	75,226	77,737	81,898	72,446	58,256
1,985,539	1,744,416	1,633,413	1,484,947	1,392,611	1,483,002	1,471,145	1,206,429
3,107,921	2,809,573	2,624,678	2,437,448	2,331,246	2,459,601	2,564,826	2,103,966
2,288,976	2,067,970	1,845,135	1,667,698	1,603,189	1,537,386	1,480,529	1,278,741
82,663	71,243	67,281	66,467	65,445	62,863	58,817	56,683
4,895	—	4,895	119,693	118,219	125,258	124,928	122,883
3.87	3.18	2.50	2.30	1.87	2.07	1.95	2.48
3.78	3.13	2.46	2.24	1.84	2.05	1.92	2.44
0.920	0.785	0.735	0.715	0.695	0.670	0.630	0.585
25.51	22.83	20.27	18.21	17.17	16.37	15.85	13.68
71.10	66.62	47.39	51.55	48.00	36.50	47.81	41.63
15.9	14.7	12.9	12.9	11.1	12.8	13.1	18.5
15.9	14.2	12.3	13.6	10.2	11.2	11.0	16.3
9.6	8.8	8.2	8.6	6.3	6.7	6.6	9.0
6.3	5.7	4.9	5.1	3.7	3.9	3.9	5.4
23.9	24.8	29.6	31.4	37.5	32.6	32.5	23.8
0.4	0.5	7.5	7.2	7.8	17.3	23.3	15.5
63.9	62.1	62.2	60.9	59.7	60.3	57.4	57.3
2.9	2.7	2.3	2.5	2.5	2.0	1.7	1.8
3.2	3.3	2.9	3.2	3.3	3.2	3.2	3.4
4.5	4.6	4.4	4.5	4.7	4.6	4.1	4.4
89,568,746	90,206,773	90,731,013	91,982,430	93,189,132	93,003,813	92,836,696	96,231,829
91,588,295	91,673,375	92,394,085	94,303,497	94,727,868	94,223,815	94,315,479	97,846,658
16,732	15,523	14,701	15,236	15,385	16,192	16,730	15,270
2,507	2,154	1,741	1,650	1,641	1,708	1,879	1,887
589	582	575	576	579	572	562	532
82,400	82,300	88,400	98,700	99,900	85,200	81,100	78,400

Executive and Operating Management

JAMES T. RYAN

Chairman, President and Chief Executive Officer

Mr. Ryan was named Grainger's Chairman in April 2009, and President and Chief Executive Officer in June 2008. He has been President since April 2006 and was named Chief Operating Officer and to the Board of Directors in February 2007.

Mr. Ryan has held a number of other key posts since joining Grainger in 1980. They include Group President; Executive Vice President, Marketing, Sales and Service; Vice President, Information Services; President, grainger.com; and President, Grainger Parts.

Mr. Ryan is a trustee of the Museum of Science and Industry and DePaul University. A member of the Civic Committee of the Commercial Club of Chicago and the Economic Club of Chicago, he also serves on the Chicago 2016 Committee.

COURT D. CARRUTHERS

Senior Vice President; President, Grainger International

Mr. Carruthers was promoted to the new position of President, Grainger International, in March 2009. In this role, he is responsible for the company's Canadian, Mexican and Chinese businesses.

Previously, he served as President of Acklands – Grainger, a position held since October 2006, where he was responsible for the Canadian business in its entirety. He joined the company in 2002 and held a number of increasingly responsible leadership roles in sales and branch operations.

He is Chair of the United Way of York Region Campaign Cabinet and a member of the University of Alberta Business School Advisory Council.

TIMOTHY M. FERRARELL

Senior Vice President and Chief Information Officer, Enterprise Processes and Systems

Mr. Ferrarell was named Senior Vice President, Chief Information Officer, in June 2007. He is responsible for enhancing customers' experiences through the company's process improvement and business system integration efforts.

Prior to this role, Mr. Ferrarell had served as Senior Vice President, Enterprise Systems, since June 2001, and took on responsibility for Enterprise Processes in 2006.

He is a trustee of Lewis University.

NANCY A. HOBOR

Senior Vice President, Communications and Investor Relations

Ms. Hobor was named Senior Vice President, Communications and Investor Relations, in March 2003. She has led Grainger's internal and external communications, community relations and investor relations since 1999.

An Adjunct Professor of Investor Relations at Northwestern University, Ms. Hobor is treasurer of the Arthur W. Page Society. She is a member of the visiting committee of the Division of the Social Sciences for the University of Chicago and the advisory board of Midwest Young Artists.

JOHN L. HOWARD

Senior Vice President and General Counsel

Mr. Howard joined Grainger and was elected Senior Vice President and General Counsel in January 2000. His responsibilities include supporting all of the company's legal functions and administrative services.

He serves on the Wilson Council of the Woodrow Wilson Center for International Scholars in Washington, D.C., and on the Federal Reserve Bank of Chicago's Seventh District Advisory Council. Mr. Howard also is on the board of the Chicago Botanic Garden and the Glenwood School for Boys and Girls.

RONALD L. JADIN

Senior Vice President and Chief Financial Officer

Mr. Jadin was promoted to his current role in March 2008. He had been Vice President and Controller since November 2006. His duties include financial planning and analysis, financial process planning and control, financial reporting, internal audit and treasury operations.

He also has served as Vice President, Finance, Grainger Industrial Supply, and Director of Financial Planning and Analysis. Before joining Grainger in 1998, Mr. Jadin spent 15 years in financial analysis and management positions at General Electric.

Executive and Operating Management (continued)

D.G. MACPHERSON
Senior Vice President, Global Supply Chain

Mr. Macpherson, who joined Grainger in February 2008, heads Grainger's Global Supply Chain operations. He is responsible for providing global planning, coordination and specialized expertise to the supply chain organization in all of Grainger's business units. Mr. Macpherson was promoted to his current post in October 2008.

He previously worked for the Boston Consulting Group (BCG), where he was Partner and Managing Director since 2002. There, he was a strategic consultant to Grainger, leading BCG's relationship with the company since 2001. Earlier, he was an operations manager for Rain Bird Sprinkler Manufacturing Company and a test engineer with the U.S. Air Force. He serves on the board of Civic Consulting Alliance of Chicago.

LAWRENCE J. PILON
Senior Vice President, Human Resources

Mr. Pilon was named Senior Vice President of Human Resources in February 2005. He is responsible for providing strategic direction for Grainger's global human capital and leadership initiatives.

Before joining Grainger, Mr. Pilon served as Executive Vice President, Human Resources, for the Kellogg Company, where he led worldwide human resources. He serves on the board of the Make-A-Wish Foundation of Illinois.

MICHAEL A. PULICK
Senior Vice President; President, Grainger U.S.

Mr. Pulick was named President of Grainger's U.S. Business in November 2008. He previously served as Senior Vice President of Customer Service. Since joining Grainger in 1999, Mr. Pulick has assumed increasingly responsible roles in supplier and product management.

Before joining Grainger, he held management positions within General Electric.

A certified purchasing manager, Mr. Pulick is an adjunct professor at the Lake Forest Graduate School of Management. He serves on the board of Junior Achievement of Chicago.

JOHN A. SCHWEIG
Senior Vice President, Strategy and Development

Mr. Schweig was elected Senior Vice President, Strategy and Development, in March 2003. He is responsible for leading Grainger's strategic planning process, directing global expansion, leading the M&A effort, and for identifying and capitalizing on other strategic opportunities for company growth. He joined Grainger in 1990 as Vice President, Marketing.

In addition to serving on the board of the Chicago Youth Centers, Mr. Schweig is an advisory board member of the University of Wisconsin-Madison School of Business' Center for Brand and Product Management.

Board of Directors

Brian P. Anderson
Former Executive Vice President and Chief Financial Officer, OfficeMax Incorporated, Itasca, Ill.
(1*, 2)

Wilbur H. Gantz
President and Chief Executive Officer, PathoCapital LLC , Northbrook, Ill.
(1, 2*)

V. Ann Hailey
Chief Financial Officer, Gilt Groupe, New York City, N.Y.
(1, 2)

William K. Hall
Chairman, Procyon Technologies Inc., Downers Grove, Ill.
(1, 2)

Richard L. Keyser
Chairman Emeritus

Stuart L. Levenick
Group President, Caterpillar Inc., Peoria, Ill.
(2, 3)

John W. McCarter, Jr.
President and Chief Executive Officer, The Field Museum of Natural History, Chicago, Ill.
(2, 3)

Neil S. Novich
Former Chairman, President and Chief Executive Officer, Ryerson Inc., Chicago, Ill.
(2, 3*)

Michael J. Roberts
Chief Executive Officer and Founder, Westside Holdings, LLC, Chicago, Ill.
(2, 3)

Gary L. Rogers
Former Vice Chairman, General Electric Company, Fairfield, Conn.
(1, 2)

James T. Ryan
Chairman, President and Chief Executive Officer

James D. Slavik
Chairman, Mark IV Capital, Inc., Newport Beach, Calif.
(2, 3)

Harold B. Smith
Chairman of the Executive Committee, Illinois Tool Works Inc., Glenview, Ill.
(2, 3)

(1) Member of Audit Committee
(2) Member of Board Affairs and Nominating Committee
(3) Member of Compensation Committee
* Committee Chair

Corporate Governance at a Glance

Board Accountability	
Board is elected by majority vote	Yes
Majority of Directors independent	Yes
Separate Chairman and CEO	No
Independent Director with leadership role	Yes
Independent Board Affairs and Nominating Committee	Yes
Number of Board meetings held or scheduled	5
All Directors elected annually	Yes
Corporate governance guidelines (Operating Principles) approved by the Board	Yes
Independent Directors hold meetings without management present	Yes
Board-approved succession plan in place	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	Yes
Board orientation/education program	Yes
Directors must tender resignation upon a substantive change in career (Criteria for Membership)	Yes
Each Director serves on fewer than six boards of directors	Yes
All Directors are expected to attend annual shareholders meeting	Yes
All Directors attended at least 75 percent of Board and Committee meetings	Yes

Executive Compensation	
Independent Compensation Committee	Yes
Board Compensation Committee has independent compensation consultant	Yes
Compensation Practices Fact Sheet (available on Grainger's Investor Relations Web site)	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

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 tabulator tabulates shareholder votes	Yes
Company has a shareholder rights plan	No
Company posts its articles of incorporation and bylaws on Web site	Yes

Corporate Behavior	
A company employee is tasked with environmental responsibilities	Yes
Company has environmental, health and safety guidelines	Yes
Environmental and workplace safety policy is disclosed	Yes
Environmental performance is audited by an independent outside firm	No
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 a code of ethics (Business Conduct Guidelines)	Yes
Company has an ethics officer function	Yes
Training on ethical behavior is required for all employees	Yes

Investor Relations Contacts

Investor Relations Contacts
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Vice President, Investor Relations
847.535.0409

William D. Chapman
Director, Investor Relations
847.535.0881

LAURA D. BROWN
Vice President, Investor Relations

Ms. Brown assumed her position as Vice President, Investor Relations, in January 2008. Previously, she was Vice President of Marketing, with responsibility for Grainger Industrial Supply's marketing organization. In that role, she also led strategy development and execution of the company's market expansion initiative.

Since joining the company as a Vice President in 2000, she has held other senior positions, including Vice President of Finance for Grainger's Field Sales, Operations, Marketing and e-Business functions.

Previously, she was a vice president at Alliant Food Service and Baxter International.

WILLIAM D. CHAPMAN
Director, Investor Relations

Mr. Chapman was named Director, Investor Relations, in October 1999. In this role, he serves as the company's primary contact with the investment community.

Mr. Chapman serves on the board of the Chicago Chapter of the National Investor Relations Institute and is a member of the Manufacturers Alliance Investor Relations Council.

He also serves as a director, past president and scholarship chairman of the Wisconsin Alumni Association-Chicago Chapter and a director of the National Wisconsin Alumni Association.

Company Information

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BB&T Capital Markets – Holden Lewis
Buckingham Research – Edward Wheeler
Cleveland Research Co. – Adam Uhlman
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FTN Equity Markets – John Baliotti
Goldman Sachs – Terry Darling
Morgan, Keegan & Co. – Brent Rakers
Morgan Stanley – Scott Davis
Oppenheimer & Co. – Christopher Glynn
Robert W. Baird & Co. – David Manthey
Wachovia Capital Markets – Allison Poliniak
William Blair & Co., LLC – Jeffrey Germanotta

Annual Meeting

The 2010 Annual Meeting of Shareholders will be held at the company's headquarters in Lake Forest, Ill., at 10:00 a.m. CDT on Wednesday, April 28, 2010.

Expected Earnings Release Dates

First Quarter	April 14, 2009
Second Quarter	July 15, 2009
Third Quarter	October 14, 2009
Fourth Quarter	January 26, 2010

Transfer Agent, Registrar and Dividend Disbursing Agent

Instructions and inquiries regarding transfers, certificates, changes of title or address, lost or missing dividend checks, consolidation of accounts and elimination of multiple mailings should be directed to:
Computershare Investor Services
P.O. Box 43078
Providence, RI 02940-3078
800.446.2617

Auditors

Ernst & Young LLP
Sears Tower
233 South Wacker Drive
Chicago, Illinois 60606-6301

Common Stock Listing

The company's common stock is listed on the New York and Chicago stock exchanges under the trading symbol GWW.

Trademarks

Forward-Looking Statements

The 2009 Fact Book contains statements that are not historical in nature but concern future results and business plans, strategies and objectives, and other matters that may be deemed to be "forward-looking statements" under federal securities laws. Grainger cannot guarantee that any forward-looking statement will be realized although Grainger does believe that its assumptions underlying its forward-looking statements are reasonable. Achievement of future results is subject to risks and uncertainties which could cause Grainger's results to differ materially from those which are presented.

The forward-looking statements should be read in conjunction with the company's most recent annual report and Form 10-K as well as other reports filed with the Securities and Exchange Commission containing a discussion of the company's business and of the various factors that may affect it. Caution should be taken not to place undue reliance on Grainger's forward-looking statements and Grainger undertakes no obligation to publicly update the forward-looking statements, whether as a result of new information, future events or otherwise.

DESIGN: Anonymous Design, Inc.

For more information about the company,
including a company video,
visit the Investor Relations Web site at
www.grainger.com/investor.