

W.W. Grainger, Inc., distributes a broad offering of maintenance, repair and operating products to businesses and institutions throughout North America and in China. Grainger uses multiple channels to serve its 1.8 million customers. Founded in 1927, the company is headquartered in Lake Forest, Illinois.

FINANCIAL HIGHLIGHTS

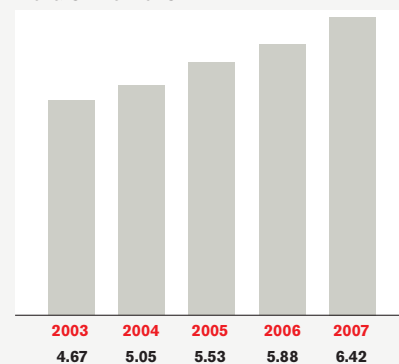
(In thousands of dollars, except per share amounts)

	2007	2006	% Change
Income Statement			
Net sales	\$6,418,014	\$5,883,654	9.1%
Gross profit	2,603,623	2,354,150	10.6%
As a percent of net sales	40.6%	40.0%	
Operating earnings	670,653	578,071	16.0%
As a percent of net sales	10.5%	9.8%	
Earnings before income taxes	681,861	603,023	13.1%
As a percent of net sales	10.6%	10.2%	
Net earnings	\$420,120	\$383,399	9.6%
As a percent of net sales	6.6%	6.5%	
Per Share			
Earnings – diluted	\$4.94	\$4.24	16.5%
Cash dividends paid	1.340	1.110	20.7%
Average number of shares outstanding – diluted	85,044,963	90,523,774	(6.1)%
Balance Sheet and Cash Flow			
Working capital	\$974,414	\$1,155,763	(15.7)%
Cash flow from operations	468,875	436,753	7.4%
Additions to property, buildings and equipment	188,867	127,814	47.8%
Financial Ratios and Other Data			
Return on average shareholders' equity	19.7%	17.2%	
Return on average total capitalization	19.2%	17.2%	
Return on invested capital (ROIC)*	28.5%	26.4%	
Number of branches	610	593	
Number of employees	18,036	17,074	

* See page 7 for definition

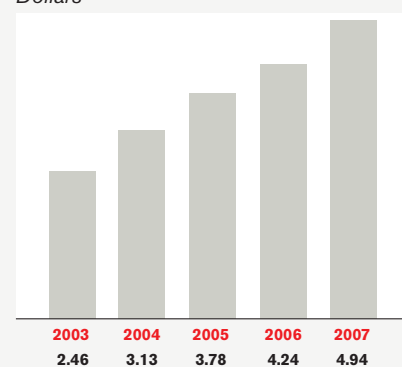
SALES

Dollars in billions



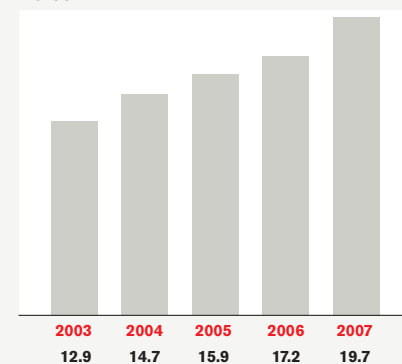
EARNINGS PER SHARE – DILUTED

Dollars



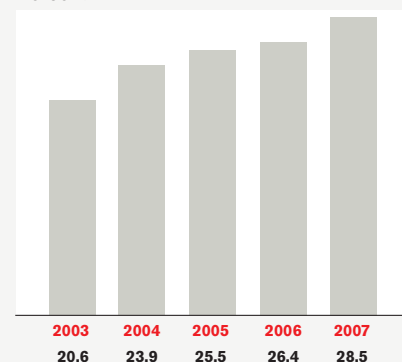
RETURN ON EQUITY

Percent



RETURN ON INVESTED CAPITAL*

Percent



TO OUR SHAREHOLDERS



Richard L. Keyser
Chairman and
Chief Executive Officer

HIGHLIGHTS OF 2007

- **Posted record sales of \$6.4 billion, up 9 percent**
- **Reported record earnings per share of \$4.94, up 17 percent**
- **Increased operating margin 70 basis points, to 10.5 percent**
- **Generated pretax return on invested capital of 28.5 percent**
- **Repurchased 7.1 million shares**
- **Raised quarterly dividend 21 percent, to \$.35 per share**

GOALS FOR 2008

- **Increase sales by 7 to 10 percent**
- **Achieve operating margins of 10.8 to 11.2 percent**
- **Post earnings per share of \$5.65 to \$6.00**
- **Complete branch and sales expansion in top 25 U.S. markets**

The year 2007 was outstanding for Grainger. We achieved \$6.4 billion in sales, up 9 percent, and posted earnings per share of \$4.94, up 17 percent.

In addition, we returned \$760 million to shareholders through the purchase of 7.1 million shares of stock and our quarterly dividends, which increased 21 percent. This was the 36th straight year that Grainger raised its quarterly dividend.

The year was significant in a number of other ways. We introduced more than 45,000 new products to our Grainger catalog and strengthened our presence in major markets. Through our e-commerce channel alone, we generated more than \$1 billion in annual sales, putting us among the top U.S. online sellers.

This performance did not just happen. The hard work of our employees and their genuine interest in our customers produced these terrific results.

A closer look at 2007

Despite a slower-growing North American economy, Grainger performed well... a testament to our people serving customers even better. The investments we've made in technology, market expansion and product-line expansion are paying off.

Here's a business overview of 2007:

- Grainger's Branch-based segment recorded a 9 percent growth in sales, while improving operating margins. A diverse group of customers contributed to the gain in market share, including those in government, commercial services and manufacturing.
- Our business in Mexico registered a 23 percent increase in sales. To capitalize on the country's economic growth and help Grainger become the first national broad-line industrial distributor, we expanded our logistics network – adding seven branches to give customers greater access to our products.
- Acklands – Grainger, our Canadian business, completed the first full year of an impressive turnaround, doubling operating earnings.
- Lab Safety Supply, our direct marketing business, grew by 6 percent, yet we can do better. We're stepping up efforts to reinvigorate growth in Lab Safety by improving our media offering – including new, innovative Web sites – and by pursuing carefully selected acquisitions.

How Grainger creates lasting value

On the face of it, our company engages in some fairly straightforward activities: providing maintenance, repair and operating (MRO) supplies to people who maintain facilities.

We take pride in making it look easy. Yet what appears simple or basic is far from it. To do what we do – quickly, efficiently, consistently, profitably and with a human touch – requires us to be a logistics organization... a supply-chain expert... a sophisticated information technology company.

Most important, we are a customer-service specialist and a consultant to management. And when an emergency strikes, we provide essential products to first responders and to the community. In all of these ways, we are a key partner to the public and private sectors.

Our aim is to be known to our customers as their high-performance team... their reliable, go-to source for vast product selection, fast turnaround, competitive pricing, excellent counsel and superb service.

Poised to perform

As competition around the globe intensifies, businesses and institutions face constant pressure to manage their costs and be more effective.

That's especially true for people who maintain facilities. To stay competitive and grow, our customers need to make optimal use of their physical assets by streamlining procedures, improving inventory management, consolidating suppliers and much more.

Grainger has the resources to assist the people who manage facilities and operations, by helping them reduce costs, save time and ensure safe, comfortable working conditions.

Our company is positioned to compete in all phases of the economic cycle, and our diversification is a major plus. Grainger customers represent every Standard Industrial Classification (SIC) code in the United States, as well as virtually every level of government, in every county in the United States. We're also well positioned in Canada and expanding in Mexico and China.

Values driving performance

Grainger is distinguished by more than our products and the speed with which we deliver them. Our employees place great importance on serving customers exceptionally well and on establishing long-term relationships.

We also are deeply committed to our communities. Our employees demonstrate the spirit of good corporate citizenship again and again, through their volunteer efforts and other contributions. We believe that, as a company, Grainger can do the greatest long-term good by focusing on two areas that allow us to leverage our expertise and assets: disaster response and technical education.

Our close association with the American Red Cross has led to our national sponsorship of Ready When the Time Comes, a Red Cross program that trains corporate volunteers in disaster relief. And through collaboration with the American Association of Community Colleges, we're investing in our country's future workforce through technical education and scholarships.

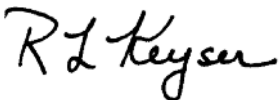
Looking ahead

Our strong financial performance and cash generation allow us to be opportunistic, giving us greater latitude in planning for growth and determining our future. We continue to invest in projects that advance our standing in the market and help us capture more business.

On March 1, 2008, Ronald L. Jadin, our Controller, will become Chief Financial Officer. He is replacing P. Ogden Loux, our Chief Financial Officer for the past 11 years, who remains with Grainger as Vice Chairman, providing me counsel on various business issues. This transition is testimony to our proven succession planning process.

As we look at the world around us, we see plenty of opportunity for growth. We intend to capitalize on the opportunity – just as William Wallace Grainger did in 1927 when he started this company – by providing great service, forming lasting relationships and pursuing our goal to remain the leader in our industry.

Sincerely,



R. L. Keyser
February 27, 2008

