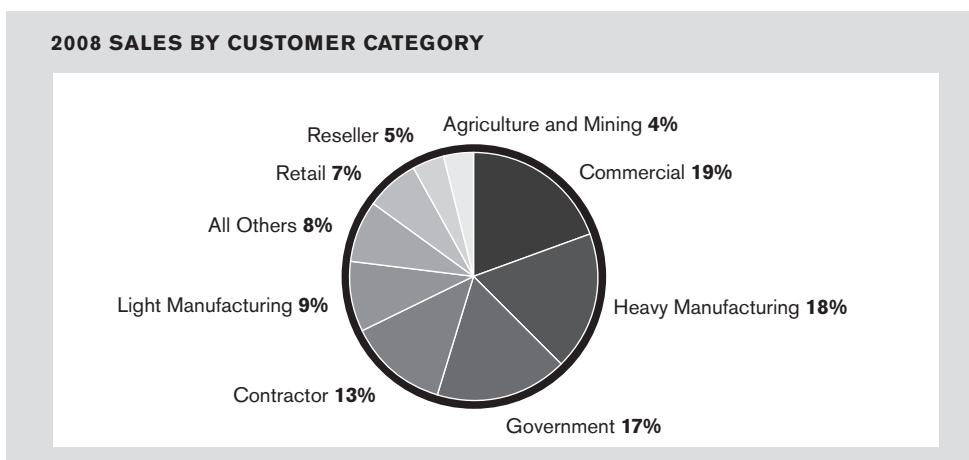
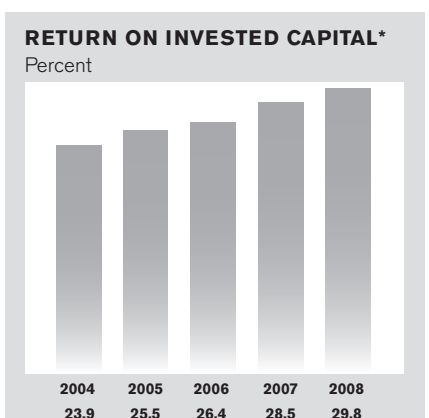
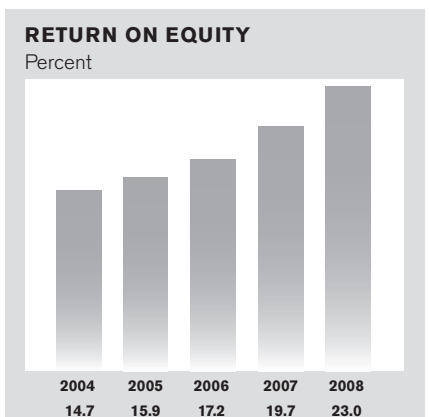
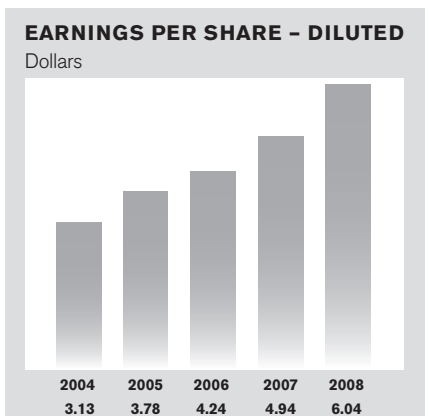
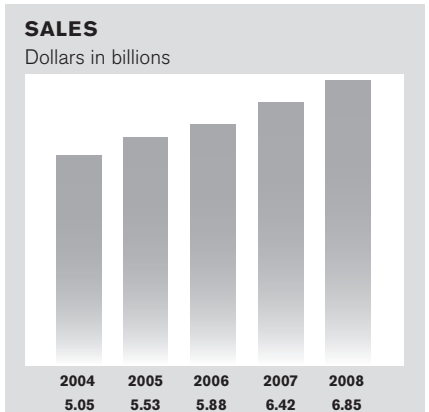


# Financial Highlights

(In thousands of dollars, except per share amounts)

	2008	2007	% Change
<b>INCOME STATEMENT</b>			
Net sales	\$6,850,032	\$6,418,014	6.7%
Gross profit	2,808,222	2,603,623	7.9%
As a percent of net sales	41.0%	40.6%	
Operating earnings	782,672	670,653	16.7%
As a percent of net sales	11.4%	10.5%	
Earnings before income taxes	773,218	681,861	13.4%
As a percent of net sales	11.3%	10.6%	
Net earnings	\$475,355	\$420,120	13.1%
As a percent of net sales	6.9%	6.6%	
<b>PER SHARE</b>			
Earnings before cumulative effect of accounting change – diluted	\$6.04	\$4.94	22.3%
Earnings – diluted	\$6.04	\$4.94	22.3%
Cash dividends paid	1.550	1.340	15.7%
Average number of shares outstanding – diluted	78,750,328	85,044,963	(7.4)%
<b>BALANCE SHEET AND CASH FLOW</b>			
Working capital	\$1,382,375	\$974,414	41.9%
Cash flow from operations	530,066	468,875	13.1%
Additions to property, buildings and equipment	182,678	188,867	(3.3)%
<b>FINANCIAL RATIOS AND OTHER DATA</b>			
Return on average shareholders' equity	23.0%	19.7%	
Return on average total capitalization	20.3%	19.2%	
Return on invested capital (ROIC)*	29.8%	28.5%	
Number of branches	617	610	
Number of employees	18,334	18,036	



\* See page 7 for definition

## To Our Shareholders



**Richard L. Keyser**  
Chairman of the Board

The impact of current economic conditions is being felt by companies across the globe. Grainger is no exception. Yet amidst the pressures of the recession and weakened sales, we see this climate as a great opportunity to strengthen the value we bring our customers, communities and shareholders.

When things get tough, strong companies shine. We are faring better than many, especially other industrial suppliers. Grainger is a solid company. Our strong balance sheet, low level of debt and healthy cash generation are clear strengths in today's environment. We have kept inventory levels up, maintained our service levels and have returned cash to shareholders in good times and bad. We take the long view, in bringing value to customers and focusing on what we can control... as we did in 2008.

### 2008 PERFORMANCE

Grainger produced record results in 2008, despite a tough fourth quarter as the economy weakened.

For the year, the company posted \$6.9 billion in sales, up 7 percent from 2007. Net earnings of \$475 million were up 13 percent. Earnings per share of \$6.04 were up 22 percent year over year.

As a continued sign of the company's commitment to increasing shareholder value, Grainger's directors voted last April to raise the quarterly dividend more than 14 percent, marking the 37th consecutive year of dividend increases. The company also returned more than \$394 million in cash to shareholders in the form of share repurchases.

The year's excellent performance is due to a number of factors. None ranks more important than serving our nearly 2 million customers exceptionally well. Recent customer-satisfaction scores, which evaluate our customers' last interaction with us, are the company's highest ever.

### A CLOSER LOOK AT THE YEAR

In the United States, we continued to benefit from our investments to expand in the major metropolitan markets, increase our product offering and operate more productively.

We announced that we would merge Grainger Industrial Supply and Lab Safety Supply. Combining these units should benefit the Lab Safety brand, which saw sales decline in 2008. We will stock Lab Safety products across the U.S. Supply Chain to substantially improve service to Lab Safety customers coast to coast. Most of Lab's product offering will now be available to all Grainger customers through our Web site and sales force, helping strengthen Grainger's overall position

#### 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 \$.40 per share

in many product categories. We expect this consolidation will also yield purchasing synergies and back-office efficiencies.

Our Canadian business, Acklands – Grainger, posted strong sales growth and increased profitability. Acklands – Grainger, the second-largest business unit, performed especially well in agriculture, energy and government.

In Mexico, we reached our goal of being the country's first national distributor of MRO supplies by opening seven additional branches. In China, we focused on achieving greater market penetration in and around Shanghai. Also in 2008, we extended our international reach by opening Grainger's first branch in Panama.

Other successes included e-commerce sales, which rose by 13% to \$1.5 billion. Grainger's U.S. customers who order online buy more products and purchase more often. More than 90 percent of orders placed on grainger.com are shipped, the company's most efficient form of fulfillment.

Productivity gains, the result of continuous improvement in our operations, and discipline in cost management also aided overall results. By controlling operating costs and expanding gross margins, we added almost 100 basis points to the year's operating margin.

Throughout the year, employees across the company reinforced Grainger's reputation as a neighbor in their community by helping victims of floods, earthquakes and hurricanes; supporting technical education; and contributing to countless other important causes.

In 2008, as good corporate citizens, we also focused on sustainability. We renewed our commitment to greening our facilities and partnered with customers by helping them with the green solutions they need.

As the nation rebuilds itself by repairing its infrastructure, the shortage of skilled labor will become an issue. Grainger and Mike Rowe, creator and host of Discovery Channel's "Dirty Jobs," have teamed up to encourage more young people to consider careers in the trades.

## ASSESSING GRAINGER TODAY

The company's long-term prospects remain promising for several reasons.

We have a diverse customer and geographic base. We do business with customers in virtually every industry and locale in North America. That kind of unmatched diversity is a big advantage in a down economy because the company's revenues are less tied to the performance of a single sector or region.

Additionally, Grainger's broad product line and steady investment in sales coverage, branches and inventory allow us to get customers the products they



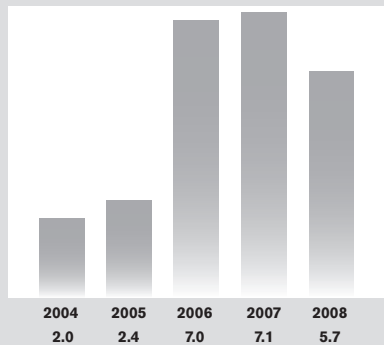
**James T. Ryan**  
President and Chief Executive Officer

## GOALS FOR 2009

- Combine Lab Safety Supply and Grainger Industrial Supply
- Invest opportunistically for growth
- Aggressively pursue ways to be more productive and reduce costs
- Expect to add 50,000 products to the Grainger catalog
- Significantly increase the number of green product offerings
- Increase share in North America and other markets

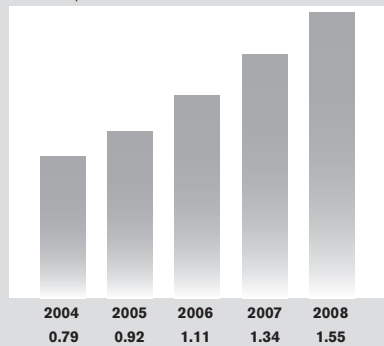
**SHARE REPURCHASES**

Shares in millions



**DIVIDENDS PAID**

Dollars per share



need, when they need them. Customers, in turn, can improve their cash flow by eliminating inventory when they rely on Grainger to have what they need.

Another strength is our reputation for being there for customers when they need help the most. Whether it's a natural disaster or the tough economy, we offer ways to help them get back up and running and to operate more efficiently.

**IN SUMMARY**

We're in a solid financial and operating position not only to ride out this uncertain time but also to gain market share and emerge even stronger when the economic climate brightens.

We have the best products and services, the most respected brand, the best supply chain and, most importantly, the best people.

We are confident that we will emerge from this period in good shape. We are seizing the opportunity to gain more market share.

To our employees, we want to say thanks for staying focused on what's important: serving our customers with distinction and with a human touch. There is no finer group of people anywhere.

We're also grateful for the loyalty of shareholders like you.

Sincerely,

Richard L. Keyser  
Chairman of the Board

James T. Ryan  
President and Chief Executive Officer

February 26, 2009