To Our Shareholders:

In my 35 years in this industry, I've never seen a time like the one we are in right now, but I've also never seen an opportunity like the one in front of us.

The industrial economy has been under pressure from an unprecedented combination of declining oil and commodity prices, low inflation and a strong U.S. dollar. The competitive landscape is becoming more eclectic with new entrants and new technologies. And we are seeing dramatic changes in the way our customers purchase products and services; more and more, customers want to do business online and onsite at their operations.

Successful businesses adjust to the current realities of the market. At Grainger, we are facing into the challenges and creating opportunities to accelerate market share gains now and for the long term by investing in our business, even in this soft economy.

This past year we continued to invest in what makes us strong — our people, our infrastructure and the products and services that we offer. We strengthened our position to grow through new channels and in new markets, and we took action to improve our profitability. At the same time, we had to rebalance our investments toward the channels customers are using more often and improve our cost of doing business.

While 2015 was a tough year in many ways, it was also a year of great progress. Our financial strength and stability served us well, and we chose to continue to build for our future.

2015 FINANCIAL HIGHLIGHTS

- Sales for the year were $10 billion, flat versus 2014.
- Reported earnings per share of $11.58 increased 1 percent versus $11.45 in 2014; on an adjusted basis, earnings per share were $11.94, down 3 percent. Restructuring charges in several of our businesses and tax benefits resulted in net charges of $0.36 per share.
- In 2015, cash flow from operations was $1 billion. Gross capital expenditures for the year were $374 million versus $387 million in 2014, including expansion of the distribution center network in North America and investments in SAP.
- We adjusted our capital structure by completing a $1 billion public debt offering while receiving a AA– rating.
- In total, we returned $1.7 billion in cash to shareholders. Through our expanded share buyback program announced in April 2015, we repurchased 6.1 million shares of stock, approximately 9 percent of our outstanding share count, for $1.4 billion. We paid out $306 million in dividends, reflecting an 8 percent increase in the quarterly dividend over the prior year; 2015 was our 44th consecutive year of increased dividends.

STRENGTHENING HOW WE WILL SERVE

For more than a decade we've been investing in the foundation of what makes great service possible — our product offering, supply chain, systems and eCommerce platform. Our foundation in North America is both high capacity and adaptable to changing customer behaviors. It runs the business we've got today and will launch the businesses and services we build in the future.

Connecting our businesses in the Americas

This past year we successfully extended our U.S. SAP system to our business in Mexico and in early 2016 completed the installation in Canada as well. Operating on one North American SAP system is a competitive advantage. Having one common platform allows for better data visibility across our North American businesses and enables direct shipment to customers from distribution centers in Canada and Mexico, which we have been doing in the United States for more than 10 years.

Improving customer service and efficiency

Serving our customers with the products they need quickly requires high availability and efficient distribution centers. In the United States, we broke ground on a 1.3 million square-foot facility in New Jersey. This facility is modeled after our Minooka, Ill., distribution center — it will be highly automated, highly efficient and set new standards for customer service in the Northeast. In Japan, our MonotaRO business began work on a new distribution center, located near Tokyo, to accommodate future growth. In Canada, our new Toronto distribution center has demonstrated better efficiency and throughput since opening last year, enabling us to dramatically improve service.

As our customers' preferences shift to purchasing online and to having more of their orders shipped, we must improve our own network efficiency by rebalancing our investments. This past year we closed 49 branches in the United States, 16 branches in Canada and 16 branches at Fabory in Europe to better align with how our customers choose to do business with us.

We are using our foundation to deliver the service our customers expect, even as we redefine what that service will look like in the future. Going forward, we will lean on our foundation to provide the best products, availability and service where and how our customers want to be served.

REDEFINING HOW WE WILL LEAD

Customer behaviors, their expectations and our industry are all changing and redefining how we lead. We understand how to go after a customer segment, break it down and use our foundation to build new capabilities and tailored offers. We believe there are great opportunities in this changing environment, and in 2015 we made bold moves to exceed our customers' expectations both now and in the future.

Taking a segmented approach in the U.S.

To continue to adapt to how customers of different sizes buy differently, in 2015 we reorganized our U.S. sales and marketing teams to further accelerate market share gains with both large and medium-sized customers. We know that the middle market has distinct characteristics that require a more tailored approach. This past year we established a team focused solely on building a more compelling offer and go-to-market strategy for those medium-sized customers. In the future, we'll continue to build our business for how our customers think, buy and act, even down to the individual buyer.

Growing the online model

We have seen tremendous growth through our single channel online businesses in Japan with MonotaRO and in the United States with Zoro. In 2015, MonotaRO grew 29 percent in local currency while Zoro recorded $296 million in sales, a 62 percent increase over 2014.

We believe there is a compelling opportunity in western Europe to grow the online model, and in September 2015 we established a leading position in the United Kingdom MRO market with the acquisition of Cromwell Group (Holdings) Limited. This acquisition brings together Cromwell's product strength and customer relationships with Grainger's expertise in supply chain and eCommerce to accelerate growth in the core and online Cromwell business.

ADAPTING FOR THE FUTURE

Grainger's ability to adapt and stay ahead has set us apart for decades. Focusing our investments and priorities to best serve our customers, create a great environment for our team members and generate profitable returns for our shareholders guides how we run our business. Even during these dynamic and changing times, our path ahead is clear.

Our 2016 priorities are:

- Ensure an industry-leading customer experience across all businesses and geographies.
- Accelerate share gain with large customers in North America where we have the greatest advantage.
- Take advantage of the rapidly changing and profitable medium-sized customer segment and mitigate the rate of decline in the United States.
- Accelerate the rapid growth in revenue and earnings through our single channel online businesses MonotaRO, Zoro and Cromwell.
- Stabilize our Canadian business by keeping service high, adjusting the cost structure and continuing to diversify our customer base.
- Improve our cost structure by reducing management layers, adjusting the business to customer purchasing patterns and eliminating unnecessary costs throughout the business.
- Attract and retain team members who like to win and are driven to serve.
- Generate attractive returns for our shareholders.

LOOKING FORWARD

I'm confident and excited about our future. Grainger is a financially strong and stable company, and we have the ability to create and deliver what our customers really need. Our strategy is sound and we have a tremendous opportunity to grow this business. We are investing for growth and making the decisions we need to make to be an even tougher competitor.

As CEO, my job is to lead our company today while also preparing it for the future. We must have a process that nurtures and grows the talent we need, now and going forward. In 2015, I named DG Macpherson our Chief Operating Officer. As we become a larger organization with more ways for our customers to do business with us, serving them well requires tighter alignment and stronger execution across all of our operations. I'm confident that with DG's leadership, he and his team will help us focus to grow faster, more profitably and do what we do even better.

I believe Grainger is well-positioned to fulfill our mission to customers for many years to come. As we evolve, our company will look and feel different, but the core of who we are will remain the same. We'll continue to be a trusted partner that our customers and communities can rely on, a business that operates with integrity and a workplace where team members can grow and succeed. We have a responsibility to hold true to what's made this company special for almost 90 years, and you have my commitment that we will.

As we move ahead, I would like to thank Bill Hall, a Grainger director for 11 years. Bill will not stand for re-election in 2016. We appreciate the experience and judgment Bill has brought during his years of service to Grainger.

Grainger is the leader in this industry. It's a position that we've earned over decades with the help of our team members, customers, supplier partners, communities and shareholders and for that I thank you. Together, we will continue to earn that position by listening to our customers and building a business that can serve them better than anyone else.

James T. Ryan
Chairman of the Board, President and Chief Executive Officer

February 29, 2016