

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

GRAINGER W W INC

CIK: **277135** | IRS No.: **361150280** | State of Incorporation: **IL** | Fiscal Year End: **1231**
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SIC: **5000** Durable goods

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission File Number 1-5684
W.W. Grainger, Inc.
(Exact name of registrant as specified in its charter)

Illinois
(State or other jurisdiction of
incorporation or organization)
455 Knightsbridge Parkway, Lincolnshire, Illinois 60069-3620
(Address of principal executive offices) (Zip Code)

36-1150280
(I.R.S. Employer
Identification No.)

Registrant's telephone number including area code: 847/793-9030

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock \$0.50 par value, and accompanying Preferred Stock Purchase Rights	New York Stock Exchange Chicago Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy of information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ()

The aggregate market value of the voting stock held by non-affiliates of the registrant was \$3,283,966,623 as of the close of trading reported on the Consolidated Transaction Reporting System on March 1, 1999.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock \$0.50 par value 93,315,991 shares outstanding as of March 1, 1999

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement relating to the annual meeting of shareholders of the registrant to be held on April 28, 1999 are incorporated by reference into Part III hereof.

The Exhibit Index appears on page 15 in the sequential numbering system.

(The Securities and Exchange Commission has not approved or disapproved of this

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PART I

Item 1: Business

The Company

The registrant, W.W. Grainger, Inc., was incorporated in the State of Illinois in 1928. It is the leading North American provider of maintenance, repair, and operating (MRO) supplies, services, and related information to businesses and institutions. W.W. Grainger, Inc. regards itself as being in the service business. As used herein, "Company" means W.W. Grainger, Inc., and/or its subsidiaries as the context may require.

In late 1997, the Company began an organizational restructuring with the formation of several business operations. Several of these operations were originally part of the Grainger branch-based business. In addition, Grainger Integrated Supply began refocusing on serving customers through materials management service contracts. These changes were made to create greater focus and accountability in serving the diverse needs of the Company's customers. 1998 was a transition year in establishing the refocused organization.

The Company offers a breadth of MRO solutions by combining products, services, and information. It tailors its capabilities toward the objective of providing the lowest total cost MRO solution to select customer groups. The Company serves the diverse needs of its customers through several focused businesses.

The Branch-based Distribution businesses serve traditional customers with immediate MRO needs. The other businesses of the Company serve customers with more complex needs and/or customers who prefer to purchase through less traditional channels, such as the Internet and direct marketing.

The Company also has a business support function which provides coordination and guidance in the areas of Accounting, Administrative Services, Aviation, Business Development, Communications, Compensation and Benefits, Employee Development, Finance, Government Regulations, Human Resources, Industrial Relations, Investor Relations, Insurance and Risk Management, Internal Audit, International Operations, Legal, Planning, Real Estate and Construction Services, Security and Safety, Taxes, and Treasury services. These services are provided in varying degrees to all of the business units.

A number of Company-wide strengths provide each business with an advantage in serving its market. These strengths include technology and information management, supplier partnerships, supply chain integration skills, and an understanding of the customers' MRO environments. The Company's efforts are guided by two major initiatives to drive growth and provide value:

- o Create focused businesses to serve customer needs and find new growth opportunities within existing businesses.
- o Develop and embrace new technologies that strengthen the Company's current capabilities and help drive the future of the MRO marketplace.

The Company does not engage in basic or substantive product research and development activities. New items are added regularly to the Company's product lines on the basis of market information, recommendations of its employees, customers, and suppliers, and other factors. The Company's research and development, instead, are focused on new methods of serving customers.

For a discussion of the Year 2000 issue, see "Item 7: Management's Discussion and Analysis of Financial Condition and the Results of Operations" appearing later in this report.

Branch-based Distribution Businesses

The Company's Branch-based Distribution businesses provide customers with solutions to their immediate MRO needs throughout North America. Logistics networks are configured for rapid availability. A broad selection of MRO products is offered at local branches through user-friendly catalogs and via the Internet. The Branch-based Distribution businesses include Grainger Industrial

Supply, Acklands-Grainger Inc., Grainger Parts, Grainger, S.A. de C.V., Puerto Rico, Grainger Export, and Grainger Global Sourcing.

Grainger Industrial Supply

The focus of Grainger Industrial Supply is to provide a broad-line of MRO products quickly and easily to American businesses of all sizes. Its primary customers are small and medium-sized companies. It also addresses large-sized companies' immediate MRO needs.

Grainger Industrial Supply operates 349 branches in all 50 states. These branches are located within 20 minutes of the majority of U.S. businesses and carry inventory to support their local market needs. Products are available for immediate pick-up, same-day shipment, or delivery.

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An average branch has 15 employees and handles about 280 transactions per day. During 1998, an average of approximately 98,100 sales transactions were completed daily. Each branch tailors its inventory to local product demand. In 1998, Grainger Industrial Supply invested more than \$8,900,000 in new branches, relocations, and additions to branches. Three new branches were opened, seven were relocated, and a number of remodeling projects were completed during the year.

Grainger Industrial Supply has six Zone Distribution Centers (ZDCs) in operation. The ZDC logistics network provides a break-bulk function for faster branch stock replenishment. In addition, ZDCs handle shipped orders for all branches located in their zone.

Large computer controlled stocks, which are maintained at two Regional Distribution Centers (RDCs), located in Greenville County, South Carolina, and Kansas City, Missouri, and a National Distribution Center (NDC) located in the Chicago area, provide the branches and customers with some protection against variable demand and delayed factory deliveries. The NDC is a centralized storage and shipping facility servicing the entire network with slower moving inventory items.

During 1998, Grainger Industrial Supply began its conversion from its legacy systems to a new business enterprise system. This conversion will continue into 1999.

Grainger Industrial Supply sells principally to contractors, service shops, industrial and commercial maintenance departments, manufacturers, hotels, government, and health care and educational facilities. Sales transactions during 1998 were made to more than 1,300,000 customers. Grainger Industrial Supply estimates that approximately 24% of 1998 sales consisted of items bearing the Company's registered trademarks, including DAYTON(R) (principally electric motors, heating and ventilation equipment), TEEL(R) (liquid pumps), SPEEDAIRE(R) (air compressors), AirHandler(R) (air filtration equipment), DEM-KOTE(R) (spray paints), WESTWARD(R) (hand and power tools), and LUMAPRO(TM) (task and outdoor lighting), as well as other trademarks. The Company has taken steps to protect these trademarks against infringement and believes that they will remain available for future use in its business. Sales of remaining items generally consisted of other well recognized brands.

Grainger Industrial Supply's marketing programs had important changes in 1998. Now, all marketing resources are integrated to achieve maximum results during each promotion. Sales calls, phone sales, branch merchandising, direct marketing, and advertising are all focused around the overall marketing program.

The Grainger Industrial Supply Catalog offers more than 81,000 MRO products from more than 1,000 suppliers, most of whom are manufacturers. Approximately 2 million copies of the catalog are printed and distributed. The most current edition was issued in January 1999. The largest supplier in 1998, a diversified manufacturer through 20 of its divisions, accounted for 10.8% of purchases. No significant difficulty has been encountered with respect to sources of supply.

The Grainger Industrial Supply Electronic Catalog brings, directly to the customer's place of business, a fast, easy way to select products. Through the Electronic Catalog, the customer can use a variety of ways to describe a needed product, and then review Grainger Industrial Supply's offerings, complete with specifications, prices, and pictures. Another Electronic Catalog feature includes a cross-reference function that allows customers to retrieve product information using their own stock numbers. More than 350,000 copies of the current version of the Electronic Catalog have been distributed. The Electronic Catalog is also used at the branches as a training tool and a resource for identifying appropriate products for customers' applications.

The Internet is an important growth initiative for Grainger Industrial Supply. Access to Grainger Industrial Supply 24 hours a day, 7 days a week, is a major convenience for many customers.

Acklands-Grainger Inc. (AGI)

AGI, acquired in December 1996, is the leading branch-based Canadian broad line MRO distributor. It serves customers through 180 branches and 6 distribution centers across Canada. AGI distributes tools, lighting, HVAC, safety supplies, pneumatics, instruments, welding equipment and supplies, motors, and shop equipment, as well as many other items. A comprehensive catalog is used to showcase the product line and to help customers select products. This catalog, with over 70,000 products listed, supports the efforts of 268 sales representatives throughout Canada. A French language catalog was introduced during 1998. During 1998, an average of 17,800 sales transactions were completed daily.

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Grainger Parts

Grainger Parts provides access to over 250,000 parts and accessories through its centralized warehouse located in Northbrook, Illinois. Over 180,000 pages of parts diagrams are maintained on-line. Grainger Parts handled about 1,800,000 customer calls in 1998 through its call centers in Northbrook, Illinois and Waterloo, Iowa.

Grainger Parts maintained its ISO 9002 certification in 1998. Grainger Parts' 100% compliance with ISO 9002 standards ranked them among the top 10% of all ISO-certified companies.

Grainger, S.A. de C.V.

Grainger, S.A. de C.V. serves the traditional MRO product needs of customers in Mexico. The business employed 66 sales representatives at December 31, 1998. From its 80,000 square foot facility outside Monterrey, the business provides rapid delivery of over 60,000 products throughout Mexico.

Grainger Global Sourcing

Grainger Global Sourcing procures competitively priced, high quality products sourced outside the United States. These items are sold primarily under private label by Grainger Industrial Supply and the Company's other businesses. Products obtained through Grainger Global Sourcing in 1998 include WESTWARD(R) tools and LUMAPRO(TM) lighting products.

Other Business Units

While some larger companies have immediate MRO needs that can be handled by the Company's Branch-based Distribution businesses, many also require integrated supply or commodity management services to handle their more complex purchasing and operating environments. In addition, as technology advances and the MRO marketplace evolves, some customers are choosing to buy products through less traditional channels such as the Internet and direct marketing. For these customers, the Company offers a number of solutions. These businesses include Grainger Custom Solutions, Grainger Integrated Supply, Grainger Consulting Services, Internet Commerce, and Lab Safety Supply, Inc.

Grainger Custom Solutions

Grainger Custom Solutions was formed in 1998 and serves large customers that are looking to businesses to manage entire MRO product categories. Many companies are looking for some of the benefits of integrated supply, but are not ready for a total outsourcing solution or on-site management services.

Grainger Custom Solutions offers customers management of six major product categories, along with access to the other broad product lines from Grainger Industrial Supply. Customers are guaranteed specific cost reductions, with incentives for both them and Grainger Custom Solutions if targets are exceeded.

In 1998, the business began operating two call centers and four distribution centers. Grainger Custom Solution's customers' additional broad product needs are fulfilled through the Grainger Industrial Supply branch system.

Grainger Integrated Supply

Grainger Integrated Supply is focused on customers who have chosen to outsource their entire indirect materials management process. By retaining Grainger Integrated Supply for this purpose, these organizations are better able to focus on their core business objectives and improve their global competitiveness.

Grainger Integrated Supply offers a full complement of on-site outsourcing solutions, including business process reengineering, inventory management, supply chain management, tool crib management, and information management. Grainger Integrated Supply provides its clients with access to millions of products through its relationships with world class manufacturers, service providers, and distributors, including Grainger Industrial Supply. Products not covered through these partnerships are found through Grainger Integrated

Supply's product sourcing process.

Grainger Consulting Services

Many customers realize that they are not effectively managing their MRO procurement process, but are not sure what approach to take to improve the process. Grainger Consulting Services is a leading professional services firm specializing in MRO materials management consulting.

Grainger Consulting Services provides the expertise and professional resources that help clients address indirect materials management issues and improve operating efficiencies, productivity, and asset utilization. The business offers consulting services which include process reengineering, inventory database development, and "turn-key" stockroom set up.

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Internet Commerce

The Company's product information content, relationships with leading manufacturers and distributors, and access to over two million business customers position the Company uniquely to benefit from Internet commerce. The Grainger.com site was one of the first MRO Web sites. In 1998, Internet Commerce continued to invest to increase its Internet presence. New functionality for Grainger.com included the introduction of CasterMatch(SM), another in the Company's MatchMaker(SM) series and a new, more powerful search capability was added. Grainger.com also began accepting credit card purchases in 1998. The Company was pleased to have Grainger.com once again be named among the top ten business-to-business Internet sites in the world by Advertising Age's Business Marketing Magazine.

In February 1999, the Company announced OrderZone.com by Grainger, an Internet marketplace where customers can buy products from a number of different suppliers using a single site. The Company has brought six industry leaders together to create a one-stop, on-line, business-to-business service for the procurement of a wide variety of products and services. OrderZone.com is a powerful, easy, and convenient solution for businesses looking to streamline their procurement process. Internet Commerce applied its expertise to create this Internet-based multi-distributor site. Customers can search across products from a number of leading complementary distributors. A single order can be placed across multiple distributors, and customers will receive a single invoice. Currently in test market, OrderZone.com is expected to open for business later in 1999.

Lab Safety Supply, Inc.

Lab Safety Supply is a leading direct marketer of safety products and other industrial supplies to U.S. businesses. Located in Janesville, Wisconsin, Lab Safety Supply reaches its customers through its General Catalog, targeted catalogs, and other marketing materials which are distributed throughout the year.

Customers select Lab Safety Supply for its extensive product depth (over 50,000 products in the 1999 General Catalog), its superior technical knowledge, and its excellent service. It is a primary safety supplier for many small and medium-sized companies and a critical safety back-up supplier for many larger companies.

Industry Segments

The Company has concluded that it has one reportable industry segment: Branch-based Distribution. For segment information and the Company's consolidated revenue and operating earnings see "Item 7: Management's Discussion and Analysis of Financial Condition and the Results of Operations," and "Item 8: Financial Statements and Supplementary Data." The total assets of the Company for the last five years were: 1998, \$2,103,902,000; 1997, \$1,997,821,000; 1996, \$2,119,021,000; 1995, \$1,669,243,000; and 1994, \$1,534,751,000.

Competition

The Company faces competition in all the markets it serves, from manufacturers (including some of the Company's own suppliers) that sell directly to certain segments of the market, from wholesale distributors, catalog houses, and certain retail enterprises.

The principal means by which the Company competes with manufacturers and other distributors is by providing local stocks, efficient service, account managers, competitive prices, its several catalogs, which include product descriptions and in certain cases, extensive technical and application data, procurement process consulting services, utilizing electronic and Internet commerce technology, and other efforts to assist customers in lowering their total MRO costs. The Company believes that it can effectively compete on a price basis with its manufacturing competitors on small orders, but that such manufacturers may enjoy a cost advantage in filling large orders.

The Company serves a number of diverse markets, and is able in some markets to reasonably estimate the Company's competitive position within that market. However, taken as a whole, the Company is unable to determine its market shares relative to others engaged in whole or in part in similar activities.

Employees

As of December 31, 1998, the Company had 15,270 employees, of whom 12,967 were full-time and 2,303 were part-time or temporary. The Company has never had a major work stoppage and considers its employee relations generally to be good.

Item 2: Properties

As of December 31, 1998, the Company's facilities totaled 16,799,000 square feet, an increase of 2.1% over 1997. The Company's Grainger Industrial Supply and Acklands-Grainger Inc. (AGI) businesses account for the majority of the Company's total square footage. Grainger Industrial Supply facilities are located throughout the United States. AGI facilities are located throughout Canada.

The Company's Grainger Industrial Supply branches range in size from 2,000 to 109,000 square feet and average 22,000 square feet. Most are located in or near major metropolitan areas, many in industrial parks. A typical owned branch is on one floor, is of masonry construction, consists primarily of warehouse space, contains an air-conditioned office and sales area, and has off-the-street parking for customers and employees. The Company considers that its properties are generally in good condition and well maintained, and are suitable and adequate to carry on the Company's business. The significant facilities of the Company are briefly described below:

<TABLE>

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Location	Facility and Use	Size in Square Feet
<S>		<C>
Chicago Area (1)	General Offices & National Distribution Center	1,517,000
Kansas City, MO (1)	Regional Distribution Center	1,435,000
Greenville County, SC (1)	Regional Distribution Center	1,090,000
United States (1)	6 Zone Distribution Centers	1,345,000
United States (2)	349 Grainger Industrial Supply branch locations	7,581,000
United States and Mexico (3)	All other facilities	1,573,000
Canada (4)	181 AGI facilities	2,258,000
	Total square feet	16,799,000

<FN>

The Company is constructing an office facility to house a large portion of the Chicago-area office workforce on owned property. Construction of this Lake Forest, Illinois facility is scheduled to be completed during 1999. Certain Chicago-area owned and leased office facilities will be vacated when this new facility becomes operational.

- (1) These facilities are either owned or leased with leases expiring between 1999 and 2003. The owned facilities are not subject to any mortgages.
- (2) Grainger Industrial Supply branches consist of 278 owned and 71 leased properties. The owned facilities are not subject to any mortgages.
- (3) Other facilities represent owned and leased general branch offices, distribution centers, and branches. 2 branches are located in Puerto Rico, and 1 branch/distribution center is located in Monterrey, Mexico. The owned facilities are not subject to any mortgages.
- (4) The majority of these facilities were acquired through the acquisition of the industrial distribution business of Acklands Limited on December 2, 1996. The properties consist of general offices, distribution centers, and branches that are either owned or leased. The owned facilities are not subject to any mortgages.

</FN>

</TABLE>

Item 3: Legal Proceedings

There are pending various legal and administrative proceedings involving the Company that are incidental to the business. It is not expected that the outcome of any such proceeding will have a material adverse effect upon the Company's consolidated financial position or its results of operations.

Item 4: Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 1998.

Executive Officers of the Company

Following is information about the Executive Officers of the Company as of March 1, 1999. Executive Officers of the Company generally serve until the next annual election of officers, or until earlier resignation or removal.

Name and Age	Positions and Offices Held and Principal Occupations and Employment During the Past Five Years
James M. Baisley (66)	Senior Vice President (a position assumed in 1995 after serving as Vice President), General Counsel, and Secretary.
Donald E. Bielinski (49)	Group President, a position assumed in 1997 after serving as Senior Vice President, Marketing and Sales. Prior to assuming the last-mentioned position in 1995, Mr. Bielinski served as Senior Vice President, Organization and Planning. He has also served as Vice President and Chief Financial Officer.
Wesley M. Clark (46)	Group President, a position assumed in 1997 after serving as Senior Vice President, Operations and Quality. Prior to assuming the last-mentioned position earlier in 1997, Mr. Clark served as Vice President, Field Operations and Quality. Previously, he served as President of the Sanitary Supply and Equipment businesses.

(continued on next page)

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Name and Age	Positions and Offices Held and Principal Occupations and Employment During the Past Five Years
Jere D. Fluno (57)	Vice Chairman. Mr. Fluno is a member of the Office of the Chairman.
Gary J. Goberville (52)	Vice President, Human Resources. Before joining the Company in 1995, Mr. Goberville served as an executive with GenCorp, Inc.
David W. Grainger (71)	Senior Chairman of the Board, a position assumed in 1997 after serving as Chairman of the Board. He was the Company's Chief Executive Officer until 1995 and President from 1992 to 1994. Mr. Grainger is a member of the Office of the Chairman.
Richard L. Keyser (56)	Chairman of the Board, a position assumed in 1997, and Chief Executive Officer, a position assumed in 1995. Other positions in which he served during the past five years were President, Chief Operating Officer, Executive Vice President, and Grainger Division President. Mr. Keyser is a member of the Office of the Chairman.
P. Ogden Loux (56)	Senior Vice President, Finance and Chief Financial Officer, positions assumed in 1997 after serving as Vice President, Finance. Prior to assuming the last-mentioned position in 1994, Mr. Loux served the Grainger Division as Vice President, Business Support.
Robert D. Pappano (56)	Vice President, Financial Reporting and Investor Relations, a position assumed in 1995 after serving as Vice President and Treasurer.
James T. Ryan (40)	Vice President, Information Services, a position assumed in 1994 after serving as President, Parts Company of America. Prior to assuming the last-mentioned position in 1993, Mr. Ryan served as Director, Product Management of the Grainger Division.
John A. Schweig (41)	Senior Vice President (a position assumed in 1997 after serving as Vice President), Business Development and International. Prior to assuming these responsibilities in 1996, Mr. Schweig served as Vice President and General Manager, Direct Marketing. Previously, he served the Grainger Division as Vice President, Marketing.

Senior Vice President, Supply Chain Management, a position assumed in 1997 after serving as Senior Vice President, Product Management. Prior to assuming the last-mentioned position in 1995, Mr. Slayton served as Vice President, Product Management of the Grainger Division.

PART II

Item 5: Markets for Registrant's Common Equity and Related Shareholder Matters
The Company's common stock is traded on the New York Stock Exchange and the Chicago Stock Exchange, with the ticker symbol GWW. The high and low sales prices for the common stock, and the dividends declared and paid for each calendar quarter during 1998 and 1997, as adjusted to reflect the Company's 2-for-1 stock split effective May 11, 1998, are shown below.

		Prices		
Quarters		High	Low	Dividends
1998	First	\$51 13/16	\$46 1/2	\$0.135
	Second	54 23/32	49 1/8	0.15
	Third	51 13/16	39 3/16	0.15
	Fourth	47	36 7/16	0.15
Year		\$54 23/32	\$36 7/16	\$0.585
1997	First	\$41 1/4	\$36 13/16	\$0.125
	Second	40 1/2	35 1/4	0.135
	Third	49 7/8	39	0.135
	Fourth	49 9/32	42 5/8	0.135
Year		\$49 7/8	\$35 1/4	\$0.53

The approximate number of shareholders of record of the Company's common stock as of March 1, 1999 was 1,800.

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Item 6: Selected Financial Data

<TABLE>

<CAPTION>

	Years Ended December 31,				
	(In thousands of dollars except for per share amounts)				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Net sales.....	\$4,341,269	\$4,136,560	\$3,537,207	\$3,276,910	\$3,023,076
Net earnings.....	238,504	231,833	208,526	186,665	127,874
Net earnings per basic share.....	2.48	2.30	2.04	1.84	1.26
Net earnings per diluted share.....	2.44	2.27	2.02	1.82	1.25
Total assets.....	2,103,902	1,997,821	2,119,021	1,669,243	1,534,751
Long-term debt.....	122,883	131,201	6,152	8,713	1,023
Cash dividends paid per share.....	\$ 0.585	\$ 0.53	\$ 0.49	\$ 0.445	\$ 0.39

NOTE: 1994 net earnings include restructuring charges of \$49,779.

</TABLE>

Item 7: Management's Discussion and Analysis of Financial Condition and the Results of Operations

RESULTS OF OPERATIONS

The Company has adopted Statement of Financial Accounting Standards (SFAS) No.131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 requires disclosure of certain business segment information based on how management evaluates the business. In late 1997, the Company began an organizational restructuring with the formation of several business operations to meet the diverse needs of its customers. The Company has reported 1998 data reflecting this new organization. 1997 and 1996 segment data were not reported because it is impractical to restate these years to reflect the new organization. (See Note 15 to the Consolidated Financial Statements included in the Company's 1998 Form 10-K).

All per share data have been adjusted to reflect the 2-for-1 stock split effective May 11, 1998.

The following table, which is included as an aid to understanding changes in the

Company's Consolidated Statements of Earnings, presents various items in the earnings statements expressed as a percent of net sales for the years ended December 31, 1998, 1997, and 1996, and the percent of increase (decrease) in such items in 1998 and 1997 from the prior year.

<TABLE>
<CAPTION>

	Years Ended December 31,				
	Items in Consolidated Statements of Earnings as a Percent of Net Sales			Percent of Increase (Decrease) from Prior Year	
	1998	1997	1996	1998	1997
<S>	<C>	<C>	<C>	<C>	<C>
Net sales.....	100.0%	100.0%	100.0%	4.9%	16.9%
Cost of merchandise sold.....	63.2	63.9	64.2	3.8	16.4
Operating expenses.....	27.4	26.6	26.0	8.0	19.5
Other (income) deductions, net.....	0.2	0.1	(0.1)	102.5	(204.9)
Income taxes.....	3.7	3.8	4.0	2.9	12.4
Net earnings.....	5.5%	5.6%	5.9%	2.9%	11.2%

</TABLE>

As used in "Item 7: Management's Discussion and Analysis of Financial Condition and the Results of Operations," "Grainger branch-based business" reflects the operations of the Company excluding Acklands-Grainger Inc., Lab Safety Supply, Inc., and Grainger Parts.

Net Sales

The 1998 Company net sales increase of 4.9%, as compared with 1997, was principally volume related. This increase primarily represented the effects of the Company's market initiatives which included new product additions, and the National Accounts, Integrated Supply, and direct marketing programs. Partially offsetting the growth from these initiatives was a decline in sales at Acklands-Grainger Inc. (AGI), the Company's Canadian subsidiary. This decline resulted from an unfavorable change in the Canadian exchange rate. In Canadian dollars, AGI's sales rate was relatively flat when comparing 1998 with 1997. Weak demand in the mining, forestry, oil, exploration, and agriculture sectors was the primary cause for AGI's flat sales performance. The Company's sales growth rate was 6.1% after excluding AGI from both 1998 and 1997.

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The Company's Grainger branch-based business experienced selling price increases of about 0.7% when comparing 1998 with 1997. Sales to National Account customers within the Grainger branch-based business increased to approximately \$1,120,000,000. Sales to National Account customers increased about 8%, on a comparable basis, over 1997.

The 1997 Company net sales increase of 16.9%, as compared with 1996, was principally volume related. This increase was affected by 1997 having one less sales day than 1996 (on a daily basis, net sales increased 17.4%). Excluding the incremental net sales of AGI, the Canadian industrial distribution business acquired on December 2, 1996, net sales increased 7.7% (8.1% on a daily basis). This increase primarily represented the effects of the Company's marketing initiatives which included new product additions, the expansion of branch facilities, and the National Accounts, Integrated Supply, and direct marketing programs. Partially offsetting the growth from these initiatives were two factors. Sales in the 1997 third quarter were negatively affected by the United Parcel Service's (UPS) work stoppage which began on August 4, 1997, and lasted more than two weeks. The Company estimates that 1997 sales were approximately \$14,000,000 lower as a result of the UPS work stoppage. The second factor was that daily sales of seasonal products for the Company, excluding AGI, declined an estimated 4% in the year 1997, as compared with the same 1996 period. Many regions of the United States experienced milder weather during most of 1997 versus 1996.

The Company's Grainger branch-based business experienced selling price increases of about 1.1% when comparing the year 1997 with 1996. The Grainger branch-based business National Accounts program showed strong growth for the year, with sales increasing to approximately \$1,015,000,000. Daily sales to National Account customers increased approximately 17%, on a comparable basis, over 1996.

Net Earnings

Net earnings for 1998 increased 2.9% over 1997. The increase for 1998 was lower than the increase in net sales due to losses incurred in developing business ventures, operating expenses increasing at a rate faster than the growth rate in net sales, lower interest income, higher interest expense, and higher unclassified-net expenses, partially offset by higher gross profit margins. A number of factors contributed to 1998 net earnings increasing at a slower rate than 1998 net sales.

1. The Company continues to invest in developing its business operations. The

following operations experienced pre-tax operating losses for the year 1998:

	Net Sales	Operating (Loss) (pre-tax)
	-----	-----
	(In thousands of dollars)	
Grainger Integrated Supply.....	\$80,577	\$(17,685)
Mexico business.....	49,325	(3,399)

Grainger Integrated Supply's average daily sales grew about 56% for the year 1998 as compared with 1997. Grainger Integrated Supply serves customers through materials management services contracts. These contracts are characterized by a complete outsourcing of the indirect materials process. Customers not meeting the above definition were transferred to the Company's Grainger Custom Solutions and Grainger Industrial Supply businesses during 1998. Average daily sales in Mexico grew about 21% for the year 1998 as compared with 1997. Grainger Integrated Supply and the Mexico business continue to grow sales, improve processes, develop systems, and expand marketing programs.

2. The Company's business-to-business Web site, Grainger.com, allows customers to do business using the Internet. The Company developed an Internet marketplace where customers will be able to buy products from a number of different suppliers using a single site. This marketplace concept is currently being tested with customers. In developing these Internet initiatives, the Company incurred operating expenses of approximately \$14,000,000 in 1998 and \$6,000,000 in 1997.
3. Operating expenses related to data processing were higher by an estimated \$15,000,000 as compared with 1997, as adjusted for 1998 volume increases. This was primarily due to incurring expenses related to Year 2000 compliance and the ongoing installation of the new business enterprise system.
4. Operating expenses were also higher in 1998 versus 1997 as a result of the following investments:
 - a. Development of the Grainger Custom Solutions business; and
 - b. Expanded marketing programs at Lab Safety Supply.

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The decrease in interest income resulted from lower average daily invested balances and from lower average interest rates earned. The increase in interest expense resulted from higher average interest rates paid on all outstanding debt, partially offset by lower average borrowings and by higher capitalized interest. The higher unclassified-net expense primarily resulted from foreign currency translation losses relating to the Company's operations in Mexico and to a write-off of abandoned capital projects.

The Company's gross profit margin increased by 0.67 percentage point when comparing the years 1998 and 1997. Of note are the following factors affecting the Company's gross profit margin:

1. Ongoing programs to reduce product costs improved the gross profit margin.
2. Selling price increases of 0.7% on Grainger Industrial Supply Catalog products improved the gross profit margin.
3. The change in product mix improved the gross profit margin. The sales of Lab Safety Supply (generally higher than average gross profit margins) increased as a percent of total sales. The sales of AGI (generally lower than average gross profit margins) decreased as a percent of total sales.

Net earnings for 1997 increased 11.2% over 1996. This increase for 1997 was lower than the increase in net sales due to operating expenses increasing at a rate faster than the rate of growth in net sales, lower interest income, higher interest expense, and a higher effective income tax rate, partially offset by higher gross profit margins. Factors contributing to the increase in operating expenses were the following:

1. Payroll and other operating expenses were higher as a result of the following initiatives:
 - a. Continued expansion of the Company's integrated supply business;
 - b. Continued development of the Company's full service marketing capabilities on the Internet;
 - c. Continued refocus and realignment of the Direct Sales force;
 - d. Increased advertising expenses supporting the Company's marketing initiatives; and
 - e. Expansion of the Company's telesales capability.
2. Payroll and other operating expenses were higher by an estimated

\$13,000,000 for Year 2000 compliance, of which approximately \$10,000,000 related to outside services.

3. The operating expenses of AGI, which contributed to the increase, were included for the entire year of 1997 as compared with only the month of December in 1996.

The decrease in interest income resulted from lower average daily invested balances. This decrease was partially offset by higher average interest rates earned. The increase in interest expense resulted from higher average borrowings, partially offset by lower average interest rates paid on all outstanding debt. The increase in interest expense was primarily related to debt added to finance the AGI acquisition and to the short-term debt added to partially fund the repurchase of shares of the Company's common stock.

The Company's effective income tax rate was 40.5% for the year 1997 versus 40.2% for the year 1996. The increase in the effective income tax rate is attributable to proportionately higher income generated in Canada (AGI), which is taxed at a higher rate than domestic income.

The Company's gross profit margin increased by 0.30 percentage point when comparing the years 1997 and 1996. Excluding AGI, the Company's gross profit margin increased 0.56 percentage point when comparing the years of 1997 and 1996. Of note were the following factors affecting the gross profit margin for the Company, excluding AGI:

1. The change in product mix was favorable as sales of seasonal products (generally lower than average gross profit margins) declined, and Lab Safety Supply sales (generally higher than average gross profit margins) increased as a percent of total sales.
2. Selling price increases exceeded the level of cost increases. Partially offsetting the above factors was an unfavorable change in selling price category mix, which primarily resulted from the growth in sales to the Company's larger volume customers.

Net earnings were negatively affected by the UPS work stoppage which occurred in August 1997. The gross profit margin lost on the estimated \$14,000,000 in lost sales, along with the incremental operating expenses incurred to serve customers during this period, resulted in an estimated negative effect on net earnings of about \$0.03 per share.

Year 2000

The Company uses various software and technology that is affected by the Year 2000 issue. The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or in miscalculations causing disruptions to operations, including, among other things, a temporary inability to process transactions, to send invoices to customers, or to engage in similar normal business activities. The Year 2000 issue affects virtually all companies and organizations.

The Company has put in place project teams dedicated to implementing a Year 2000 solution and to improving the Company's overall systems capabilities. The teams are actively working to achieve the objectives of Year 2000 compliance and improved internal systems. The work includes the modification of certain existing systems, a major new system initiative, replacing hardware and software for other systems, the creation of contingency plans, and surveying suppliers of goods and services with whom the Company does business.

In addition to solving some Year 2000 issues, the major new system initiative reduces the complexity which has evolved over time from the development of in-house systems. This complexity, which makes it difficult to change and modify systems quickly, has resulted in a proliferation of programs and databases. These issues will be addressed by the installation of a new business enterprise system to replace a majority of the Company's primary operating systems. This major system initiative has been undertaken to improve the Company's ability to quickly respond to changing market conditions, to reduce the cost of maintaining and supporting existing systems, and to leverage the use of information.

The Company is using a standard methodology with three phases for the Year 2000 compliance project. Phase I includes conducting a complete inventory of potentially affected areas of the business (including information technology and non-information technology), assessing and prioritizing the information collected during the inventory, and completing detailed project plans to address all key areas of the project. Phase II includes the remediation and testing of all mission critical areas of the project, surveying suppliers of goods and services with whom the Company does business, and the creation of contingency plans to address potential Year 2000 related problems. Phase III of the project includes the remediation and testing of non-mission critical areas of the

project, and the implementation of contingency plans as may be necessary. The Company completed Phase I. Phase II and Phase III are in process.

The Company is using both internal and external resources to reprogram, replace, and test the software and hardware for Year 2000 compliance. Year 2000 work for mission critical and most non-mission critical systems and testing of all system revisions is planned to be completed in the third quarter of 1999. The expenses associated with this project include both a reallocation of existing internal resources plus the use of outside services. Project expenses for 1998 and 1997 amounted to an estimated \$39 million. The total remaining expenses associated with the Year 2000 project are estimated to be between \$34 and \$39 million. Due to the Year 2000 project and the major new system initiative, 1998 data processing expenses were approximately \$15 million higher than 1997 expenses as adjusted for 1998 volume related charges. The data processing expenses for 1999 are estimated to be a net \$10 to \$12 million higher than the 1998 expenses as adjusted for 1999 volume related changes. It is expected that these projects will be funded through the Company's operating cash flows.

In addition to addressing internal systems, the Company's Year 2000 project team has surveyed suppliers of goods and services with whom the Company does business. This is being done to determine the extent to which the Company is vulnerable to failures by third parties to remediate their own Year 2000 issues. However, there can be no guarantee that the systems of other companies, including those on which the Company's systems interact, will be timely converted. A failure to convert by another company on a timely basis or a conversion by another company that is incompatible with the Company's systems, may have a material adverse effect on the Company.

As part of Phase II of the Year 2000 project, the Company is creating contingency plans to address potential Year 2000 related problems with key business processes. These plans, which are scheduled to be completed and tested in the second quarter of 1999, are expected to address risks to the Company's systems as well as risks from third party suppliers, customers, and others with whom the Company does business. It is recognized that while the Company cannot eliminate all potential risks, the effect of the risks on the business can be partially mitigated by creating and testing contingency plans where appropriate.

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The estimated expenses for these projects and the dates by which the Company will complete the Year 2000 work are based on management's current assessment and were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third-party modification plans, and other factors. However, there can be no guarantee that these estimates will be achieved or that all components of Year 2000 compliance will be addressed as planned. Uncertainties include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and the sources and timeliness of various systems replacements.

Management believes that failure to address the Year 2000 issue on a timely basis could have a material adverse effect on the Company and continues to be committed to devoting the appropriate resources to address the Year 2000 issue.

FINANCIAL CONDITION

Working capital was \$541,872,000 at December 31, 1998, compared with \$649,107,000 at December 31, 1997, and \$704,175,000 at December 31, 1996. The ratio of current assets to current liabilities was 1.8, 2.2, and 2.1 at such dates.

Net cash flows from operations of \$334,591,000 in 1998, \$426,563,000 in 1997, and \$272,410,000 in 1996, have continued to improve the Company's financial position and serve as the primary source of funding for capital requirements. For information as to the Company's cash flows, see "Item 8: Financial Statements and Supplementary Data."

In each of the past three years, a portion of working capital has been used for additions to property, buildings, and equipment, and capitalized software as summarized in the following table.

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
	(In thousands of dollars)		
<S>	<C>	<C>	<C>
Land, buildings, structures, and improvements.....	\$85,016	\$78,529	\$31,881
Furniture, fixtures, machinery, and equipment.....	45,170	29,723	30,170
	-----	-----	-----
Capitalized software.....	130,186	108,252	62,051
	36,983	122	900

Total.....	----- \$167,169 =====	----- \$108,374 =====	----- \$62,951 =====
------------	-----------------------------	-----------------------------	----------------------------

</TABLE>

On April 29, 1998, the Company's Board of Directors voted to restore an existing share repurchase authorization to its original level of 10,000,000 shares. The Company repurchased 4,483,100 shares of its common stock during 1998, 8,435,972 shares of its common stock during 1997, and 819,200 shares of its common stock during 1996. As of December 31, 1998, approximately 5,600,000 shares of common stock remain available under this repurchase authorization.

Dividends paid to shareholders were \$56,683,000 in 1998, \$53,934,000 in 1997, and \$50,035,000 in 1996.

On December 2, 1996, the Company acquired AGI for approximately \$289,334,000, including transaction expenses. The purchase consisted of cash payments and transaction expenses of \$136,801,000 (funded principally by short-term debt of \$132,874,000), and the issuance of 4,079,772 shares of W.W. Grainger, Inc. common stock valued at \$152,533,000. The Company repurchased the 4,079,772 shares during 1997, which is included in the 8,435,972 shares repurchased during 1997.

Internally generated funds have been the primary source of working capital and funds needed for expanding the business, supplemented by debt as circumstances dictated. In addition to continuing facilities optimization efforts, business development, and systems and other infrastructure enhancements, funds are being expended for the consolidation of Chicago-area offices into the Lake Forest, Illinois office facility currently being constructed.

The Company continues to maintain a low debt ratio and strong liquidity position, which provides flexibility in funding working capital needs and long-term cash requirements. In addition to internally generated funds, the Company has various sources of financing available, including commercial paper sales and bank borrowings under lines of credit and otherwise. Total debt as a percent of shareholders' equity was 18%, 12%, and 11%, at December 31, 1998, 1997, and 1996, respectively.

INFLATION AND CHANGING PRICES

Inflation during the last three years has not been a significant factor to operations. The predominant use of the last-in, first-out (LIFO) method of accounting for inventories and accelerated depreciation methods for financial reporting and income tax purposes result in a substantial recognition of the effects of inflation in the primary financial statements.

The major impact of inflation is on buildings and improvements, where the gap between historic cost and replacement cost continues to be significant for these long lived assets. The related depreciation expense associated with these assets increases significantly when adjusting for the cumulative effect of inflation.

The Company believes the most positive means to combat inflation and advance the interests of investors lies in continued application of basic business principles, which include improving productivity, increasing working capital turnover, and offering products and services which can command proper price levels in the marketplace.

Item 8: Financial Statements and Supplementary Data

The financial statements and supplementary data are included on pages 18 to 38. See the Index to Financial Statements and Supplementary Data on page 17.

Item 9: Disagreements on Accounting and Financial Disclosure

None.

PART III

Item 10: Directors and Executive Officers of the Registrant

Information regarding directors of the Company will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held April 28, 1999, and, to the extent required, is incorporated herein by reference. Information regarding executive officers of the Company is set forth under the caption "Executive Officers."

Item 11: Executive Compensation

Information regarding executive compensation will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held April 28, 1999, and, to the extent required, is incorporated herein by reference.

Item 12: Security Ownership of Certain Beneficial Owners and Management

Information regarding security ownership of certain beneficial owners and management will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held April 28, 1999, and, to the extent

required, is incorporated herein by reference.

Item 13: Certain Relationships and Related Transactions

Information regarding certain relationships and related transactions will be set forth in the Company's proxy statement relating to the annual meeting of shareholders to be held April 28, 1999, and, to the extent required, is incorporated herein by reference.

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PART IV

Item 14: Exhibits, Financial Statement Schedule, and Reports on Form 8-K

- (a) 1. Financial Statements. See Index to Financial Statements and Supplementary Data.
2. Financial Statement Schedule. See Index to Financial Statements and Supplementary Data.
3. Exhibits: Exhibit Index

- (3) (a) Restated Articles of Incorporation dated April 27, 1994, incorporated by reference to Exhibit 3(i) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.
- (b) By-laws, as amended, incorporated by reference to Exhibit 3(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
- (10) Material Contracts:
- (a) No instruments which define the rights of holders of the Company's Industrial Development Revenue Bonds are filed herewith, pursuant to the exemption contained in Regulation S-K, Item 601(b)(4)(iii). The Company hereby agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any such instrument.
- (b) Shareholders rights agreement dated April 26, 1989, incorporated by reference to Exhibit 10(m) to the Company's Annual Report on Form 10-K for the year ended December 31, 1989, and a related Certificate of Adjustment, incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1991.
- (c) Certificate of Adjustment pursuant to the Rights Agreement dated as of April 26, 1989, between the Company and The First National Bank of Boston, as Rights Agent, which Certificate relates to the two-for-one stock split of the Company effective at the close of business on May 11, 1998, incorporated by reference to Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.
- (d) Compensatory Plans or Arrangements
- (i) W.W. Grainger, Inc. Director Stock Plan, as amended. 39-52
- (ii) W.W. Grainger, Inc. Office of the Chairman Incentive Plan, incorporated by reference to Appendix B of the Company's Proxy Statement dated March 26, 1997.
- (iii) W.W. Grainger, Inc. 1990 Long-Term Stock Incentive Plan, as amended. 53-66
- (iv) W.W. Grainger, Inc. 1975 Non-Qualified Stock Option Plan as Amended and Restated, incorporated by reference to Exhibit 10(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.
- (v) Executive Death Benefit Plan, as amended. 67-75
- (vi) Executive Deferred Compensation Plan, incorporated by reference to Exhibit 10(e) to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.
- (vii) 1985 Executive Deferred Compensation Plan, as amended. 76-87
- (viii) Summary Description of Management Incentive Program Based on Improved Economic Earnings. 88-93
- (ix) Supplemental Profit Sharing Plan, as amended, incorporated by reference to Exhibit 10(c)(ii) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
- (x) Form of Change in Control Employment Agreement between the Company and certain of its executive officers. 94-115

(11) Computations of Earnings Per Share. See Index to Financial Statements and Supplementary Data.

(21) Subsidiaries of the Company.

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(23) Consent of Independent Certified Public Accountants. See Index to Financial Statements and Supplementary Data.

(27) Financial Data Schedule.

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the last quarter of 1998.

</TABLE>

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SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Company has duly issued this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATE: March 24, 1999

W.W. GRAINGER, INC.

By: /s/ R. L. Keyser

R. L. Keyser
Chairman of the Board
and Chief Executive Officer
(a Principal Executive Officer and
a Director)

By: /s/ P. O. Loux

P.O. Loux
Senior Vice President, Finance
and Chief Financial Officer
(Principal Financial Officer)

By: /s/ J. D. Fluno

J. D. Fluno
Vice Chairman
(a Principal Executive Officer and
a Director)

By: /s/ R. D. Pappano

R. D. Pappano
Vice President, Financial Reporting
and Investor Relations
(Principal Accounting Officer)

By: /s/ D. W. Grainger

D. W. Grainger
Senior Chairman of the Board
(a Principal Executive Officer and
a Director)

/s/ George R. Baker March 24, 1999

George R. Baker
Director

/s/ James D. Slavik March 24, 1999

James D. Slavik
Director

/s/ Robert E. Elberson March 24, 1999

Robert E. Elberson
Director

/s/ Harold B. Smith March 24, 1999

Harold B. Smith
Director

/s/ Wilbur H. Gantz March 24, 1999

Wilbur H. Gantz
Director

/s/ Fred L. Turner March 24, 1999

Fred L. Turner
Director

/s/ John W. McCarter, Jr. March 24, 1999

John W. McCarter, Jr.
Director

/s/ Janiece S. Webb March 24, 1999

Janiece S. Webb
Director

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
December 31, 1998, 1997, and 1996

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareholders and
Board of Directors of
W.W. Grainger, Inc.

We have audited the accompanying consolidated balance sheets of W.W. Grainger, Inc., and Subsidiaries as of December 31, 1998, 1997, and 1996, and the related consolidated statements of earnings, comprehensive earnings, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of W.W. Grainger, Inc., and Subsidiaries as of December 31, 1998, 1997, and 1996, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with generally accepted accounting principles.

We have also audited Schedule II of W.W. Grainger, Inc., and Subsidiaries for the years ended December 31, 1998, 1997, and 1996. In our opinion, this Schedule presents fairly, in all material respects, the information required to be set forth therein.

GRANT THORNTON LLP

Chicago, Illinois
February 3, 1999

<TABLE>
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W.W. Grainger, Inc., and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands of dollars except for per share amounts)

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Net sales	\$ 4,341,269	\$ 4,136,560	\$ 3,537,207
Cost of merchandise sold	2,743,598	2,642,208	2,269,993
Gross profit	1,597,671	1,494,352	1,267,214
Warehousing, marketing, and administrative expenses	1,189,689	1,101,193	921,685
Operating earnings	407,982	393,159	345,529
Other income or (deductions)			
Interest income	1,560	2,896	4,554
Interest expense	(6,652)	(5,461)	(1,228)
Unclassified--net	(2,043)	(958)	33
	(7,135)	(3,523)	3,359
Earnings before income taxes ...	400,847	389,636	348,888
Income taxes	162,343	157,803	140,362
Net earnings	\$ 238,504	\$ 231,833	\$ 208,526
Earnings per share:			
Basic	\$ 2.48	\$ 2.30	\$ 2.04
Diluted	\$ 2.44	\$ 2.27	\$ 2.02
Average number of shares outstanding:			
Basic	96,231,829	100,604,518	102,295,506
Diluted	97,846,658	102,178,952	103,272,408

<FN>
The accompanying notes are an integral part of these financial statements.

</FN>
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W.W. Grainger, Inc., and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(In thousands of dollars)

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Net Earnings	\$ 238,504	\$ 231,833	\$ 208,526
Other comprehensive earnings:			
Foreign currency translation adjustments ..	(10,354)	(6,948)	(2,262)
Comprehensive earnings	\$ 228,150	\$ 224,885	\$ 206,264

<FN>
The accompanying notes are an integral part of these financial statements.

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W.W. Grainger, Inc., and Subsidiaries

CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)

ASSETS	December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
CURRENT ASSETS			
Cash and cash equivalents	\$ 43,107	\$ 46,929	\$ 126,935
Accounts receivable, less allowances for doubtful accounts of \$15,951 for 1998, \$15,803 for 1997, and \$15,302 for 1996	463,377	455,457	433,575
Inventories	626,731	612,132	686,925
Prepaid expenses	11,950	9,122	11,971
Deferred income tax benefits	61,200	59,348	60,837
Total current assets	1,206,365	1,182,988	1,320,243
PROPERTY, BUILDINGS, AND EQUIPMENT			
Land	135,636	133,213	132,095
Buildings, structures, and improvements	662,236	583,823	510,386
Furniture, fixtures, machinery, and equipment	411,295	370,122	343,231
	1,209,167	1,087,158	985,712
Less accumulated depreciation and amortization	548,639	494,245	434,728
Property, buildings, and equipment--net	660,528	592,913	550,984
DEFERRED INCOME TAXES	3,187	--	--
other assets			
Goodwill	177,355	187,963	192,555
Customer lists and other intangibles	89,573	89,699	91,882
	266,928	277,662	284,437
Less accumulated amortization	86,296	70,814	54,574
	180,632	206,848	229,863
Capitalized software--net	33,280	970	2,369
Sundry	19,910	14,102	15,562
Other assets--net	233,822	221,920	247,794
TOTAL ASSETS	\$2,103,902	\$1,997,821	\$2,119,021

</TABLE>

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W.W. Grainger, Inc., and Subsidiaries

CONSOLIDATED BALANCE SHEETS--CONTINUED
(In thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
CURRENT LIABILITIES			
Short-term debt	\$ 88,060	\$ 2,960	\$ 135,275
Current maturities of long-term debt	22,831	23,834	24,753
Trade accounts payable	287,055	261,802	240,779
Accrued contributions to employees' profit sharing plans	75,113	62,234	56,258
Accrued expenses	158,214	148,149	131,199

Income taxes	33,220	34,902	27,804
Total current liabilities	664,493	533,881	616,068
LONG-TERM DEBT (less current maturities)	122,883	131,201	6,152
DEFERRED INCOME TAXES	--	2,871	2,207
ACCRUED EMPLOYMENT RELATED BENEFITS COSTS	37,785	35,207	31,932
SHAREHOLDERS' EQUITY			
Cumulative Preferred Stock--			
\$5 par value--authorized, 12,000,000 shares,			
issued and outstanding, none			
	--	--	--
Common Stock--\$0.50 par value--authorized,			
300,000,000 shares;			
issued, 107,233,771 shares, 1998,			
106,971,524 shares, 1997, and			
106,676,052 shares, 1996			
	53,617	53,486	53,338
Additional contributed capital	249,482	242,289	235,649
Treasury stock, at cost--13,728,672 shares, 1998,			
9,249,572 shares, 1997,			
and 819,200 shares, 1996	(572,900)	(378,899)	(32,090)
Unearned restricted stock compensation	(17,238)	(16,528)	(17,597)
Cumulative translation adjustments	(19,564)	(9,210)	(2,262)
Retained earnings	1,585,344	1,403,523	1,225,624
Total shareholders' equity	1,278,741	1,294,661	1,462,662
TOTAL LIABILITIES AND			
SHAREHOLDERS' EQUITY	\$ 2,103,902	\$ 1,997,821	\$ 2,119,021

<FN>
The accompanying notes are an integral part of these financial statements.
</FN>
</TABLE>

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<TABLE>
<CAPTION>

W.W. Grainger, Inc., and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net earnings	\$ 238,504	\$ 231,833	\$ 208,526
Provision for losses on accounts receivable	10,310	9,984	9,131
Depreciation and amortization:			
Property, buildings, and equipment	58,256	63,257	61,585
Intangibles and goodwill	15,964	16,394	12,676
Capitalized software	4,645	1,556	2,474
Change in operating assets and liabilities--			
net of the effects of the			
business acquisition:			
(Increase) in accounts receivable	(18,230)	(31,866)	(28,871)
(Increase) decrease in inventories	(14,599)	74,793	(7,430)
(Increase) decrease in prepaid expenses	(2,828)	2,849	255
(Increase) decrease in deferred income taxes	(7,910)	2,153	70
Increase in trade accounts payable	25,253	21,023	1,891
Increase in other current liabilities	22,944	22,926	3,724
(Decrease) increase in			
current income taxes payable	(1,682)	7,098	4,339
Increase in accrued employment			
related benefits costs	2,578	3,275	3,186
Other--net	1,386	1,288	854
Net cash provided by operating activities	334,591	426,563	272,410
Cash flows from investing activities:			
Additions to property, buildings, and equipment	(130,186)	(108,252)	(62,051)
Proceeds from sale of property, buildings,			
and equipment--net	4,315	3,066	8,069

Expenditures for capitalized software	(36,983)	(122)	(900)
Net cash paid for business acquisition	--	--	(136,144)
Other--net	(13,488)	1,682	(1,032)
	-----	-----	-----
Net cash (used in) investing activities	(176,342)	(103,626)	(192,058)

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<TABLE>
<CAPTION>

W.W. Grainger, Inc., and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS--CONTINUED
(In thousands of dollars)

	Years Ended December 31,		
	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Cash flows from financing activities:			
Net increase (decrease) in short-term debt	\$ 85,100	\$ (132,315)	\$ 111,698
Proceeds from long-term debt	--	126,127	1,500
Long-term debt payments	(1,079)	(1,997)	(2,549)
Stock options exercised	443	2,239	2,890
Tax benefit of stock incentive plan	4,107	3,759	3,709
Purchase of treasury stock--net	(193,959)	(346,822)	(32,090)
Cash dividends paid	(56,683)	(53,934)	(50,035)
	-----	-----	-----
Net cash (used in) provided by financing activities	(162,071)	(402,943)	35,123
	-----	-----	-----
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,822)	(80,006)	115,475
Cash and cash equivalents at beginning of year	46,929	126,935	11,460
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 43,107	\$ 46,929	\$ 126,935
	=====	=====	=====
Non-cash investing and financing activities from acquisition of business:			
Fair value of assets acquired			\$ 338,101
Liabilities acquired			(49,424)
Fair value of common stock issued			(152,533)

Net cash paid for business acquisition			\$ 136,144
			=====

<FN>
The accompanying notes are an integral part of these financial statements.
</FN>
</TABLE>

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<TABLE>
<CAPTION>

W.W. Grainger, Inc., and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands of dollars except for per share amounts)

	Common Stock	Additional Contributed Capital	Treasury Stock	Unearned Restricted Stock Compensation	Cumulative Translation Adjustments	Retained Earnings
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 1996	\$ 50,894	\$ 61,101	\$ --	\$ (19)	\$ --	\$ 1,067,133
Exercise of stock options	169	6,404	--	--	--	--
Issuance of 4,079,772 shares of common stock for business acquisition	2,040	150,493	--	--	--	--
Issuance of 470,000 shares of restricted common stock	235	17,625	--	(17,860)	--	--
Amortization of unearned restricted stock compensation	--	26	--	282	--	--
Purchase of 819,200 shares of treasury stock	--	--	(32,090)	--	--	--
Cumulative translation adjustments	--	--	--	--	(2,262)	--
Net earnings	--	--	--	--	--	208,526
Cash dividends paid						

(\$0.49 per share)	--	--	--	--	--	(50,035)
Balance at December 31, 1996	53,338	235,649	(32,090)	(17,597)	(2,262)	1,225,624
Exercise of stock options	138	5,753	--	--	--	--
Issuance of 20,000 shares of restricted common stock	10	793	--	(803)	--	--
Amortization of unearned restricted stock compensation	--	107	--	1,872	--	--
Purchase of 8,430,372 shares of treasury stock, net of 5,600 shares issued	--	(13)	(346,809)	--	--	--
Cumulative translation adjustments	--	--	--	--	(6,948)	--
Net earnings	--	--	--	--	--	231,833
Cash dividends paid (\$0.53 per share)	--	--	--	--	--	(53,934)
Balance at December 31, 1997	53,486	242,289	(378,899)	(16,528)	(9,210)	1,403,523
Exercise of stock options	105	4,316	--	--	--	--
Issuance of 52,500 shares of restricted common stock	26	2,706	--	(2,732)	--	--
Amortization of unearned restricted stock compensation	--	129	--	2,022	--	--
Purchase of 4,479,100 shares of treasury stock, net of 4,000 shares issued	--	42	(194,001)	--	--	--
Cumulative translation adjustments	--	--	--	--	(10,354)	--
Net earnings	--	--	--	--	--	238,504
Cash dividends paid (\$0.585 per share)	--	--	--	--	--	(56,683)
Balance at December 31, 1998	\$ 53,617	\$ 249,482	\$ (572,900)	\$ (17,238)	\$ (19,564)	\$ 1,585,344

<FN>

The accompanying notes are an integral part of these financial statements.

</FN>

</TABLE>

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W.W. Grainger, Inc., and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1998, 1997, and 1996

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INDUSTRY INFORMATION

The Company is engaged in the distribution of maintenance, repair, and operating (MRO) supplies, services, and related information to businesses and institutions in North America.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions are eliminated from the consolidated financial statements.

STOCK SPLIT

The consolidated financial statements have been retroactively restated to reflect the 2-for-1 stock split effective May 11, 1998.

MANAGEMENT ESTIMATES

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the estimates of revenues and expenses. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company recognizes revenue at the date products are shipped or at the date services are completed.

INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined primarily by the last-in, first-out (LIFO) method.

PROPERTY, BUILDINGS, AND EQUIPMENT Property, buildings, and equipment are valued at cost.

For financial statement purposes, depreciation and amortization are provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally on the declining-balance and sum-of-the-years-digits methods. The principal estimated useful lives used in determining depreciation are as follows:

Buildings, structures, and improvements.....	10 to 45 years
Furniture, fixtures, machinery, and equipment.....	3 to 10 years

Improvements to leased property are amortized over the initial terms of the respective leases or the estimated service lives of the improvements, whichever is shorter.

The Company capitalized interest costs of \$2,323,000, \$1,810,000, and \$1,772,000, in 1998, 1997, and 1996, respectively.

FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign subsidiaries are generally measured using the local currency as the functional currency. Net exchange gains or losses resulting from the translation of financial statements of foreign operations, and related long-term debt, except for those from highly inflationary economies, are recorded as a separate component of shareholders' equity.

PURCHASED TAX BENEFITS

The Company purchased tax benefits through leases as provided by the Economic Recovery Tax Act of 1981. Realized tax benefits, net of repayments, are included in Deferred Income Taxes.

INCOME TAXES

Income taxes are recognized during the year in which transactions enter into the determination of financial statement income, with deferred taxes being provided for temporary differences between financial and tax reporting.

COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income."

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SFAS No. 130 requires disclosure of the components of and total comprehensive income in the period in which they are recognized in the financial statements. Comprehensive income is defined as the change in equity (net assets) of a business enterprise arising from transactions and other events and circumstances from non-owner sources. It includes all changes in shareholders' equity during the reporting period except those resulting from investments by owners and distributions to owners.

The Company's comprehensive income includes foreign currency translation adjustments with no related income tax effects. The cumulative amount of other comprehensive income adjustments were (\$19,564,000), (\$9,210,000), and (\$2,262,000) at December 31, 1998, 1997, and 1996, respectively.

SEGMENT INFORMATION

Effective December 31, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas, and major customers.

EMPLOYEE BENEFITS

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The provisions of SFAS No. 132 revise employers' disclosures about pension and other postretirement benefit plans. SFAS No. 132 does not change the measurement or expense recognition of these plans.

CAPITALIZED SOFTWARE

Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," is effective for fiscal years beginning after December 15, 1998. SOP 98-1 provides guidance on accounting for the costs of computer software developed or obtained for internal use. The Company plans to adopt SOP 98-1 beginning January 1, 1999.

NOTE 2--BUSINESS ACQUISITION

Effective December 2, 1996, the Company purchased the stock of a subsidiary of Acklands Limited (a Canadian corporation). The business acquired is the largest nationwide distributor of broad line industrial supplies in Canada. The

aggregate purchase price was approximately \$289,334,000 including transaction expenses. The purchase consisted of cash payments and transaction expenses of \$136,801,000 (funded principally by short-term debt of \$132,874,000) and the issuance of 4,079,772 shares of W.W. Grainger, Inc. common stock valued at \$152,533,000. The acquisition is being accounted for as a purchase, and accordingly, the financial statements include results of operations from the date of acquisition. The purchase included intangibles, including trademarks and goodwill, valued at \$173,420,000 to be amortized over periods of five to forty years.

The following unaudited pro forma summary presents the combined results of operations of the Company and the acquired business, as if the acquisition had occurred at the beginning of 1996. The pro forma amounts give effect to certain adjustments, including the amortization of intangibles, foreign currency translation, increased interest expense and income tax effects. This pro forma summary does not necessarily reflect the results of operations as they would have been if the businesses had constituted a single entity during this period and is not necessarily indicative of results which may be obtained in the future.

	Year Ended December 31, 1996 (Pro forma, in thousands of dollars except for per share amounts)
Net sales.....	\$3,847,665
Operating earnings.....	\$ 368,203
Net earnings.....	\$ 216,680
Earnings per share:	
Basic.....	\$ 2.04
Diluted.....	\$ 2.02

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NOTE 3--CASH FLOWS

The Company considers investments in highly liquid debt instruments, purchased with an original maturity of ninety days or less, to be cash equivalents. For cash equivalents the carrying amount approximates fair value due to the short maturity of these instruments.

Cash paid during the year for:

	1998 -----	1997 -----	1996 -----
	(In thousands of dollars)		
Interest (net of amounts capitalized)..	\$5,027	\$5,773	\$974
Income taxes.....	\$165,668	\$143,471	\$131,726

NOTE 4--CASH

Checks outstanding of \$74,183,000, \$54,218,000, and \$35,366,000, are included in Trade accounts payable at December 31, 1998, 1997, and 1996, respectively. These amounts are immaterial to the consolidated financial statements.

NOTE 5--CONCENTRATION OF CREDIT RISK

The Company places temporary cash investments with institutions of high credit quality and, by policy, limits the amount of credit exposure to any one institution.

The Company has a broad customer base representing many diverse industries doing business in all regions of the United States as well as other areas of North America. Consequently, in management's opinion, no significant concentration of credit risk exists for the Company.

NOTE 6--INVENTORIES

Inventories primarily consist of merchandise purchased for resale.

Inventories would have been \$217,455,000, \$215,707,000, and \$209,305,000 higher than reported at December 31, 1998, 1997, and 1996, respectively, if the first-in, first-out (FIFO) method of inventory accounting had been used for all Company inventories. Inventories under FIFO approximate replacement cost.

NOTE 7--OTHER ASSETS

Included in other assets are intangibles such as customer lists and goodwill.

Customer lists are amortized on a straight-line basis over periods of five to sixteen years. Goodwill represents the cost in excess of net assets of acquired companies and is amortized on a straight-line basis over periods of five to forty years. The Company's goodwill is predominately denominated in Canadian dollars and accordingly, the changes in the asset balance are due to foreign exchange rate fluctuations.

Other assets also includes net capitalized software used in the Company's business. During 1998, the Company acquired a new business enterprise software system. Amortization of capitalized software is predominately on a straight-line basis over five years. Amortization expense was \$4,645,000, \$1,556,000, and \$2,474,000 for the years ended December 31, 1998, 1997, and 1996, respectively.

NOTE 8--SHORT-TERM DEBT

The following summarizes information concerning short-term debt:

<TABLE>
<CAPTION>

	1998	1997	1996
	(In thousands of dollars)		
Bank Debt			

<S>	<C>	<C>	<C>
Outstanding at December 31	\$ 3,704	\$ 2,960	\$ 135,275
Maximum month-end balance during the year	\$ 3,704	\$ 139,187	\$ 135,275
Average amount outstanding during the year	\$ 2,565	\$ 119,962	\$ 13,796
Weighted average interest rates during the year	6.0%	3.5%	3.8%
Weighted average interest rates at December 31	5.7%	6.2%	3.2%
Commercial Paper			

Outstanding at December 31	\$ 84,356	--	--
Maximum month-end balance during the year	\$ 84,356	\$ 81,355	--
Average amount outstanding during the year	\$ 15,668	\$ 15,429	\$ 1,436
Weighted average interest rates during the year	5.3%	5.7%	5.7%
Weighted average interest rates at December 31	5.4%	--	--

</TABLE>

The Company and its subsidiaries had committed lines of credit totaling \$318,069,000 and \$168,983,000 at December 31, 1998 and 1997, respectively, including \$13,069,000 and \$13,983,000 denominated in Canadian dollars. A Company subsidiary also has a \$32,673,000 and \$34,958,000 uncommitted line of credit denominated in Canadian dollars as of December 31, 1998 and 1997, respectively. At December 31, 1998, borrowings under the subsidiaries' committed lines of credit were \$3,704,000. The Company has guaranteed these borrowings.

At December 31, 1996, available lines of credit were \$186,483,000 including a \$36,483,000 working capital line of credit denominated in Canadian dollars.

At December 31, 1996, in connection with the business acquisition described in Note 2, a Company subsidiary had approximately \$131,000,000 in outstanding banker's acceptances included in short-term debt. During 1997 this debt was refinanced as described in Note 10.

NOTE 9--EMPLOYEE BENEFITS

RETIREMENT PLANS. A majority of the Company's employees are covered by a noncontributory profit sharing plan. This plan provides for annual employer contributions based upon a formula primarily related to earnings before federal income taxes, limited to 15% of the total compensation paid to all eligible employees. The Company also sponsors additional profit sharing and defined benefit plans which cover most of the other employees. Provisions under all plans were \$65,576,000, \$55,052,000, and \$49,450,000 for the years ended December 31, 1998, 1997, and 1996, respectively.

POSTRETIREMENT BENEFITS. The Company has a health care benefits plan covering most of its retired employees and their dependents. A majority of the Company's employees become eligible for participation when they qualify for retirement while working for the Company.

The amount charged to operating expense for postretirement health care benefits was \$4,256,000, \$3,653,000, and \$3,578,000 for the years ended December 31, 1998, 1997, and 1996, respectively. Components of the expense were:

<TABLE>
<CAPTION>

	1998	1997	1996
	(In thousands of dollars)		

<S>	<C>	<C>	<C>
Service cost	\$ 3,076	\$ 2,442	\$ 2,309
Interest cost	2,546	2,272	2,080
Expected return on assets	(968)	(738)	(611)
Amortization of transition asset (22 year amortization)	(143)	(143)	(143)
Amortization of unrecognized gain	(180)	(262)	(139)
Amortization of prior service cost	(75)	82	82
	-----	-----	-----
	\$ 4,256	\$ 3,653	\$ 3,578
	=====	=====	=====

</TABLE>

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Participation in the plan is voluntary at retirement and requires participants to make contributions, as determined by the Company, toward the cost of the plan. The accounting for the health care benefits plan anticipates future cost-sharing changes to retiree contributions that will maintain the current cost-sharing ratio between the Company and the retirees. Plan design and eligibility changes effective January 1, 1998, included modifications to eligibility requirements and the adjustment of benefit maximums.

A Group Benefit Trust has been established as the vehicle to process benefit payments. The assets of the trust are invested in a Standard & Poor's 500 index fund. The assumed weighted average long-term rate of return is 7.4%, which is net of a 32.4% tax rate. The funding of the trust is an estimated amount which is intended to allow the maximum deductible contribution under the Internal Revenue Code of 1986, as amended, and was \$2,444,000, \$859,000, and \$379,000 for the years ended December 31, 1998, 1997, and 1996, respectively.

A reconciliation of the beginning and ending balances of the accumulated postretirement benefit obligation (APBO), the fair value of assets, and the funded status of the benefit obligation as of December 31, 1998, 1997, and 1996, is as follows:

<TABLE>

<CAPTION>

	1998	1997	1996
	-----	-----	-----
	(In thousands of dollars)		
<S>	<C>	<C>	<C>
Benefit obligation at beginning of year	\$ 35,866	\$ 31,909	\$ 33,482
Service cost	3,076	2,442	2,310
Interest cost	2,546	2,272	2,080
Plan participants' contributions	366	376	293
Amendments	--	(2,516)	--
Actuarial loss (gain)	3,503	2,544	(5,442)
Benefits paid	(1,682)	(1,161)	(814)
	-----	-----	-----
Benefit obligation at end of year	43,675	35,866	31,909
	-----	-----	-----
Fair value of plan assets at beginning of year ...	16,127	12,307	10,288
Actual return on plan assets	4,444	3,745	2,161
Employer contribution	2,444	859	379
Plan participants' contributions	366	377	293
Benefits paid	(1,682)	(1,161)	(814)
	-----	-----	-----
Fair value of plan assets at end of year	21,699	16,127	12,307
	-----	-----	-----
Funded status	(21,976)	(19,739)	(19,602)
	-----	-----	-----
Unrecognized transition asset	(2,285)	(2,428)	(2,570)
Unrecognized net actuarial gain	(4,359)	(4,589)	(4,388)
Unrecognized prior (benefits) service cost	(927)	(1,003)	1,595
	-----	-----	-----
Accrued postretirement benefits costs	\$ (29,547)	\$ (27,759)	\$ (24,965)
	=====	=====	=====

</TABLE>

To determine the APBO as of December 31, 1998, 1997, and 1996, the assumed weighted average discount rate used was 6.8%, 7.0%, and 7.5%, respectively. The assumed health care cost trend rate for 1999 is 8.0%. Beginning in 2000, the assumed health care cost trend rate declines on a straight-line basis until 2009, when the ultimate trend rate of 5.0% is achieved.

If the assumed health care cost trend rate was increased by one percentage point for each year, the APBO as of December 31, 1998, would increase by \$9,822,000. The aggregate of the service cost and interest cost components of the 1998 net periodic postretirement benefits expense would increase by \$1,453,000.

If the assumed health care cost trend rate was decreased by one percentage point

for each year, the APBO as of December 31, 1998, would decrease by \$7,637,000. The aggregate of the service cost and interest cost components of the 1998 net periodic postretirement benefits expense would decrease by \$1,108,000.

NOTE 10--LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
	(In thousands of dollars)		
<S>	<C>	<C>	<C>
Uncommitted revolving credit facility.....	\$117,885	\$126,127	\$ --
Industrial development revenue bonds.....	27,650	27,650	27,650
Other.....	179	1,258	3,255
	145,714	155,035	30,905
Less current maturities.....	22,831	23,834	24,753
	-----	-----	-----
	\$122,883	\$131,201	\$ 6,152
	=====	=====	=====

</TABLE>

As part of the permanent financing for a Canadian Subsidiary, the Company maintained a \$130,693,000 uncommitted revolving credit facility, denominated in Canadian dollars. The Company has \$117,885,000 outstanding at December 31, 1998 relating to this facility with a weighted average interest rate of 5.6%. The Company has the intent and the ability to refinance the obligation on a long-term basis through its credit lines and therefore it is included in long-term debt.

The industrial development revenue bonds include various issues that bear interest at a variable rate up to 15%, or variable rates up to 78.2% of the prime rate, and come due in various amounts from 2001 through 2021. Interest rates on some of the issues are subject to change at certain dates in the future. The bondholders may require the Company to redeem certain bonds concurrent with a change in interest rates and certain other bonds annually. In addition, \$13,545,000 of these bonds had an unsecured liquidity facility available at December 31, 1998, for which the Company compensated a bank through a commitment fee of 0.1%. There were no borrowings related to this facility at December 31, 1998. The Company classified \$22,755,000 of bonds currently subject to redemption options in current maturities of long-term debt at December 31, 1998, 1997, and 1996.

The aggregate amounts of long-term debt maturing in each of the five years subsequent to December 31, 1998, are as follows:

	Amounts Payable Under Terms of Agreements	Amounts Subject to Redemption Options
	-----	-----
	(In thousands of dollars)	
1999.....	\$76	\$22,755
2000.....	83	4,895
2001.....	20	--
2002.....	--	--
2003.....	117,885	--

NOTE 11--LEASES

The Company leases various land, buildings, and equipment. The Company capitalizes all significant leases which qualify as capital leases.

At December 31, 1998, the approximate future minimum aggregate payments for all leases were as follows:

<TABLE>
<CAPTION>

	Operating Leases		
	-----	-----	
	Real	Personal	Capital

	Property	Property	Total	Leases
	(In thousands of dollars)			
<S>	<C>	<C>	<C>	<C>
1999	\$ 17,604	\$ 798	\$ 18,402	\$ 75
2000	10,617	224	10,841	75
2001	7,503	--	7,503	15
2002	6,349	--	6,349	--
2003	3,426	--	3,426	--
Thereafter	4,751	--	4,751	--
Total minimum payments required	50,250	1,022	51,272	165
Less amounts representing sublease income	3,842	--	3,842	
	\$ 46,408	\$ 1,022	\$ 47,430	
Less imputed interest				14
Present value of minimum lease payments (included in long-term debt)				\$ 151

</TABLE>

Total rent expense, including both items under lease and items rented on a month-to-month basis, was \$16,336,000, \$21,396,000, and \$18,434,000 for 1998, 1997, and 1996, respectively.

NOTE 12--STOCK INCENTIVE PLANS

The Company's Long-Term Stock Incentive Plan ("The Plan") allows the Company to grant a variety of incentive awards to key employees of the Company. A maximum of 8,056,828 shares of common stock are authorized for issuance under the Plan, in connection with awards of non-qualified stock options, stock appreciation rights, restricted stock, phantom stock rights, and other stock-based awards.

The Plan authorizes the granting of restricted stock which is held by the Company until certain terms and conditions as specified by the Company are satisfied. Except for the right of disposal, holders of restricted stock have full shareholders' rights during the period of restriction, including voting rights and the right to receive dividends.

The Plan authorizes the granting of options to purchase shares at a price of not less than 100% of the closing market price on the last trading day preceding the date of grant. The options expire within ten years after the date of grant.

Shares covered by terminated, surrendered or canceled options or stock appreciation rights that are unexercised, by forfeited restricted stock, or by the forfeiture of other awards that do not result in shares being issued, are again available for awards under the Plan.

There were 52,500 shares of restricted stock issued in 1998 with a weighted average fair market value of \$52.04 per share. There were 20,000 shares of restricted stock issued in 1997 with a fair market value of \$40.125 per share. There were 470,000 shares of restricted stock issued in 1996 with a fair market value of \$38 per share. The shares are scheduled to vest ten years from issuance, although accelerated vesting is provided in certain instances. Restricted stock released totaled 400, 1,000, and 2,000 shares in 1998, 1997, and 1996, respectively. Compensation expense related to restricted stock awards is based upon market price at date of grant and is charged to earnings on a straight-line basis over the period of restriction. Total compensation expense relating to restricted stock was \$2,022,000, \$1,872,000, and \$282,000 in 1998, 1997, and 1996, respectively.

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During 1997, the Company adopted a Director Stock Plan in which non-employee directors participate. A total of 500,000 shares of common stock were reserved for issuance in connection with awards of stock, stock units, stock options, restricted stock, and other stock-based awards under the new plan.

The Company awarded Stock Units under the Director Stock Plan in connection with the termination of previous director compensation plans. A Stock Unit is essentially the economic equivalent of a share of Company stock. Additional deferred fees and dividends are converted to Stock Units based on the market value of the stock at the relevant time.

Payment of the value of Stock Units generally will be made after the termination of service as a director. As of December 31, 1998 and 1997, eight directors held Stock Units, in connection with which the Company had recognized expense of \$286,000 and \$1,850,000, respectively.

Transactions involving stock options are summarized as follows:

	1998	1997	1996
	-----	-----	-----
Risk-free interest rate.....	5.8%	6.7%	6.6%
Expected life.....	7.0 years	7.0 years	6.5 years
Expected volatility.....	20.1%	21.0%	21.8%
Expected dividend yield.....	1.5%	1.5%	1.5%

NOTE 13--ISSUANCE OF PREFERRED SHARE PURCHASE RIGHTS

The Company adopted a Shareholder Rights Plan, under which there is outstanding one preferred share purchase right (Right) for each outstanding share of the Company's common stock. Each Right, under certain circumstances, may be exercised to purchase one four-hundredth of a share of Series A Junior Participating Preferred Stock (intended to be the economic equivalent of one share of the Company's common stock) at a price of \$62.50, subject to adjustment. The Rights become exercisable only after a person or a group, other than a person or group exempt under the plan, acquires or announces a tender offer for 20% or more of the Company's common stock. If a person or group, other than a person or group exempt under the plan, acquires 20% or more of the Company's common stock or if the Company is acquired in a merger or other business combination transaction, each Right generally entitles the holder, other than such person or group, to purchase, at the then-current exercise price, stock and/or other securities or assets of the Company or the acquiring company having a market value of twice the exercise price.

The Rights expire on May 15, 1999, unless earlier redeemed. They generally are redeemable at \$.01 per Right until thirty days following announcement that a person or group, other than a person or group exempt under the plan, has acquired 20% or more of the Company's common stock. They are also automatically redeemable, at the redemption price, upon consummation of certain transactions approved by shareholders in accordance with procedures provided in the plan. The Rights do not have voting or dividend rights and, until they become exercisable, have no dilutive effect on the earnings of the Company.

NOTE 14--INCOME TAXES

Income tax expense consisted of the following:

	1998	1997	1996
	-----	-----	-----
	(In thousands of dollars)		
Current provision:			
Federal (including foreign).....	\$141,462	\$128,470	\$113,968
State.....	28,791	27,180	26,324
	-----	-----	-----
Total current.....	170,253	155,650	140,292
Deferred tax (benefits) expense.....	(7,910)	2,153	70
	-----	-----	-----
Total provision.....	\$162,343	\$157,803	\$140,362
	=====	=====	=====

The deferred tax (benefits) expense represent the net effect of the changes in the amounts of temporary differences.

The income tax effects of temporary differences that gave rise to the net deferred tax asset as of December 31, 1998, 1997, and 1996 were:

<TABLE>

<CAPTION>

	1998	1997	1996
	-----	-----	-----
	(In thousands of dollars)		
Current deferred tax assets (liabilities):			
<S>	<C>	<C>	<C>
Inventory valuations	\$ 22,648	\$ 23,761	\$ 25,059
Administrative and general expenses			
deducted on a paid basis for tax purposes	30,926	28,267	26,759
Employment related benefits expense	2,454	2,160	1,778
Restructuring costs	5,214	5,432	7,428
Other	(42)	(272)	(187)
	-----	-----	-----
Total net current deferred tax asset	61,200	59,348	60,837
	-----	-----	-----
Noncurrent deferred tax assets (liabilities):			
Purchased tax benefits	(22,185)	(26,185)	(29,693)
Differences related to property,			
buildings, and equipment	(388)	(816)	(400)
Intangible amortization	9,135	9,116	14,681
Employment related benefits expense	15,038	14,012	12,709

Net operating loss carryforwards	4,372	1,785	--
Other	1,587	1,002	496
	-----	-----	-----
Total gross noncurrent deferred tax asset (liability)	7,559	(1,086)	(2,207)
Less valuation allowance	(4,372)	(1,785)	--
	-----	-----	-----
Total net noncurrent deferred tax asset (liability)	3,187	(2,871)	(2,207)
	-----	-----	-----
Net deferred tax asset	\$ 64,387	\$ 56,477	\$ 58,630
	=====	=====	=====

</TABLE>

The purchased tax benefits represent lease agreements acquired in prior years under the provisions of the Economic Recovery Act of 1981.

Net Operating Loss carryforwards (NOLs) represent temporary differences that enter into the calculation of deferred tax balances. Since 1997, the Company has experienced NOLs for a foreign start-up operation. The full amount of the deferred tax asset is offset by a valuation allowance due to the uncertainty of utilizing these NOLs.

A reconciliation of income tax expense with U.S. federal income taxes at the statutory rate follows:

<TABLE>

<CAPTION>

	1998	1997	1996
	-----	-----	-----
	(In thousands of dollars)		
<S>	<C>	<C>	<C>
Federal income taxes at the statutory rate.....	\$140,296	\$136,373	\$122,111
Foreign rate differences.....	1,703	2,034	(4)
State income taxes, net of federal income tax benefits.....	17,637	17,954	17,010
Other--net.....	2,707	1,442	1,245
	-----	-----	-----
Income tax expense.....	\$162,343	\$157,803	\$140,362
	-----	-----	-----
Effective tax rate.....	40.5%	40.5%	40.2%

</TABLE>

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NOTE 15--SEGMENT INFORMATION

The Company has one reportable segment: Branch-based Distribution. The Branch-based Distribution segment provides customers with solutions to their immediate MRO needs. Branch-based Distribution is an aggregation of the following business segments: Grainger Industrial Supply, Acklands-Grainger Inc., Grainger Parts, Grainger, S.A. de C.V., Puerto Rico, Grainger Export, and Grainger Global Sourcing. The Other column includes the Grainger Custom Solutions, Grainger Integrated Supply, Grainger Consulting Services, Internet Commerce, and Lab Safety Supply, Inc. segments.

The Company's segments offer differing ranges of services and/or products and require different resources and marketing strategies. The segments were formed in late 1997 as the Company refocused its organization to meet the diverse needs of its customers. The restatement of comparable financial information for 1997 and 1996 is not practicable.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intersegment transfer prices were established at external selling prices less costs not incurred due to the related party sale.

	1998		

	(In thousands of dollars)		
	Branch-based	Other	Totals
	Distribution		
	-----	-----	-----
Total net sales	\$3,881,237	\$ 728,020	\$4,609,257
Intersegment net sales	260,230	7,758	267,988
Net sales from external customers	3,621,007	720,262	4,341,269
Segment operating earnings	435,167	11,214	446,381
	-----	-----	-----
Segment assets	\$1,805,396	\$ 189,298	\$1,994,694
Depreciation and amortization	54,500	19,638	74,138
Additions to long-lived assets	115,905	21,954	137,859

Following are reconciliations of the segment information with the consolidated totals per the financial statements (in thousands of dollars).

1998

Operating earnings:	
Total operating earnings for reportable segments	\$ 446,381
Unallocated expenses	(38,326)
Elimination of intersegment profits	(73)

Total Consolidated operating earnings	\$ 407,982
=====	
Assets:	
Total assets for reportable segments	\$ 1,994,694
Unallocated assets	109,208

Total Consolidated assets	\$ 2,103,902
=====	

1998			

Other Significant Items:	Segment Totals	Adjustments	Consolidated Totals

Depreciation and amortization	\$ 74,138	\$ 4,727	\$ 78,865
Additions to long-lived assets	137,859	31,981	169,840

Geographic Information:	Revenues		Long-lived Assets

United States	\$3,940,604		\$ 692,747
Canada	329,565		180,613
Other foreign countries	71,100		1,080

	\$4,341,269		\$ 874,440
=====			

Long-lived assets consists of property, buildings, equipment, capitalized software, goodwill, and other intangibles.

Revenues are attributed to countries based on location of customer.

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NOTE 16--SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

A summary of selected quarterly information for 1998 and 1997 is as follows:

<TABLE>
<CAPTION>

1998 Quarter Ended					

(In thousands of dollars except for per share amounts)					
	March 31	June 30	September 30	December 31	Total

<S>	<C>	<C>	<C>	<C>	<C>
Net sales	\$ 1,057,107	\$ 1,118,970	\$ 1,120,038	\$ 1,045,154	\$ 4,341,269
Gross profit	\$ 385,155	\$ 401,959	\$ 405,311	\$ 405,246	\$ 1,597,671
Net earnings	\$ 57,172	\$ 59,250	\$ 56,089	\$ 65,993	\$ 238,504
Earnings per share--basic	\$ 0.59	\$ 0.61	\$ 0.58	\$ 0.70	\$ 2.48
Earnings per share--diluted	\$ 0.58	\$ 0.60	\$ 0.57	\$ 0.69	\$ 2.44

</TABLE>

<TABLE>
<CAPTION>

1997 Quarter Ended					

(In thousands of dollars except for per share amounts)					
	March 31	June 30	September 30	December 31	Total

<S>	<C>	<C>	<C>	<C>	<C>
Net sales	\$ 985,556	\$ 1,051,206	\$ 1,066,927	\$ 1,032,871	\$ 4,136,560
Gross profit	\$ 353,280	\$ 371,029	\$ 373,152	\$ 396,891	\$ 1,494,352
Net earnings	\$ 54,609	\$ 57,559	\$ 56,480	\$ 63,185	\$ 231,833
Earnings per share--basic	\$ 0.52	\$ 0.57	\$ 0.57	\$ 0.64	\$ 2.30
Earnings per share--diluted	\$ 0.52	\$ 0.56	\$ 0.56	\$ 0.63	\$ 2.27

</TABLE>

<TABLE>
<CAPTION>

W.W. Grainger, Inc., and Subsidiaries

SCHEDULE II--ALLOWANCE FOR DOUBTFUL ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996

Description	Balance at beginning of period	Charged to costs and expenses	Deductions (a)	Other (b)	Balance at end of period
(In thousands of dollars)					
<S>	<C>	<C>	<C>	<C>	<C>
Allowance for doubtful accounts					
1998.....	\$15,803	\$10,310	\$10,162	\$ --	\$15,951
1997.....	15,302	9,984	9,483	--	15,803
1996.....	14,229	9,131	8,824	766	15,302

(a) Accounts charged off as uncollectible, less recoveries.
(b) Business acquired.

</TABLE>

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<TABLE>
<CAPTION>

W.W. Grainger, Inc., and Subsidiaries

EXHIBIT 11

COMPUTATIONS OF EARNINGS PER SHARE

	1998	1997	1996
Basic:			
<S>	<C>	<C>	<C>
Average number of shares outstanding during the year	96,231,829	100,604,518	102,295,506
Net earnings	\$238,504,000	\$231,833,000	\$208,526,000
Earnings per share	\$ 2.48	\$ 2.30	\$ 2.04
Diluted:			
Average number of shares outstanding during the year (basic)	96,231,829	100,604,518	102,295,506
Common equivalents			
Shares issuable under outstanding options	3,187,915	3,249,490	3,065,756
Shares which could have been purchased based on the average market value for the period	2,114,482	2,184,102	2,193,264
	1,073,433	1,065,388	872,492
Dilutive effect of exercised options prior to being exercised	21,604	18,046	33,442
Shares for the portion of the period that the options were outstanding	1,095,037	1,083,434	905,934
Contingently issuable shares	519,792	491,000	70,968
	1,614,829	1,574,434	976,902
Average number of shares outstanding during the year	97,846,658	102,178,952	103,272,408
Net earnings	\$238,504,000	\$231,833,000	\$208,526,000
Earnings per share	\$ 2.44	\$ 2.27	\$ 2.02

</TABLE>

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EXHIBIT 23

CONSENT OF INDEPENDENT CERTIFIED

We hereby consent to the incorporation of our report on page 18 of this Form 10-K by reference in the prospectuses constituting part of the Registration Statements on Form S-8 (Nos. 2-67983, 2-54995, 33-43902, and 333-24215) and on Form S-4 (No. 33-32091) of W.W. Grainger, Inc.

GRANT THORNTON LLP

Chicago, Illinois
March 24, 1999

Exhibit 10(d)(i) to the Annual Report
on Form 10-K of W.W. Grainger, Inc.
for the year ended December 31, 1998

W.W. GRAINGER, INC.
DIRECTOR STOCK PLAN
AS AMENDED DECEMBER 9, 1998

Article 1. Establishment, Objectives, and Duration.

1.1. Establishment of the Plan. W.W. Grainger, Inc., an Illinois corporation (the "Company"), hereby establishes its Director Stock Plan (the "Plan").

1.2. Objectives of the Plan. The objectives of the Plan are to enhance the ability of the Company to attract and retain the best-qualified directors, to increase the identity of interest between directors and the Company's shareholders, and to provide additional incentives for directors to maximize the long-term success of the Company's business.

1.3. Duration of the Plan. The Plan became effective on April 30, 1997 (the "Effective Date"). Subject to the right of the Board to amend or terminate the Plan pursuant to Article 14, (i) Awards may be granted from time to time on or after the Effective Date so long as Shares reserved for delivery under Section 4.1 remain available and (ii) Compensation earned by the Outside Directors from time to time after the Effective Date may be deferred.

Article 2. Definitions.

2.1. "Account": see Section 8.1.

2.2. "Award" means, individually or collectively, a grant by the Committee under this Plan of Options, Restricted Stock, Stock, and Stock Units, whether formula-based or otherwise.

2.3. "Annual Meeting" means an annual meeting of the shareholders of the Company.

2.4. "Award Agreement" means an agreement between the Company and an Outside Director setting forth the terms applicable to an Award. Except as otherwise provided in the Plan, the terms of an Award Agreement need not be the same for each Outside Director, nor for each grant, and may reflect distinctions based on the reasons for termination of Service.

2.5. "Board" means the Board of Directors of the Company.

2.6. "Change in Control" means any one or more of the following events:

(i) approval by the shareholders of the Company of:

(A) any merger, reorganization or consolidation of the Company or any Subsidiary with or into any corporation or other Person if Persons who were the beneficial owners (as such term is used in Rule 13d-3 under the Securities Exchange Act of 1934 (the "Act")) of Common Stock and securities of the Company entitled to vote generally in the election of directors ("Voting Securities") immediately before such merger, reorganization or consolidation are not, immediately thereafter, the beneficial owners, directly or indirectly, of at least 60% of the then-outstanding common shares and the combined voting power of the then-outstanding Voting Securities ("Voting Power") of the corporation or other Person surviving or resulting from such merger, reorganization or consolidation (or the parent corporation thereof) in substantially the same respective proportions as their beneficial ownership, immediately before the consummation of such merger, reorganization or consolidation, of the then-outstanding Common Stock and Voting Power of the Company;

(B) the sale or other disposition of all or substantially all of the consolidated assets of the Company, other than a sale or other disposition by the Company of all or substantially all of its consolidated assets to an entity of which at least 60% of the common shares and the Voting Power outstanding immediately after such sale or other disposition are then beneficially owned (as such term is used in Rule 13d-3 under the Act) by shareholders of the Company in substantially the same respective proportions as their beneficial ownership of Common Stock and Voting Power of the Company immediately before the consummation of such sale or other disposition; or

(C) a liquidation or dissolution of the Company;

provided, however, that if the consummation of an event described in this paragraph (i) (a "Transaction") is subject to an Other Party Approval Requirement (as defined below), the approval of such Transaction by the shareholders of the Company shall not be deemed a Change in Control until the first date on which such Other Party Approval Requirement has been satisfied. For this purpose, "Other Party Approval Requirement" means a requirement expressly set forth in a Transaction Agreement (as defined below) between the Company and another Person to the effect that such Person shall obtain the approval

of one or more elements of the Transaction by the stockholders, members, partners, or other holders of equity interests of such Person (or of a parent of such Person) prior to the consummation of such Transaction in order to comply with the mandatory provisions of (x) the law of the jurisdiction of the

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incorporation or organization of such Person (or its parent) or (y) the articles of incorporation or other charter or organizational documents of such Person (or its parent) that are applicable to such Transaction. For this purpose, "Transaction Agreement" means a written agreement that sets forth the terms and conditions of the Transaction;

(ii) the following individuals cease for any reason to constitute a majority of the directors of the Company then serving: individuals who, on the Effective Date, constitute the Board and any subsequently appointed or elected director of the Company (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including a consent solicitation, relating to the election or removal of one or more directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two-thirds of the Company's directors then in office whose appointment, election or nomination for election was previously so approved or recommended or who were directors on the Effective Date; or

(iii) the acquisition or holding by any person, entity or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Act, other than by any Exempt Person (as defined below), the Company, any Subsidiary, any employee benefit plan of the Company or a Subsidiary) of beneficial ownership (within the meaning of Rule 13d-3 under the Act) of 20% or more of either the Company's then-outstanding Common Stock or Voting Power; provided that:

(A) no such person, entity or group shall be deemed to own beneficially any securities held by the Company or a Subsidiary or any employee benefit plan (or any related trust) of the Company or a Subsidiary;

(B) no Change in Control shall be deemed to have occurred solely by reason of any such acquisition if both (x) after giving effect to such acquisition, such person, entity or group has beneficial ownership of less than 30% of the then-outstanding Common Stock and Voting Power of the Company and (y) prior to such acquisition, at least two-thirds of the directors described in (and not excluded from) paragraph (ii) of this definition vote to adopt a resolution of the Board to the specific effect that such acquisition shall not be deemed

a Change in Control; and

(C) no Change in Control shall be deemed to have occurred solely by reason any such acquisition or holding in connection with any merger, reorganization or consolidation of the Company or any Subsidiary which is not a Change in Control within the meaning of paragraph (i) (A) above.

2.7. "Committee" means the Compensation Committee of the Board, which shall be comprised entirely of Outside Directors.

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2.8. "Company": see Section 1.1.

2.9. "Compensation" means all retainer, meeting, committee, and chair fees payable in cash to an Outside Director for Service.

2.10. "Deferral Election": see Section 10.2.

2.11. "Director" means any member of the Board.

2.12. "Distribution Election": see Section 8.6.

2.13. "Effective Date": see Section 1.3.

2.14. "Exempt Person" means any one or more of the following:

(i) any descendant of W.W. Grainger (deceased) or any spouse, widow or widower of any such descendant (any such descendants, spouses, widows and widowers collectively defined as the "Grainger Family Members");

(ii) any descendant of E.O. Slavik (deceased) or any spouse, widow or widower of any such descendant (any such descendants, spouses, widows and widowers collectively defined as the "Slavik Family Members" and with the Grainger Family Members collectively defined as the "Family Members");

(iii) any trust which is in existence on the Effective Date and which has been established by one or more Grainger Family Members, any estate of a Grainger Family Member who died on or before the Effective Date, and The Grainger Foundation (such trusts, estates and named entity collectively defined as the "Grainger Family Entities");

(iv) any trust which is in existence on the Effective Date and which has been established by one or more Slavik Family Members, any estate of a Slavik Family Member who died on or before the Effective Date, Mark IV Capital, Inc., and Mountain Capital Corporation (such trusts, estates and named entities collectively defined as the "Slavik

Family Entities" and with the Grainger Family Entities collectively defined as the "Existing Family Entities");

(v) any estate of a Family Member who dies after the Effective Date or any trust established after the Effective Date by one or more Family Members or Existing Family Entities; provided that one or more Family Members, Existing Family Entities or charitable organizations which qualify as exempt organizations under Section 501(c) of the Code ("Charitable Organizations"), collectively, are the beneficiaries of at least 50% of the actuarially determined beneficial interests in such estate or trust;

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(vi) any Charitable Organization which is established by one or more Family Members or Existing Family Entities (a "Family Charitable Organization");

(vii) any corporation of which a majority of the voting power and a majority of the equity interest is held, directly or indirectly, by or for the benefit of one or more Family Members, Existing Family Entities, estates or trusts described in clause (v) above, or Family Charitable Organizations; or

(viii) any partnership or other entity or arrangement of which a majority of the voting interest and a majority of the economic interest is held, directly or indirectly, by or for the benefit of one or more Family Members, Existing Family Entities, estates or trusts described in clause (v) above, or Family Charitable Organizations.

2.15. "Expiration Date": see Section 5.4.

2.16. "Fair Market Value" means, as of any specified date, the closing price of the Shares on the New York Stock Exchange, or any other national stock exchange or national market system on which the Shares are then traded, on the last trading day on which the Shares were traded prior to such specified date.

2.17. "Option" means an option to purchase Shares granted under Article 5.

2.18. "Option Price" means the price at which a Share may be purchased under an Option.

2.19. "Outside Director" means a Director who is not an employee of the Company or a Subsidiary.

2.20. "Period of Restriction" means the period established by the Committee in its discretion during which the transfer of Restricted Stock is limited in some manner, and the Shares are subject to a substantial risk of forfeiture, all as provided in Article 6.

2.21 "Person" means any individual, corporation, partnership, limited liability company, sole proprietorship, trust or other entity.

2.22. "Restricted Stock" means an Award granted under Article 6.

2.23. "Service" means an Outside Director's service on the Board or any Board committee.

2.24. "Shares" means shares of common stock of the Company.

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2.25. "Stock" means an Award of Shares granted under Article 7.

2.26. "Stock Units" means the units in which an Account is denominated. A Stock Unit is an unsecured obligation of the Company that is intended, subject to the terms of Article 8, to represent the economic equivalent of one Share.

2.27. "Subsidiary" means any corporation, partnership, joint venture, limited liability company, or other entity in which the Company owns directly or indirectly securities representing a majority of the aggregate voting power.

Article 3. Administration.

3.1. General. The Plan shall be administered by the Committee. Except as may be limited by law, the articles of incorporation or bylaws of the Company, or the Plan, the Committee shall have full power and discretion to determine the amounts, types and terms of Awards; to determine the terms of any Award Agreement; to construe and interpret the Plan and any Award Agreement; to establish, amend, or waive rules for the Plan's administration; to make all other determinations which may be necessary or advisable for the administration of the Plan; and (subject to Section 14.3) to amend the terms of any outstanding Award. To the extent permitted by law, the Committee shall have the authority to delegate administrative duties to officers or Directors of the Company.

3.2. Decisions Binding. All determinations and decisions made by the Committee under the Plan shall be final, conclusive, and binding on all persons, including the Company, its shareholders, Outside Directors, and their respective estates and beneficiaries.

Article 4. Shares Subject to Plan.

4.1. Shares Available for Grants. Subject to adjustment as provided in Section 4.2, the number of Shares reserved for delivery under the Plan is 500,000.* If any Shares subject to any Award are forfeited or such Award otherwise terminates without the delivery of such Shares, the Shares subject to such Award, to the extent of any such forfeiture or termination, shall again be available for delivery under the Plan. Shares delivered pursuant to the Plan may be treasury stock or newly issued Shares.

4.2. Adjustments in Authorized Shares. In the event of any change in corporate capitalization (such as a stock split, stock dividend, spin-off, or other distribution of stock or property of the Company or a Subsidiary), or any merger, consolidation, separation, reorganization (whether or not tax-free) or any partial or complete liquidation of the Company, the Committee may make such adjustment in the number and class of Shares

*As adjusted to reflect the Company's 1998 two-for-one stock split.

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which may be delivered under Section 4.1 as it may determine in its discretion to be appropriate.

Article 5. Options.

5.1. Award of Options. Subject to the terms of the Plan, Options may be awarded to Outside Directors in such number, upon such terms, and at such time or times as the Committee shall determine in its discretion.

5.2. Award Agreement. Each Option shall be evidenced by an Award Agreement that shall specify the Option Price, the Expiration Date of the Option, the number of Shares subject to the Option, and such other provisions as the Committee may determine.

5.3. Option Price. The Option Price for each grant of an Option shall be at least 100% of the Fair Market Value of a Share on the date the Option is granted.

5.4. Duration of Options. Each Option shall expire at such time as the Committee shall determine at the time of grant (the "Expiration Date"), but in no event after the tenth anniversary of the date of such grant.

5.5. Exercise of Options. Each Option shall be exercisable at such times prior to the Expiration Date and be subject to such restrictions and conditions as the Committee shall determine in its discretion, including, without limitation, restrictions on the Shares acquired pursuant to the exercise of such Option.

5.6. Payment. Options shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of Shares with respect to which the Option is to be exercised, and accompanied by full payment for the Shares. Upon the exercise of any Option, the exercise price shall be payable by any one or combination of the following means:

(i) cash or its equivalent,

(ii) with the prior approval of the Committee, delivery of Shares already owned by the Outside Director and valued at the Fair Market Value thereof at the time of exercise,

(iii) with the prior approval of the Committee, a cashless exercise through a broker-dealer approved for this purpose by the Company.

5.7. Termination of Service. Each Award Agreement shall set forth the extent to which the Outside Director shall have the right to exercise an Option after termination of Service, but in no event shall any Option be exercised after its Expiration Date.

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5.8. Nontransferability of Options. Except as may otherwise be specified by the Committee in its discretion, no Option may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than (i) by will, (ii) by the laws of descent and distribution, or (iii) pursuant to a beneficiary designation in accordance with Article 11.

Article 6. Restricted Stock.

6.1. Award of Restricted Stock. Subject to the terms of the Plan, Restricted Stock may be awarded to Outside Directors in such number of Shares, upon such terms, and at such time or times as the Committee shall determine in its discretion.

6.2. Restricted Stock Agreement. Each Restricted Stock Award shall be evidenced by an Award Agreement that shall specify the Period of Restriction, the number of Shares of Restricted Stock granted, and such other provisions as the Committee may determine.

6.3. Nontransferability. Except as may otherwise be specified by the Committee in its discretion, Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction. Shares of Restricted Stock shall vest and become freely transferable after the end of the applicable Period of Restriction.

6.4. Other Restrictions. The Committee may impose such other conditions and/or restrictions on any Restricted Stock as it deems advisable, including without limitation a stipulated purchase price for any Share of Restricted Stock. The Company may retain possession of the certificates representing Shares of Restricted Stock until all conditions and/or restrictions applicable to such Shares have been satisfied.

6.5. Voting Rights. Shares of Restricted Stock shall have the same voting rights as unrestricted Shares.

6.6. Dividends and Other Distributions. Shares of Restricted Stock shall have the same dividend rights as unrestricted Shares; provided, however, that (i) the Committee may in its discretion provide that dividends shall be reinvested in additional Shares of Restricted Stock based on the Fair Market

Value of the Shares on the applicable dividend payment date and on such other terms as may be determined by the Committee in its discretion and (ii) the Committee may impose any restrictions it deems appropriate on dividends payable in any form other than cash.

6.7. Termination of Service. The extent, if any, to which the Outside Director shall have the right to receive unvested Shares of Restricted Stock following termination of the Outside Director's Service shall be set forth in each Restricted Stock Award Agreement and, subject to Section 14.3, may subsequently be modified by the Committee in its discretion.

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Article 7. Stock.

7.1. Award of Stock. Subject to the provisions of the Plan, Shares of Stock may be awarded to Outside Directors in such number, upon such terms, and at such time or times as the Committee shall determine in its discretion.

7.2. Award Agreement. Each Stock Award may, but need not, be evidenced by an Award Agreement that shall specify the number of Shares to which the Award pertains, the purchase price (if any), and such other provisions as the Committee shall determine.

Article 8. Stock Units and Accounts.

8.1. Accounts. One or more accounts (each, an "Account") shall be created and maintained on the books of the Company for each Outside Director to which shall be credited all Stock Units that may be attributed to such Outside Director from time to time in connection with (i) Awards of Stock Units by the Committee pursuant to Article 9, (ii) deferrals of Compensation by such Outside Director pursuant to Article 10, or (iii) the automatic reinvestment of dividend equivalents pursuant to Section 8.3. Accounts shall be maintained solely for accounting purposes and shall not require a segregation of any assets of the Company.

8.2. Vesting. Stock Units awarded by the Committee pursuant to Article 9 shall become vested and nonforfeitable upon such terms as the Committee may determine. Stock Units credited to an Outside Director's Account by reason of his or her election to defer Compensation pursuant to Article 10 shall at all times be fully vested and nonforfeitable. Any additional Stock Units resulting from the crediting of dividend equivalents to an Outside Director's Account or Accounts pursuant to Section 8.3 shall be vested and nonforfeitable to the same extent and at the same time or times as the underlying Stock Units giving rise to such dividend equivalents.

8.3. Dividend Equivalents. Dividend equivalents shall be earned on Stock Units and credited to an Outside Director's Account as of any date (a "Dividend Payment Date") on which the Company pays any dividend on the outstanding Shares (a "Dividend"). Such dividend equivalents shall be expressed as a number of Stock Units equal

to:

(i) the number of Stock Units credited to an Outside Director's Account as of the record date for such Dividend multiplied by the value of the per Share amount of such Dividend (as determined by the Committee in the case of dividends paid other than in cash),

divided by:

(ii) the Fair Market Value of a Share as of the Dividend Payment Date.

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8.4. Amount of Payment. The amount of value payable to an Outside Director on account of a Stock Unit as of the date of any payment determined in accordance with Section 8.5 shall equal the Fair Market Value of a Share as of such date; provided, however, that if the event that gave rise to such the payment is the occurrence of a Change in Control, such amount of value shall equal the greater of (i) the Fair Market Value of a Share as of the date of the Change in Control or (ii) the average Fair Market Value of a Share calculated over the last 10 trading days on which the Shares were traded on the New York Stock Exchange (or other stock exchange or national market system on which the Shares are then listed for trading) ended on the date of the Change in Control.

8.5. Timing and Method of Payment. The value of vested Stock Units shall be paid to an Outside Director in a lump sum as soon as administratively possible following the first to occur of (i) termination of such Outside Director's service as a Director or such later date that an Outside Director may elect pursuant to a Distribution Election or (ii) the occurrence of a Change in Control. All payments on account of Stock Units shall be made in cash.

8.6. Distribution Elections. The Committee may in its discretion permit the Outside Director to specify in a written notice delivered to the Secretary of the Company (a "Distribution Election") such Outside Director's election with respect to (i) when payment to such Outside Director in respect of Stock Units (whether resulting from an Award under Article 9 or from deferrals pursuant to Article 10) shall commence (except as may otherwise be provided in Section 8.5), and (ii) whether such payment shall be in a lump sum or in such number of annual installments as the Outside Director may designate, subject to a maximum number of installments that the Committee shall determine from time to time, but not in excess of ten (10). To the extent the Committee permits Distribution Elections, an Outside Director may make or change such a Distribution Election as to the entire balance of his or her Account at any time or from time to time, but only by a Distribution Election filed with the Company no later than December 31 of the year next preceding such Outside Director's termination of service as a Director. Any Distribution Election that is not made or changed timely shall be disregarded.

8.7. Nontransferability of Stock Units. Except as may otherwise be specified by the Committee in its discretion, no Stock Unit may be transferred

in any manner other than (i) by will, (ii) by the laws of descent and distribution, or (iii) pursuant to a beneficiary designation in accordance with Article 11.

8.8. Unsecured Obligation. An Outside Director shall be a general unsecured creditor of the Company with respect to all Stock Units credited to his or her Account or Accounts. The Committee may, but is not required to, establish a so-called "rabbi" trust or similar mechanism to fund the Company's obligations under this Plan; provided, however, that any funds contained therein shall remain subject to the claims of the Company's general creditors.

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Article 9. Award of Stock Units by the Committee.

9.1. Award of Stock Units. Subject to the terms of the Plan, Stock Units may be awarded to Outside Directors in such number, upon such terms, and at such time or times as the Committee shall determine in its discretion. Stock Units may be awarded in substitution for, or replacement of, the rights or interests (whether vested or unvested) of Outside Directors under other plans of the Company.

9.2. Award Agreement. Each Stock Unit Award shall be evidenced by an Award Agreement that shall specify the number of Stock Units to which the Award pertains, the vesting of such Stock Units, the extent (if any) to which a payment is to be made in respect of Stock Units that are unvested upon the termination of an Outside Director's Service, and such other provisions as the Committee shall determine.

Article 10. Deferrals by Outside Directors.

10.1. Deferral Election. An Outside Director may elect to defer receipt of all or any specified portion of any Compensation payable to him or her, and to have such amounts credited to his or her Account in accordance with Section 10.3; provided, however, that the Committee may in its discretion (i) provide that any such election shall be subject to the prior approval of the Committee or (ii) suspend the right of all Outside Directors to defer receipt of Compensation to be received after the date of such suspension.

10.2. Timing of Deferral Election. A deferral election shall be made by written notice (a "Deferral Election") filed with the Secretary of the Company:

(i) on or before the Effective Date (covering Compensation to be earned after the Effective Date),

(ii) no more than 30 days after an Outside Director is first elected or appointed to the Board (covering Compensation to be earned at any time after the filing of such election),

(iii) on or before the date of any Annual Meeting (covering Compensation to be earned after such Annual Meeting), or

(iv) on or before such other date or dates as may be approved in advance by the Committee (covering Compensation earned for such period or periods commencing after such other date as may be specified by the Committee).

Subject to Section 8.6, a Deferral Election may be accompanied by a Distribution Election. Subject to Section 10.1, any Deferral Election shall continue in effect (including with respect to the Compensation relating to subsequent periods) unless and until revoked or modified by a new Deferral Election filed with the Secretary of the Company.

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Amounts credited to an Outside Director's Account prior to the effective date of any such revocation or modification of a Deferral Election shall not be affected by such revocation or modification. An Outside Director who has revoked a Deferral Election may file a new Deferral Election to defer Compensation relating exclusively to services to be rendered during the calendar year following the year in which such new Deferral Election is filed with the Company.

10.3. Deferrals Credited to Account. Any Compensation deferred by an Outside Director pursuant to this Article 10 shall be allocated to his or her Account and deemed to be invested in a number of Stock Units equal to (i) the amount of such Compensation divided by (ii) the Fair Market Value of a Share on the date Compensation would otherwise have been paid.

Article 11. Beneficiary Designation.

Unless the Committee in its discretion determines otherwise, each Outside Director may from time to time name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in the event of such Outside Director's death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by such Outside Director, shall be in a form prescribed by the Company, and will be effective only when filed by the Outside Director in writing with the Company during the Outside Director's lifetime. In the absence of any such designation, benefits remaining unpaid at the Outside Director's death shall be paid to his or her estate.

Article 12. Tax Withholding.

If any federal, state, and local tax withholding may be required in respect of the grant, vesting or exercise of any Award or the settlement of any Stock Unit (any such event, "Taxable Event"), the Company shall have the

authority to withhold, or require an Outside Director to remit to the Company, an amount sufficient to satisfy such tax withholding. The Company may defer the payment of cash or delivery of Shares in connection with a Taxable Event until such withholding requirements have been satisfied. The Committee may, in its discretion, permit an Outside Director to elect, subject to such conditions as the Committee may require, to have the Company withhold Shares otherwise deliverable pursuant to the Plan and having a Fair Market Value sufficient to satisfy all or part of any Outside Director's estimated total federal, state, and local tax obligation associated with a Taxable Event.

Article 13. Rights of Directors.

Nothing in the Plan shall interfere with or limit in any way the right of the Company's shareholders to terminate any Outside Director's Service at any time, nor confer upon any Outside Director any right to continue in Service.

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Article 14. Amendment, Modifications, and Termination.

14.1. Amendment, Modification, and Termination. Subject to the terms of the Plan, the Board may at any time and from time to time, alter, amend, suspend or terminate the Plan in whole or in part without the approval of the Company's shareholders, except that no such amendment shall increase the number of Shares available for delivery under the Plan, change the minimum Option Price or maximum term of an option, or change the requirements relating to the composition of the Committee.

14.2. Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. In connection with any unusual or nonrecurring events (including, without limitation, the events described in Section 4.2) affecting the Company or of changes in applicable laws, regulations, or accounting principles, the Committee may in its discretion adjust:

(i) the terms of Options, Restricted Stock, Stock and Stock Units (including, without limitation, in the number, class and/or price of Shares or Stock Units subject to, or to be distributed in connection with, outstanding Awards or Stock Units) and

(ii) the criteria specified in the Award Agreements related to outstanding Awards,

whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits intended to be made available under the Plan.

14.3. Awards Previously Granted. Notwithstanding any other provision of the Plan to the contrary, no termination, amendment, or modification of the Plan shall adversely affect in any material way any previously granted Award, without the written consent of the Outside Director holding such Award.

Article 15. Nonalienability.

Except as may otherwise be specified by the Committee in its discretion, no Award, Stock Unit, nor any right to a payment of Stock Units pursuant to Section 8.5 shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Outside Director or the Outside Director's beneficiary, other than (i) by will, (ii) by the laws of descent and distribution, or (iii) pursuant to a beneficiary designation in accordance with Article 11.

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Article 16. Successors.

All obligations of the Company under the Plan shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company. The Company and such successor shall be jointly and severally liable for all of the Company's obligations under the Plan.

Article 17. Legal Construction.

17.1. Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

17.2. Articles and Sections. Except where otherwise indicated by the context, any reference to an "Article" or "Section" shall be to an Article or Section of this Plan.

17.3. Severability. If any part of the Plan is declared to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any other part of the Plan. Any part of the Plan so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such part to the fullest extent possible while remaining lawful and valid.

17.4. Legal Compliance. If the Company determines that the exercise or nonforfeitability of, or delivery of benefits pursuant to, any Award or Deferral Election would violate any applicable provision of (i) federal or state securities laws or (ii) the listing requirements of any national securities exchange or national market system on which are then listed any of the Company's equity securities, then the Company may postpone any such exercise, nonforfeitability or delivery, as applicable, but the Company shall use all reasonable efforts to cause such exercise, nonforfeitability or delivery to comply with all such provisions at the earliest practicable date. If the Company deems necessary to comply with any applicable securities law, the Company may require a written investment intent representation by an Outside Director and may require that a restrictive legend be affixed to certificates for Shares delivered pursuant to the Plan.

17.5. Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Illinois, without regard to the conflict of laws principles thereof.

Exhibit 10(d)(iii) to the Annual Report
on Form 10-K of W.W. Grainger, Inc.
for the year ended December 31, 1998

W.W. GRAINGER, INC.
1990 LONG TERM STOCK INCENTIVE PLAN
AS AMENDED DECEMBER 9, 1998

Section 1. Objective.

The objective of the W.W. Grainger, Inc. 1990 Long Term Stock Incentive Plan (the "Plan") is to attract and retain the best available executive personnel and other key employees to be responsible for the management, growth and success of the business, and to provide an incentive for such employees to exert their best efforts on behalf of the Company and its shareholders.

Section 2. Definitions.

2.1. General Definitions. The following words and phrases, when used herein, shall have the following meanings:

(a) "Act" - The Securities Exchange Act of 1934, as amended.

(b) "Agreement" - The document which evidences the grant of any Award under the Plan and which sets forth the terms, conditions, and limitations relating to such Award.

(c) "Award" - The grant of any stock option, stock appreciation right, share of restricted stock, share of phantom stock, other stock-based award, or any combination thereof.

(d) "Board" - The Board of Directors of W.W. Grainger, Inc.

(e) "Change in Control" means any one or more of the following events:

(i) approval by the shareholders of the Company of:

(A) any merger, reorganization or consolidation of the Company or any Subsidiary with or into any corporation or other Person if Persons who were the beneficial owners (as such term is used in Rule 13d-3 under the Act) of Common Stock and securities of the Company entitled to vote generally in the election of directors ("Voting Securities") immediately before such merger, reorganization or consolidation are not, immediately thereafter, the beneficial owners, directly or indirectly, of at least 60% of the then-outstanding common

the then-outstanding Voting Securities ("Voting Power") of the corporation or other Person surviving or resulting from such merger, reorganization or consolidation (or the parent corporation thereof) in substantially the same respective proportions as their beneficial ownership, immediately before the consummation of such merger, reorganization or consolidation, of the then-outstanding Common Stock and Voting Power of the Company;

(B) the sale or other disposition of all or substantially all of the consolidated assets of the Company, other than a sale or other disposition by the Company of all or substantially all of its consolidated assets to an entity of which at least 60% of the common shares and the Voting Power outstanding immediately after such sale or other disposition are then beneficially owned (as such term is used in Rule 13d-3 under the Act) by shareholders of the Company in substantially the same respective proportions as their beneficial ownership of Common Stock and Voting Power of the Company immediately before the consummation of such sale or other disposition; or

(C) a liquidation or dissolution of the Company;

provided, however, that if the consummation of an event described in this paragraph (i) (a "Transaction") is subject to an Other Party Approval Requirement (as defined below), the approval of such Transaction by the shareholders of the Company shall not be deemed a Change in Control until the first date on which such Other Party Approval Requirement has been satisfied. For this purpose, "Other Party Approval Requirement" means a requirement expressly set forth in a Transaction Agreement (as defined below) between the Company and another Person to the effect that such Person shall obtain the approval of one or more elements of the Transaction by the stockholders, members, partners, or other holders of equity interests of such Person (or of a parent of such Person) prior to the consummation of such Transaction in order to comply with the mandatory provisions of (x) the law of the jurisdiction of the incorporation or organization of such Person (or its parent) or (y) the articles of incorporation or other charter or organizational documents of such Person (or its parent) that are applicable to such Transaction. For this purpose, "Transaction Agreement" means a written agreement that sets forth the terms and conditions of the Transaction;

(ii) the following individuals cease for any reason to constitute a majority of the directors of the Company then serving: individuals who, on the Effective Date, constitute the Board and any subsequently appointed or elected director of the Company (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including a consent solicitation, relating to the election or removal of one or more directors of the Company) whose appointment or election by the Board or nomination for

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election by the Company's shareholders was approved or recommended by a vote of at least two-thirds of the Company's directors then in office whose appointment, election or nomination for election was previously so approved or recommended or who were directors on the Effective Date; or

(iii) the acquisition or holding by any person, entity or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Act, other than by any Exempt Person (as such term is defined below), the Company, any Subsidiary, any employee benefit plan of the Company or a Subsidiary) of beneficial ownership (within the meaning of Rule 13d-3 under the Act) of 20% or more of either the Company's then-outstanding Common Stock or Voting Power; provided that:

(A) no such person, entity or group shall be deemed to own beneficially any securities held by the Company or a Subsidiary or any employee benefit plan (or any related trust) of the Company or a Subsidiary;

(B) no Change in Control shall be deemed to have occurred solely by reason of any such acquisition if both (x) after giving effect to such acquisition, such person, entity or group has beneficial ownership of less than 30% of the then-outstanding Common Stock and Voting Power of the Company and (y) prior to such acquisition, at least two-thirds of the directors described in (and not excluded from) paragraph (ii) of this definition vote to adopt a resolution of the Board to the specific effect that such acquisition shall not be deemed a Change in Control; and

(C) no Change in Control shall be deemed to have occurred solely by reason of any such acquisition or holding in connection with any merger, reorganization or consolidation of the Company or any Subsidiary which is not a Change in Control within the meaning of paragraph (i)(A) above.

Notwithstanding the occurrence of any of the events specified in paragraphs (i), (ii) or (iii) of this definition, no Change in Control shall occur with respect to any Participant if (x) the event which otherwise would be a Change in Control (or the transaction which resulted in such event) was initiated by such Participant, or was discussed by him with any third party, without the approval of the Board with respect to such Participant's initiation or discussion, as applicable, or (y) such Participant is, by written agreement, a participant on his own behalf in a transaction in which the persons (or their affiliates) with whom such Participant has the written agreement cause the Change in Control to occur and, pursuant to the written agreement, such Participant has an equity interest (or a right to acquire such equity interest) in the resulting entity.

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(f) "Code" - The Internal Revenue Code of 1986, as amended, including the regulations promulgated pursuant thereto.

(g) "Committee" - The Compensation Committee of the Board, which shall consist of two or more members. The members of the Committee shall be "non-employee directors" within the meaning of Rule 16b-3, as the same may be amended or supplemented from time to time, as promulgated under the Act.

(h) "Common Stock" - The present shares of common stock of the Company, and any shares into which such shares are converted, changed or reclassified.

(i) "Company" - W.W. Grainger, Inc., an Illinois corporation.

(j) "Effective Date" - December 9, 1998.

(k) "Employee" - Any person designated as an employee of the Company or a Subsidiary on the payroll records thereof.

(l) "Exempt Person" means any one or more of the following:

(i) any descendant of W.W. Grainger (deceased) or any spouse, widow or widower of any such descendant (any such descendants, spouses, widows and widowers collectively defined as the "Grainger Family Members");

(ii) any descendant of E.O. Slavik (deceased) or any spouse, widow or widower of any such descendant (any such descendants, spouses, widows and widowers collectively defined as the "Slavik Family Members" and with the Grainger Family Members collectively defined as the "Family Members");

(iii) any trust which is in existence on the Effective Date and which has been established by one or more Grainger Family Members, any estate of a Grainger Family Member who died on or before the Effective Date, and The Grainger Foundation (such trusts, estates and named entity collectively defined as the "Grainger Family Entities");

(iv) any trust which is in existence on the Effective Date and which has been established by one or more Slavik Family Members, any estate of a Slavik Family Member who died on or before the Effective Date, Mark IV Capital, Inc., and Mountain Capital Corporation (such trusts, estates and named entities collectively defined as the "Slavik Family Entities" and with the Grainger Family Entities collectively defined as the "Existing Family Entities");

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(v) any estate of a Family Member who dies after the Effective Date or any trust established after the Effective Date by one or more Family Members or Existing Family Entities; provided that one or more Family Members, Existing Family Entities or charitable organizations which qualify as exempt organizations under Section 501(c) of the Code ("Charitable Organizations"), collectively, are the beneficiaries of at least 50% of the actuarially determined beneficial interests in such estate or trust;

(vi) any Charitable Organization which is established by one or more Family Members or Existing Family Entities (a "Family Charitable Organization");

(vii) any corporation of which a majority of the voting power and a majority of the equity interest is held, directly or indirectly, by or for the benefit of one or more Family Members, Existing Family Entities, estates or trusts described in clause (v) above, or Family Charitable Organizations; or

(viii) any partnership or other entity or arrangement of which a majority of the voting interest and a majority of the economic interest is held, directly or indirectly, by or for the benefit of one or more Family Members, Existing Family Entities, estates or trusts described in clause (v) above, or Family Charitable Organizations.

(m) "Fair Market Value" - The fair market value of Common Stock on a particular day shall be the closing price of the Common Stock on the New York Stock Exchange, or any other national stock exchange on which the Common Stock is traded, on the last preceding trading day on which such Common Stock was traded.

(n) "Option" - The right to purchase Common Stock at a stated price for a specified period of time. For purposes of the Plan, the option is a non-qualified stock option.

(o) "Other Stock Based Award" - An award under Section 9 that is valued in whole or in part by reference to, or is otherwise based on, the Common Stock.

(p) "Participant" - Any Employee designated by the Committee to participate in the Plan.

(q) "Person" - Any individual, corporation, partnership, limited liability company, sole proprietorship, trust or other entity.

(r) "Period of Restriction" - The period during which Shares of Restricted Stock or Phantom Stock rights are subject to forfeiture or restrictions on transfer pursuant to Section 8 of the Plan.

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(s) "Phantom Stock" - A right to receive payment from the Company in cash, stock, or in combination thereof, in an amount determined by the Fair Market Value.

(t) "Restricted Stock" - Shares granted to a Participant which are subject to restrictions on transferability pursuant to Section 8 of the Plan.

(u) "Shares" - Shares of Common Stock.

(v) "Stock Appreciation Right" or "SAR" - The right to receive a payment from the Company in cash, Common Stock, or in combination thereof, equal to the excess of the Fair Market Value of a share of Common Stock on the date of exercise over a specified price fixed by the Committee, but subject to such maximum amounts as the Committee may impose.

(w) "Subsidiary" - Any corporation, partnership, joint venture, limited liability company, or other entity in which the Company directly or indirectly owns securities representing a majority of the aggregate voting power.

2.2. Other Definitions. In addition to the above definitions, certain words and phrases used in the Plan and any Agreement may be defined elsewhere in the Plan or in such Agreement.

Section 3. Common Stock.

3.1. Number of Shares. Subject to the provisions of Section 3.3, the number of Shares which may be issued or sold or for which Options or Stock Appreciation Rights may be granted under the Plan may not exceed 8,056,828 Shares.* Notwithstanding the foregoing, the total number of Shares with respect to which Options or Stock Appreciation Rights may be granted to any Participant shall not exceed 800,000 Shares** (proportionately adjusted pursuant to Section 3.3) in any calendar year.

3.2. Re-usage. If an Option or SAR expires or is terminated, surrendered, or canceled without having been fully exercised, if Restricted Stock is forfeited, or if any other grant results in any Shares not being issued, the Shares covered by such Option,

* As adjusted to reflect (i) the number of shares remaining available for grants

under the Company's Restated 1975 Non-Qualified Stock Option Plan, (ii) the Company's 1991 two-for-one stock split and (iii) the Company's 1998 two-for-one stock split.

** As adjusted to reflect the Company's 1998 two-for-one stock split.

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SAR, grant of Restricted Stock or other grant, as the case may be, shall again be immediately available for Awards under the Plan.

3.3. Adjustments. In the event of any change in the outstanding Common Stock by reason of a stock split, stock dividend, combination, reclassification or exchange of Shares, recapitalization, merger, consolidation or other similar event, the number of SARs and the number of Shares available for Options, grants of Restricted Stock, and Other Stock Based Awards and the number of Shares subject to outstanding Options, SARs, grants of Restricted Stock, and Other Stock Based Awards, and the price thereof, and the Fair Market Value, as applicable, shall be appropriately adjusted by the Committee in its sole discretion and any such adjustment shall be binding and conclusive on all parties. Any fractional Shares resulting from any such adjustment shall be disregarded.

Section 4. Eligibility and Participation.

Participants in the Plan shall be those key employees selected by the Committee to participate in the Plan who hold positions of responsibility and whose participation in the Plan the Committee or management of the Company determines to be in the best interests of the Company.

Section 5. Administration.

5.1. Committee. The Plan shall be administered by the Committee. The members of the Committee shall be appointed by and shall serve at the pleasure of the Board, which may from time to time change the Committee's membership.

5.2. Authority. The Committee shall have the sole and complete authority to:

(a) determine the individuals to whom Awards are granted, the type and amounts of awards to be granted and the time of all such grants;

(b) determine the terms, conditions and provisions of, and restrictions relating to, each Award granted;

(c) interpret and construe the Plan and all Agreements;

(d) prescribe, amend and rescind rules and regulations relating to the

Plan;

(e) determine the content and form of all Agreements;

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(f) determine all questions relating to Awards under the Plan;

(g) maintain accounts, records and ledgers relating to Awards;

(h) maintain records concerning its decisions and proceedings;

(i) employ agents, attorneys, accountants or other persons for such purposes as the Committee considers necessary or desirable;

(j) do and perform all acts which it may deem necessary or appropriate for the administration of the Plan and to carry out the objectives of the Plan.

5.3. Determinations. All determinations, interpretations, or other actions made or taken by the Committee pursuant to the provisions of the Plan shall be final, binding, and conclusive for all purposes and upon all persons.

5.4. Delegation. Except as required by Rule 16b-3 promulgated under the Act (and any successor to such Rule) with respect to the grant of Awards to Participants who are subject to Section 16 of the Act, the Committee may delegate to appropriate senior officers of the Company its duties under the Plan pursuant to such conditions and limitations as the Committee may establish.

Section 6. Stock Options.

6.1. Type of Option. It is intended that only non-qualified stock options may be granted by the Committee under this section of the Plan.

6.2. Grant of Option. An Option may be granted to Participants at such time or times as shall be determined by the Committee. Each Option shall be evidenced by an Option Agreement that shall specify the exercise price, the duration of the Option, the number of Shares to which the Option applies, and such other terms and conditions not inconsistent with the Plan as the Committee shall determine.

6.3. Option Price. The per share option price shall be at least 100% of the Fair Market Value at the time the Option is granted.

6.4. Exercise of Options. Options awarded under the Plan shall be exercisable at such times and shall be subject to such restrictions and conditions, including the performance of a minimum period of service after the grant, as the Committee may impose, which need not be uniform for all participants; provided, however, that no Option shall be exercisable for more

than 10 years after the date on which it is granted.

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6.5. Payment. The Committee shall determine the procedures governing the exercise of Options, and shall require that the per share option price be paid in full at the time of exercise. The Committee may, in its discretion, permit a Participant to make payment in cash, or in Shares already owned by the Participant, valued at the Fair Market Value thereof, as partial or full payment of the exercise price. As soon as practical after full payment of the exercise price, the Company shall deliver to the Participant a certificate or certificates representing the acquired Shares.

6.6. Rights as a Shareholder. Until the exercise of an Option and the issuance of the Shares in respect thereof, a Participant shall have no rights as a Shareholder with respect to the Shares covered by such Option.

Section 7. Stock Appreciation Rights.

7.1. Grant of Stock Appreciation Rights. Stock Appreciation Rights may be granted to Participants at such time or times as shall be determined by the Committee and shall be subject to such terms and conditions as the Committee may decide. A grant of an SAR shall be made pursuant to a written Agreement containing such provisions not inconsistent with the Plan as the Committee shall approve.

7.2. Exercise of SARs. SARs may be exercised at such times and subject to such conditions, including the performance of a minimum period of service, as the Committee shall impose. SARs which are granted in tandem with an Option may only be exercised upon the surrender of the right to exercise an equivalent number of Shares under the related Option and may be exercised only with respect to the Shares for which the related Option is then exercisable. Notwithstanding any other provision of the Plan, the Committee may impose conditions on the exercise of an SAR, including, without limitation, the right of the Committee to limit the time of exercise to specified periods.

7.3. Payment of SAR Amount. Upon exercise of an SAR, the Participant shall be entitled to receive payment of an amount determined by multiplying:

(a) any increase in the Fair Market Value of a Share at the date of exercise over the Fair Market Value of a Share at the date of grant, by

(b) the number of Shares with respect to which the SAR is exercised;

provided, however, that at the time of grant, the Committee may establish, in its sole discretion, a maximum amount per Share which will be payable upon exercise of an SAR.

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7.4. Method of Payment. Subject to the discretion of the Committee, which may be exercised at the time of grant, the time of payment, or any other time, payment of an SAR may be made in cash, Shares or any combination thereof.

Section 8. Restricted Stock or Phantom Stock.

8.1. Grant of Restricted Stock or Phantom Stock. The Committee may grant Shares of Restricted Stock or Phantom Stock rights to such Participants at such times and in such amounts, and subject to such other terms and conditions not inconsistent with the Plan as it shall determine. Each grant of Restricted Stock or Phantom Stock rights shall be evidenced by a written Agreement setting forth the terms of such Award.

8.2. Restrictions on Transferability. Restricted Stock or Phantom Stock rights may not be sold, transferred, pledged, assigned, or otherwise alienated until such time, or until the satisfaction of such conditions as shall be determined by the Committee (including without limitation, the satisfaction of performance goals or the occurrence of such events as shall be determined by the Committee). At the end of the period of restriction applicable to any Restricted Stock, such Shares will be transferred to the Participant free of all restrictions.

8.3. Rights as a Shareholder. Unless otherwise determined by the Committee at the time of grant, Participants holding Restricted Stock granted hereunder may exercise full voting rights and other rights as a Shareholder with respect to those Shares during the period of restriction. Holders of Phantom Stock rights shall not be deemed Shareholders and, except to the extent provided in accordance with the Plan, shall have no rights related to any Shares.

8.4. Dividends and Other Distributions. Unless otherwise determined by the Committee at the time of grant, Participants holding Restricted Stock shall be entitled to receive all dividends and other distributions paid with respect to those Shares, provided that if any such dividends or distributions are paid in shares of stock, such shares shall be subject to the same forfeiture restrictions and restrictions on transferability as apply to the Restricted Stock with respect to which they were paid. Unless otherwise determined by the Committee at the time of grant, Participants holding Phantom Stock rights shall be entitled to receive cash payments equal to any cash dividends and other distributions paid with respect to a corresponding number of Shares.

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8.5. Payment of Phantom Stock Rights. The Committee may, at the time of grant, provide for other methods of payment in respect of Phantom Stock rights in cash, Shares, partially in cash and partially in Shares, or in any other manner not inconsistent with this Plan.

Section 9. Other Stock Based Awards and Other Benefits.

9.1. Other Stock Based Awards. The Committee shall have the right to grant Other Stock Based Awards which may include, without limitation, the grant of

Shares based on certain conditions, the payment of cash based on the performance of the Common Stock, and the payment of Shares in lieu of cash under other Company incentive bonus programs. Payment under or settlement of any such Awards shall be made in such manner and at such times as the Committee may determine.

9.2. Other Benefits. The Committee shall have the right to provide types of Awards under the Plan in addition to those specifically listed utilizing shares of stock or cash, or a combination thereof, if the Committee believes that such Awards would further the purposes for which the Plan was established. Payment under or settlement of any such Awards shall be made in such manner and at such times as the Committee may determine.

Section 10. Amendment, Modification, and Termination of Plan.

The Board at any time may terminate or suspend the Plan, and from time to time may amend or modify the Plan. No amendment, modification, or termination of the Plan shall in any manner adversely affect any Award theretofore granted under the Plan to a Participant without the consent of such Participant.

Section 11. Termination of Employment.

11.1. Termination of Employment Due to Retirement. Unless otherwise determined by the Committee at the time of grant, in the event a Participant's employment terminates by reason of retirement, any Option or SAR granted to such Participant which is then outstanding may be exercised at any time prior to the expiration of the term of the Option or SAR or within six (6) years following the Participant's termination of employment, whichever period is shorter, and any Restricted Stock, Phantom Stock rights, or other Award then outstanding for which any restriction has not lapsed prior to the effective date of retirement shall be forfeited.

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11.2. Termination of Employment Due to Death or Disability. Unless otherwise determined by the Committee at the time of grant, in the event a Participant's employment is terminated by reason of death or disability, any Option or SAR granted to such Participant which is then outstanding may be exercised by the Participant or the Participant's legal representative at any time prior to the expiration date of the term of the Option or SAR or within six (6) years following the Participant's termination of employment, whichever period is shorter, and any Restricted Stock, Phantom Stock rights, or other Award then outstanding shall become nonforfeitable and shall become transferable or payable, as the case may be, as though any restriction had expired.

11.3. Termination of Employment for Any Other Reason. Unless otherwise determined by the Committee at the time of grant, in the event the employment of the Participant shall terminate for any reason other than misconduct or one described in Section 11.1 or 11.2, any Option or SAR granted to such Participant which is then outstanding may be exercised by the Participant at any time prior to the expiration date of the term of the Option or SAR or within three (3)

months following the Participant's termination of employment, whichever period is shorter; any Restricted Stock, Phantom Stock rights, or other Award then outstanding for which any restriction has not lapsed prior to the date of termination of employment shall be forfeited upon termination of employment. If the employment of a Participant is terminated by the Company or a Subsidiary by reason of the Participant's misconduct, any outstanding Option or SAR shall cease to be exercisable on the date of the Participant's termination of employment; any Restricted Stock, Phantom Stock rights, or other Award then outstanding for which any restriction has not lapsed prior to the date of termination of employment shall be forfeited upon termination of employment. As used herein, "misconduct" means that the Participant has engaged, or intends to engage, in competition with the Company or a Subsidiary, has induced any customer of the Company or a Subsidiary to breach any contract with the Company or a Subsidiary, has made any unauthorized disclosure of any of the secrets or confidential information of the Company or a Subsidiary, has committed an act of embezzlement, fraud, or theft with respect to the property of the Company or a Subsidiary, or has deliberately disregarded the rules of the Company or a Subsidiary in such a manner as to cause any loss, damage, or injury to, or otherwise endanger the property, reputation, or employees of the Company or a Subsidiary. The Committee shall determine whether a Participant's employment is terminated by reason of misconduct.

11.4. Accrual of Right at Date of Termination. The Participant shall have the right to exercise an Option or SAR as indicated in Sections 11.1, 11.2, and 11.3 only to the extent the Participant's right to exercise such Option or SAR had accrued at the date of termination of employment pursuant to the terms of the Option or SAR Agreement and had not previously been exercised.

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Section 12. Change in Control.

Except as otherwise provided in an Agreement, if a Change in Control occurs, then:

(i) the Participant's Restricted Stock that was forfeitable shall thereupon become nonforfeitable; and

(ii) any unexercised Option or SAR, whether or not exercisable on the date of such Change in Control, shall thereupon be fully exercisable and may be exercised, in whole or in part.

Section 13. Miscellaneous Provisions.

13.1. Non-transferability of Awards. Unless otherwise determined by the Committee at the time of grant, and except as provided in Section 11, no Awards granted under the Plan shall be assignable, transferable, or payable to or exercisable by anyone other than the Participant to whom it was granted.

13.2. No Guarantee of Employment or Participation. Nothing in the Plan shall interfere with or limit in any way the right of the Company or a Subsidiary to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employment of the Company or a Subsidiary. No employee shall have a right to be selected as a Participant, or, having been so selected, to receive any future awards.

13.3. Tax Withholding. The Company shall have the authority to withhold, or require a Participant to remit to the Company an amount sufficient to satisfy federal, state, and local withholding tax requirements on any Award under the Plan, and the Company may defer payment of cash or issuance of Shares until such requirements are satisfied. The Committee may, in its discretion, permit a Participant to elect, subject to such conditions as the Committee shall require, to have Shares otherwise issuable under the Plan withheld by the Company and having a Fair Market Value sufficient to satisfy all or part of the Participant's estimated total federal, state, and local tax obligation associated with the transaction.

13.4. Governing Law. The Plan and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by the Code or Act, shall be governed by the law of the State of Illinois and construed in accordance therewith.

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13.5. Effectiveness of Plan. The Plan became effective upon its approval by the shareholders of the Company on April 25, 1990; provided, however, that no Award requiring the issuance of Shares shall be exercised or paid out unless at the time of such exercise or payout (i) such Shares are covered by a currently effective registration statement filed under the Securities Act of 1933, as amended, if one is then required, or in the sole opinion of the Company and its counsel such issuance of Shares is otherwise exempt from the registration requirements of such act, and (ii) such Shares are listed on any securities exchange upon which the Common Stock of the Company is listed.

13.6. Termination of the 1975 Plan. The Company's Restated 1975 Non-Qualified Stock Option Plan shall be terminated as of the date of Shareholder approval of this Plan, provided, however, that such termination shall not affect any Options or Stock Appreciation Rights outstanding thereunder, all of which shall remain subject to and be governed by such plan.

13.7. Unfunded Plan. Insofar as the Plan provides for Awards of cash, Shares, rights or a combination thereof, the Plan shall be unfunded. The Company may maintain bookkeeping accounts with respect to Participants who are entitled to Awards under the Plan, but such accounts shall be used merely for bookkeeping convenience. The Company shall not be required to segregate any assets that may at any time be represented by interests in Awards nor shall the Plan be construed as providing for any such segregation. None of the Committee, the Company or Board shall be deemed to be a trustee of any cash, Shares or rights to Awards granted under the Plan. Any liability of the Company to any

Participant with respect to an Award or any rights thereunder shall be based solely upon any contractual obligations that may be created by the Plan and any Agreement, and no obligation of the Company under the Plan shall be deemed to be secured by any pledge or other encumbrance on any property of the Company.

Exhibit 10(d)(v) to the Annual Report
on Form 10-K of W.W. Grainger, Inc.
for the year ended December 31, 1998

W.W. GRAINGER, INC.

EXECUTIVE DEATH BENEFIT PLAN

(Conformed Copy Including Amendments Effective May 8, 1995, December 9, 1998
and March 3, 1999)

ARTICLE 1

PURPOSE

1.1 Purpose. The purpose of this W.W. GRAINGER, INC. EXECUTIVE DEATH BENEFIT PLAN (the "Plan") is to improve and maintain relations with a select group of management employees (the "key employees"), to induce them to remain employed by W.W. Grainger, Inc., and to provide an incentive to them to not enter into competitive employment or engage in a competitive business by providing supplemental survivor security benefits. All benefits hereunder shall be paid solely from the general assets of the Company, and the right of any Participant or Beneficiary to receive payments under this Plan shall be as an unsecured general creditor of the Company.

1.2 Construction. In construing the terms of the Plan, the primary consideration shall be the Plan's stated purpose, i.e., to provide certain disability and survivors' benefits and to supplement certain benefits from the Company's Group Insurance Plans.

ARTICLE II

DEFINITIONS AND DESIGNATIONS

2.1 "Annual Compensation" shall mean the sum of:

(a) the annual salary of the Participant determined by the Board of Directors of the Company in effect on the Date Creating an Entitlement, and

(b) the Participant's target bonus under the Company's Management Incentive Program (which term shall be deemed to include such equivalent incentive bonus programs as the Committee may recognize for purposes of this Plan) for the calendar year in which the Date Creating an Entitlement occurs.

2.2 "Average Monthly Earnings" shall mean Annual Compensation divided by twelve (12).

2.3 "Committee" shall mean the Compensation Committee of

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Management described in Article VII hereof.

2.4 "Company" shall mean W.W. Grainger, Inc., an Illinois corporation, and its divisions and subsidiaries.

2.5 'Date Creating an Entitlement' shall mean the Participant's date of death for benefits described in Section 4.1 or date of Termination of Service for benefits described in Section 4.3. Notwithstanding, if a Participant's annual salary and/or target bonus under the Company's Management Incentive Program is significantly decreased while such Participant continues to be employed in good standing by the Company, the Committee may, in its sole discretion, define Date Creating an Entitlement for that Participant as the day immediately prior to the effective date of such decrease.

2.6 "Disability" means a condition that totally and continuously prevents the Participant, for at least six (6) consecutive months, from engaging in an "occupation" for Compensation or profit. During the first twenty-four (24) months of total disability, "occupation" means the Participant's occupation at the time the disability began. After that period, "occupation" means any occupation for which the Participant is or becomes reasonably fitted by education, training or experience. Notwithstanding the foregoing, a disability shall not exist for purposes of this Plan if the Participant fails to qualify for disability benefits under the Social Security Act, unless the Committee determines, in its sole discretion, that a disability exists.

2.7 "Early Retirement Date" shall mean the earliest of the date on which the Participant:

(a) attains age sixty (60),

(b) attains age fifty-five (55) or older after completing ten (10) Years of Service,

(c) completes twenty-five (25) Years of Service, or

(d) incurs a Disability.

2.8 "Forfeiting Act" shall mean the Participant's fraud, dishonesty, willful destruction of Company property, revealing Company

trade secrets, acts of competition against the Company or acts in aid of a competitor of the Company.

2.9 "Group Life Insurance Plan" shall mean the Company's Group Term Life and Accidental Death and Dismemberment Insurance Plan, as amended from time to time.

2.10 "Normal Retirement Date" shall mean the date on which the Participant attains age sixty-five (65).

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2.11 "Participant" shall mean a person designated as such under Article III of the Plan.

2.12 "Plan" shall mean the W.W. Grainger, Inc. Executive Death Benefit Plan.

2.13 "Termination of Service" shall mean the Participant's ceasing his Service with the Company for any reason whatsoever, whether voluntarily or involuntarily, including by reason of death or disability.

2.14 "Years of Service" shall mean a year that a Participant hereunder is "Eligible" under the W.W. Grainger, Inc. Employees Profit Sharing Plan.

ARTICLE III

PARTICIPATION

3.1 Eligibility to Participate. An Employee of the Company shall become eligible to be a Participant in the Plan by designation of the Committee. The Committee shall make such designation, specifying the effective date of the Participant's eligibility. The Committee shall notify each Participant of his eligibility date. Each designated Employee shall furnish such information and perform such acts as the Committee may require prior to becoming a Participant.

3.2 Re-Employment. Any Participant who terminates employment shall not be eligible to participate in the Plan on re-employment unless the Committee so determines. In such event, the Committee shall specify the effective date of the Participant's renewed eligibility. The Committee shall notify each re-employed former Participant of his eligibility, of the effective date and of the conditions of participation.

ARTICLE IV

DEATH BENEFITS

4.1 Death During Employment. If a Participant's death occurs while he is in the employ of the Company, his Beneficiary shall receive a monthly payment in an amount equal to:

(a) fifty percent (50%) of the Participant's Average Monthly Earnings as defined under the Plan on the Date Creating an Entitlement, which payments shall commence on the first day of the month following the Participant's death and end as of the date on which the 120th monthly payment is made; or"

(b) for a Participant who was a Participant on the effective date

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of the First Amendment of the Plan [May 8, 1995], and notwithstanding anything to the contrary in section 8.2:

(i) fifty percent (50%) of the Participant's Average Monthly Earnings as defined under the Plan on the Date Creating an Entitlement, determined without regard to Section 2.1(b)."

(ii) which payment shall commence on the first day of the month following the Participant's death and end as of the later of the date the Participant would have attained age 65 or the date on which the 120th monthly payment is made,

if the benefit so calculated would have a greater present value on the date of the Participant's death than the benefit calculated under paragraph (a) next above. The Committee shall use reasonable and consistent assumptions to determine present values.

4.2 Additional Death Benefit. The Company will maintain death benefit coverage for each Participant in the amount of fifty thousand dollars (\$50,000) under the Company's Group Life Insurance Plan. Payment of such benefit shall be made in accordance with the provisions of the Group Life Insurance Plan.

4.3 Death After Retirement. If a Participant incurs Termination of Service on or after an Early Retirement Date, or on or after his Normal Retirement Date, and dies after such Termination of Service, the Company will pay to his Beneficiary a lump sum death benefit equal to one hundred percent (100%) of his Annual Compensation as defined under the Plan on the Date Creating an Entitlement. Such

death benefit amount shall be increased to reflect estimated federal income tax payable on such death benefit, based on the then maximum tax rate, determined in accordance with rules established from time to time by the Committee, provided that in no event shall the death benefit exceed two hundred percent (200%) of Annual Compensation.

4.4 Death After Termination of Employment. Except as provided in Section 4.3, no benefits shall be payable to or on behalf of a Participant whose death occurs subsequent to his Termination of Employment.

4.5 Benefit Upon Change in Control. Upon a Change in Control (as defined in Section 2.1(e) of the W.W. Grainger, Inc. 1990 Long Term Stock Incentive Plan, as may be amended from time to time), for each Participant who then has reached his Early Retirement Date or Normal Retirement Date, the Company immediately will pay to such Participant a lump sum benefit equal to the present value (determined using 120% of the applicable federal rate as defined under Section 1274 of the Internal Revenue Code and published periodically by the Internal Revenue Service) of the death benefit that would have been payable on behalf of such Participant under Section 4.3 if such Participant had died at age eighty (80). In determining whether a Participant has reached his Early Re-

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tirement Date or Normal Retirement Date for purposes of this Section 4.5, the Participant's age and Years of Service each shall be deemed increased by three (3) years. Following payment of a benefit under this Section 4.5, no additional benefits shall be payable to or on behalf of a Participant under this Plan.

ARTICLE V

BENEFICIARIES

5.1 Designation by Participant. Each Participant may designate a Beneficiary or Beneficiaries who shall, upon his death, receive the death benefits, if any, payable pursuant to Sections 4.1 and 4.3. The Participant's Beneficiary under this Plan shall be the Beneficiary designated by the Participant in the Special Beneficiary Designation filed under the Company's Group Life Insurance Plan unless the Participant files a written notice of a different Beneficiary Designation in such form as the Committee requires. The form may include contingent Beneficiaries. A Beneficiary Designation shall be effective when filed with the Committee during the Participant's life and shall cancel and revoke all prior designations.

5.2 Payment of Benefits Upon Death - Other Beneficiary. If no primary or contingent Beneficiary survives a Participant or if no Beneficiary Designation is in effect upon his death, then the payments shall be made to the deceased Participant's spouse. If his spouse does not survive him, then payments shall be made to the Participant's descendants who survive him by right of representation; or if no descendants of the Participant survive him, then to his estate. In the event any person entitled to receive benefits in accordance with this Section dies prior to his receipt of all of the benefits to which he is entitled, the balance of such benefits, if any, shall be payable to the next class of recipients.

5.3 Minors and Persons Under Legal Disability. Benefits payable to a minor or a person under a legal disability shall be paid in a manner determined appropriate by the Committee.

ARTICLE VI

CLAIMS PROCEDURE

6.1 Claim for Benefits. Any claim for benefits under the Plan shall be made in writing to any member of the Committee. If such claim for benefits is wholly or partially denied by the Committee Members, the Committee Members shall, within a reasonable period of time, but not later than sixty (60) days after receipt of the claim, notify the claimant of the denial of the claim. Such notice of denial shall be in writing and shall contain:

(a) the specific reason or reasons for denial of the claim,

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(b) a reference to the relevant Plan provisions upon which the denial is based,

(c) a description of any additional material or information necessary for the claimant to perfect the claim, together with an explanation of why such material or information is necessary, and

(d) an explanation of the Plan's claim review procedure.

6.2 Request for Review of a Denial of a Claim for Benefits. Upon the receipt by the claimant of written notice of denial of the claim, the claimant may within ninety (90) days file a written request to the full Committee, requesting a review of the denial of the claim,

which review shall include a hearing if deemed necessary by the Committee. In connection with the claimant's appeal of the denial of his claim, he may review relevant documents and may submit issues and comments in writing.

6.3 Decision Upon Review of Denial of Claim for Benefits. The Committee shall render a decision on the claim review promptly, but no more than sixty (60) days after the receipt of the claimant's request for review, unless special circumstances (such as the need to hold a hearing) require an extension of time, in which case the sixty (60)-day period shall be extended to one hundred twenty (120) days. Such decision shall:

- (a) include specific reasons for the decision,
- (b) be written in a manner calculated to be understood by the claimant, and
- (c) contain specific references to the relevant Plan provisions upon which the decision is based.

ARTICLE VII

COMMITTEE

7.1 General Rights, Powers and Duties of the Committee. The Compensation Committee of Management shall be the Named Fiduciary and Committee responsible for the management, operation and administration of the Plan. In addition to any powers, rights and duties set forth elsewhere in the Plan, it shall have the following powers and duties:

(a) to adopt such rules and regulations consistent with the provisions of the Plan as it deems necessary for the proper and efficient administration of the Plan;

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(b) to enforce the Plan in accordance with its terms and any rules and regulations it establishes;

(c) to maintain records concerning the Plan sufficient to prepare reports, returns and other information required by the Plan or by law;

(d) to construe and interpret the Plan and to resolve all questions arising under the Plan;

(e) to direct the Company to pay benefits under the Plan, and to give such other directions and instructions as may be necessary for the proper administration of the Plan;

(f) to employ or retain agents, attorneys, actuaries, accountants or other persons, who may also be employed by or represent the Company; and

(g) to be responsible for the preparation, filing and disclosure on behalf of the Plan of such documents and reports as are required by any applicable federal or state law.

7.2 Information to be Furnished to Committee. The Company shall furnish the Committee such data and information as it may require. The records of the Company shall be determinative of each Participant's period of employment, termination of employment and the reason therefor, leave of absence, re-employment, Years of Service, personal data, and Compensation or bonus reductions. Participants and their Beneficiaries shall furnish to the Committee such evidence, data or information, and execute such documents as the Committee requests.

7.3 Responsibility. No member of the Committee or of the Board of Directors of the Company shall be liable to any person for any action taken or omitted in connection with the administration of this Plan unless attributable to his own fraud or willful misconduct; nor shall the Company be liable to any person for any such action unless attributable to fraud or willful misconduct on the part of a director, officer or employee of the Company.

ARTICLE VIII

AMENDMENT AND TERMINATION

8.1 Amendment. The Plan may be amended in whole or in part by the Company at any time by a resolution of the Board of Directors delivered to the Committee; provided, however, that no amendment of the Plan adopted on or after the date of a Change in Control shall (i) adversely affect the eligibility of any Participant to continue

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to qualify as a Participant or (ii) eliminate, reduce or otherwise adversely affect the amount or terms of benefits payable to or on behalf of any Participant.

8.2 Right to Terminate Plan. The Company reserves the right to reduce or terminate benefits under the Plan with regard to any or all Participants at any time before the date of a Change in Control by a resolution of the Board of Directors delivered to the Committee;

provided however, that both before and after a Change in Control, a Beneficiary receiving benefits payable by the Plan shall continue to receive such benefits, and further provided, that at any time before the date of a Change in Control, the Company may not terminate its obligation to pay the death benefit to the Beneficiary of a Participant who:

(a) already has incurred a Termination of Service after his Early or Normal Retirement Date, or

(b) is still an active Employee but has attained an Early Retirement Date.

The amount of the benefit payable in the event clause (b) above is applicable shall be determined as if the date of the reduction in benefits or termination of the Plan is a Date Creating an Entitlement. The Committee shall notify any Participant affected by such reduction of termination or such action and its effective date within thirty (30) days after it receives notice from the Company. Notwithstanding the foregoing, on and after the date of a Change in Control, the provisions of Section 4.5 shall be applicable, rather than the foregoing provisions of this Section 8.2, with respect to participants who are then living.

ARTICLE IX

MISCELLANEOUS

9.1 No Funding nor Guarantee. This plan is unfunded. Nothing contained in the Plan shall be deemed to create a trust or fiduciary relationship of any kind. The rights of Participants and of any Beneficiary shall be no greater than the rights of unsecured general creditors of the Company. Nothing contained in the Plan constitutes a guarantee by the Company that the assets of the Company will be sufficient to pay any benefit to any person.

9.2 Inalienability of Benefits. The right of any Participant or Beneficiary to any benefit or payment under the Plan shall not be subject to voluntary or involuntary transfer, alienation, pledge, assignment, garnishment, sequestration or other legal or equitable process. Any attempt to transfer, alienate, pledge, assign or otherwise dispose of such right or any attempt to subject such right to attachment, execution, garnishment, sequestration or other legal or equitable process shall be null and void.

9.3 No Implied Rights. Neither the establishment of the Plan nor any

modification thereof shall be construed as giving any Participant, Beneficiary or other person any legal or equitable right unless such right shall be specifically provided for in the Plan or conferred by affirmative action of the Company in accordance with the terms and provisions of the Plan.

9.4 Forfeiture for Cause. Notwithstanding any other provisions of this Plan to the contrary, if the Participant commits one or more Forfeiting Acts during his employment with the Company, all benefits due the Participant or his Beneficiary shall be forfeited. This provision shall apply regardless of the date the Company first learns of the occurrence of a Forfeiting Act.

9.5 Binding Effect. The provisions of the Plan shall be binding on the Company, the Committee and all persons entitled to benefits under the Plan, together with their respective heirs, legal representatives and successors in interest.

9.6 Governing Laws. The Plan shall be construed and administered according to the laws of the State of Illinois.

9.7 Number and Gender. Whenever appropriate, the singular shall include the plural, the plural shall include the singular, and the masculine shall include the feminine or neuter.

Exhibit 10(d) (vii) to the Annual Report
on Form 10-K of W.W. Grainger, Inc.
for the year ended December 31, 1998

W.W. GRAINGER, INC.
1985 EXECUTIVE DEFERRED COMPENSATION PLAN
(As Amended and Restated Effective as of October 28, 1998)

SECTION ONE

PURPOSE

1.1 The purpose of this W. W. GRAINGER, INC. 1985 EXECUTIVE DEFERRED COMPENSATION PLAN, as amended and restated effective as of October 28, 1998 (hereinafter referred to as the "1985 Plan") is to provide certain employees of W.W. Grainger, Inc. with a program to permit them to defer a portion of their present compensation to provide them with financial security in addition to the Company's other retirement programs.

SECTION TWO

DEFINITIONS

2.1 The terms defined in this Section shall have the meanings shown unless the context requires otherwise.

2.2 "Agreement" means the W.W. Grainger, Inc. 1985 Executive Deferred Compensation Agreement (substantially in the form attached to this 1985 Plan) entered into between the Company and the Employee to carry out the 1985 Plan with respect to such Participant.

2.3 "Beneficiary" means the person, trust or other legal entity designated by a Participant pursuant to Section 4.8.

2.4 "Committee" means the Compensation Committee of Management described in Section Six to manage and administer the 1985 Plan.

2.5 "Company" means W.W. Grainger, Inc., an Illinois corporation, and includes its subsidiaries.

2.6 "Compensation" means the Participant's base salary paid during the calendar year.

2.7 "Deferral Period" means the period commencing on the Participant's

Effective Date of Participation and ending on the date his Compensation Reductions cease.

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2.8 "Disability" means a condition that totally and continuously prevents the Participant, for at least-six consecutive months, from engaging in an "occupation" for Compensation or profit. During the first twenty-four months of total disability, "occupation" means the Participant's occupation at the time the disability began. After that period, occupation means any occupation for which the Participant is or becomes reasonably fitted by education, training or experience. Notwithstanding the foregoing, a disability shall not exist for purposes of this 1985 Plan if the Participant fails to qualify for disability benefits under the Social Security Act, unless the Committee determines, in its sole discretion, that a disability exists.

2.9 "Early Benefit Date" means the date of Termination of Service of the Participant for reasons other than death or disability prior to attainment of age sixty-five but after the earliest of the date on which the Participant:

(a) attains age sixty,

(b) attains age fifty-five or older after completing ten Years of Service, or

(c) completes twenty-five Years of Service.

2.10 "Effective Date of Participation" means the January 1 following the date the Employee executes an Agreement.

2.11 "Normal Benefit Date" means the date of Termination of Service of the Participant when he attains age sixty-five.

2.12 "Participant" means any Employee of the Company who is selected by the Committee and who enters into an Agreement.

2.13 "Profit Sharing Plan" means the W.W. Grainger, Inc. Employees Profit Sharing Plan, as amended from time to time.

2.14 "Service" means Service as accumulated under the Profit Sharing Plan.

2.15 "Termination of Service" means the Participant's ceasing his service with the Company for any reason whatsoever, whether voluntarily or involuntarily, including by reason of death or disability.

2.16 "Year of Service" means a year that a Participant hereunder is "Eligible" under the Profit Sharing Plan, or if he is not a Participant in the Profit Sharing Plan, a year that he would meet the requirements of the Profit Sharing Plan which would make him "Eligible" if he were a Participant in the Profit Sharing Plan.

SECTION THREE

PARTICIPANT COMPENSATION REDUCTION

3.1 Compensation Reduction. Prior to the Effective Date of Participation, each Employee designated eligible to participate in the 1985 Plan shall execute an Agreement and irrevocably elect to defer a portion of his Compensation otherwise earned and payable on or after the Effective Date of Participation (as determined by the Committee). The amount of annual Compensation to be deferred shall be set forth in Section 4 of the Agreement and shall be not less than five percent (5%) nor greater than fifteen percent (15%) of Compensation (or such greater percentage as may be approved by the Committee) for a period of not less than one nor more than four years. The amount deferred shall result in corresponding reductions in the Compensation payable to the Participant during the Deferral Period.

3.2 Company Contributions. If the Participant elects to participate, the Company will allocate fifteen percent (15%) of the amount of the Participant's Compensation Reduction to be used as provided in the 1985 Plan. The Compensation Reduction elected by a Participant under the 1985 Plan during the Deferral Period shall reduce the Participant's Recognized Compensation under the Profit Sharing Plan during the same period.

SECTION FOUR

BENEFITS

4.1 Normal Benefit.

(a) If the Participant continues his Service until his Normal Benefit Date, the Company shall pay to the Participant one hundred eighty equal monthly installments commencing on the first day of the month following his Normal Benefit Date, as Compensation earned for services rendered prior to such date, of one-twelfth of the amount per annum specified in Section 5 of the Agreement (the "Normal Benefit").

(b) If the Participant continues in Service with the Company after he has attained age sixty-five and with the consent of the Committee, his Normal Benefit payments shall commence on the first day of the month following his Termination of Service. The Normal Benefit shall be increased by an annualized interest rate factor of six percent (6%) to reflect the later commencement of the benefit after the Normal Benefit Date. Such increased benefit amount shall be payable for one hundred eighty months.

4.2 Continuation of Normal Benefit. If a Participant who is entitled to the Normal Benefit dies after his Normal Benefit Date, his Beneficiary shall be entitled to receive the remaining Normal Benefit payments, if any, that would have been paid to the Participant if the Participant had survived until he retrieved one hundred eighty monthly Normal Benefit payments. In lieu of such monthly payments, the Committee may determine, in its sole discretion, to make an actuarially determined equivalent lump sum payment to the Beneficiary.

4.3 Early Benefit.

(a) If a Participant incurs a Termination of Service on an Early Benefit Date, the Company shall pay to the Participant in equal monthly installments commencing on the first day of the month following the later of his attaining age fifty-five or his Early Benefit Date, as Compensation earned for services rendered prior to such time, one-twelfth of the amount per annum specified in Section 5 of the Agreement reduced by an annualized interest rate factor of six percent (6%) to reflect the earlier commencement of the benefit prior to the Normal Benefit Date. If the Participant dies before he has received one hundred eighty monthly Early Benefit payments, his Early Benefit payments shall cease, and the Company shall pay to the Participant's Beneficiary a Survivor's Benefit pursuant to Section 4.6 hereof.

(b) Prior to such Termination of Service, the Participant may elect to defer commencement of payment of his benefits until the first day of any month after he attains age fifty-five but not later than the month after he attains age sixty-five. In such event the Company shall pay to the Participant in equal monthly installments one-twelfth of the amount per annum specified in Section 5 of the Agreement, reduced by an annualized interest rate factor of six percent (6%) to reflect the earlier commencement of the benefit prior to the Normal Benefit Date. If the Participant dies before he has received one hundred eighty monthly Early Benefit payments, his Early Benefit payments shall cease, and the Company shall pay to the Participant's Beneficiary a Survivor's Benefit pursuant to Section 4.6 hereof.

4.4 Disability Benefit. If the Participant incurs a Termination of Service before age sixty-five as a result of a disability (as defined in Section 2.8) which results from a bodily injury sustained or sickness which first manifests itself while his Agreement is in effect, the Company shall pay to the Participant, in equal monthly installments commencing on the first day of the month after the Participant has been disabled for a period of six consecutive months, one-twelfth of the amount per annum specified in Section 6 of the Agreement until the Participant attains his Normal Benefit Date or ceases to be totally and continuously disabled (the "Disability Benefit"). After the Participant who is receiving a Disability Benefit attains his Normal Benefit Date, he shall be entitled to the Normal Benefit.

4.5 Termination of Service Prior to Early Benefit Date.

(a) Except as provided in Sections 4.3 (Early Benefit), 4.4 (Disability Benefit) and 4.6 (Survivor's Benefit), upon Termination of Service of the Participant before his Early Benefit Date the Company shall pay to the Participant, as Compensation earned for services rendered prior to his Termination of Service, a lump sum equal to the sum of:

(i) the actual amounts of his Compensation Reduction made pursuant to Section 4 of the Agreement,

(ii) a percentage of the amount of Company allocations made in behalf of such Participant pursuant to Section 3.2 hereof, based on the following schedule:

Years of Service	Percentage
0-4	50
5-6	60
7-9	80
10 and Over	100

(iii) interest through the date of Termination of Service, compounded quarterly, on the amounts of (i) and (ii) above at the end of each quarter at half the rate on ninety-day U.S. Treasury Bills in effect at the end of each quarter,

(the "Termination Benefit"). Such payment shall be made within ninety days following Termination of Service.

(b) Notwithstanding any other provision of the 1985 Plan, upon any termination of the Participant's participation in the 1985 Plan while the Participant continues in the Service of the Company, the Participant shall immediately cease to be eligible for any other benefits under the 1985 Plan and shall be entitled to receive only his Termination Benefit at the time of his Termination of Service with the Company.

4.6 Survivor's Benefit. If the Participant dies while in the Service of the Company before his Normal Benefit Date, or after Termination of Service if he was eligible for an Early Benefit or Disability Benefit at the time his Termination of Service occurred, the Company shall pay to the Participant's Beneficiary in equal monthly installments commencing on the first day of the month after the Participant's death one-twelfth of the amount per annum specified in Section 7 of the Agreement (the "Survivor's Benefit") until the later of:

(a) the date the Participant would have attained age sixty-five, or

(b) the date on which the one hundred eightieth payment is made reduced by the number of payments which were made to the Participant under Section 4.3 hereof.

4.7 Proportionate Adjustment of Benefits. If the amount of actual deferral is less than the amount of expected deferral based upon the Participant's election in Section 4 of the Agreement, the benefits under Sections 4.1 (Normal Benefit), 4.3 (Early Benefit), 4.4 (Disability Benefit) and 4.6 (Survivor's Benefit) will be adjusted proportionately based upon a fraction, the numerator of which is the actual amount of deferral and the denominator of which is the expected amount of deferral under Section 4 of his Agreement. In the case of death or disability during the Deferral Period, the denominator will be the expected amount of deferral for the actual period that deferrals were made.

4.8 Recipients of Payments; Designation of Beneficiary. All payments to be made by the Company under the 1985 Plan shall be made to the Participant during his lifetime, -provided that if the Participant dies prior to the completion of such payments, then all subsequent payments under the 1985 Plan shall be made by the Company to the Beneficiary or Beneficiaries determined in accordance with this Section 4.8. The Participant's Beneficiary under this 1985 Plan shall be the Beneficiary designated by the Participant under the Profit Sharing Plan unless the Participant files a written notice of a different Beneficiary designation with the Committee in such form as the committee requires. The form may include contingent Beneficiaries. The Participant may from time to time change the designated Beneficiary or Beneficiaries without the consent of such Beneficiary or Beneficiaries by filing a new designation in writing with the Committee. (If a Participant maintains his primary residence in a state which has community property laws, the spouse of a married Participant shall join in any designation of a Beneficiary or Beneficiaries other than the spouse.) If no designation shall be in effect at the time when any benefits payable under this 1985 Plan shall become due, the Beneficiary shall be the spouse of the Participant, or if no spouse is then living, the representatives of the Participant's estate.

4.9 Withholding; Employment Taxes. To the extent required by the law in effect at the time payments are made, the Company shall withhold from payments made hereunder any taxes required to be withheld by the federal or any state or local government.

SECTION FIVE

CLAIMS PROCEDURE

5.1 Claim for Benefits. Any claim for benefits under the 1985 Plan shall be made in writing to any member of the Committee. If such claim for

benefits is wholly or partially denied by the Committee Members, the Committee Members shall, within a reasonable period of time, but not later than sixty days after receipt of the claim, notify the claimant of the denial of the claim. Such notice of denial shall be in writing and shall contain:

- (a) the specific reason or reasons for denial of the claim,
- (b) a reference to the relevant 1985 Plan provisions upon which the denial is based,
- (c) a description of any additional material or information necessary for the claimant to perfect the claim, together with an explanation of why such material or information is necessary, and
- (d) an explanation of the 1985 Plan's claim review procedure.

5.2 Request for Review of a Denial of a Claim for Benefits. Upon the receipt by the claimant of written notice of denial of the claim, the claimant may within ninety days file a written request to the full Committee, requesting a review of the denial of the claim, which review shall include a hearing if deemed necessary by the Committee. In connection with the claimant's appeal of the denial of his claim, he may review relevant documents and may submit issues and comments in writing.

5.3 Decision Upon Review of Denial of Claim for Benefits. The Committee shall render a decision on the claim review promptly, but no more than sixty days after the receipt of the claimant's request for review, unless special circumstances (such as the need to hold a hearing) require an extension of time, in which case the sixty-day period shall be extended to one hundred twenty days. Such decision shall:

- (a) include specific reasons for the decision,
- (b) be written in a manner calculated to be understood by the claimant, and
- (c) contain specific references to the relevant 1985 Plan provisions upon which the decision is based.

SECTION SIX

COMMITTEE

6.1 General Rights, Powers, and Duties of the Committee. The Compensation Committee of Management shall be the Named Fiduciary and Committee responsible for the management, operation and administration of the 1985 Plan. In addition to any powers, rights, and duties set forth elsewhere in the 1995 Plan, it shall have the following powers and duties:

(a) to adopt such rules and regulations consistent with the provisions of the 1985 Plan as it deems necessary for the proper and efficient administration of the 1985 Plan;

(b) to enforce the 1985 Plan in accordance with its terms and any rules and regulations it establishes;

(c) to maintain records concerning the 1985 Plan sufficient to prepare reports, returns, and other information required by the 1985 Plan or by law;

(d) to construe and interpret the 1985 Plan; to resolve all questions arising under the 1985 Plan; and to approve the amounts of the Compensation Reductions in excess of fifteen percent (15%) of Compensation;

(e) to direct the Company to pay benefits under the 1985 Plan, and to give such other directions and instructions as may be necessary for the proper administration of the 1985 Plan;

(f) to employ or retain agents, attorneys, actuaries, accountants or other persons, who may also be employed by or represent the Company; and

(g) to be responsible for the preparation, filing, and disclosure on behalf of the 1985 Plan of such documents and reports as are required by any applicable federal or state law.

6.2 Information to be Furnished to Committee. The Company shall furnish the Committee such data and information as it may require. The records of the Company shall be determinative of each Participant's period of employment, termination of employment and the reason therefor, leave of absence, reemployment, Years of Service, personal data, and Compensation. Participants and their Beneficiaries shall furnish to the Committee such evidence, data or information, and execute such documents as the Committee requests.

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6.3 Responsibility. No member of the Committee or of the Board of Directors of the Company shall be liable to any person for any action taken or omitted in connection with the administration of this 1985 Plan unless attributable to his own fraud or willful misconduct; nor shall the Company be liable to any person for any such action unless attributable to fraud or willful misconduct on the part of a director, officer or employee of the Company.

SECTION SEVEN

AMENDMENT AND TERMINATION

7.1 Rights on Termination of Service. Except as expressly provided in

Section Four or, if Termination of Service occurs after a Change in Control, Section 7.5 hereof, the Company shall not be required or be liable to make any payment under this 1985 Plan subsequent to the Termination of Service of the Participant.

7.2 No Right to Company Assets. Neither the Participant nor any other person shall acquire by reason of the 1985 Plan or Agreement any right in or title to any assets, funds or property of the Company whatsoever including, without limiting the generality of the foregoing, any specific funds, assets, or other property which the Company, in its sole discretion, may set aside in anticipation of a liability hereunder. No trust shall be created in connection with or by the execution or adoption of this 1985 Plan or the Agreement, and any benefits which become payable hereunder shall be paid from the general assets of the Company. The Participant shall have only a contractual right to the amounts, if any, payable hereunder unsecured by any asset of Company.

7.3 No Employment Rights. Nothing herein shall constitute a contract of continuing Service or in any manner obligate the Company to continue the services of the Participant, or obligate the Participant to continue in the Service of the Company, and nothing herein shall be construed as fixing or regulating the bonuses or other Compensation payable to the Participant.

7.4 Company's Right to Terminate. The Company reserves the right at any time by resolution of its Board of Directors delivered to the Committee to amend or terminate the 1985 Plan and/or the Agreement pertaining to the Participant or to reduce the amount of benefits payable, provided however, that:

(a) in the event of any such termination, the Participant shall be entitled to the Termination Benefit specified in Section 4.5 of this 1985 Plan at the time of the termination of the 1985 Plan and/or his Agreement except that:

(i) the interest rate set forth in subsection 4.5(a)(iii) shall be one hundred percent (100%) of the rate on ninety-day U.S. Treasury Bills; and

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(ii) the Participant will be entitled to one hundred percent (100%) of the Company allocations made pursuant to Section 3.2 of the 1985 Plan;

(b) in the event of any amendment which reduces the amount of benefits payable hereunder, a reduction may not reduce the amount of the Normal Benefit payable at age sixty-five to an amount less than the Normal Benefit that could be provided by the amount of the Termination Benefit calculated in accordance with subsection 7.4(a) hereof using the date the reduction of benefit is adopted as the date of termination. In calculating the Normal Benefit payable at age sixty-five that could be

provided by the Termination Benefit (as modified), the Committee shall use an interest rate no less than the average of the interest rate on U.S. Treasury Bonds with twenty year maturities as published by the Federal Reserve Board for the twelve months ending on December 31 of the calendar year prior to the date on which the calculation is being made rounded to the nearest one-tenth of one percent (.1%). A reduction in the amount of a benefit may not change the ratio of the benefits provided in Sections 4.1, 4.3, 4.4 and 4.6 hereof to the Normal Benefit as set forth in the affected Participant's Agreement; and

(c) benefits which are being paid at the time the 1985 Plan is terminated or when benefits are reduced will continue to be paid without reduction in accordance with the 1985 Plan and the Agreement which pertains to the particular Participant.

The Committee shall notify each Participant affected by any amendment, termination or reduction of such action and its effective date within thirty days after it receives notice from the Company.

7.5 Change in Control. If there is a Change in Control as defined in Section 7.6 hereof, notwithstanding any other provision of this Plan and/or Agreement, the Plan and all Agreements hereunder shall be terminated in their entirety (unless subsection 7.6(c) is applicable) and:

(a) each Participant or his Beneficiary who is then receiving a benefit hereunder shall be paid by the Company a lump sum payment equal to the present value of the remaining payments due him under this Plan based upon an interest rate which is no greater than one-half the interest rate set forth in subsection 7.4(b) hereof;

(b) each Participant who is not then receiving a benefit shall be paid by the Company a lump sum equal to the greater of:

(i) the amount of the Termination Benefit as modified in subsection 7.4(a), or

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(ii) the present value of his Normal Benefit payable beginning at age sixty-five based upon an interest rate determined by the Company which is no greater than one-half the interest rate set forth in subsection 7.4(b) hereof.

7.6 Definition of Change in Control. "Change in Control shall mean:

(a) the sale of the Company or substantially all of its assets, in any form whatsoever, including merger, consolidation, or other reorganization;

(b) the acquisition after October 28, 1998 by any individual (excluding

individuals who are Directors of the Company on October 28, 1998), corporation, partnership or other person or entity, together with his or her "Affiliates" and "Associates" (as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended September 30, 1981) of five percent (5%) or more of the outstanding shares of the common stock of the Company followed by a change in the makeup of a majority of the Board of Directors, within two years from the acquisition of such amount of shares; or

(c) any sale of a substantial portion of the Company or its assets or any substantial change in the ownership of the outstanding shares of common stock of the Company which the Company, in its sole discretion, determines to be a Change in Control under this Section. "Change in Control" under this clause (c) may terminate the Plan either in its entirety, or only as to the Participants who service with the Company is terminated as a result of such sale or change in ownership.

SECTION EIGHT

MISCELLANEOUS

8.1 Setoff. If at the time payments or installments of payments are to be made hereunder the Participant or the Beneficiary or both are indebted or obligated to the Company, then the payments remaining to be made to the Participant or the Beneficiary or both may, at the discretion of the Company, be reduced by the amount of such indebtedness or obligation, provided, however, that an election by the Company not to reduce any such payment or payments shall not constitute a waiver of its claim for such indebtedness or obligation.

8.2 Nonassignability. Neither the Participant nor any other person shall have any right to commute, sell, assign, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly

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declared to be unassignable and nontransferable. Except for debts owed to the Company, no part of the amounts payable hereunder shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by the Participant or any other person, or be transferable by operation of law in the event of the Participant's or any other person's bankruptcy or insolvency.

8.3 Gender and Number. Wherever appropriate herein, the masculine may mean the feminine and the singular may mean the plural or vice versa.

8.4 Notice. Any notice required or permitted to be given under the 1985 Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, and if given to the Company, delivered to the principal office of the Company, directed to the attention of the Compensation Committee of Management. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or the receipt for registration or certification.

8.5 Governing Laws. The 1985 Plan shall be construed and administered according to the laws of the State of Illinois.

IN WITNESS WHEREOF, the Company has amended and restated this W.W. Grainger, Inc. 1985 Executive Deferred Compensation Plan on November 3, 1998.

W.W. GRAINGER, INC.

By: // J.D. Fluno //

Its: Vice Chairman

ATTEST:

// K.S. Kirsner //

Its: Assistant Secretary

SUMMARY DESCRIPTION OF THE
1999 MANAGEMENT INCENTIVE PROGRAM (MIP)
BASED ON IMPROVED ECONOMIC EARNINGS
FOR W.W. GRAINGER, INC.

I. INTRODUCTION

The Company Management Incentive Program (MIP) was initiated January 1, 1993 for employees in grades 13 and above with the first payout in March 1994. For eligible participants, this program replaced participation in both the discontinued Team Achievement Bonus (TAB) and the Long-term Incentive Program (LTIP).

The effective date of the Team Incentive Program (TIP) was January 1, 1994. This program included employees in salary grades 10 through 12. The first payout was made in March 1995. For eligible participants, this program replaced participation in the discontinued Team Achievement Bonus (TAB) program and other short-term incentive programs.

Effective January 1, 1997, the MIP and the TIP were combined into one program. Changes were made to various provisions to accomplish this transition. This Summary Description details the provisions of the combined program.

II. BACKGROUND

During 1993, the Company adopted Economic Earnings (EE) as a key financial measurement. EE incorporates the attributes of growth, asset management and earnings to evaluate financial performance. Conceptually, long-term improvements in EE should correspond to long-term improvements in shareholder value.

The MIP is designed to encourage decision making that results in improvement in EE and to compensate executives, middle managers and key staff appropriately for positive or negative performance resulting from business decisions. By linking EE to incentive compensation, the MIP should influence participants to make business decisions consistent with long-term shareholders' interests.

III. ELIGIBILITY FOR PARTICIPATION

Employees in incentive-eligible salary grades 10 and above are eligible to participate in this program, subject to the provisions in Section IV. These employees are responsible for decisions affecting EE and/or major policy direction.

Several business units have established incentive programs unique to their units. Employees who would otherwise be eligible for the Company MIP will instead participate in their unit-level program. Employees may not participate in multiple incentive programs at the same time.

Effective January 1, 1997, members of the Office of the Chairman participate in the Office of the Chairman Incentive Plan (OCIP).

IV. ELIGIBILITY PROVISIONS

Specific eligibility provisions are developed and reviewed annually. Eligibility provisions are as follows:

- A. Full-Year Participation -- Employees in grades 10 and above who were employed in those grades for the full year will be eligible to receive a full award under the MIP, except as noted below.
- B. First-Year Participation -- Individuals who are hired or promoted into a position eligible for participation in the MIP on or before July 1 will be eligible to receive a pro-rata award based on the number of months in the eligible position. Employees hired or promoted after July 1 are not eligible to participate for the year.
- C. Transfer From Another Management Incentive Program -- Individuals who are promoted or transferred into an eligible position from a position eligible for incentive pay under another management incentive program will receive an award prorated based on the number of months in each eligible position.
- D. Promotions within MIP -- Participants who are promoted during the year from one MIP eligible position to another shall have their target award percentage based on the salary grade in effect on July 1.
- E. Ungraded Positions -- Participants who are in an ungraded

position will be considered, for purposes of this program, to be in the grade indicated on the most recently approved PAF. If none has been indicated, Human Resources, in conjunction with the functional Vice President, will determine the grade to be used.

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- F. Transfer to Other Business Units -- An employee who transfers to another Company business unit and no longer participates in the MIP and will not participate in the new unit's management incentive program, will receive a pro-rata award for the number of months the person was in a participating position on the next regular incentive payment date.
- G. Job Elimination or Downgrade -- If a participant's job is eliminated for business reasons or is downgraded and the employee's new job is at a non-participating level, a pro-rata award for the current year will be made on the next regular incentive payment date. In the event the participant does not continue employment, an award for the current year will be made on the next regular incentive payment date. The salary used in the calculations will be the actual amount paid in the year rather than an annualized amount.
- H. Voluntary Resignation - If a participant leaves before October 1, no award will be paid for the current year. If a participant leaves after October 1, but before the end of a calendar year, the employee will be deemed to have earned that year's payment and will receive that year's payout on the next regular incentive payment date. The salary to be used in the calculations will be the actual amount paid in the year rather than an annualized amount.
- I. Involuntary Termination - For Misconduct or Performance Related Reasons - In these instances, no award will be granted for the current year or the prior year if not yet paid at the time of termination.

"For Misconduct" means:

The participant has engaged, or intends to engage, in competition with the Company; has induced any customer of the Company to breach any contract with the Company; has made any unauthorized disclosure of any of the trade secrets or confidential information of the Company; has committed an act of embezzlement, fraud or theft with respect to the property of the Company; or has deliberately disregarded the rules of the Company in such a manner as to cause any loss, damage or injury to, or otherwise endanger the property, reputation or employees

of the Company.

J. Death, Retirement or Long-term Disability -- A pro-rata award will be made for the current year to the employee or his/her estate on the next regular incentive payment date. Retirement is defined the same as under the W.W. Grainger, Inc. or Lab Safety Supply, Inc. Profit Sharing Plan. The salary to be used in the calculations will be the final monthly salary.

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K. Inactive Status - Participants are not eligible to receive a payment for any time that they are on inactive status or if they are on inactive status on December 31, unless they are on short-term disability.

L. Employees rated 1 or 2 are not eligible for participation. For those business units / functions that have transitioned to Performance Excellence, the employee must be in good standing. Good standing is defined as not currently being on a performance improvement program.

Exceptions to the above provisions can only be approved by the CCOM.

V. ADMINISTRATION OF THE PROGRAM

The governance of the MIP is the responsibility of the Compensation Committee of Management (CCOM), subject to the review and approval of the Compensation Committee of the Board (CCOB). The CCOM shall have the sole and complete authority to interpret this program, determine all questions relating to it, and to modify its provisions. All determinations, interpretations or other actions made or taken by the CCOM in connection with it shall be final and conclusive for all purposes and upon all persons.

The administration of this program, including the calculation of payments, is the responsibility of the Vice President & Treasurer; the Director, Compensation, and the Employee Systems Manager.

VI. MEASURES AND TARGET AWARDS

The MIP consists of two components - a quantitative one and a qualitative one. The quantitative component consists of one performance measure: improvement in Company Economic Earnings. Target awards are established for each of incentive-eligible grades 10 and above and are stated as a percentage of the participant's annualized base salary as of December 31. The target award for all participants

is based solely on Company EE. The target award is adjusted upward or downward based on the relationship between Actual Company EE and Target Company EE for each year.

Target Company EE is based on a weighted average of the three prior years' Actual Company EE before MIP accrual plus a 10% improvement factor. The Target Company EE formula is:

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Target Company EE =

$$[(50\% \times \text{EE-1}) + (30\% \times \text{EE-2}) + (20\% \times \text{EE-3})] \times 110\%$$

Where:

EE-1 equals EE in prior year (year one)

EE-2 equals EE in year prior to year one (year two)

EE-3 equals EE in year prior to year two (year three)

Note: The improvement factor applicable to any prior year having negative EE is 90%.

The next step involves comparison of Actual EE to Target EE in order to calculate the Bonus Earned. Two factors are employed: the Bonus Interval and the Bonus Multiple. The Bonus Interval is the variance from Target EE required to double the bonus earned or to result in no bonus earned. The Bonus Interval has been set at \$75 million. The Bonus Multiple can be expressed as:

$$\text{EE Bonus Multiple} = (\text{Actual EE} - \text{Target EE}) / \text{Bonus Interval} + 1.00$$

The Bonus Earned is computed as:

$$\text{Target Bonus \$} = (12/31 \text{ Monthly Salary} \times 12) \times \text{Target Award Percentage}$$

$$\text{Bonus Earned} = (\text{Target EE Bonus \$} \times \text{EE Bonus Multiple})$$

The Bonus Earned constitutes the quantitative component of the MIP. The total bonus earned is equal to this quantitative component plus or minus any discretionary adjustment as recommended by the CCOM and approved by the CCOB.

The qualitative component consists of a discretionary adjustment. The discretionary adjustment, if any, begins as a pool and can be plus or minus up to 10% of the base salaries of the bonus group. Once the amount of the pool is determined, it is allocated pro-rata across the group according to the quantitative component earned by each participant.

VII. PAYMENT

Payments under this program will be made annually or before March 15 for the prior years' results. Payment will be made in cash, less amounts required to be withheld.

Payments under this program are included in "admissible pay" under the Profit Sharing Plan.

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Notwithstanding anything herein to the contrary, payment of all or part of awards under the MIP that are subject to or otherwise result in disallowance as deductions for employee remuneration under Section 162(m) of the Internal Revenue Code of 1986, as amended, shall be deferred as and to the extent provided by the Board of Directors or the CCOB.

VIII. RIGHT OF CONTINUED EMPLOYMENT

Participation in this program is not a guarantee of employment nor of continued participation in any subsequent year.

IX. TERMINATION OF THE PROGRAM

The Company reserves the right to modify, amend or terminate the program at any time with or without prior notice.

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CHANGE IN CONTROL EMPLOYMENT AGREEMENT
(Senior Executive)

AGREEMENT by and between W.W. Grainger, Inc., an Illinois corporation (the "Company"), and [[Officer]] ("Executive"), dated as of March __, 1999 (the "Agreement Date").

Recitals

A. The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication of Executive, notwithstanding the possibility, threat, or occurrence of a Change in Control (as defined below) of the Company.

B. The Board believes it is imperative to diminish the inevitable distraction of Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change in Control, to encourage Executive's full attention and dedication to the Company, and to provide Executive with compensation and benefits arrangements upon a Change in Control which (i) will satisfy Executive's compensation and benefits expectations and (ii) are competitive with those of other major corporations.

Agreement

In consideration of the mutual agreements contained herein, the Company and Executive hereby agree as follows:

1. Certain Definitions. The terms set forth below in alphabetical order have the following meanings (such meanings to be applicable to both the singular and plural forms):

"Accrued Annual Bonus" means the amount of any Annual Bonus accrued but not yet paid with respect to each fiscal year of the Company ended prior to the Date of Termination.

"Accrued Base Salary" means the amount of Executive's Annual Base Salary which is accrued but not yet paid as of the Date of Termination.

"Accrued Obligations" -- see Section 4(a) (i) (A).

"Agreement Term" means the period commencing on the Agreement Date and ending on the third anniversary of such date or, if later, such later date to

which the Agreement Term is extended pursuant to the following sentence. On each day after the second anniversary of the Agreement Date, the Agreement Term shall be automatically

extended by one day to create a new one-year term until, at any time on or after the second anniversary of the Agreement Date, the Company delivers a written notice (an "Expiration Notice") to Executive stating that this Agreement shall expire on a date specified in the Expiration Notice (the "Expiration Date") that is at least 12 months after the date the Expiration Notice is delivered to Executive; provided, however, that if a Change in Control occurs before the Expiration Date specified in an Expiration Notice, then (a) such Expiration Notice shall automatically be cancelled and of no further effect and (b) the Company shall not give Executive any additional Expiration Notice prior to the date which is 24 months after the Effective Date.

"Annual Base Salary" -- see Section 2(b)(i).

"Annual Bonus" -- see Section 2(b)(ii).

"Cause" -- see Section 3(b).

"Change in Control" means any one or more of the following events:

(A) approval by the shareholders of the Company of:

(i) any merger, reorganization or consolidation of the Company or any Subsidiary with or into any corporation or other Person if Persons who were the beneficial owners (as such term is used in Rule 13d-3 under the Act) of the Company's Common Stock and securities of the Company entitled to vote generally in the election of directors ("Voting Securities") immediately before such merger, reorganization or consolidation are not, immediately thereafter, the beneficially owners, directly or indirectly, of at least 60% of the then-outstanding common shares and the combined voting power of the then-outstanding Voting Securities ("Voting Power") of the corporation or other Person surviving or resulting from such merger, reorganization or consolidation (or the parent corporation thereof) in substantially the same respective proportions as their beneficial ownership, immediately before the consummation of such merger, reorganization or consolidation, of the then-outstanding Common Stock and Voting Power of the Company; or

(ii) the sale or other disposition of all or substantially all of the consolidated assets of the Company, other than a sale or other disposition by the Company of all

or substantially all of its consolidated assets to an entity of which at least 60% of the common shares and the Voting Power outstanding immediately after such sale or other disposition are then beneficially owned (as such term is used in Rule 13d-3 under the Act) by shareholders of the Company in substantially the same respective proportions as their beneficial ownership of Common Stock and Voting

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Power of the Company immediately before the consummation of such sale or other disposition; or

(iii) a liquidation or dissolution of the Company; or

(B) the following individuals cease for any reason to constitute a majority of the directors of the Company then serving: individuals who, on the Agreement Date, constitute the Board and any subsequently-appointed or elected director of the Company (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including a consent solicitation, relating to the election or removal of one or more directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two-thirds of the Company's directors then in office whose appointment, election or nomination for election was previously so approved or recommended or who were directors on the Agreement Date; or

(C) the acquisition or holding by any person, entity or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Act), other than by any Exempt Person, the Company, any Subsidiary, any employee benefit plan of the Company or a Subsidiary, of beneficial ownership (as such term is used in Rule 13d-3 under the Act) of 20% or more of either the Company's then-outstanding Common Stock or Voting Power; provided that:

(i) no such person, entity or group shall be deemed to own beneficially any securities held by the Company or a Subsidiary or any employee benefit plan (or any related trust) of the Company or a Subsidiary;

(ii) no Change in Control shall be deemed to have occurred solely by reason of any such acquisition if both (x) after giving effect to acquisition, such person, entity or group has beneficial ownership of less than 30% of the then-outstanding Common Stock and Voting Power of the Company

and (y) prior to such acquisition, at least two-thirds of the directors described in (and not excluded from) paragraph (B) of this definition vote to adopt a resolution of the Board to the specific effect that such acquisition shall not be deemed a Change in Control; and

(iii) no Change in Control shall be deemed to have occurred solely by reason any such acquisition or holding in connection with any merger, reorganization or consolidation of the Company or any Subsidiary which is not a Change in Control within the meaning of paragraph (A)(i) of this definition.

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Notwithstanding the occurrence of any of the foregoing events, no Change in Control shall occur with respect to Executive if (i) the event which otherwise would have be a Change in Control (or the transaction which resulted in such event) was initiated by Executive or was discussed by him with any third party, in either case without the approval of the Board with respect to Executive's initiation or discussion, as applicable, or (ii) Executive is, by written agreement, a participant on his own behalf in a transaction in which the persons (or their affiliates) with whom Executive has the written agreement cause the Change in Control to occur and, pursuant to the written agreement, Executive has an equity interest (or a right to acquire such equity interest) in the resulting entity.

"Code" means the Internal Revenue Code of 1986, as amended.

"Date of Termination" means the effective date of any termination of Executive's employment for any or no reason, whether by the Company or by Executive, as specified in the Notice of Termination; provided, however, that if Executive's employment is terminated by reason of his death or Disability, the Date of Termination shall be the date of death of or the Disability Effective Date, as the case may be.

"Effective Date" means the first date during the Agreement Term on which a Change in Control occurs. Anything in this Agreement to the contrary notwithstanding, if Executive's employment with the Company is terminated prior to the date on which a Change in Control occurs, and Executive reasonably demonstrates that such termination of employment (i) was requested by a third party who has taken steps reasonably calculated to effect the Change in Control or (ii) otherwise arose in connection with or anticipation of the Change in Control, then for all purposes of this Agreement the Effective Date shall be the date immediately prior to the Date of Termination.

"Employment Period" means the period commencing on the Effective Date and ending on the third anniversary of such date.

"Exempt Person" means any one or more of the following:

(a) any descendant of W.W. Grainger (deceased) or any spouse, widow or widower of any such descendant (any such descendants, spouses, widows and widowers collectively defined as the "Grainger Family Members");

(b) any descendant of E.O. Slavik (deceased) or any spouse, widow or widower of any such descendant (any such descendants, spouses, widows and widowers collectively defined as the "Slavik Family Members" and with the Grainger Family Members collectively defined as the "Family Members");

(c) any trust which is in existence on the Agreement Date and which has been established by one or more Grainger Family Members, any estate of a Grainger Family Member who died on or before the Agreement Date, and The Grainger Founda-

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tion (such trusts, estates and named entity collectively defined as the "Grainger Family Entities");

(d) any trust which is in existence on the Agreement Date and which has been established by one or more Slavik Family Members, any estate of a Slavik Family Member who died on or before the Agreement Date, Mark IV Capital, Inc., and Mountain Capital Corporation (such trusts, estates and named entities collectively defined as the "Slavik Family Entities" and with the Grainger Family Entities collectively defined as the "Existing Family Entities");

(e) any estate of a Family Member who dies after the Agreement Date or any trust established after the Agreement Date by one or more Family Members or Existing Family Entities; provided that one or more Family Members, Existing Family Entities or charitable organizations which qualify as exempt organizations under Section 501(c) of the Code ("Charitable Organizations"), collectively are the beneficiaries of at least 50% of the actuarially-determined beneficial interests in such estate or trust;

(f) any Charitable Organization which is established by one or more Family Members or Existing Family Entities (a "Family Charitable Organization");

(g) any corporation of which a majority of the voting power and a majority of the equity interest is held, directly or indirectly, by or for the benefit of one or more Family Members, Existing Family Entities, estates or trusts described in clause (e) above, or Family Charitable Organizations; or

(h) any partnership or other entity or arrangement of which a majority of the voting interest and a majority of the economic interest is held, directly or indirectly, by or for the benefit of one or more Family Members, Existing Family Entities, estates or trusts described in clause (e) above, or Family Charitable Organizations.

"Formula Bonus" means the greater of:

(a) the average dollar amount of annual bonus paid or payable to Executive during the three fiscal years preceding the Date of Termination (any such annual bonus amount to be annualized for any fiscal year consisting of less than 12 full months or with respect to which Executive has been employed by the Company for less than 12 full months), or

(b) the amount of the Annual Bonus which Executive was, as of the Date of Termination, eligible to receive in respect of the fiscal year of the Date of Termination, assuming for purposes of this paragraph (i) that target-level performance had been achieved for such fiscal year, (ii) that Executive's employment would have continued until the first date on which such Annual Bonus would have been payable, and (iii) if the amount of such Annual Bonus that Executive

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was eligible to receive was reduced after the Effective Date (whether or not such reduction qualified as Good Reason), that such reduction had not occurred.

"Good Reason" -- see Section 3(c).

"Gross-Up Multiple" -- see Section 9(e).

"Highest Profit Sharing Plan Contribution" -- see Section 2(b)(iii).

"Including" means including without limitation.

"Non-Employee Director" means a director of the Company who is not an employee of (i) the Company, (ii) any Subsidiary or (iii) any Person who beneficially owns more than 30% of the Common Stock then outstanding.

"Person" means .any individual, corporation, partnership, limited liability company, sole proprietorship, trust or other entity.

"Policies" means policies, practices and programs.

"Prorated Annual Bonus" means (i) the product of the amount of the Annual Bonus to which Executive would have been entitled (based on target-level performance) if he had been employed by the Company on the last day of the Company's fiscal year that includes the Date of Termination and if performances were achieved at the target level for such fiscal year, multiplied by (ii) a fraction of which the numerator is the numbers of days that have elapsed in such fiscal year through the Date of Termination and the denominator is 365.

"Subsidiary" means corporation, limited liability company, partnership or other business entity in which the Company, directly or indirectly, holds a majority of the voting power of the outstanding securities.

"Taxes" means the incremental United States federal, state and local income, excise and other taxes payable by Executive with respect to any applicable item of income.

2. Terms of Employment. The Company shall to continue Executive in its employ during the Employment Period on the following terms and conditions:

(a) Position and Duties.

(i) During the Employment Period, (A) Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-

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day period immediately preceding the Effective Date and (B) Executive's services shall be performed at the location where Executive was employed immediately preceding the Effective Date or any office or location less than 50 miles from such location.

(ii) During the Employment Period, and excluding any periods of vacation, sick leave and disability to which Executive is entitled, Executive shall devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to Executive thereunder, to use Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period, Executive may (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities are consistent with the policies of the Company at the Effective Date and do not significantly interfere with the performance of Executive's responsibilities (as set forth in this Agreement) as an employee of the Company. To the extent that any such activities have been conducted by Executive prior to the Effective Date and were consistent with the policies of the Company at the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of Executive's responsibilities to the Company.

(b) Compensation.

(i) Base Salary. During the Employment Period, Executive shall receive an annual base salary in cash ("Annual Base Salary"), which shall be paid in a manner consistent with the Company's

payroll practices immediately preceding the Effective Date at a rate at least equal to 12 times the highest monthly base salary (unreduced by any salary reductions or deferrals pursuant to a plan maintained under Section 401(k) of the Code or any similar plan) paid or payable to Executive by the Company in respect of the 12-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Company shall review the Annual Base Salary at least annually and shall increase Annual Base Salary at any time and from time to time as shall be substantially consistent with increases in base salary awarded in the ordinary course of business to peer executives of the Company. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase and the term "Annual Base Salary" shall refer to Annual Base Salary as so increased.

(ii) Annual Bonus. In addition to Annual Base Salary, Executive shall be awarded, for each fiscal year during the Employment Period, an annual

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bonus (the "Annual Bonus") in cash which is at least equal to the average dollar amount of annual bonus paid or payable to Executive during the three fiscal years preceding the Effective Date (any such annual bonus amount to be annualized for any fiscal year consisting of less than 12 full months or with respect to which Executive has been employed by the Company for less than 12 full months). The Company shall pay each such Annual Bonus no later than 90 days after the end of the fiscal year for which the Annual Bonus is awarded, unless Executive shall elect to defer the receipt of such Annual Bonus.

(iii) Incentive, Savings and Retirement Plans. In addition to Annual Base Salary and Annual Bonus payable as hereinabove provided, Executive shall be entitled to participate during the Employment Period in all incentive, savings and retirement plans and Policies applicable to peer executives of the Company, but in no event shall such plans and Policies provide Executive with incentive, savings and retirement benefits opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Company for Executive under such plans and Policies as in effect at any time during the 90-day period immediately preceding the Effective Date. Benefits to which this paragraph shall apply include, but are not limited to, a contribution ("Highest Profit Sharing Plan Contribution") for each calendar year of Executive's employment during the Employment Period, on Executive's behalf to the W.W. Grainger, Inc. Profit Sharing Plan (the "PST") and, if applicable, a credit under the W.W. Grainger, Inc. Supplemental Profit Sharing Plan (the "Supplemental Plan" and with the PST, collectively referred to as the "Profit Sharing Plans") equal to not less than the product of (A) the greater of (I) 15%; or (II) the

highest percentage of the sum of Executive's base salary and annual bonus paid or payable as a contribution to or credit under the Profit Sharing Plans, as applicable, for any of the three fiscal years preceding the Effective Date, and (B) the sum of Executive's Annual Base Salary and Annual Bonus, each as of the first day of such calendar year. In the event that a contribution or credit, as applicable, of less than the Highest Profit Sharing Plan Contribution is made to the Profit Sharing Plans on Executive's behalf for any calendar year of Executive's employment during the Employment Period, Executive shall be entitled to a cash payment equal to the difference between the Highest Profit Sharing Plan Contribution and the amount of the Company's contribution or credit, as applicable, to the Profit Sharing Plans on Executive's behalf for such year, payable at the time that the Company's contribution is made to the PST, but in no event later than the date prescribed by law, including extensions of time, for the filing of the Company's federal income tax return for such year.

(iv) Welfare Benefit Plans. During the Employment Period, Executive and/or Executive's family, as the case may be, shall be eligible to participate in and shall receive all benefits under welfare benefit plans and Policies provided by the Company (including medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident

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insurance plans and programs) and applicable to peer executives of the Company, but in no event shall such plans and Policies provide benefits which are less favorable, in the aggregate, than the most favorable of such plans and Policies in effect at any time during the 90-day period immediately preceding the Effective Date.

(v) Expenses. During the Employment Period, Executive shall be entitled to prompt reimbursement for all reasonable expenses incurred by Executive in accordance with the most favorable Policies of the Company in effect at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to Executive, as in effect at any time thereafter with respect to peer executives of the Company.

(vi) Fringe Benefits. During the Employment Period, Executive shall be entitled to fringe benefits in accordance with the most favorable plans and Policies of the Company in effect at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to Executive, as in effect at any time thereafter with respect to peer executives of the Company.

(vii) Office; Support Staff. During the Employment Period, Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to personal

secretarial and other assistance, at least equal to the most favorable of the foregoing provided to Executive by the Company at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to Executive, as provided at any time thereafter with respect to peer executives of the Company.

(viii) Vacation. During the Employment Period, Executive shall be entitled to paid vacation in accordance with the most favorable plans and Policies of the Company as in effect at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to Executive, as in effect at any time thereafter with respect to peer executives of the Company.

(ix) Subsidiaries. To the extent that, immediately prior to the Effective Date, Executive has been on the payroll of, and participated in the bonus, incentive or employee benefit plans of, a Subsidiary, the references to the Company contained in Sections 2(b)(i) through 2(b)(viii) and elsewhere in this Agreement referring to benefits to which Executive may be entitled shall also refer to such Subsidiary.

3. Termination of Employment.

(a) Death or Disability. Executive's employment shall terminate automatically upon Executive's death during the Employment Period. If the Company determines in good faith that the Disability of Executive has occurred during the Employment

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Period, it may give to Executive written notice of its intention to terminate Executive's employment. In such event, Executive's employment with the Company shall terminate as of the 30th day after Executive's receipt of such notice (the "Disability Effective Date"); provided that, within the 30 days after such receipt, Executive shall not have returned to full-time performance of his duties. "Disability" means the absence of Executive from Executive's duties with the Company on a full-time basis for a period of time equal to the Waiting Period as a result of incapacity due to mental or physical illness that is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to Executive or Executive's legal representative (such agreement as to acceptability not to be unreasonably withheld or delayed). "Waiting Period" means the waiting period under a long-term disability plan of the Company that is applicable to Executive and satisfies the requirements of Section 2(b)(iv).

(b) Cause. The Company may terminate Executive's employment during the Employment Period for Cause. "Cause" means the occurrence of any one or more of the following actions or failures to act as determined by the Board in its reasonable judgment and in good faith:

(i) embezzlement, fraud or theft with respect to the property of the Company or a conviction for any felony involving moral turpitude or causing material harm, financial or otherwise, to the Company;

(ii) habitual neglect in the performance of Executive's significant duties (other than on account of incapacity due to physical or mental illness or Disability); or

(iii) a demonstrably deliberate act or failure to act, including a violation of the rules or policies of the Company, which causes a material financial or other loss, damage or injury to the property, reputation or employees of the Company; provided, however, that, unless such an act or a failure to act was done by Executive in bad faith or without a reasonable belief that Executive's act or failure to act, as the case may be, was in the best interest of the Company or was required by applicable law, such act or failure to act shall not constitute Cause if, within 20 days after the Board or the Chief Executive Officer of the Company gives Executive written notice of such act or failure to act that specifically refers to this Section, Executive cures such act or failure to act to the fullest extent that it is curable.

"Cause" shall not mean (x) bad judgment or negligence other than habitual neglect of significant duties or (y) any act or omission in respect of which the Board could have properly determined that Executive met the applicable standard of conduct for the indemnification or reimbursement under the by-laws of the Company or applicable law, in each case as in effect at the time of such act or omission. In addition, a termination

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of Executive's employment shall not be deemed to be for Cause unless each of the following conditions is satisfied:

(v) The Company provides Executive a written notice (a "Notice of Intent to Terminate") not less than 30 days prior to the Date of Termination setting forth the Company's intention to consider terminating Executive's employment. Such Notice shall include a statement of the intended Date of Termination and a detailed description of the specific facts that the Company believes to constitute Cause.

(w) No act or omission of Executive shall constitute Cause if such act or omission occurred more than 12 months before the earliest date on which any member of the Board who is not a party to the act or omission knew or in the reasonable exercise of his or her duties as a director should have know of such act or omission.

(x) Executive is offered an opportunity to respond to such Notice of Intent to Terminate by appearing in person, together with Executive's legal counsel, before the Board on a date specified in the Notice of Intent to Terminate, which date shall be at least 25 days after Executive's receipt of the Notice of Intent to Terminate and, in any event, at least five days prior to the Date of Termination proposed in such Notice.

(y) By a vote of the Board that includes the affirmative vote of at least 75% of the Non-Employee Directors, the Board determines that the actions of Executive specified in the Notice of Intent to Terminate constitute Cause and that Executive's employment should accordingly be terminated for Cause.

(z) The Company provides Executive a copy of the Board's written determination setting forth in detail (I) the specific basis for such termination for Cause and (II) if the Date of Termination is other than the date of Executive's receipt of such determination, the Date of Termination (which date shall be not more than 15 days after the giving of such notice).

By determination of the Board, the Company may suspend Executive from his duties for a period of up to 30 days with full pay and benefits thereunder during the period of time in which the Board is determining whether to terminate Executive for Cause. Any purported termination for Cause by the Company that does not satisfy each substantive and procedural requirement of this Section 3(b) shall be treated for all purposes under this Agreement as a termination by the Company without Cause.

(c) Good Reason. Executive may terminate his employment at any time during the Employment Period for Good Reason. "Good Reason" means any one or more of the following:

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(i) the assignment to Executive of any duties inconsistent in any respect with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 2(a), or any other action by the Company which results in a material adverse change in such position, authority, duties or responsibilities, excluding an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 2(b), other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by Executive;

(iii) any requirement that Executive be based at any office or location other than the location specified in Section 2(a)(i)(B);

(iv) any purported termination by the Company of Executive's employment otherwise than as expressly permitted by this Agreement (it being understood that any such purported termination shall not be effective for any other purpose of this Agreement);

(v) any failure by the Company to comply with Section 10(c); or

(vi) anything in this Agreement to the contrary notwithstanding, any termination by Executive for any reason during the 30-day period immediately following the first anniversary of the Effective Date.

Any good faith determination of Good Reason made by Executive shall be conclusive.

(d) Notice of Termination. Any termination of Executive's employment by the Company or by Executive shall be communicated by Notice of Termination to the other party hereto. "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated and (iii) if the Date of Termination is other than the date of receipt of such notice, specifies the Date of Termination (which date shall be not more than 15 days after the giving of such notice). The failure by Executive to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason shall not waive any right of Executive thereunder or preclude Executive from asserting such fact or circumstance in enforcing Executive's rights thereunder.

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4. Obligations of the Company upon Termination.

(a) Good Reason; Other Than for Cause or Disability. If, during the Employment Period, Executive's employment shall be terminated by the Company other than for Cause, death or Disability, or by Executive for Good Reason, then the Company shall have all of the following obligations:

(i) The Company shall pay to Executive the following amounts in a lump sum in cash within 10 days after Executive's Date of Termination:

(A) an amount equal to the sum of Executive's Accrued Base Salary, Accrued Annual Bonus and

accrued but unpaid vacation pay (collectively, the "Accrued Obligations"),

(B) the Prorated Annual Bonus,

(C) the product of three (3.0) (such number, the "Severance Multiple") times the sum of Executive's (1) Annual Base Salary, (2) Formula Bonus and (3) Highest Profit Sharing Plan Contribution; and

(D) an amount equal to the value of the unvested portion of Executive's accounts under the Profit Sharing Plans as of the Date of Termination.

(ii) (A) During the period commencing on the Date of Termination and continuing thereafter for a number of years equal to the Severance Multiple, or such longer period as any plan or Policy in which Executive is a participant as of the Date of Termination (such eligibility to be determined based on the terms of such plan or Policy as in effect on the Effective Date or, if more favorable to Executive, the terms of such plan or Policy as in effect on the Date of Termination), the Company shall continue to provide, at no cost to Executive, medical (including post-retirement medical benefits to the extent that Executive is or becomes eligible for such benefits as of the Date of Termination after giving effect to paragraph (C) of this Section 4(a)(ii)), prescription, dental and similar health care benefits (or, if such benefits are not available, the after-tax economic value thereof determined pursuant to paragraph (D) of this Section 4(a)(ii)) to Executive and his family.

(B) The terms of such benefits shall be at least as favorable to Executive as the terms of the most favo-

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rable plans or Policies of the Company applicable to peer executives at Executive's Date of Termination, but in no event less favorable to Executive than the most favorable plans or Policies of the Company applicable to peer executives during the 90-day period immediately preceding the Effective Date.

(C) For purposes of determining whether, and on what terms and conditions, Executive is eligible to receive the post-retirement medical benefits specified in paragraph (A) above, Executive shall on the Date of Termination be credited with three (3.0) additional years for purposes of attained age and years of service.

(D) The after-tax economic value of any benefit to be provided pursuant to paragraph (A) above shall be deemed to be the present value of the premiums expected to be paid for all such benefits that are to be provided on an insured basis. The after-tax economic value of all other benefits shall be deemed to be the present value of the expected net cost to the Company of providing such benefits.

(iii) The Company shall cause Executive to receive, at the Company's expense, standard outplacement services from a nationally-recognized firm selected by Executive; provided that the cost of such services to the Company shall not exceed 15% of Executive's Annual Base Salary in effect on the Date of Termination.

(b) Cause; Other than for Good Reason. If, during the Employment Period, Executive's employment is terminated by the Company for Cause or by Executive other than for Good Reason, the Company shall pay to Executive in a lump sum in cash within no more than 10 days after the Date of Termination, any Accrued Obligations.

(c) Death or Disability. If, during the Employment Period, Executive's employment is terminated by reason of Executive's death or Disability, the Company shall pay to Executive in cash a lump sum amount equal to all Accrued Obligations within no more than 10 days after the Date of Termination.

5. Non-exclusivity of Rights. If Executive receives payments pursuant to Section 4(a), Executive hereby waives the right to receive severance payments under any other plan, policy or agreement of the Company. Except as provided in the previous sentence, nothing in this Agreement shall prevent or limit Executive's continuing or future participation in any benefit, bonus, incentive or other plans or Policies provided by the Company or any of its Subsidiaries and for which Executive may qualify, nor shall anything herein limit or otherwise affect such rights as Executive may have under any other agreements with the Company or any of its Subsidiaries.

6. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be

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affected by any circumstances, including set-off, counterclaim, recoupment, defense or other claim, right or action that the Company may have against Executive or others.

7. No Duty to Mitigate. Executive shall not be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement, nor shall the amount

of any payment hereunder be reduced by any compensation earned by Executive as result of employment by another employer or by any retirement benefits which may be paid or payable to Executive; provided, however, that any continued welfare benefits provided for pursuant to Section 4(a)(ii) shall not duplicate any benefits that are provided to Executive and his family by such other employer and shall be secondary to any coverage provided by such other employer.

8. Enforcement.

(a) If Executive incurs legal, accounting, expert witness or other fees and expenses in an effort to establish entitlement to compensation and benefits under this Agreement, the Company shall, regardless of the outcome of such effort, pay or reimburse Executive for such fees and expenses, together with an additional amount such that, after providing for the Taxes payable by Executive in respect of such additional amount, there remains a balance sufficient to pay the Taxes payable by Executive in respect of such payment or reimbursement of fees and expenses by the Company. The Company shall reimburse Executive for such fees and expenses on a monthly basis within 10 days after its receipt of his request for reimbursement accompanied by reasonable evidence that the fees and expenses were incurred.

(b) If Executive does not prevail (after exhaustion of all available judicial remedies), and the Company establishes before a court of competent jurisdiction that Executive had no reasonable basis for bringing an action hereunder and acted in bad faith in doing so, no further reimbursement for legal fees and expenses shall be due to Executive and Executive shall refund any amounts previously reimbursed hereunder with respect to such action.

(c) If the Company fails to pay any amount provided under this Agreement when due, the Company shall pay interest on such amount at a rate equal to 200 basis points over the prime commercial lending rate published from time to time in The Wall Street Journal; provided, however, that if the interest rate determined in accordance with this Section shall in no event exceed the highest legally-permissible interest rate.

9. Certain Additional Payments by the Company.

(a) Gross-Up. If it is determined (by the reasonable computation of the Company's independent auditors, which determination shall be certified to by such auditors and set forth in a written certificate ("Certificate") delivered to Executive) that

any monetary or other benefit received or deemed received by Executive from the Company or any Subsidiary or affiliate pursuant to this Agreement or otherwise, whether or not in connection with a Change in Control (such monetary or other benefits collectively, the "Potential Parachute Payments"), is or will become subject to any excise tax under Section 4999 of the Code or any similar tax

under any United States federal, state, local or other law (such excise tax and all such similar taxes collectively, "Excise Taxes"), then the Company shall, subject to Section 9(h), within five business days after such determination, pay Executive an amount (the "Gross-Up Payment") equal to the product of:

(i) the amount of such Excise Taxes

multiplied by

(ii) the Gross-Up Multiple.

The Gross-Up Payment is intended to compensate Executive for the Excise Taxes and any other Taxes payable by Executive with respect to the Gross-Up Payment.

(b) Timing. Executive or the Company may at any time request the preparation and delivery to Executive of a Certificate. The Company shall, in addition to complying with Section 9(c), cause all determinations and certifications under this Article to be made as soon as reasonably possible and in adequate time to permit Executive to prepare and file his individual tax returns on a timely basis.

(c) Determination by Executive.

(i) If (A) the Company shall fail to deliver a Certificate to Executive within 30 days after receipt from Executive of a written request for a Certificate, (B) the Company shall deliver a Certificate to Executive but shall fail to pay to Executive the full amount of the Gross-Up Payment set forth therein, or (C) at any time following his receipt of a Certificate, Executive disputes either (x) the amount of the Gross-Up Payment set forth therein or (y) the determination set forth therein to the effect that no Gross-Up Payment is due by reason of Section 9(h)), then Executive may elect to require the Company to pay a Gross-Up Payment in the amount determined by Executive, in accordance with an Executive Counsel Opinion (as defined in Section 9(f)). Executive shall make any such demand by delivery to the Company of a written notice that specifies the Gross-Up Payment determined by Executive and an Executive Counsel Opinion regarding such Gross-Up Payment (such written notice and opinion collectively, the "Executive's Determination"). Within 15 days after delivery of Executive's Determination to the Company, the Company shall either (1) pay Executive the Gross-Up Payment set forth in the Executive's Determination (less the portion of such amount, if any, previously paid to Executive by the Company) or (2) deliver to Executive a Certificate specifying the Gross-Up Payment determined by the

Company's independent auditors, together with a Company Counsel Opinion (as defined in Section 9(f)), and pay Executive the Gross-Up Payment specified in such Certificate. If for any reason the Company fails to

comply with the preceding sentence, the Gross-Up Payment specified in the Executive's Determination shall be controlling for all purposes.

(i) If Executive does not request a Certificate, and the Company does not deliver a Certificate to Executive, the Company shall, for purposes of Section 9(h), be deemed to have determined that no Gross-Up Payment is due.

(d) Additional Gross-Up Amounts. If for any reason (whether pursuant to subsequently-enacted provisions of the Code, final regulations or published rulings of the Internal Revenue Service ("IRS"), a final judgment of a court of competent jurisdiction or a determination of the Company's independent auditors) it is later determined that the amount of Excise Taxes payable by Executive is greater than the amount determined by the Company or Executive pursuant to Section 9(a) or 9(b), as applicable, then the Company shall pay Executive an amount (which shall also be deemed a Gross-Up Payment) equal to the product of:

(i) the sum of (A) such additional Excise Taxes and (B) any interest, fines, penalties, expenses or other costs incurred by Executive as a result of having taken a position in accordance with a determination made pursuant to Section 9(a) or 9(b), as applicable,

multiplied by:

(ii) the Gross-Up Multiple.

(e) Gross-Up Multiple. The Gross-Up Multiple shall equal a fraction, the numerator of which is one (1.0), and the denominator of which is one (1.0) minus the sum, expressed as a decimal fraction, of the effective after-tax marginal rates of all Taxes and any Excise Taxes applicable to the Gross-Up Payment; provided that such sum of rates shall not exceed 0.8 and if it does exceed 0.8, it shall be deemed to be 0.8. If different rates of tax are applicable to various portions of a Gross-Up Payment, the weighted average (not to exceed 0.80) of such rates shall be used.

(f) Opinion of Counsel. "Executive Counsel Opinion" means a legal opinion of nationally-recognized executive compensation counsel to the effect that the amount of the Gross-Up Payment determined by Executive is the amount that courts of competent jurisdiction, based on a final judgment not subject to further appeal, are most likely to decide to have been calculated in accordance with this Article and applicable law. "Company Counsel Opinion" means a legal opinion of nationally-recognized executive compensation counsel to the effect that (i) the amount of the Gross-Up Payment set forth in the Certificate of the Company's independent auditors is the

amount that courts of competent jurisdiction, based on a final judgment not subject to further appeal, are most likely to decide to have been calculated in accordance with this Article and applicable law, and (ii) there is no reasonable basis for the calculation of the Gross-Up Payment determined by Executive.

(g) Amount Increased or Contested. Executive shall notify the Company in writing of (i) any claim by the IRS or other taxing authority that, if successful, would require the payment by Executive of Excise Taxes in respect of Potential Parachute Payments or (ii) of any intention by Executive to pay any Excise Taxes in respect of Potential Parachute Payments notwithstanding the absence of such a claim. Such notice shall include the nature of such claim and the date on which such claim is due to be paid. Executive shall give such notice as soon as practicable, but no later than 10 business days, after Executive first obtains actual knowledge of such claim; provided, however, that any failure to give or delay in giving such notice shall affect the Company's obligations under this Article only if and to the extent that such failure results in actual prejudice to the Company. Executive shall not pay such claim less than 30 days after Executive gives such notice to the Company (or, if sooner, the date on which payment of such claim is due). If the Company notifies Executive in writing before the expiration of such 30-day period that the Company desires to contest such claim, Executive shall:

(i) give the Company any information that it reasonably requests relating to such claim,

(ii) take such action in connection with contesting such claim as the Company reasonably requests in writing from time to time, including accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including related interest and penalties, imposed as a result of such representation and payment of costs and expenses. Without limiting the foregoing, the Company shall control all proceedings in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the

tax claimed and sue for a refund or contest the claim in any permissible manner. Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify Executive, on an after-tax basis, for any Excise Tax or income tax, including related interest or penalties, imposed with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. The Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable. Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the IRS or other taxing authority.

(h) Limitation on Gross-Up Payments. Notwithstanding any other provision of this Section 9, if it shall be determined (by the reasonable computation of the Company's independent auditors, which determination shall be certified to by such auditors and set forth in the Certificate delivered to Executive) that the aggregate amount of the Potential Parachute Payments that, but for this Section 9(h), would be payable to Executive, does not exceed 110% of the greatest amount of Potential Parachute Payments that could be paid to Executive without giving rise to any liability for Excise Taxes in connection therewith (such greatest amount, the "Floor Amount"), then:

(i) no Gross-Up Payment shall be made to Executive;
and

(ii) the aggregate amount of Potential Parachute Payments payable to Executive shall be reduced (but not below the Floor Amount) to the largest amount which would both (A) not cause any Excise Taxes to be payable by Executive and (B) not cause any Potential Parachute Payments to become nondeductible by the Company by reason of Section 280G of the Code (or any successor provision); provided, however, that in no event shall any such reduction (x) in any way affect any Potential Parachute Payments that are provided to Executive in any form other than cash or (y) reduce the aggregate amount of Potential Parachute Payment that are payable in cash to an amount below the aggregate amount of Taxes payable by Executive in respect of all Potential parachute Payments received by him (whether in cash or otherwise).

For purposes of the preceding sentence, Executive shall be deemed to be subject to the highest effective after-tax marginal rate of federal and Illinois Taxes.

(i) Refunds. If, after the receipt by Executive of any payment or advance of Excise Taxes by the Company pursuant to this Article, Executive becomes entitled to receive any refund with respect to such Excise Taxes, Executive shall (subject to the Company's complying with any applicable requirements of Section 9(g)) promptly pay the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 9(g), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such determination before the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid. Any contest of a denial of refund shall be controlled by Section 9(g).

10. Successors.

(a) This Agreement is personal to Executive and without the prior written consent of the Company shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives.

(b) The Company may not assign its rights and obligations under this Agreement without the prior written consent of Executive except to a successor which has satisfied the provisions of Section 10(c). This Agreement shall inure to the benefit of the Company and such permitted assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. All references to the Company shall also refer to any such successor, and the Company and such successor shall be jointly and severally liable for all obligations of the Company under this Agreement.

11. Miscellaneous.

(a) Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois, without reference to such State's principles of conflict of laws.

(b) Notices. All notices hereunder shall be in writing and shall be given by hand delivery, nationally-recognized courier service that provides overnight delivery, or by registered or certified mail, return receipt

requested, postage prepaid, addressed as follows:

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If to Executive, at his most recent home address on file with the Company.

If to the Company, to: W.W. Grainger, Inc.
 455 Knightsbridge Parkway
 Lincolnshire, Illinois 60069-3620
 Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice shall be effective when actually received by the addressee.

(c) Severability. If any part of this Agreement is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any part of this Agreement not declared to be unlawful or invalid. Any paragraph or part of a paragraph so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such paragraph or part of a paragraph to the fullest extent possible while remaining lawful and valid.

(d) Tax Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) Amendments; Waiver. This Agreement may not be amended or modified otherwise than by a written agreement executed by the Company and Executive. A waiver of any term, covenant or condition contained in this Agreement shall not result in a waiver of any other term, covenant or condition, and any waiver of any default shall not result in a waiver of any later default.

(f) Entire Agreement. This Agreement contains the entire understanding of the Company and Executive with respect to the subject matter hereof, and shall supersede all prior agreements, promises and representations of the parties regarding employment or severance, whether in writing or otherwise.

(g) No Right to Employment. Except as may be provided under any other agreement between Executive and the Company, the employment of Executive by the Company is at will, and, prior to the Effective Date, may be terminated by either Executive or the Company at any time. Upon a termination of Executive's employment prior to the Effective Date, there shall be no further rights under this Agreement.

(h) Sections. Except where otherwise indicated by the context, any reference to a "Section" shall be to a section of this Agreement.

(i) Survival of Executive's Rights. All of Executive's rights hereunder shall survive the termination of Executive's employment.

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(j) Number and Gender. Wherever appropriate, the singular shall include the plural, the plural shall include the singular, and the masculine shall include the feminine.

(k) Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, Executive and the Company have executed this Agreement as of the date first above written.

W.W. GRAINGER, INC.

By:

Richard L. Keyser
Chairman and Chief Executive Officer

EXECUTIVE:

[[Officer]]

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W.W. GRAINGER, INC.

Subsidiaries as of December 31, 1998

Acklands - Grainger Inc. (Canada)

- 370071 Alberta Ltd. (Alberta) (50% owned)
- 655206 Alberta Ltd. (Alberta) (50% owned)
- Wilter Auto & Industrial Supply (Lloyd) Ltd. (Alberta) (50% owned)

AGI Investment Corporation (Alberta)

Dayton Electric Manufacturing Co. (Illinois)

Grainger Caribe, Inc. (Illinois)

Grainger FSC, Inc. (U.S. Virgin Islands)

Grainger International, Inc. (Illinois)

- WWG de Mexico, S.A. de C.V. (Mexico)
- Grainger, S.A. de C.V. (Mexico)
- WWG Servicios, S.A. de C.V. (Mexico)
- Grainger Canada Inc. (Canada)

Lab Safety Supply, Inc. (Wisconsin)

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Earnings per share data reflect the 2-for-1 stock split effective at the close of business on May 11, 1998. Prior Financial Data Schedules have not been restated for this stock split.

</FN>

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