

SECURITIES AND EXCHANGE COMMISSION

FORM DEF 14A

Definitive proxy statements

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No.        )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

**W.W. Grainger, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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W.W. GRAINGER, INC.  
100 GRAINGER PARKWAY  
LAKE FOREST, ILLINOIS 60045-5201  
(847) 535-1000



March 15, 2018

**Dear Grainger Shareholders:**

We are pleased to invite you to attend the 2018 annual meeting of shareholders of W.W. Grainger, Inc. on Wednesday, April 25, 2018, at 10 a.m. Central Daylight Time. This year's annual meeting will be held at our headquarters located at 100 Grainger Parkway in Lake Forest, Illinois.

At the meeting, we will report on our operations and other matters of current interest. Shareholders will also vote on the matters described in the accompanying Notice of Annual Meeting and Proxy Statement and any other matters properly brought before the meeting.

As in prior years, we have elected to deliver our proxy materials to the majority of our shareholders over the Internet. This delivery process allows us to provide shareholders with the information they need, while at the same time conserving natural resources and lowering the cost of delivery. The Notice of Annual Meeting of Shareholders on the following page contains instructions on how to:

Vote by Internet, by telephone or by mail; and

Receive a paper copy of the proxy materials by mail.

Please take the time to carefully read the Notice of Annual Meeting and Proxy Statement that follow. Whether or not you plan to attend the meeting, please ensure that your shares are represented by giving us your proxy. You can do so by telephone, by Internet, or by signing and dating the enclosed proxy form and returning it promptly in the envelope provided.

We look forward to seeing you at the meeting.

Sincerely,

A handwritten signature in black ink that reads "D.G. Macpherson". The signature is written in a cursive, flowing style.

D.G. Macpherson  
*Chairman of the Board and Chief Executive Officer*

# NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

<b>ANNUAL MEETING OF SHAREHOLDERS</b>	<b>TIME AND DATE</b>  10:00 am CDT on Wednesday, April 25, 2018	<b>PLACE</b>  100 Grainger Parkway, Lake Forest, IL 60045 847-535-1000	<b>RECORD DATE</b>  March 5, 2018
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## Meeting Agenda

Proposal	Board Recommendation	For more information
1. to elect 11 directors for the ensuing year	FOR (all nominees)	Page 9
2. to ratify the appointment of Ernst & Young LLP as independent auditor for the year ending December 31, 2018; and	FOR	Page 35
3. to hold an advisory vote on the compensation of Grainger's Named Executive Officers	FOR	Page 76

We will also consider any other matters that may properly be brought before the Meeting (and any postponements or adjournments of the Meeting). As of the date of this proxy statement, we have not received notice of any such matters.

## Voting

Shareholders of Grainger, as of the record date, are entitled to vote, as follows:

Shareholders have the right to cumulative voting in the election of directors. *For a definition of cumulative voting, see Questions and Answers—Voting Information / How many votes do I have? / page 80, and*

Each share of Grainger common stock is entitled to one vote for each of the other proposals.



### Internet

[www.proxyvote.com](http://www.proxyvote.com)  
for beneficial ownership

[www.investorvote.com/GWW](http://www.investorvote.com/GWW)  
for registered ownership  
up until 1:00 am CDT  
on April 25, 2018



### Telephone

1-800-690-6903  
for beneficial ownership

or

1-800-652-8683  
for registered ownership  
up until 1:00 am CDT,  
on April 25, 2018



### Mail

Mark, sign and date your proxy card and return it in the pre-addressed postage-paid envelope we have provided or return it to:

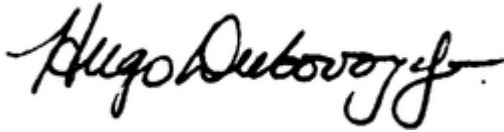
For beneficial ownership:  
Vote Processing  
c/o Broadridge  
51 Mercedes Way  
Edgewood, NY 11717

For registered ownership:  
Proxy Services  
C/O Computershare Investor  
Services  
PO BOX 505008  
Louisville, KY 40233-9814

Regardless of whether you plan to attend the annual meeting, we hope you will vote as soon as possible. You may vote your shares in person, over the Internet or via a toll-free telephone number. If you received a paper copy of a proxy or voting instruction card by mail, you also may submit your proxy or voting instruction card for the annual meeting by completing, signing, dating and returning your proxy or voting instruction card in the pre-addressed envelope provided. *For specific instructions on voting, please refer to the section, Questions and Answers—Voting Information / page 79.*

## Proxy Materials

This Notice of Annual Meeting, Proxy Statement and Form of Proxy are being distributed and made available around March 15, 2018. By order of the Board of Directors.



Hugo Dubovoy, Jr.  
Corporate Secretary

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE  
ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 25, 2018**

**Our Proxy Statement and Annual Report on Form 10-K are available in the 2018 Annual Shareholder Meeting/Proxy Information section of Grainger's website at <http://www.grainger.com/investor>, and also may be obtained free of charge on written request to the Corporate Secretary at Grainger's headquarters, 100 Grainger Parkway, Lake Forest, Illinois 60045-5201.**

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## orporate Governance

### THE ROLE OF THE BOARD

The Board of Directors of the Company (the Board) acts as the steward of the Company for the benefit of the Company's shareholders. Our Directors bring to the Board a wealth of business experience and a track record of good business judgment in various situations relevant to the Company's operations. Our Directors exercise their business judgment in the best interests of the Company consistent with their fiduciary duties, and in alignment with shareholder value.

Our Board recognizes the importance of ensuring that our overall business strategy is designed to create long-term value for Grainger's shareholders. The Board maintains an active role in formulating, planning and overseeing the implementation of Grainger's strategy. It has a robust annual strategic planning process during which key elements of our business and financial plans, strategies and near- and long-term initiatives are developed and reviewed. This process culminates with a full-day Board session with our senior leadership team to review Grainger's overall strategy, opportunities, challenges, and capabilities, and helps shape the strategic content presented at the Company's annual Analyst Meeting. In addition to business strategy, the Board reviews Grainger's short-term and long-term financial plans, which serve as the basis for the annual operating and capital plans for the upcoming year. The Board evaluates progress made, as well as related challenges and risks, with respect to our strategy and plans throughout the year.

#### Operating Principles of the Board of Directors

The Board recognizes that defining its role under the Company's operating principles is an evolving process. In 1995, the Board established the W.W. Grainger, Inc. Operating Principles for the Board of Directors (the Operating Principles). The principles are not intended to cover all issues that may arise, but rather to provide a general framework of reference to assist the Board in the performance of its duties and responsibilities. Each year, the Board reviews and revises the Operating Principles, as appropriate, to address emerging needs and practices. *The Operating Principles may be found in the Governance section of our website at <http://www.grainger.com/investor>.*

#### DIRECTOR INDEPENDENCE

Our Board of Directors is committed to excellence in its governance practices, including Board composition. Of our Board, 10 of 11 Directors are independent. The Board has adopted "categorical standards" to assist it in making independence determinations of director nominees. The categorical standards are intended to help, for example, the Board determine whether certain relationships between nominees and Grainger are "material relationships" for purposes of the New York Stock Exchange (the NYSE) independence standards. The categorical standards adopted by the Board have more restrictive thresholds than the NYSE's bright line revenue test for non-independence. *The categorical standards adopted by the Board are set forth in Appendix A to this proxy statement and are also available in the Governance section of Grainger's website at <http://www.grainger.com/investor>.*

Grainger's Board has 10 independent Directors and one management Director. The Board considered a variety of factors, including related party transactions and charitable donations, in assessing the

independence of the Directors involved against the NYSE's independence standards and Grainger's categorical standards. In addition to ordinary course business transactions and charitable donations by the Company, the Board considered two contributions directed under the Company's matching charitable gift program to a tax-exempt organization where a Director serves as an officer and board member. The Board determined that none of the Directors had any direct or indirect material interest in any transactions or donations. Similar transactions and donations are likely to occur in the future and are not expected to impair the independence of the directors involved. Mr. Macpherson is a Grainger employee and, accordingly, is not considered "independent." However, the Board has determined that each of Mses. Hailey and Perez, and Messrs. Adkins, Anderson, Levenick, Novich, Roberts, Santi, Slavik, and Watson has no material relationship with Grainger within the meaning of the NYSE independence standards and Grainger's categorical standards and is, therefore, independent.

### **BOARD QUALIFICATIONS, ATTRIBUTES, SKILLS AND BACKGROUND**

In addition to independence, the Board and its Board Affairs and Nominating Committee believe that a diverse, experienced and vibrant board also is of utmost importance for reaching sound decisions that drive shareholder value. As evidence of this commitment to a diversity of perspectives, our Board is currently comprised of 11 directors of varying experience and background, including two new directors appointed in 2017.

We determined that Board experience and diversity benefit us most when they are aligned with our global business needs, reflective of our strong corporate governance practices, and consistent with our corporate social responsibility goals. As a result of the Board's ongoing refreshment efforts, we added directors with expertise in the technology and digital space, as well as in leading corporate social responsibility initiatives for a global business. Our three newest directors, Rodney Adkins, Beatriz Perez and Lucas Watson, have enhanced the diversity of our Board in addition to bringing their valuable perspectives and experiences.

A breadth of Board perspectives supports our business as a broad line, business-to-business distributor of maintenance, repair and operating (MRO) supplies and other related products and services. Grainger's management operates its business through a network of highly integrated websites, distribution centers and branches with nearly 25,000 employees primarily in the United States and Canada, and with a presence in Europe, Asia and Latin America. More than 5,000 suppliers provide Grainger with less than 1.7 million products stocked in Grainger's distribution centers and branches worldwide. Approximately 3.5 million businesses and institutions worldwide rely on Grainger to keep their operations running and their people safe.

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Corporate Governance

The following table highlights specific experience, qualifications, attributes, skills, and background information that the Board considered for each director. A particular director may possess additional experience, qualifications, attributes, or skills, even if not expressly indicated below.

Director Qualifications, Attributes and Skills	Rodney C. Adkins	Brian P. Anderson	V. Ann Hailey	Stuart L. Levenick	D.G. Macpherson	Neil S. Novich	Beatriz R. Perez	Michael J. Roberts	E. Scott Santi	James D. Slavik	Lucas E. Watson
<b>Operational</b> Experience developing and implementing operating plans and business strategy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Finance/Capital Allocation</b> Knowledge of finance or financial reporting; experience with debt and capital market transactions; and/or mergers and acquisitions		✓	✓	✓	✓	✓		✓	✓	✓	
<b>Supply Chain/Logistics</b> Experience in supply chain management encompassing the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities	✓	✓		✓	✓	✓		✓	✓		
<b>Digital/eCommerce</b> Experience implementing digital and omni-channel strategies and/or operating an eCommerce business			✓	✓	✓		✓				✓
<b>Marketing/Sales &amp; Brand Management</b> Experience managing a marketing/sales function, and in increasing the perceived value of a product line or brand over time in the market	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Human Resources/ Compensation</b>											

Experience managing a human resources/compensation function; experience with executive compensation and broad-based incentive planning

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

**Public Company/Leadership**

"C-Suite" experience with a public company; leadership experience as a division president or functional leader within a complex organization

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

**Corporate Governance/Public Company Experience**

Experience serving as a public company director; demonstrated understanding of current corporate governance standards and best practices in public companies

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

**International**

Experience overseeing a complex global organization

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

**Risk Assessment & Risk Management**

Experience overseeing complex risk management matters

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

**Technology/Cyber security**

Experience implementing technology strategies and managing/mitigating cyber security risks

✓ ✓ ✓ ✓ ✓ ✓ ✓

Director Qualifications, Attributes and Skills (continued)	Rodney C. Adkins	Brian P. Anderson	V. Ann Hailey	Stuart L. Levenick	D.G. Macpherson	Neil S. Novich	Beatriz R. Perez	Michael J. Roberts	E. Scott Santi	James D. Slavik	Lucas E. Watson
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**Government/Public Policy**

Experience overseeing complex regulatory matters that are integral to a business

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

**Real Estate**

Experience overseeing complex real estate matters that are integral to a business

✓ ✓ ✓ ✓

**Business Ethics/Corporate Social Responsibility**

Track record of integrity, uncompromising moral principles and strength of character; informed on company issues related to corporate social responsibility, sustainability and philanthropy while monitoring emerging issues potentially affecting the reputation of the business

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

**Director Tenure, Gender, Age and Race/Ethnicity**

**Board Tenure**

Years 4 19 12 12 2 19 1 12 8 31 0

**Gender**

Male ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓  
 Female ✓

**Age**

Years Old 59 67 67 65 50 63 48 67 56 65 47

**Race/Ethnicity**

African American/Black ✓ ✓  
 Asian, Hawaiian, or Pacific Islander  
 Caucasian /White ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓  
 Hispanic/Latino ✓  
 Native American  
 Other

**Board Refreshment**



The Board believes that a fully engaged Board is a strategic asset of the Company, and fresh viewpoints and perspectives are important for informed decision-making. At the same time, the Company believes that directors develop a deeper understanding of the Company over time, which provides significant shareholder value, and that year-over-year director continuity is beneficial to shareholders. Even before Board vacancies arise, the Board periodically evaluates whether its Directors collectively has the right mix of skills, experience, attributes and diverse viewpoints necessary for it to be a good steward for the Company's shareholders. The results of these evaluations are used to identify desirable skill sets for potential Board nominees and to screen director candidates. In 2017, the Board codified this practice into the Board Affairs and Nominating Committee's charter.

Corporate Governance

Also part of the planning for Board refreshment and director succession, the Board Affairs and Nominating Committee periodically considers potential director candidates. As a result of these ongoing reviews, in the last four years, the Board appointed four new directors.

The Board previously disclosed its membership expectations in the Company's Criteria for Membership on the Board of Directors (the Criteria). The Board's Criteria list the various factors that the Board Affairs and Nominating Committee should consider in reviewing candidates for the Board. For example, the Criteria insures turnover by generally prescribing a retirement age of 72 for non-employee director candidates. Within the last two years, two of our Directors did not stand for re-election based on retirement age. Separately, a third Director, the Company's former Chairman, retired in October 2017.

Age	0-50	51-59	60+
Number of Directors	3	2	6

**Board Tenure**

The Board believes that it has the appropriate mix of relatively new directors and those with longer service to and financial interest in the Company. One longstanding director, Mr. Slavik, is the beneficial owner of approximately 6.6% of the Company's shares as of March 5, 2018. Mr. Slavik's beneficial ownership of Company shares pre-dates Grainger's initial public offering in 1967.

As a group, the average tenure of the 2018 nominees for election to Grainger's Board of Directors is approximately 11 years, with 40% of the non-employee nominees having Board tenure of less than five years. *See Board Qualifications, Attributes, Skills and Background / pages 3-4 of this proxy statement for a matrix reflecting tenure for each nominee.*

Years of Service	0-5	6-10	10+
Number of Directors	4	1	6

**Board Diversity**

In addition to relevant business experience, qualifications, attributes, skills, and the willingness to become involved with Grainger, the Board's Criteria also enumerate personal characteristics that the Board should consider, including reputation for ethics and integrity, common sense and judgment, independent and objective thought, and the consideration of diverse opinions.

Regarding diversity, the Criteria specify that consideration shall be given to candidates without regard to race, color, religion, gender or national origin. To ensure that the Board benefits from diverse perspectives, it proactively seeks qualified nominees from a variety of backgrounds, including candidates of gender, age, and racial diversity. In any retained search for Board candidates, Grainger specifies that the Board is seeking candidates with gender and racial diversity. We have established a standing relationship with a nationally recognized third party search firm to assist us in identifying potential new directors. In all searches, we specify that we will entertain a slate that includes only gender and racially diverse candidates. Our Board's diversity is set forth, below.

Gender	Female	Male
Number of Directors	2	9

Race/Ethnicity	African American/Black	Caucasian / White	Hispanic/Latino	Other
Number of Directors	2	8	1	-

## **ANNUAL ELECTION OF DIRECTORS**

Grainger's directors are elected each year at the annual meeting of shareholders. As set forth in the Operating Principles for the Board of Directors, Grainger expects all directors and nominees to attend annual meetings. At the 2017 annual meeting, all of the persons serving as directors at the time were in attendance. In addition, during 2017, all directors attended at least 75% of Board and Committee meetings.

Eleven directors, all current Board members, have been nominated by the Board for election at this year's annual meeting of shareholders. All directors are elected for a one-year term. Each director will, therefore, serve until the 2019 annual meeting of shareholders.

As required under Illinois law, majority voting and cumulative voting apply to all Grainger director elections. Under our majority voting standard, directors are elected by the votes of a majority of the shares of Grainger common stock represented in person or by proxy at the meeting and entitled to vote. Under cumulative voting, shareholders have the right to cumulate their votes in the election of directors. This means that you have a number of votes in the election equal to the number of shares you own multiplied by the number of directors being elected. You can cast those votes for the nominees as you choose. For example, you may cast all your votes for one nominee or you may apportion your votes among two or more nominees. In any matter other than the election of directors, each of your shares is entitled to one vote.

A shareholder directing to withhold authority for re-election of a director will have the same effect as votes against the election of that director. Assuming a quorum is present, broker non-votes will not affect the outcome of the vote. If any of the nominees for director mentioned below should be unavailable for election, a circumstance that is not expected, the person or persons voting your proxy may exercise discretion to vote for a substitute nominee selected by the Board.

## **CANDIDATES FOR BOARD MEMBERSHIP**

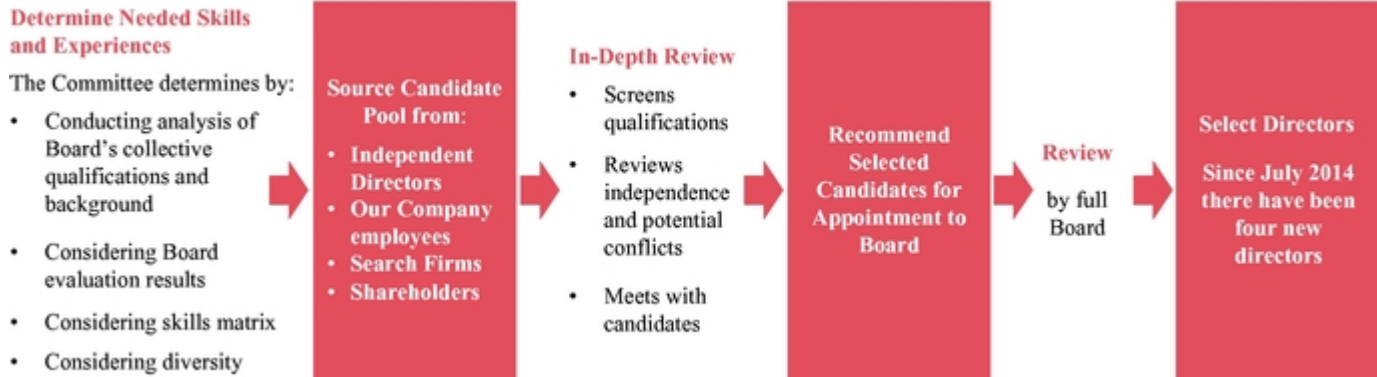
The Board Affairs and Nominating Committee (the Committee) recommends to the Board candidates for Board and committee membership.

Before recommending candidates to the Board, the Committee reviews the results of the Board evaluation process and its skills matrix in determining the desired skill set for potential new candidates. The Committee then determines the position description for potential Board nominees by periodically evaluating whether the Board members collectively have the right mix of skills, experience, attributes and diverse viewpoints necessary for the Board to be a good steward for the Company's shareholders.

The Committee screens Board candidates based on a number of criteria, including ethical standards, judgment, independence and objectivity, strategic perspective, record of accomplishment, business knowledge, experience applicable to Grainger's goals, and diversity.

The Committee is assisted with its recruitment efforts by a nationally recognized third party search firm, which helps identify candidates that satisfy the Board's criteria. In addition to Board candidates

recommended by the Committee, suggestions as to nominees are received from employees, search firms, shareholders, and others.



The proxy access provisions of our By-laws permit a qualifying shareholder or group of up to 20 qualifying shareholders who have maintained continuous qualifying ownership of 3% or more of our outstanding common stock for at least the previous three years to nominate and include in our proxy materials qualifying director nominees constituting up to the greater of two directors or 20% of the directors then serving on the Board at the time of the nomination, provided that the shareholder(s) and nominee(s) satisfy the requirements specified in our By-laws.

Any shareholder who would like the Committee to consider a candidate for Board membership should send a letter of recommendation containing the name and address of the proposing shareholder and of the proposed candidate and setting forth the business, professional, and educational background of the proposed candidate, as well as a description of any agreement or relationship between the proposing shareholder and proposed candidate. A written consent of the proposed candidate to be identified as a nominee and to serve as a director if elected must also be provided. The communication should be sent by mail or other delivery service to the attention of the Corporate Secretary at Grainger's headquarters.

**NOMINEES AND DIRECTOR EXPERIENCE AND QUALIFICATIONS**

The nominees have provided the following information about themselves, including their ages as of March 15, 2018. Each nominee has provided information on his or her relevant background that includes the nominee's experience for at least the past five years.

Grainger's directors and nominees have varied experience, qualifications, attributes, skills, and backgrounds that assist them in providing guidance and oversight to Grainger's management as it operates the business through a network of highly integrated websites, distribution centers and branches with nearly 25,000 employees primarily in the United States and Canada, and with a presence in Europe, Asia, and Latin America. Businesses and institutions worldwide rely on our Company, a broad line distributor of maintenance, repair and operating (MRO) supplies and other related products and services, with 2017 sales of \$10.4 billion, to keep their operations running and their people safe.

The Board has identified experience, qualifications, attributes, skills, and backgrounds that, in light of Grainger's business, structure and challenges, are relevant to service on the Board of Directors. The Board considers nominees who have demonstrated integrity and accomplishment in their business and professional careers and who possess the necessary experience and background to contribute to the Board and Grainger. In addition, the nominees have engaged in continuing education and other programs to remain current in their particular areas of expertise, to further their understanding of corporate governance, and in other matters relevant to Grainger.

The Board believes each of the current nominees qualifies for service on the Board of Directors. Moreover, each of the current nominees has significant leadership experience in large, multifaceted organizations. This leadership experience includes developing and executing corporate strategy, overseeing operations, and managing risks in organizations similar in size or complexity to Grainger.

The summaries, provided below, are not a comprehensive statement of each nominee's background, but are provided to describe the primary experience, qualifications, attributes, skills, and background that led the Board to nominate each individual.

## ELECTION OF DIRECTORS

### What are you voting on?

At the 2018 annual meeting, 11 directors are to be elected to hold office until the 2019 annual meeting and until their successors have been elected and qualified. All nominees are current Grainger Board members who were elected by shareholders at the 2017 annual meeting, except for Beatriz R. Perez and Lucas E. Watson, who were appointed to the Board in July and December 2017.

### YOUR BOARD RECOMMENDS A VOTE FOR EACH OF THE DIRECTOR NOMINEES

You have the right to cumulative voting in the election of directors. This means that you have a number of votes in the election equal to the number of shares you own multiplied by the number of directors being elected. You can cast those votes for the nominees as you choose. For example, you may cast all your votes for one nominee or you may apportion your votes among two or more nominees.

## Rodney C. Adkins



### Independent Director

Age: 59

Director Since: 2014

Grainger Board Committees:

*BANC*

*CCOB*

President of 3RAM Group LLC, a privately held company specializing in capital investments, business consulting services and property management

### Current Public Company Boards

Avnet, Inc. (audit committee; corporate governance committee)

PPL Corporation (audit committee; finance committee)

United Parcel Service, Inc. (Chair, risk committee; compensation committee)

PayPal Holdings, Inc. (audit committee; risk and compliance committee)

### Prior Public Company Boards

Pitney Bowes Inc. (2007-2013) (audit committee; executive compensation committee)

### Qualifications:

#### Prior Business and Other Experience

Senior Vice President of International Business Machines Corporation (IBM), a leading manufacturer of information technologies (2007-2014), where he held numerous development and management roles, including Senior Vice President of Corporate Strategy (2013-2014); Senior Vice President of Systems and Technology Group (2009-2013); Senior Vice President of

Development & Manufacturing (2007-2009);  
Vice President of Development of IBM  
Systems and Technology Group (2003-2007)

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#### **Other Key Qualifications**

**Mr. Adkins** served as the senior vice president of IBM, a global information technology and innovation-focused public company and held senior positions responsible for development, management and strategy. Over the course of 30 years with IBM, he developed deep product development and brand management experience. He also gained significant experience managing and understanding corporate finance, financial statements and accounting through his many operational roles with the company. Additionally, Mr. Adkins managed IBM's supply chain and procurement, giving him direct insight into global trade and supply chains, and the role of distributors in those efforts. Mr. Adkins has extensive experience in corporate governance matters.

## Brian P. Anderson



### Independent Director

Age: 67

Director Since: 1999

Grainger Board Committees:

*Audit*

*BANC*

Former Executive Vice President of Finance and Chief Financial Officer of OfficeMax Incorporated, a distributor of business to business and retail office products, having served in that position until January 2005

### Current Public Company Boards

James Hardie Industries plc (Chair, audit committee; remuneration committee)

Pulte Group, Inc. (Chair, audit committee; nominating and governance committee)

Stericycle, Inc. (Chair, audit committee).

### Prior Public Company Boards

A.M. Castle & Co. (2005-2016), Chairman of the Board (Chair, audit committee)

### Qualifications:

#### Prior Business and Other Experience

Senior Vice President and Chief Financial Officer of Baxter International Inc., a position he assumed in 1998

### Other Key Qualifications

**Mr. Anderson** served as the chief financial officer of OfficeMax Incorporated and Baxter International Inc., held finance positions including corporate controller and vice president of audit and was an audit partner at an international public accounting firm. As a result, Mr. Anderson has in-depth knowledge of accounting and finance as well as familiarity in risk management and risk assessment and the application of the Committee of Sponsoring Organizations of the Treadway Commission internal controls framework. Mr. Anderson also has in-depth experience in corporate governance matters as the

## V. Ann Hailey



### Independent Director

Age: 67

Director Since: 2006

Grainger Board Committees:

*Audit*

*BANC*

Former Executive Vice President and Chief Financial Officer of L Brands, Inc. (formerly, Limited Brands, Inc.) (1997-2006), a retail apparel, personal care and beauty products company

### Current Public Company Boards

Realty Holdings Corp. (Chair, audit committee; nominating and corporate governance committee)

TD Ameritrade Holdings, Inc. (audit committee; risk committee; outside independent director's committee)

### Prior Public Company Boards

Avon Products, Inc. (audit committee; finance committee) (2008-2016)

Federal Reserve Bank of Cleveland (Chair, audit committee) (2004-2008)

### Qualifications:

#### Prior Business and Other Experience

Former Executive Vice President, Corporate Development with L Brands Inc. (2006-2007); and, former board member (2001-2006)

President, Chief Executive Officer and Chief Financial Officer of Famous Yard Sale, Inc. (2012-2014)

Various leadership roles at PepsiCo., Inc.; Vice President, Headquarters Finance, Pepsi Cola Company; Vice President, Finance and Chief Financial Officer of Pepsi Cola Fountain Beverage and USA Divisions (13 years)

Chief Financial Officer, Gilt Groupe, Inc. (2009-2010)

Leadership roles at Pillsbury Company

Leadership roles at RJR Nabisco Foods, Inc.



former chairman of the board of A.M. Castle & Co., and as a member of the governance committee of Pulte Group, Inc. In addition, he is a director and Chairman of The Nemours Foundation, a non-profit children's health organization, and a member of the Governing Board of the Center for Audit Quality's (CAQ) Governing Board. Mr. Anderson is an "audit committee financial expert." See "Audit Committee" below for the Board's determination concerning Mr. Anderson's service on more than three public company audit committees.



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#### Other Key Qualifications

**Ms. Hailey** has spent her career in consumer businesses, such as L Brands, Inc., PepsiCo., Inc., Pillsbury Company, and RJR Nabisco Foods, Inc., and brings key financial and operations experience to the Company. In particular, Ms. Hailey possesses broad expertise in finance, strategic planning, branding and marketing, retail goods and sales and distribution on a global scale. Ms. Hailey's positions as chief financial officer, her current and prior service on the audit committees of other

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companies and as Audit Chair of the Cleveland Federal Reserve Bank and her accounting and financial knowledge, also impart significant expertise to the Board, including an understanding of financial statements, corporate finance, accounting and capital markets. Through her experiences at Gilt Groupe Inc. and Famous Yard Sale, Ms. Hailey has added experience in Internet site development and selling as well as new venture management and funding. Ms. Hailey is an "audit committee financial expert."

## Stuart Levenick



**Independent Director**  
*Lead Director*  
Age: 65  
Director Since: 2005  
Grainger Board Committees:  
*Chair, BANC*  
*CCOB*

Retired Group President of Caterpillar Inc., a manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines

### Current Public Company Boards

Lead Director of Entergy Corporation (former Chair, finance committee; governance committee; executive committee)  
Finning International Inc. (Chair, audit committee; corporate governance committee)

### Prior Public Company Boards

None

### Qualifications:

#### Prior Business and Other Experience

Vice President, Caterpillar Inc.  
Chairman of Shin Caterpillar Mitsubishi Ltd. (2000-2004) and Vice President, Asia Pacific Division (2001-2004)

### Other Key Qualifications

**Mr. Levenick** has served as the group president of a division of Caterpillar Inc., a public multinational manufacturing company and has had extensive international operations experience including positions outside the United States in numerous countries for more than 20 years. Mr. Levenick also had operational responsibility for supply chain and logistics and responsibility for the global parts and product support business as well as global marketing of his previous employer.

## D.G. Macpherson



**Chairman of the Board**  
Age: 50  
Director Since: 2016

Chairman (2017-present) and Chief Executive Officer (2016-present) of W.W. Grainger, Inc.

### Current Public Company Boards

None

### Prior Public Company Boards

None

### Qualifications:

#### Prior Business and Other Experience

Chief Operating Officer of Grainger (2015-2016); Senior Vice President and Group President, Global Supply Chain and International (2013-2015); Senior Vice President and President, Global Supply Chain and Corporate Strategy (2012-2013); Senior Vice President, Global Supply Chain (2008-2012)  
The Boston Consulting Group, Partner and Managing Director (2002-2008)

### Other Key Qualifications

**Mr. Macpherson** has served Grainger in many capacities over his nearly 10 years with the Company, including developing Company strategy, overseeing the launch of Grainger's U.S. single channel business, Zoro Tools, Inc., building the Company's supply chain capabilities globally and realigning the U.S. business to create greater value for customers of all sizes. Mr. Macpherson also has extensive experience in strategic planning,

In addition, he had led his former employer's global human resources function and had responsibility for that company's enterprise risk assessment.

Statement



Proxydevelopment and execution. Mr. Macpherson joined Grainger in 2008 after working closely with Grainger for six years as a partner and managing director at The Boston Consulting Group, a global management consulting firm, where he was a member of the Industrial Goods Leadership Team.

## Neil Novich



### Independent Director

Age: 63  
Director Since: 1999  
Grainger Board Committees:  
*Audit*  
*BANC*

Former Chairman, President and Chief Executive Officer of Ryerson Inc. (1996-2007), a public multinational metal distributor and fabricator

### Current Public Company Boards

Analog Devices, Inc. (Chair, compensation committee)  
Beacon Roofing Supply, Inc. (Chair, compensation committee; former Chair, audit committee)  
Hillenbrand, Inc. (Chair, compensation and management development committee; mergers and acquisitions committee; nominating and corporate governance committee)

### Prior Public Company Boards

Ryerson Inc., Chairman of the Board (1999-2007)

### Qualifications:

#### Prior Business and Other Experience

Trustee of The Field Museum of Natural History  
Member of the Dean's Counsel of the Physical Sciences Division, University of Chicago

### Other Key Qualifications

**Mr. Novich** has served as the chief executive officer and chairman of the board of Ryerson Inc., where he was deeply engaged in that company's distribution operations on a domestic and international basis, and also in the leadership development and human resources functions. He

## Beatriz R. Perez



### Independent Director

Age: 48  
Director Since: 2017 Grainger Board  
Committees:  
*BANC*  
*CCOB*

Senior Vice President and Chief Public Affairs, Communications and Sustainability Officer of The Coca-Cola Company (March 2017-present), a global beverage company

### Current Public Company Boards

Primerica, Inc. (compensation committee)

### Prior Public Company Boards

HSBC North America Holdings and the HSBC Finance Corporation (nominating and governance; risk & compliance committee; audit committee) (2008-2014)

### Qualifications:

#### Prior Business and Other Experience

Prior to assuming her position in March 2017, Ms. Perez has held several positions at The Coca-Cola Company, including her most recent as the Company's first Chief Sustainability Officer, announced July 2011. Prior to that she held various roles of increasing responsibility at The Coca-Cola Company in the North America Operating Division, including Chief Marketing Officer, Senior Vice President Integrated Marketing, and multiple field operating roles.

### Other Key Qualifications

**Ms. Perez** is a senior vice president and named executive officer of The Coca-Cola Company, a public multinational beverage company, where she leads a team across public affairs and communications, sustainability and partnerships to

was also a consultant for a management consulting firm for over 10 years developing strategies for its clients. As a result, Mr. Novich has in-depth operational experience in supply chain, distribution and logistics and experience in developing strategy across a variety of industries. Mr. Novich is an "audit committee financial expert."



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support that company's growth model and strategic initiatives. In this role, Ms. Perez aligns a diverse portfolio of work against critical business objectives to support brands, communities, consumers and partners worldwide. During her tenure of more than two decades at that company, she has held several leadership roles while garnering significant experience in marketing and sustainability programs. Ms. Perez also is a strong advocate for community service, serving on various non-profit boards, including The Coca-Cola Foundation.

## Michael J. Roberts



### Independent Director

Age: 67

Director Since: 2006

Grainger Board Committees:

*BANC*

*Chair, CCOB*

Former Global President and Chief Operating Officer of McDonald's Corporation (2004-2006), a public multinational food service company

### Current Public Company Boards

CenturyLink, Inc. (human resources and compensation committee; nominating and corporate governance committee)

### Prior Public Company Boards

Qwest Communications International, Inc. (prior to its acquisition by CenturyLink) (2009-2011) (compensation and human resources committee)

SP Plus Corporation (formerly, Standard Parking Corporation) (2010-2013) (audit committee; compensation committee; executive committee)

### Qualifications:

#### Prior Business and Other Experience

Chief Executive Officer–McDonald's USA (2004); President–McDonald's USA (2001-2004); President, West Division–McDonald's USA (1997-2001)

### Other Key Qualifications

**Mr. Roberts** served as president and chief operating officer of McDonald's Corporation, a public multinational food-service company, and in this capacity had extensive management and profit and loss responsibilities. He also was responsible

## E. Scott Santi



### Independent Director

Age: 56

Director Since: 2010

Grainger Board Committees:

*Chair, Audit*

*BANC*

Chairman (2015-present) and Chief Executive Officer (2012-present) of Illinois Tool Works Inc. (ITW), a worldwide manufacturer of engineered components and systems

### Current Public Company Boards

Illinois Tool Works Inc. (2015)

### Prior Public Company Boards

None

### Qualifications:

#### Prior Business and Other Experience

Acting Chief Executive Officer of ITW (2012); Vice Chairman of ITW (2008-2012); Executive Vice President (2004-2008)

### Other Key Qualifications

**Mr. Santi** is the chief executive officer of ITW, a worldwide manufacturer of engineered components and systems. Prior to assuming this position, he served in various management roles for ITW including positions requiring significant operational and financial responsibility. During his tenure he has had extensive international responsibility including operating responsibility for a business with annual international revenues of several billion dollars. Mr. Santi has significant experience with mergers and acquisitions and with integrating acquired companies. He has also had significant strategic marketing responsibilities and human resource experience including

for the marketing and international operations of that company. In addition, Mr. Roberts has significant human resources experience and previously served on the compensation committees of Qwest Communications International, Inc. and SP Plus Corporation.

Proxycompensation policy, leadership development and succession planning. Mr. Santi is an "audit committee financial expert."

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## James D. Slavik



### Independent Director

Age: 65

Director Since: 1987

Grainger Board Committees:

*BANC*

*CCOB*

Chairman and a director of Mark IV Capital, Inc. (2003-present), a private commercial real estate development and investment company; in addition, he serves as Chief Executive Officer and President of Emerald Bay Ventures II, LLC, a private investment company which invests in real estate and venture capital

### Current Public Company Boards

None

### Prior Public Company Boards

None

### Qualifications:

#### Prior Business and Other Experience

Mark IV Capital, Inc.'s Chairman and Chief Executive Officer (1990-2003)

### Other Key Qualifications

Mr. Slavik has expansive knowledge in investments, financing and real estate. Mr. Slavik also worked at multiple commercial brokerage companies as an investment properties broker and led the marketing programs for clients' commercial properties. He also serves on the Advisory Board for the Cove Fund, a seed capital fund affiliated with UCI Applied Innovation (formerly the Institute for Innovation) at the University of California at Irvine and is a Founding Director for UCI Applied Innovation. Mr. Slavik is also a director of the Hoag Hospital Foundation and is a member of its investment and nominating committees.

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## Lucas E. Watson



### Independent Director

Age: 47

Director Since: 2017

Grainger Board Committees:

*Audit*

*BANC*

Executive Vice President and Chief Marketing and Sales Officer of Intuit, Inc. (2016-present), a global provider of business and financial management solutions

### Current Public Company Boards

None

### Prior Public Company Boards

None

### Qualifications:

#### Prior Business and Other Experience

Vice President, Global Brand Solutions, Google, Inc., a global technology company (2011-2016)

Various roles in sales, marketing and digital business at Procter & Gamble Company(1994-2011)

### Other Key Qualifications

Mr. Watson is Executive Vice President and Chief Marketing and Sales Officer at Intuit, where he leads the company's global sales and go-to-market efforts that bring Intuit's financial management solutions to market across a variety of channels while focusing on global brand expansion, market share growth and strengthening brand equity. As Vice President, Global Brand Solutions at Google, he led the company's brand advertising business, working with some of the world's leading companies to build stronger and more trusted brands. At Procter & Gamble, a global consumer products company, he held a variety of roles across























the globe, including driving Procter & Gamble's digital initiatives for 75 brands across 200 countries. During his tenure of more than two decades at these three multinational public companies, Mr. Watson has held several leadership roles while acquiring a deep understanding of sales, marketing, technology and digital business.



**BOARD MEETINGS AND COMMITTEE MEMBERSHIP**

The Company's Operating Principles for the Board of Directors (the Operating Principles) provide for the Board's Committees and the process for selecting Committee leadership. The Board Affairs and Nominating Committees' recommendations are considered by the Board following each annual meeting of shareholders. The Committees are appointed by the Board based on recommendations of the Board Affairs and Nominating Committee. As required by each Committee's charter, all members of each Committee must be "independent" directors.

Five meetings of the Board were held in 2017. Committee members have the opportunity to meet in closed session, without management present, during each Committee meeting. Accordingly, each Board meeting included at least one executive session, during which only independent directors were present. The Committees report regularly to the full Board on their activities and actions. The Board has delegated certain responsibilities and authority to its standing Committees, as described below.

**Independent Directors' Committee Assignments**

	Audit Committee	Board Affairs & Nominating Committee	Compensation Committee
Rodney C. Adkins			
Brian P. Anderson			
V. Ann Hailey			
Stuart L. Levenick *			
Neil S. Novich			
Beatriz R. Perez			
Michael J. Roberts			
E. Scott Santi			
James D. Slavik			
Lucas E. Watson			

 Chairperson    Member   \* Lead Director

Each Committee has a charter that it reviews annually and then makes recommendations to our Board for charter revisions that may be needed to reflect evolving best practices. *Copies of each Committee charter may be found in the Governance section of our website at <http://www.grainger.com/investor>.*

## **AUDIT COMMITTEE**

**Number of Meetings Held in Fiscal 2017: 5**

The Audit Committee of the Board (the Audit Committee) met five times in 2017. The Board has determined that each of the members of the Audit Committee is "independent," as that term is defined in the independence requirements for audit committee members contained in the applicable rules of the U.S. Securities and Exchange Commission (the SEC) and in the listing standards of the NYSE. The Board has determined that each of Mr. Santi, Mr. Anderson, Mr. Novich, and Ms. Hailey is an "audit committee financial expert," as that term is defined in the applicable rules of the SEC. Further, in accordance with applicable NYSE listing standards, the Board has considered Mr. Anderson's simultaneous service on the audit committees of more than three public companies, namely the audit committees of Grainger, PulteGroup Inc., James Hardie Industries plc, and Stericycle, Inc., and has determined that this service will not impair his ability to serve effectively on the Company's Audit Committee.

The Audit Committee assists the Board in its oversight responsibility with respect to the following:

Grainger's financial reporting process;

Grainger's systems of internal accounting and financial controls;

the integrity of Grainger's financial statements;

Grainger's compliance with legal and regulatory requirements;

the qualifications and independence of Grainger's independent auditor;

the performance of Grainger's internal audit function and independent auditor;

the establishment of procedures for the treatment of complaints regarding accounting, internal accounting controls, and auditing matters;

the pre-approval of audit and non-audit services to be provided by the independent auditor;

various financial aspects of certain employee benefit plans;

review Grainger's risk assessment and risk management process and policies; and

oversee compliance with Grainger's Business Conduct Guidelines, including through periodic reviews of potential violations communicated through the Company's confidential reporting channels.



## **BOARD AFFAIRS AND NOMINATING COMMITTEE**

**Number of Meetings Held in Fiscal 2017: 5**

The Board Affairs and Nominating Committee of the Board (the Board Affairs and Nominating Committee) met five times in 2017. The Board has determined that each of the members of the Board Affairs and Nominating Committee is "independent," as defined in the independence requirements for members of nominating committees contained in the applicable listing standards of the NYSE.

The Board Affairs and Nominating Committee assists the Board in its oversight responsibility as follows:

makes recommendations to the Board regarding the makeup of the Board and its committees;

determines the position description for potential Board nominees after conducting an analysis of the Board's collective experience, qualifications, attributes, skills, and background;

identifies and screens potential nominees;

makes recommendations concerning director and nominee independence;

reviews any transactions between Grainger and related persons (as further discussed below);

evaluates the overall performance of the Board;

oversees corporate governance, including

- o recommending corporate governance principles,
- o recommending Board committee responsibilities and members,
- o evaluating the Board in the area of corporate governance, including the adequacy of the information supplied to the Board,
- o evaluating the Board's performance of its oversight responsibilities relative to the management of Grainger,

- recommending retirement, compensation, and other policies applicable to directors; and

oversees the Company's corporate social responsibility activities to advance the interest of shareholders, including involvement in the communities Grainger serves and promotion of a sustainable environment;

makes initial assessments regarding major issues or proposals concerning corporate governance;

works with the Compensation Committee to review senior management organization and succession; and

leads the annual review of management's performance.

## COMPENSATION COMMITTEE

**Number of Meetings Held in Fiscal 2017: 7**

The Compensation Committee of the Board (the Compensation Committee) met seven times in 2017. The Board has determined that each member of the Compensation Committee is "independent," as defined in the independence requirements for members of compensation committees in the applicable rules of the SEC, the listing standards of the NYSE, and under the Internal Revenue Code. The Compensation Committee oversees Grainger's compensation and benefits, policies and programs (generally for all employees and specifically with respect to executives), makes decisions on executive compensation, and reviews and recommends other compensation matters to be submitted to the Board and/or shareholders for approval. The general responsibilities of the Compensation Committee are to oversee that:

compensation is aligned with shareholder value creation and strategic objectives;

compensation, especially senior management compensation, is linked to both personal and Company performance;

the Company maintains a market competitive compensation structure designed to attract, motivate, develop, and retain key talent who deliver performance that will increase shareholder value;

the Company's compensation policies and practices are designed with appropriate incentives that do not encourage unnecessary or excessive risk taking, and are administered in a transparent manner;

compensation and benefit policies and practices reflect the highest level of integrity; and

all equity-based plans and incentive plans are appropriately designed and administered, including the review and approval of the performance measures applicable to the Company's short-term and long-term incentive plans.

The Compensation Committee annually reviews and approves CEO compensation, as follows:

review and approve corporate goals and objectives relevant to CEO compensation,

evaluate CEO performance in light of those corporate financial goals and objectives, with assistance from the Lead Director and the other Board committees, as appropriate, and

together with the other independent directors, determines and approves the CEO's total compensation based on the above evaluation, in executive session without members of management present.

The Compensation Committee also reviews and recommends to the Board for approval the compensation paid to the CEO's direct reports, including the other Named Executive Officers.

In overseeing the Company's compensation programs, the Compensation Committee develops programs based on its own deliberations, programs and recommendations from management, and compensation and benefits consultants, including its independent compensation consultant. After a review of the factors prescribed by the SEC and the NYSE rules and regulations, the Compensation Committee

determined that Deloitte Consulting LLP is independent and has retained Deloitte Consulting as its independent compensation consultant.



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### Corporate Governance

The independent compensation consultant is solely hired by, and reports directly to, the Compensation Committee. The Compensation Committee routinely meets with the independent compensation consultant in executive session, without management present, following each Compensation Committee meeting. The Compensation Committee has sole authority to retain and terminate the independent compensation consultant, including sole authority to approve the consultant's fees. At the Compensation Committee's direction, the independent compensation consultant:

attends Compensation Committee meetings;

assists the Compensation Committee in the review of goals and objectives for the CEO compensation;

provides the Compensation Committee with comparable compensation market data, including pay levels and pay practices of both our comparator companies and general industry;

helps the Compensation Committee evaluate recommendations proposed by management;

assists with incentive compensation program design, structure, and selection of the metrics;

annually reviews and recommends appropriate comparator companies used for compensation studies;

conducts or assists in risk reviews of the Company's performance and incentive-based compensation programs; and

provides periodic updates on executive compensation trends and regulatory developments, and undertakes special projects as assigned.

Members of management (including some of the Named Executive Officers) assist the Compensation Committee in providing recommendations for the design of Grainger's compensation program for its Named Executive Officers, other officers, and employees. Management also recommends salary and award levels, except those related to the Chairman of the Board and Chief Executive Officer. Salaries and awards related to the Chairman of the Board and Chief Executive Officer are reviewed by the Compensation Committee, together with the other independent directors (as directed by the Board), in executive session without members of management present. On issues of Chairman and Chief Executive Officer compensation, the independent directors of the Compensation Committee, in their sole discretion, determine the appropriate compensation design and level.

The Compensation Committee approves annual grants of equity awards (including, stock options, restricted stock units (RSUs), and performance shares) to Named Executive Officers, other officers and employees under approved shareholder plans. Also, the Compensation Committee has delegated to management limited authority to grant "off-cycle" awards of stock options and RSUs to non-officer employees. Awards under this authority are granted under terms and conditions approved by the Compensation Committee. The pool of shares available to management under this delegation is refreshed annually by the Compensation Committee. Management

informs the Compensation Committee of the awarded grants at the Compensation Committee's next meeting. The Compensation Committee may terminate this delegation of authority at its discretion.

## **LEADERSHIP STRUCTURE**

The Board carefully considered its leadership structure and believes that a combined Chairman/CEO position represents the best long-term leadership structure for Grainger. In the Board's view, having a single individual serving as both the Chairman and CEO assists in the timely flow of relevant information, which supports effective Board decision-making and provides a useful connection between the Board and management so that Board actions are appropriately and efficiently executed. The Board's Lead Director structure helps assure these functions are properly and timely performed. The Board does not believe that separating the role of the Chairman and CEO would result in strengthening Grainger's corporate governance or in creating or enhancing long-term value for our shareholders.

The Board has strong governance structures and processes in place to ensure the independence of the Board. These established structures and processes, which are reflected in the Operating Principles for the Board of Directors (the Operating Principles) and the Committee charters, allow for the independent directors to effectively exercise the Board's authority in overseeing critical matters of strategy, operations, enterprise risk management, and financial reporting. Duties specifically performed by the independent directors, either collectively or through committees comprised solely of independent directors, include selecting the Chairman and CEO and evaluating his or her performance and setting his or her compensation. In deciding that a combined Chairman and CEO position is the appropriate long-term leadership structure for Grainger, the Board also recognizes the need for independent leadership and oversight. Since 1995, the Operating Principles provide for a leadership role to the independent director serving as Chair of the Board Affairs and Nominating Committee. Over time, this lead director has been responsible for facilitating Board involvement on major issues and/or proposals, reviewing meeting agenda and information to be provided to the Board, consulting with directors, the CEO, and management and presiding at executive sessions of the Board.

The Board believes that given Grainger's corporate governance structures and processes, a combined Chairman and CEO position in conjunction with an independent Lead Director provides effective oversight of management by the Board and results in a high level of management accountability to shareholders.

### **LEAD DIRECTOR**

In 2010, the Board revised its Operating Principles and By-laws to create the leadership position of Lead Director, to be elected by and from the Board's independent directors. The current Lead Director, Mr. Stuart L. Levenick, was appointed to serve in this capacity after the April 2014 annual meeting of shareholders. Among the duties assigned to the Lead Director is the responsibility for:

presiding at meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors;

serving as the primary liaison between the Chairman and the independent directors;

calling meetings of the independent directors, if appropriate, to review and approve the types of information sent to the Board;

soliciting feedback from non-employee Directors on agenda items for Board meetings and collaborating with the Chairman in developing and approving Board meeting agendas;

conducting the Board's annual self-evaluation, including coordinating Board committee evaluations;

leading the Board in its annual review of the Board and management's performance, including the CEO, to the extent necessary to supplement the Compensation Committee's review of the CEO's performance relative to applicable compensation goals and objectives;

being available, as necessary, for consultation and communication with major shareholders;

coordinating the director recruitment process with the Board Affairs and Nominating Committee; and

reviewing and approving meeting schedules to ensure that there is sufficient time for discussion of all agenda items.

### **BOARD, COMMITTEE AND DIRECTOR EVALUATIONS**

The Board recognizes that a rigorous evaluation process is an essential component of strong corporate governance practices and promoting ongoing Board effectiveness. Each year, the Board conducts a three-part evaluation process coordinated by the Lead Director and the Committee Chairs: full Board evaluation, Committee evaluations, and director self-assessment. These evaluations, which are annually reviewed by an external corporate governance expert, ask directors to rate how the Board performs and seek feedback on more open-ended topics, including Board and Committee processes and effectiveness, including for example:

the priority of Board issues, including issues and items that should be discussed at future meetings;

the quality and timeliness of information provided to the Board;

the quality of discussions, including director candor and engagement; and

the areas for improvement in overall Board effectiveness.

The results of the evaluations are compiled anonymously and include responses and comments. The results of the completed Board evaluations and individual director self-assessments are furnished to the Lead Director, while the results of the completed evaluations for the Committees are furnished to the corresponding Committee Chairs, and then discussed at the Board and Committee meetings, respectively. Below is an overview of the key steps in the annual evaluation process:

**Evaluation Framework Reviewed**

The Board evaluation framework and process is reviewed annually with an external corporate governance expert, including as to opportunities to enhance Board effectiveness.



**Process Initiated**

The Lead Director and Committee Chairs initiate the annual Board evaluation process.



**Evaluation**

The Board and Committee evaluations solicit each director's opinion on overall Board/Committee effectiveness and opportunities for improvement. Each director also completes a self-assessment designed to evaluate performance and effectiveness as a director.



**Feedback Analysis**

Board evaluation and director self-assessment results are furnished to Lead Director; Committee evaluation results are furnished to Committee Chairs, for review and analysis.



**Presentation & Discussion of Results**

Board evaluation and director self-assessment results are discussed with the full Board; Committee evaluation results are discussed with each Committee.



**Follow-Up**

The Lead Director and Committee Chairs develop plans for feedback warranting additional action, discussion and consideration at subsequent Board and Committee meetings, as appropriate.

**The results of this process are used in several ways, including:**

**By the Board**, to identify skill sets and other attributes desirable in director searches.

**By the Board Affairs and Nominating Committee**, as part of its' annual review of each director's performance when considering whether to re-nominate the director for re-election to the Board.

**By the Committees**, to improve their agenda topics and to ensure the information they receive allows them to effectively address the issues most critical to them.

**By each director**, to identify his or her strengths and areas of opportunity, and provide insight into the areas in which he or she can be most valuable to Grainger.

The information gained through this process helps shape the content of educational presentations to the Board as well as identify the skill sets desirable in director searches conducted by the Board from time-to-time.

As a result of the Board's 2017 evaluation process and related follow up, the Board identified the need for director candidates with proven track records of strategic thinking and experience in eCommerce. In 2017, a new independent director with experience in each of these areas was added to the Board.

## **BOARD OVERSIGHT**

The Board oversees its management to, among other things, encourage management communication with our shareholders, ensure effective succession planning to maximize long-term corporate performance, evaluate management's performance against its goals, to help management assess long-term strategies for, and oversee risk management processes and policies of, the Company, and to evaluate the Company's commitment to social responsibility.

### **Board's Role in Shareholder Engagement**

The Board believes it is important that the Company's strategy is effectively communicated to its shareholders, and that shareholders' perspectives are understood and considered by the Board. During 2017, the Board's Lead Director met with a variety of institutional investors to explain the Company's corporate governance practices and policies as part of a corporate governance roadshow.

As part of its oversight role, the Board routinely receives reports and briefings from the Company's Investor Relations team. Grainger has a comprehensive shareholder engagement program. Each November, the Company hosts an annual Analyst Meeting where senior management discusses the Company strategy and expectations for the upcoming year. In 2017, more than 90 investors and analysts attended the event, with more than a hundred participating via webcast.

Throughout 2017, management participated in 10 investor conferences and met with over 410 unique firms and more than 650 unique investors. Our investor outreach includes both existing and potential shareholders, and we aim to meet with a majority of our largest investors each year. Grainger's management met with 64% of our top 25 investors, excluding index and exchange-traded funds, between January and April to discuss their perspectives and feedback.

### **Succession Planning and Management Development**

Our Board recognizes that it has an important duty to ensure senior leadership continuity by overseeing the development of executive talent and planning for the efficient succession of the CEO and other key leadership positions. Our Board has delegated primary oversight responsibility for succession planning and management development to the Board Affairs and Nominating Committee. The Committee reports on its activities to the full Board, which routinely addresses succession planning during executive sessions. Our Board generally conducts, at least once a year, an in-depth review of senior leader development and succession planning, including emergency succession scenarios. This review addresses the Company's management development initiatives, assesses senior management resources, and identifies individuals who should be considered as potential future senior executives. To ensure that the succession planning and management development process supports and enhances Grainger's strategic objectives, the Board and the Board Affairs and Nominating Committee also regularly consult with the Chairman of the Board and CEO on the Company's organizational needs, the leadership potential and related development plans for key managers, and plans for future development and emergency situations.

### **Board's Role in Risk Oversight**

The Board has overall responsibility for risk oversight. Its role is to oversee risk assessment and risk management processes and policies used by Grainger to identify, assess, monitor and address potential financial, compensation, operational, strategic and legal risks on an enterprise-wide basis. The risks monitored include threats to information technology systems and other issues of cyber security. Both the Board and the Audit Committee regularly review Grainger's risk assessment and risk management processes and policies, including receiving regular reports from the Company's Chief Information Security Officer, and the members of Grainger's management who are responsible for risk assessment and risk management on the effectiveness of Grainger's Enterprise Risk Management (ERM) initiatives. As part of its oversight responsibility, the Compensation Committee assesses the relationship between potential risk created by Grainger's compensation programs and their impact on long-term shareholder value.

We will continue to engage with our shareholders on a regular basis to understand their perspectives and, as appropriate, incorporate their feedback on our performance, business strategies, executive compensation programs and corporate governance practices.

### **Corporate Social Responsibility**

Grainger is committed to being a responsible corporate citizen and strives to integrate environmental, social and governance (ESG) principles into the daily operation of its business. Grainger's Corporate Social Responsibility (CSR) platform includes our commitment to operating responsibly, valuing our people, serving our communities and sustaining our environment. These commitments shape our focus on corporate citizenship and fuel our determination to make a positive difference today and in the future. In 2017, we participated in the Dow Jones Sustainability Index and established an emissions intensity target in accordance with the Global Reporting Initiative (GRI). The Board receives routine reports on these and other ESG efforts. *Grainger publishes an annual CSR report that is periodically updated and, while it is available on our website at <http://www.GraingerCSR.com>, it is not being incorporated by reference into this proxy statement.*

### **OTHER COMMUNICATIONS WITH DIRECTORS**

Grainger has established a process by which shareholders and other interested parties may communicate with the Board, its Committees, and/or individual directors on matters of interest. Such communications should be sent in writing to:

[Name(s) of director(s)]

or

[Non-management directors]

or

[Board of Directors]

W.W. Grainger, Inc.

P.O. Box 66

Lake Forest, Illinois 60045-0066

If the matter is confidential in nature, please mark the correspondence accordingly. *Additional information concerning this process is available in the Governance section of Grainger's website at <http://www.grainger.com/investor>.*

## **AVAILABLE INFORMATION**

All the documents below are available to shareholders are available in the Governance section of Grainger's website at [www.grainger.com/investor](http://www.grainger.com/investor) or in print, free of charge, upon request to the Corporate Secretary at Grainger's headquarters, 100 Grainger Parkway, Lake Forest, Illinois 60045-5201.

### **Business Conduct Guidelines**

Grainger has adopted Business Conduct Guidelines for directors, officers, and employees, which incorporates the Code of Ethics required by the SEC to apply to a company's chief executive officer, chief financial officer, and chief accounting officer or controller. Our Business Conduct Guidelines are posted *in the Governance section on our website at <http://www.grainger.com/investor>.*

### **Operating Principles for the Board of Directors**

Grainger also has adopted Operating Principles for the Board of Directors, which represent its corporate governance guidelines. *The Operating Principles are available in the Governance section of Grainger's website at <http://www.grainger.com/investor>.*

### **Committee Charters**

*Available in the Governance section of our website at <http://www.grainger.com/investor>, are the charters, as amended from time to time, of the Audit Committee, the Board Affairs and Nominating Committee, and the Compensation Committee, which were adopted by the Board.*

### **Corporate Social Responsibility**

Grainger publishes an annual CSR report that is periodically updated and, while it is *available in the Corporate Social Responsibility section of our website at <http://www.GraingerCSR.com>*, it is not being incorporated by reference into our proxy statement.



## DIRECTOR COMPENSATION

***Grainger's non-employee directors each receive an annual cash retainer of \$85,000 and an annual deferred stock grant of \$145,000.***

***Directors serving as Committee Chairs receive an additional annual cash retainer.***

Grainger's non-employee directors are compensated at a level that approximates median market practice. In benchmarking director pay, Grainger uses the same compensation comparator group that is used to benchmark compensation for Grainger's executives as described in the *Compensation Discussion and Analysis / page 47*. The Compensation Committee's independent compensation consultant periodically reviews and updates the comparator group as well as comparative compensation information and advises on director compensation.

The directors' compensation program, which was last adjusted in April 2015, consists of the following:

Compensation for	Value
<b>Annual Cash Retainer for each Director</b>	\$85,000
<b>Annual Retainer for the Lead Director</b>	\$25,000
<b>Deferred Stock Unit Grant for each Director</b>	\$145,000
<b>Chair Retainers:</b>	
Audit Committee	\$20,000
Compensation Committee	\$15,000
Board Affairs and Nominating Committee	\$10,000

All non-employee directors receive an annual deferred stock unit grant worth \$145,000. The number of shares covered by each grant is equal to \$145,000 divided by the 200-day average stock price through January 31 (a methodology consistent with the calculation used for equity awards to Grainger executives), rounded up to the next ten-share increment. The deferred stock units are settled in shares upon termination of service as a director. Directors may defer their annual cash retainers, lead director retainer, committee chair retainers (as applicable), and meeting fees into a deferred stock unit account.

Stock ownership guidelines applicable to non-employee directors were established in 1998. These guidelines provide that within five years after election, a director must own Grainger common stock and common stock equivalents having a value of at least five times the annual cash retainer fee for serving on the Board. The pledging of Company shares by directors or executive officers is prohibited by Company policy (see *Hedging and Pledging Prohibition / page 55*). No directors have pledged any of the shares beneficially owned by them and all directors are currently in compliance with the ownership guidelines.

Grainger matches directors' charitable contributions on a three-to-one basis up to a maximum Company contribution of \$7,500 annually and provides discounts on product purchases, both on the same basis as provided to U.S. Grainger employees.

Mr. Macpherson, who is an employee of Grainger, does not receive any compensation for serving as a director.

## 2017 Director Compensation

Name	Fees Earned or Paid in Cash (1)	Stock Awards (2)	All Other Compensation (3)	Total
<b>Rodney C. Adkins</b>	\$85,000	\$123,750	\$7,500	\$216,250
<b>Brian P. Anderson</b>	\$85,000	\$123,750	\$750	\$209,500
<b>V. Ann Hailey</b>	\$85,000	\$123,750	\$0	\$208,750
<b>Stuart L. Levenick</b>	\$120,000	\$123,750	\$0	\$243,750
<b>Neil S. Novich</b>	\$85,000	\$123,750	\$7,500	\$216,250
<b>Beatriz R. Perez (4)</b>	\$63,750	\$80,102	\$0	\$143,852
<b>Michael J. Roberts</b>	\$100,000	\$123,750	\$0	\$223,750
<b>E. Scott Santi</b>	\$105,000	\$123,750	\$7,500	\$236,250
<b>James D. Slavik</b>	\$85,000	\$123,750	\$7,500	\$216,250
<b>Lucas E. Watson (5)</b>	\$28,305	\$49,179	\$0	\$77,484

1. Represents cash fees received in 2017.
2. Represents the grant date fair value of an award of 640 deferred stock units made on April 26, 2017, with immediate vesting that will be paid upon termination from service, computed in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718. The number of stock units were determined by dividing the grant dollar value by the 200-day average stock price as of January 31 in the year of the grant, a methodology consistent with the calculation used for other executive equity awards.
3. Represents amount paid by the Company to charitable organizations as part of the Company's matching gift program with respect to donations made and matched in 2017. The directors receive no direct or indirect benefit from the matching contributions.
4. Ms. Perez was appointed to the Board of Directors on July 25, 2017. The 480 deferred stock units that she received were pro-rated based upon the number of months that she will serve on the Board until the next annual election of directors. The award is valued using the closing price on the day before her appointment (\$166.88).
5. Mr. Watson was appointed to the Board of Directors on December 12, 2017. The 220 deferred stock units that he received were pro-rated based upon the number of months that he will serve on the Board until the next annual election of directors. The award is valued using the closing price on the day before his appointment (\$223.54).

## OWNERSHIP OF GRAINGER STOCK

### Security Ownership of Certain Beneficial Owners

The following table sets forth information, as of December 31, 2017, concerning any person known to Grainger to beneficially own more than 5% of Grainger's common stock, as reported on Schedule 13G or Schedule 13G/A. The information in the table and the related notes is based on statements filed by the respective beneficial owners with the SEC pursuant to Sections 13(d) and 13(g) under the Securities Exchange Act of 1934, as amended.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
BlackRock, Inc. 55 East 52 <sup>nd</sup> Street New York, NY 10055	3,516,122(2)	6.2%
James D. Slavik 4450 MacArthur Blvd., Second Floor Newport Beach, CA 92660	3,669,085(3)	6.44%
State Street Corporation State Street Financial Center One Lincoln Street Boston, MA 02111	3,401,698(4)	5.97%
Susan Slavik Williams 4450 MacArthur Blvd., Second Floor Newport Beach, CA 92660	4,822,643(5)	8.5%
The Vanguard Group 100 Vanguard Boulevard Malvern, PA 19355	5,884,588(6)	10.32%

1. Unless otherwise indicated, percentages calculated are based upon Grainger common stock outstanding as set forth in the statements on Schedule 13G or 13G/A filed by the respective beneficial owners with the SEC.
2. Based on information provided in a Schedule 13G/A filed on February 8, 2018, BlackRock, Inc. has sole dispositive power with respect to all of the shares, and sole voting power with respect to 2,896,794 shares. Various non-person entities have the right to receive or the power to direct the receipt of dividends from, or the proceeds from, the sale of Grainger's common stock. No one person's interest in the Grainger common stock is more than five percent of the total outstanding common shares. The Schedule 13G/A certifies that the securities were acquired in the ordinary course of business and not with the purpose of changing or influencing the control of Grainger.
3. Based on information provided in a Schedule 13G/A filed on February 12, 2018, Mr. James D. Slavik has sole voting power over 2,795,593 shares, shared voting power with respect to 873,492; sole dispositive power with respect to 1,159,833 shares, and shared dispositive power with respect to 2,509,252 shares. The 3,516,122 shares excludes 1,039,490 shares that are held in trusts for the benefit of his adult children who do not share his home and who serve as sole trustees of such trusts. The 6.44% calculation is based on the number of shares shown to be outstanding as of September 30, 2017 on Grainger's report on Form 10-Q filed on October 26, 2017.

4. Based on information provided in a Schedule G filed on February 14, 2018, State Street Corporation and 10 of its direct or indirect subsidiaries o, as a group, have only shared voting

power, and shared dispositive power with respect to all 3,401,698 of the shares. The Schedule 13G certifies that the securities were acquired in the ordinary course of business and not with the purpose of changing or influencing the control of Grainger.

5. Based on information provided in a Schedule 13G filed on February 14, 2018, Ms. Susan Slavik Williams has sole voting power with respect to 3,178,541 shares, shared voting power with respect to 8,342 shares, sole dispositive power over 3,178,541 shares and shared dispositive power over 1,644,102 shares. The 4,822,643 shares excludes 785,618 shares held in trusts over which Ms. Susan Slavik Williams has no dispositive or voting power. The 8.5% calculation is based on the number of shares shown to be outstanding as of September 30, 2017 on Grainger's report on Form 10-Q filed on October 26, 2017.
  
6. Based on information provided in a Schedule 13G/A filed on February 9, 2018, The Vanguard Group has sole voting power with respect to 76,592 shares, shared voting power with respect to 10,945 shares, sole dispositive power with respect to 5,799,794 shares, and shared dispositive power with respect to 84,794 shares. Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of The Vanguard Group, Inc., beneficially owns 57,540 shares or .10% of the common stock outstanding of the Company as a result of its serving as investment manager of collective trust accounts. Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of The Vanguard Group, Inc., beneficially owns 45,870 shares [or .08% of the common stock outstanding of the Company as a result of its serving as investment manager of Australian investment offerings. The Schedule 13GA certifies that the securities were acquired in the ordinary course of business and not with the purpose of changing or influencing the control of Grainger.

## Security Ownership of Management

The table below shows the ownership of Grainger common stock as of March 5, 2018, by our directors, named executive officers, and all of our directors and executive officers as a group.

Beneficial ownership is broadly defined by the SEC. In general, a person beneficially owns securities if the person, alone or with another, has voting power or investment power (the power to sell) over the securities. Being able to acquire either voting or investment power within 60 days, such as by exercising stock options, also results in beneficial ownership of securities. Unless otherwise indicated in the footnotes following the table, each of the named persons had sole voting and investment power with respect to the indicated number of Grainger shares.

Name of Beneficial Owner	Shares	Stock Option Shares Exercisable Within 60 Days (1)	Stock Units (2)	Percent of Class (3)
James D. Slavik (4) 100 Bayview Circle Suite 4500 Newport Beach, CA 92660	3,669,085	0	20,270	6.6%
Rodney C. Adkins	400	0	2,379	*
Brian P. Anderson	4,340	0	16,980	*
V. Ann Hailey	200	0	11,149	*
Joseph C. High	6,038	35,154	0	*
John L. Howard (5)	939,932	74,837	20,000	1.8%
Ronald L. Jadin (6)	20,459	118,963	0	*
Stuart L. Levenick	400	0	17,474	*
D.G. Macpherson	30,611	84,186	0	*
Neil S. Novich	4,605	0	25,142	*
Beatriz R. Perez	0	0	684	
Paige K. Robbins	4,841	14,209	3,213	*
Michael J. Roberts	1,000	0	19,926	*
James T. Ryan	143,478	379,572	20,000	*
E. Scott Santi	303	0	6,390	*
Lucas E. Watson	195	0	349	
Directors and Executive Officers as a group (7)(8)	4,835,214	725,669	165,927	10.1%

- In computing the percentage of shares owned by each person and by the group, these shares were added to the total number of outstanding shares for the separate calculations.
- Represents the number of stock units credited to the accounts of non-employee directors, and the number of restricted stock units credited to the accounts of executive officers. Each stock unit is intended to be the economic equivalent of a share of Grainger common stock. These units are excluded from the computations of percentages of shares owned.

3. An asterisk (\*) indicates less than 1%.
  
4. Mr. Slavik's ownership of 3,669,085 shares excludes 1,039,490 shares that are held in trusts for the benefit of his adult children who do not share his home and who serve as sole trustees of such trusts.

5. Includes 18,406 shares as to which Mr. Howard has sole voting and investment power, and 921,526 shares as to which Mr. Howard may be deemed to have shared voting and investment power, by virtue of his serving as a director of The Grainger Foundation, Inc. The Grainger Foundation was established in 1949 by William Wallace Grainger, the founder of Grainger, and is not affiliated with Grainger.
6. Excludes 5,546 shares held by Mr. Jadin's wife, as to which Mr. Jadin disclaims voting or investment power.
7. Includes 3,432,503 shares as to which members of the group have shared voting and/or investment power.
8. Excludes 1,045,036 shares held by certain family members, as to which shares members of the group disclaim voting or investment power.



## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors and officers and persons who own more than 10% of our common stock to file reports of ownership and changes in ownership with the SEC and the NYSE, and to furnish us with copies of the reports. Specific due dates for these reports are prescribed by SEC rules and we are required to report in this proxy statement any failure by directors, officers, or 10% holders to file such reports on a timely basis. Based on our review of such reports and written representations from our directors and officers, we believe that all such filing requirements were timely met during 2017, except for a Form 4 for Eric R. Tapia, which was filed late with respect to a single transaction relating to the Company withholding 85 shares common stock for his tax obligations upon the settlement of a restricted stock unit grant on April 24, 2017.

## REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors assists the Board in fulfilling its oversight responsibilities. The Board has determined that each of the members of the Audit Committee is "independent," as that term is defined in the independence requirements for audit committee members contained in the applicable rules of the Securities and Exchange Commission (the SEC) and corporate governance standards of the New York Stock Exchange. The Audit Committee acts under a charter that is reviewed annually; and, it was last amended by the Board on December 1, 2015. *The charter is available on the Governance section of Grainger's website at <http://www.grainger.com/investor>.*

Management is responsible for the Company's internal controls and the financial reporting process and for compliance with applicable laws and regulations. Ernst & Young LLP (EY), the Company's independent auditor, was responsible for performing an independent audit of the Company's most recent consolidated financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States of America, as well as expressing an opinion on the effectiveness of the Company's internal control over financial reporting. The Audit Committee's responsibility is to monitor and oversee these processes.

In performing these responsibilities, the Audit Committee reviewed and discussed the Company's audited consolidated financial statements and the effectiveness of internal control over financial reporting with management and EY. The Audit Committee discussed with EY matters required to be discussed under Statement on Auditing Standards No. 1301 "*Communications with Audit Committees*" adopted by the Public Company Accounting Oversight Board (PCAOB). EY also provided to the Audit Committee the letter and written disclosures required by PCAOB standards concerning EY's independence and the Audit Committee discussed with EY the matter of the firm's independence.

Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the SEC.

E. Scott Santi, Chair  
Brian P. Anderson  
V. Ann Hailey  
Neil S. Novich  
Lucas E. Watson

Members of the Audit Committee of  
the Board of Directors

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## AUDIT FEES AND AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

The following table sets forth the fees for professional services rendered by Ernst & Young with respect to fiscal years 2017 and 2016, respectively:

Fee Category	2017	2016
Audit Fees	\$ 5,966,200	\$ 5,695,900
Audit-Related Fees	224,100	192,400
Tax Fees	678,500	1,302,627
All Other Fees	3,000	43,000
Total Fees	\$ 6,871,800	\$ 7,233,927

**Audit Fees.** Consists of fees billed for professional services rendered for the audit of Grainger's annual financial statements and internal control over financial reporting, review of the interim financial statements included in Grainger's quarterly reports on Form 10-Q, and other services normally provided in connection with Grainger's statutory and regulatory filings or engagements.

**Audit-Related Fees.** Consists of fees billed for professional services rendered for assurance and related services that are reasonably related to the performance of the audit or a review of Grainger's financial statements. These services include the audits of Grainger's employee benefit plans and various attest services.

**Tax Fees.** Consists of fees billed for professional services rendered for tax compliance, tax advice and tax planning. These services include assistance with the preparation of various tax returns.

**All Other Fees.** Consists of fees billed for all other professional services rendered to Grainger.

### Pre-Approval Policy for Audit and Non-Audit Services

The Audit Committee has adopted a policy for the pre-approval of all audit and permitted non-audit services to be provided to Grainger by its independent auditor and is responsible for the review and approval of any fees associated with those services. Also, specific pre-approval by the Audit Committee is required for any proposed services exceeding pre-approved fee levels.

Pre-approvals for categories of services are granted at the start of each fiscal year and are applicable for 12 months from the date of pre-approval. In considering these pre-approvals, the Audit Committee reviews detailed supporting documentation from the independent auditor for each proposed service to be provided. Unused pre-approval amounts are not carried forward to the next year.

The Company's Controller monitors services provided by the independent auditor and overall compliance with the pre-approval policy. The Corporate Controller reports periodically to the Audit Committee about the status of outstanding engagements, including actual services provided and associated fees, and must promptly report any noncompliance with the pre-approval policy to the Chairman of the Audit Committee.

The Audit Committee may delegate pre-approval authority for audit and non-audit services to one or more of its members, and such authority has been delegated to the Chair of the Audit Committee. The decisions of any member to whom such authority is delegated must be presented to the full Audit Committee at its next scheduled meeting. The Audit Committee may not delegate to management its responsibilities to pre-approve services performed by the Company's independent auditor. The Audit Committee periodically reviews reports summarizing all services provided by the independent auditor.

**RATIFY THE  
INDEPENDENT AUDITOR**

**What are you voting on?**

Ratification of the appointment of Ernst & Young LLP as the independent auditor for the year ending December 31, 2018

**THE BOARD  
RECOMMENDS A VOTE  
FOR THE PROPOSAL TO  
RATIFY THE  
APPOINTMENT OF  
INDEPENDENT  
AUDITOR.**

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the independent external audit firm that performs audit services. In considering Ernst & Young LLP's (EY) appointment for the 2018 fiscal year, the Committee reviewed the firm's qualifications and competencies, including the following factors:

EY's historical performance and its recent performance during its engagement for the 2017 fiscal year;

EY's capability and expertise in handling the breadth and complexity of the Company's operations;

the qualifications and experience of key members of the engagement team, including the lead audit partner, for the audit of the Company's financial statements;

the quality of EY's communications with the Audit Committee regarding the conduct of the audit, and with management with respect to issues identified in the audit;

external data on audit quality and performance, including recent PCAOB reports on EY; and

EY's reputation for integrity and competence in the fields of accounting and auditing.

EY has been retained as the Company's independent auditor continuously since 2005. To ensure continuing auditor independence, the Audit Committee periodically considers whether there should be a regular rotation of the independent auditor. The Audit Committee ensures that the mandated rotation of EY's personnel occurs routinely and the Audit Committee is directly involved in the selection of EY's lead engagement partner.

The Audit Committee and the Board of Directors believe that the continued retention of EY to serve as the Company's independent auditor for the year ending December 31, 2018 is in the best interests of the Company and its shareholders, and the Board is asking shareholders to ratify this appointment. Representatives of EY are expected to be present at the meeting to respond to appropriate questions of shareholders and to make any desired statements.

Approval of the proposal requires the affirmative votes of a majority of the shares of Grainger common stock represented in person or by proxy at the meeting and entitled to vote. Abstentions will have the same effect as votes against the proposal. In the event the proposal is not approved, the Board will consider the negative vote as a mandate to appoint another independent auditor for the next year.

## REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD

The Compensation Committee reviewed and discussed the Compensation Discussion and Analysis (CD&A) with management. Based on such review and discussion, the Compensation Committee has recommended to the Board of Directors that the CD&A be included in the Company's proxy statement for its 2018 annual meeting of shareholders and in its Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC. The Compensation Committee acts under a charter that is reviewed annually and was last approved by the Board on December 13, 2017. *The Amended and Restated charter is available in the Governance section of Grainger's website at <http://www.grainger.com/investor>.*

Michael J. Roberts, Chairman

Rodney C. Adkins

Stuart L. Levenick

Beatriz R. Perez

James D. Slavik

Members of the Compensation Committee of the  
Board of Directors

## FEES FOR INDEPENDENT COMPENSATION CONSULTANT

The Compensation Committee has engaged Deloitte Consulting LLP (Deloitte Consulting) as its independent compensation consultant. The following table sets forth the fees for services rendered by Deloitte Consulting and its affiliates with respect to fiscal year 2017:

Type of Fee	2017
Executive Compensation Consulting	\$ 334,137
All Other Consulting	\$ 1,571,350
Total Fees	\$ 1,905,487

**Executive Compensation Consulting Fees:** Consists of fees billed for services provided to advise the Compensation Committee of the Board with respect to executive and director compensation.

**All Other Consulting Fees:** Consists of fees billed for all other services provided to Grainger. None of these fees are related to compensation matters.

Affiliates of Deloitte Consulting have provided other services to Grainger that are unrelated to executive compensation matters. The decision to engage an affiliate of Deloitte Consulting for these other services was made by management. The Board has been informed of this ongoing work and the use of an affiliate of Deloitte Consulting but neither the Board nor the Compensation Committee specifically approved these services. After a review of the factors prescribed by the SEC and the NYSE rules and regulations, the Compensation Committee determined that its compensation consultant, Deloitte Consulting, did not have any conflicts of interest.

# C ompensation Discussion and Analysis

## INTRODUCTION

This Compensation Discussion and Analysis (CD&A) describes the Company's compensation philosophy and programs generally, and explains the compensation paid to the six most highly compensated executives in 2017—the Named Executive Officers (NEOs).

**Named Executive Officers for 2017**

Officer	Title
James T. Ryan	Former Chairman of the Board
D.G. Macpherson	Chairman of the Board & Chief Executive Officer (CEO)
Ronald L. Jadin	Senior Vice President & Chief Financial Officer (CFO)
John L. Howard	Senior Vice President & General Counsel
Joseph C. High	Senior Vice President & Chief People Officer (CPO)
Paige K. Robbins	Senior Vice President, Grainger Chief Digital Officer

The titles in the table above reflect positions held by the NEOs as of the end of 2017, and remain unchanged as of the date of this proxy statement. As explained under "Leadership Changes" below, between January 1, 2017 and September 30, 2017, Mr. Ryan served as the Company's Chairman, while Mr. Macpherson served as the Company's Chief Executive Officer (CEO). Effective October 1, 2017, Mr. Ryan retired from the Company and the Board, and Mr. Macpherson succeeded Mr. Ryan as Chairman while continuing in his position as CEO.

### Leadership Succession

Long-term CEO succession planning is crucial to the stability of the business and a key responsibility of the Board. Effective October 1, 2017, as part of a planned succession process, the Company named Mr. Macpherson Chairman of the Board and CEO, upon Mr. Ryan's retirement as Chairman of the Board.

Prior steps in the succession plan included promoting Mr. Macpherson to CEO in October 2016, and to Chief Operating Officer in August 2015. In both roles, Mr. Macpherson was responsible for the Company's day-to-day operations and reported to Mr. Ryan. Previously, Mr. Macpherson had served the Company as Senior Vice President and Group President, Global Supply Chain and International since 2013; Senior Vice President and President, Global Supply Chain and Corporate Strategy, a position assumed in 2012; and Senior Vice President, Global Supply Chain, a position assumed in 2008.

Mr. Ryan's continued service in 2017 as Chairman of the Board enabled the Company to execute a successful leadership transition to Mr. Macpherson, while ensuring that the Board and Mr. Macpherson retained Mr. Ryan's significant knowledge of the Company's operations, strategy, people and resources during the transition process.

## Executive Summary

*The Company's compensation program is based upon a philosophy that is applied to all Company employees—to attract and retain the best people and provide them appropriate performance-based incentives that encourage them to achieve results that create long-term shareholder value.*

The Company's overall compensation structure is designed to drive profitable growth leading to shareholder value creation. Employees at all levels of the Company, including its executives, are provided incentives to grow the business (Sales Growth) while achieving attractive investment returns (Return on Invested Capital, or ROIC) for the Company's shareholders. For executives, the compensation program is designed to link pay to performance and is structured to reward both annual and long-term Company performance while not encouraging excessive risk taking.

Highlights for 2017 include:

as a result of a long term succession plan, Mr. Macpherson was named Chairman and CEO upon Mr. Ryan's retirement;

short-term financial results met expectations and therefore the payout for the annual bonus program approximated target;

long-term results for the Performance Share cycle that began in 2015 did not meet threshold sales growth expectations, therefore there was no payout for this program;

the Company changed the long term incentive mix for awards in 2017 from 70% stock options and 30% performance shares to 50% stock options and 50% performance shares in response to market practice and to provide appropriate incentives to drive shareholder value creation; and

reimbursement for financial services was discontinued following the 2017 program.

NEO compensation includes a combination of base salary, short-term incentives, long-term equity incentives including performance shares and stock options, and a performance-based retirement vehicle. These components are combined to provide Company executives with appropriate incentives for profitable long-term growth.

Compensation Discussion and Analysis

The Company's NEO compensation is comprised of the following components:

Compensation Element	Purpose	Link to Performance	Fixed/ Performance Based	Short/ Long Term
Base Salary	Establishes a market competitive and appropriate level of fixed compensation to attract and retain leaders.	Based on individual performance.	Fixed	Short-Term
Annual Incentives (Management Incentive Program)	Encourages annual results that create shareholder value.	Linked to annual achievement of predetermined Company objectives—sales growth and ROIC.	Performance Based	Short-Term
Stock Options	Directly links managers' and shareholders' interests by tying long-term incentives to stock appreciation.	The initial grant value (above or below target) is linked to individual performance, while the ultimate value of the program is linked to stock price performance prior to exercise.	Performance Based	Long-Term
Performance Shares	Aligns compensation with the Company's business strategy and the long-term creation of shareholder value.	Linked to achieving specific pre-determined Company objectives (sales growth and 3-year ROIC).	Performance Based	Long-Term
Retirement/Profit Sharing	Aligns the interests of the employees and shareholders as the Company's annual contribution varies year to year based on ROIC.	Linked to financial performance—contributions greater than 8% are based on Company performance.	Performance Based	Long-Term

In order to encourage profitable growth while protecting shareholders' interests, the Company's compensation programs include the following risk mitigating features:

Compensation Program vs. Risk Mitigating Action	Annual Incentives	Stock Options	Performance Shares
Robust Goal Setting	✓	✓	✓
Balanced Performance Measures (Revenue Growth and Profitability)	✓	✓	✓
Claw back Polices	✓	✓	✓
Stock Ownership Requirements	N/A	✓	✓
Retention Ratio	N/A	✓	✓
Performance Payouts Capped (Number of Shares)	✓	✓	✓
Compensation Committee Oversight	✓	✓	✓
Internal and Independent External Review	✓	✓	✓
Restrictions on Hedging and Pledging	N/A	✓	✓

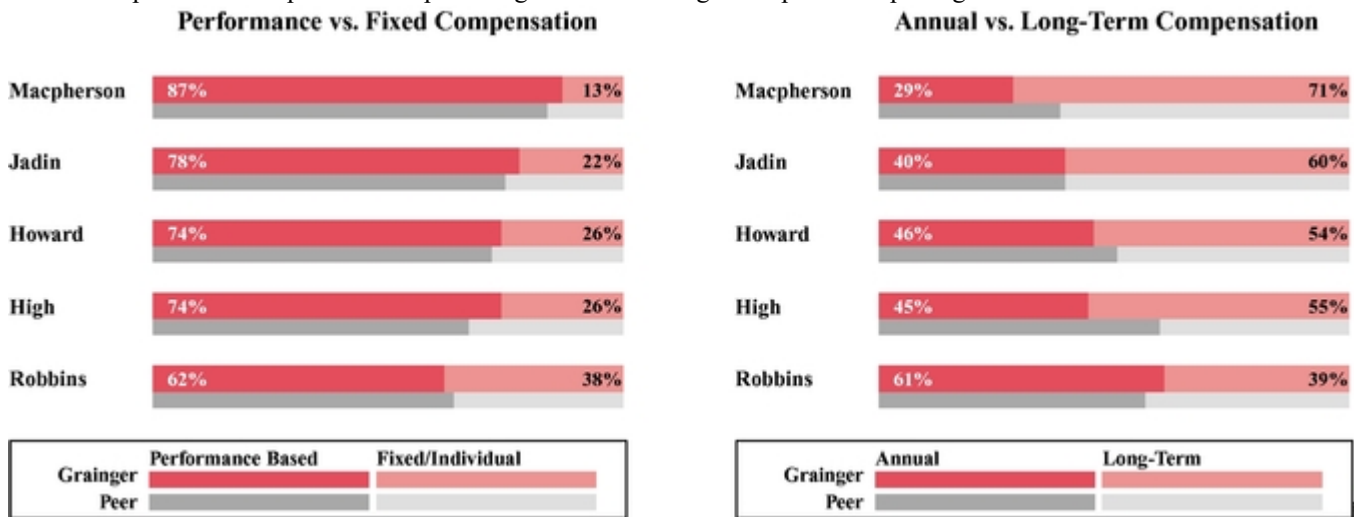
Target total compensation for the Company's employees is generally set to approximate the market median. The weighting of the individual compensation components varies by level, with more senior level executives having a greater emphasis on performance-



based long-term compensation—which aligns management to shareholders. As shown in the table below, NEO compensation is structured so that the largest component is long-term equity (stock options and performance shares), followed by base salary and the performance-based annual incentives. Each NEO's compensation is compared to equivalent positions in a comparator group selected by the Compensation Committee (with assistance from the Committee's independent compensation consultant). NEO base salaries and long-term incentive grants

are determined based on many factors including individual performance, responsibilities, and the overall relation to market levels of compensation.

These components and the use of performance-based pay are consistent with the compensation mix of the comparator group. The tables below show compensation components as a percentage of the total target compensation package.



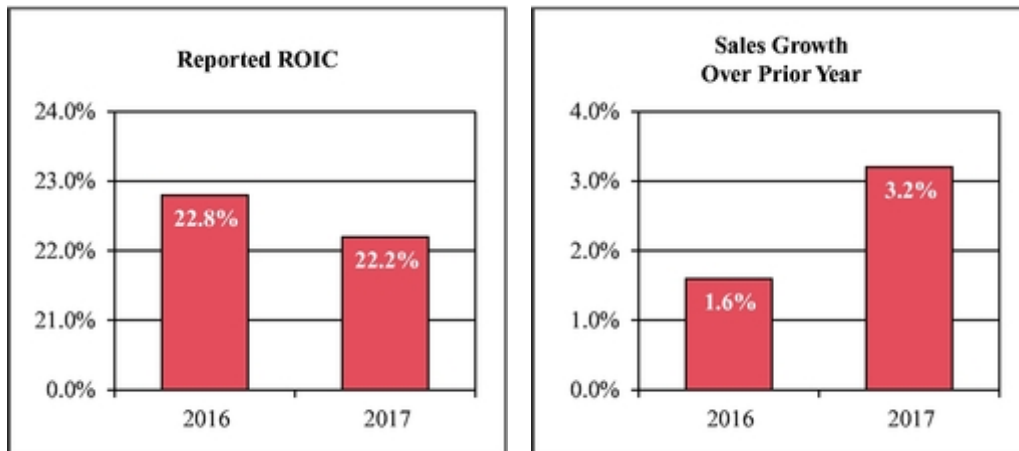
"Performance Based Compensation" consists of the annual incentive plan, long-term incentives, and profit sharing as described further under "Annual Incentives" and "Long-Term Incentives."

"Fixed/Individual Based Compensation" consists of base salary as described further under "Base Salaries."

"Annual Compensation" consists of base salary and the annual incentive plan as described further under "Annual Incentives."

"Long-term Compensation" consists of stock options, performance shares, and profit sharing. Annual profit sharing contributions are based on the Company's short-term performance; distributions are restricted, with full vesting of contributions once a participant has achieved five years of service with the Company as described further under "Long-Term Incentives" and "Other Benefits."

"Peers" are the comparator group in the 2017 Deloitte Consulting Compensation Study as described further under "*Compensation Comparator Group*."



The Company's compensation structure links pay with Company performance. Our 2017 financial results met expectations and therefore the annual bonus payment approximated target. However, the Company's long-term plan, established in 2015, did not meet the threshold results for three year sales growth and therefore there was no payout for this program.

The Company is focused on profitable daily sales growth over the short- and long-term. The Company believes that using ROIC and sales growth are appropriate metrics for both short-term and long-term because:

**Different Performance Goals.** The short-term incentive program focuses on sales growth compared to the prior year and a pre-determined ROIC, with both measures linked to the Company's one-year plan. The long-term incentive program focuses on a specific sales dollar goal in the third year of the performance period. In addition, the long-term incentive program requires a threshold level of ROIC over the performance period in order for the awards to vest.

**Different Time Periods.** The short-term incentive program focuses on the achievement of sales growth and ROIC over one year. The long-term incentive program focuses on sales growth over three years, while maintaining an ROIC above 18% during the three-year period.

**Company-Wide Performance Measures.** Performance is measured at the Company-wide level as opposed to specific business unit or regional levels.

**Maximum Payout is Capped.** Incentive plans are capped at 200% of the target award.

As a result, the Company believes that using ROIC and sales growth are appropriate metrics and do not create unreasonable risk.

### **Compensation Philosophy, Plans, and Practices**

*As part of the Company's pay for performance philosophy, the Company's compensation program includes several features that maintain alignment with shareholders:*

**Emphasis on Variable Performance-Based Compensation.** Between 62% and 87% of the NEOs' target compensation is tied to Company performance.



**Double-Trigger Change in Control Requirements.** Both the existing Change in Control Agreements and awards under the W.W. Grainger, Inc. 2015 Incentive Plan (the 2015 Incentive Plan) have double-trigger change in control provisions.

**Stock Ownership Requirements.** The Chairman and CEO is required to hold equity in the Company worth at least 6x his base salary, and all other NEOs are required to hold at least 3x base salary.

**Holding/Retention Periods.** NEOs are required to hold at least 25% of the after-tax value of exercised stock option shares and other stock awards until ownership requirements are met. Those who fail to achieve ownership requirements will not receive future equity-based awards.

**Prohibition on Hedging and Pledging.** NEOs and directors are prohibited from hedging and pledging of Company shares.

**Claw back Provisions.** The Company has established recoupment policies for financial fraud and/or material inaccuracies as well as for violations of non-competition agreements and non-solicitation agreements.

**Performance Thresholds and Caps.** Both the annual incentive and performance share programs require a threshold level of performance in order to achieve any payment, and the maximum payments are capped.

**Annual Risk Reviews.** The Company conducts an annual risk review based on a process recommended by the Compensation Committee's independent compensation consultant.

**Executive Physicals.** In order to ensure the stability of the leadership team, the Company requires that the NEOs and certain other Company officers have periodic physical examinations.

*The Company's compensation programs also maintain alignment with shareholders by not including certain features:*

**No** Cash Buyouts of Underwater Stock Options, Repricing, or Stock Options issued at a discount. Stock options issued will not be repriced, replaced, or regranted through cancellation or by lowering the exercise price of a previously granted stock option.

**No** Excessive Change in Control Agreements. The maximum cash benefit is equal to 2x salary and target bonus.

No Change in Control Agreements with Excise Tax Gross-ups.

No Tax Gross-ups on Perquisites.

No Employment Agreements. The Company does not maintain any employment agreements with its NEOs.

No Payment of Dividend Equivalents on Unearned Performance Shares or Stock Options.

Overall, the Company's compensation program is designed to be straightforward and understandable to its employees and shareholders, and to drive long-term shareholder value creation by aligning compensation with both individual and Company performance.

## Compensation Committee of the Board

*The Compensation Committee of the Board is responsible for the Company's compensation programs.*

The Compensation Committee oversees the Company's compensation and benefit programs for all officers and employees. The Committee is responsible for ensuring that the Company's compensation practices provide appropriate incentives to increase long-term shareholder value, reflect the highest level of integrity, and protect the interests of shareholders. One of its responsibilities is to make certain that a competitive compensation structure is in place that will attract, reward, and retain employees and to motivate them to grow the business profitably. The Committee is also charged with ensuring that compensation, especially for executives, is linked to both individual and Company performance, and ensuring that compensation policies and practices for all employees do not include incentives to take inappropriate risk.

In setting individual compensation levels, the Compensation Committee selects a compensation comparator group of companies and reviews studies of total compensation paid to executives in those comparator group companies with similar duties and responsibilities. The Committee then considers a variety of reference points, including competitive compensation data at the 25th, 50th, and 75th percentiles, individual and Company performance, the executive's overall experience, replaceability, internal equity, unique skills, and management's recommendation to determine appropriate compensation for each executive. All elements of compensation are valued and reviewed in evaluating the relative competitiveness of the Company's compensation practices against the comparator group. Target total compensation for the Company's employees and executives as a whole (including the NEOs) is generally set to approximate the market median.

The Compensation Committee reviews at least annually a tally sheet for each NEO to evaluate the potential value of all compensation. The tally sheet includes each NEO's current base salary, annual incentive award, and the value of all outstanding equity-based awards (both vested and unvested), deferrals, benefits, and perquisites, as well as potential payments under retirement and certain change in control situations. Since no NEO has an employment agreement with the Company that guarantees continued employment, the tally sheets also facilitate the Committee's evaluation of vested and unvested awards and the retention value of these awards.

Under its charter, the Compensation Committee makes executive compensation decisions and recommends actions to the Board of Directors and to shareholders (for example, related to the advisory Say on Pay vote or equity plan proposals), as appropriate.

In discharging its responsibilities, the Committee regularly consults with independent advisors, compensation consultants, and the Company's management. After a review of the factors prescribed by the SEC and the NYSE, the Compensation Committee determined that its compensation consultant, Deloitte Consulting, is an independent advisor under the applicable rules and regulations. *The Compensation Committee's charter can be found in the Governance section of Grainger's website at [www.grainger.com/investor](http://www.grainger.com/investor).*

The following steps are performed each year to review, recommend, and approve NEO compensation. These steps are described further under "*Role of Management*," "*Compensation Comparator Group*," and "*Base Salaries*."

	Determine Comparator Group	Perform Executive Compensation Study	Determine CEO Pay	Determine NEO Pay
<b>Purpose</b>	A review of the comparators is performed to maintain a group of companies that are relatively similar in complexity and size to Grainger	An analysis of NEO compensation versus the comparator group is performed to ensure compensation is market competitive	Recommendations for base salaries, performance shares and stock options, and any changes to the structure and targets of short-term and long-term incentive programs are made to update compensation based on market data.	
<b>Timing of Analysis</b>	Every year	Every year	Every year	Every year
<b>Recommendation</b>	Recommended by the independent advisor to the Compensation Committee	Recommended by the independent advisor to the Compensation Committee	Recommended and approved by Independent Directors in Executive Session	Recommended by Management
<b>Approval</b>	Reviewed and approved by the Compensation Committee	Reviewed by the Compensation Committee		Reviewed by the Compensation Committee and approved by the Board
<b>Planned Timing of Approval</b>	July	October	February	February

**Risk Assessment**



*The Compensation Committee's oversight responsibility includes assessing the relationship between potential risk created by the Company's compensation programs and their impact on long-term shareholder value. The Company's compensation programs are designed to include risk-mitigating features, and the Committee also engaged its independent compensation consultant (Deloitte Consulting) to assist with the process of an annual internal risk assessment of all incentive-based compensation, including short-term and long-term incentive programs.*

The incentive compensation programs include risk-mitigating components, such as:

balanced performance measures—sales growth combined with profitability;

robust performance measure selection and rigorous targets;

balanced mix of short-term and long-term incentives;

balanced mix of equity vehicles—stock options are combined with performance shares;

claw back provisions to recoup incentive compensation;

stock ownership, retention, and holding requirements; and

clear business conduct guidelines.

Since 2009, the Committee has engaged its independent compensation consultant to conduct a risk assessment that is completed every three years. The independent consultant will conduct its next risk assessment in 2018. For the two interim years, the Company conducts an annual internal risk review based on practices and methodologies recommended by the Committee's independent compensation consultant. The results of the internally-conducted 2017 risk review were discussed with the Committee.

Based on the risk review and the Committee's discussions, the Committee does not believe that the Company's compensation policies and practices are reasonably likely to have a material adverse effect on the Company.

### **Say on Pay**

At the 2017 annual meeting of shareholders, the annual advisory vote to approve the compensation of the Company's NEOs received the support of 97% of the shareholders voting on the proposal. The Compensation Committee has considered these results and believes that they confirm the appropriateness of the Company's current executive compensation policies and practices. The Company routinely discusses its compensation philosophy with its shareholders as part of investor relations activities.

The Company is required to seek shareholder vote on the frequency of the advisory Say on Pay vote every six years. In 2011 and 2017, management recommended an annual advisory Say on Pay vote. The next advisory frequency vote is scheduled for 2023.

### **Role of Management**

*Management assists the Compensation Committee in the design, recommendation, and implementation of compensation programs.*

Members of management assist the Compensation Committee by routinely recommending programs that management believes will provide the appropriate level of compensation and incentives consistent with the Company's compensation philosophy. Consistent with this process, management works with advisors from Deloitte Consulting to develop market information and recommends adjustments in base salaries, annual incentive targets, and long-term incentive awards to be reviewed by the Compensation Committee and approved by the Board. For NEOs other than Mr. Macpherson, the recommendations also include the structure and targets of short-term and long-term incentive programs, as well as changes to programs required for regulatory compliance. These recommendations are reviewed and approved by the Chairman of the Board and CEO before they are presented to the Compensation Committee. Mr. Macpherson's compensation is reviewed by the Compensation Committee in conjunction with its independent compensation consultant, together with other independent directors (as directed by the Board), in executive session without members of management present.

## Compensation Comparator Group

*The Company's compensation program is regularly benchmarked against a Compensation Committee-approved comparator group of companies that are similar to the Company in size and complexity. The Company performs these studies to understand current market practices and to provide a reference point for compensation discussions.*

Every year, the Compensation Committee determines a compensation comparator group of companies and undertakes a study of total compensation paid to executives occupying similar positions with similar duties and responsibilities in the comparator companies. All elements of compensation are valued and considered when determining the relative competitiveness of the Company's compensation practices. A comparator group compensation study was conducted in 2017 (2017 Compensation Study).

The 2017 comparator group consists of 20 businesses that are relatively similar in complexity and size to the Company and represent the types of major companies with which the Company historically competes for executive talent. The companies that were selected for the 2017 Compensation Study are generally within a range of 0.5 to 2.0 times Grainger's annual revenue. The competitive market for executive talent includes companies both within and outside the same industry or sector as the Company. Most of the Company's publicly traded direct competitors tend to be too small in sales or scope of operations for direct compensation comparisons with the Company. Including a broader range of companies provides a more representative depiction of the Company's competitive market for talent. Therefore, companies used for compensation comparison purposes differ from those in the industry indices used in the Company's Performance Graph in Part II, Item 5 of the Company's most recent Annual Report on Form 10-K.

Management played a minimal role in selecting the 2017 compensation comparator group, as the Committee relied on its independent compensation consultant (Deloitte Consulting) for survey and market data. The role of management in selecting the comparator group was limited to providing general comments on the relevance of each industry represented by the comparator companies.

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Compensation Discussion and Analysis

Listed below are the 2017 Compensation Study comparator group and the 2016 revenues and enterprise values for each company.

Company	2016 Revenue (\$mil)*	2016 Enterprise Value (\$mil)**
Anixter International Inc.	\$7,623	\$3,983
Avnet, Inc.	\$16,741	\$7,588
CDW Corporation	\$13,982	\$11,962
Eaton Corporation plc	\$19,747	\$38,090
Fastenal Company	\$3,962	\$13,877
Genuine Parts Company	\$15,340	\$14,773
HD Supply Holdings, Inc.	\$7,123	\$12,507
Henry Schein, Inc.	\$11,572	\$13,783
Illinois Tool Works Inc.	\$13,599	\$48,383
Ingersoll-Rand plc	\$13,509	\$22,017
Insight Enterprises, Inc.	\$5,486	\$1,639
LKQ Corporation	\$8,584	\$12,420
Parker-Hannifin Corporation	\$11,361	\$19,788
QVC Group	\$10,219	\$15,564
Sanmina Corporation	\$6,481	\$2,755
Tech Data Corporation	\$26,380	\$2,656
The Sherwin-Williams Company	\$11,856	\$26,384
Univar Inc.	\$8,074	\$6,793
Veritiv Corporation	\$8,327	\$1,771
WESCO International, Inc.	\$7,336	\$4,606
25th Percentile	\$7,551	\$4,450
<b>50th Percentile</b>	<b>\$10,790</b>	<b>\$12,464</b>
75th Percentile	\$13,695	\$16,620
<b>W.W. Grainger, Inc.</b>	\$10,137	\$15,946
Percent Rank	47%	74%

\* Revenue is for Fiscal Year 2016.

\*\* Enterprise Value is calculated as market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents, as of 12/31/2016.

The Compensation Committee reviewed and approved the comparator group and considered the findings of the 2017 Compensation Study in conjunction with a tally sheet listing the potential value of all compensation available for the NEOs. The Compensation Committee concluded that the NEOs' earned and potential awards for 2017 were consistent with the Company's pay philosophy, Company and individual performance, and market practices (as reflected in the 2017 Compensation Study). Based on this review and the strong support from shareholders on the Say on Pay proposal, the Committee

did not make specific adjustments to the design of the Company's compensation programs. The next Compensation Study and comparator group validation is scheduled to take place in 2018.

### **Base Salaries**

*Base salaries are intended to provide an appropriate level of fixed compensation to attract and retain executives. Base salaries are determined after a detailed evaluation of individual performance, competitive market levels, and executive experience.*

Annual base salary adjustments are considered and implemented to reflect individual performance, contribution and experience, and to maintain market competitiveness. The 2017 Compensation Study showed that, on average, the Company's base salaries for NEOs were approximately 14% above the market median.

Base salary increases for the NEOs, with the exception of Messrs. Ryan and Macpherson, are reviewed and approved by both the Chairman of the Board and the CEO before they are presented to the Compensation Committee. In approving recommendations, the Committee reviews these recommendations in conjunction with its independent compensation consultant.

The compensation awarded to Messrs. Ryan and Macpherson was determined by the Board with assistance from the Compensation Committee and its independent compensation consultant. The Compensation Committee reviews and approves the corporate goals and objectives relevant to Messrs. Ryan and Macpherson's compensation and evaluates each individual's performance in light of those goals and objectives. Together with the other independent directors (as directed by the Board), the Compensation Committee determined and approved Messrs. Ryan and Macpherson's compensation level based on this evaluation, in executive session without members of management present.

Following the annual performance management review process (which is similar to the process in which all employees participate), base salaries are reviewed and adjusted (if appropriate) to reflect individual and Company performance, base salaries for comparable positions from market studies, experience, tenure, and internal equity.

Based on the process outlined above and as a result of leadership changes, on April 1, 2017, Mr. Ryan's base salary was decreased to \$800,000 (-33.0%) and Mr. Macpherson's base salary was increased to \$1,030,000 (+3.0%).

In addition, the following base salary adjustments were made for the other NEOs effective April 1, 2017:

Mr. Jadin's base salary was increased to \$748,995 (+3.0%);

Mr. Howard's base salary was increased to \$699,133 (+3.0%);

Mr. High's base salary was increased to \$515,000 (+3.0%); and

Ms. Robbins' base salary was increased to \$480,000 (+3.2%) and subsequently increased to \$504,000 (+5.0%) effective September 7, 2017 to reflect additional duties.

## Annual Incentives

*Annual incentives are intended to provide an appropriate level of variable compensation to encourage executives to achieve annual results that create shareholder value without encouraging excessive risk taking.*

NEOs are eligible to receive short-term cash-based incentives on the achievement of specified annual Company-wide financial performance measures set forth in the Company Management Incentive Program (MIP). The Company structures the MIP to motivate performance that balances short-term and long-term results and aligns the interests of management with shareholders.

Each NEO's target incentive award under the annual incentive program is based on a review of competitive market practice and is designed to approximate a market value that is generally at the median of the comparator group. The following table displays the 2017 MIP target (program and payment) applicable to each NEO.

Name	2017 Target Incentive (as a % of base salary)	Program	Actual Payment (as a % of the target)
James T. Ryan	130%*	Company	94%
D.G. Macpherson	125%	Company	94%
Ronald L. Jadin	85%	Company	94%
John L. Howard	75%	Company	94%
Joseph C. High	75%	Company	94%
Paige K. Robbins	60%**	Company	94%

\* Mr. Ryan's 2017 target incentive was decreased from 130% to 100% effective April 1, 2017. Accordingly, his 2017 incentive amount is pro-rated at 130% for 3 months and 100% for 6 months through his retirement on October 1, 2017. Effective October 1, 2017, Mr. Ryan retired from the Board and Mr. Macpherson succeeded Mr. Ryan as Chairman while continuing in his position as CEO.

\*\* Ms. Robbins' 2017 target incentive was increased from 55% to 60% effective September 7, 2017, in connection with her promotion to SVP, Grainger Chief Digital Officer. Accordingly, her 2017 incentive amount is pro-rated at 55% for 8 months and 60% for 4 months.

The Compensation Committee and management perform a thorough analysis in setting financial measures and goals for the Company MIP to ensure the program appropriately balances the Company's objectives, is aligned with long-term shareholder interest, and has appropriate and effective risk-mitigating components. While the measures and goals are clearly aligned with the Company's strategy, they also account for current economic conditions. The combination of sales growth and ROIC performance, as well as threshold, target, and maximum payment levels, serves to mitigate risk to the Company's shareholders.

The Company believes the design of the annual incentive program creates shareholder value and encourages performance by focusing on profitable sales growth and ROIC. The basic framework of the MIP has been in place for more than ten years, although specific objectives and performance target levels have been modified on a year-by-year basis in light of the current economic and competitive environment. This framework was selected to align with Company strategy and to balance sales growth with profitability, efficiency, expense management, and asset management. ROIC reflects how effectively management uses Company assets and is generally defined by the Company as pre-tax operating earnings divided by net working assets. Year-over-year daily sales growth is determined by

year-over-year results. Acquisitions and divestitures that occur during the year are not included in the calculation of daily sales growth or ROIC. These measures are consistent with the Company's objective of growing profitably over time, which it believes is closely linked with shareholder value creation.

The 2017 Company MIP was based on the Company's ROIC and year-over-year daily sales growth. The Company determined the payment earned for ROIC and the payment earned for sales growth, and the two amounts were added together:

$$\text{MIP Payment} = (\text{Sales Growth Performance} + \text{ROIC Performance})$$

The following table shows various payout scenarios that were established at the beginning of the year:

ROIC Performance	% Payout*
<19.10%	0%
19.10%	50%
22.2%**	81%
≥24.10%	100%

Daily Sales Growth Performance	% Payout*
≤3.50%**	0%
4.87%	25%
6.25%	50%
≥9.00%	100%

\* Payouts are interpolated on a straight-line basis.

\*\* For the year 2017, reported sales growth was 3.2% and reported ROIC was 22.2%. Based on these results Company MIP would pay at 81% of target. The Compensation Committee exercised its discretion under the Terms and Conditions of the MIP to exclude certain items that the Company believes are not indicative of ongoing operations (a detailed description of these items is shown below). This resulted in a final Company MIP payout of 94% of target.

The Company believes that it establishes sales growth and ROIC targets that are rigorous and provide an appropriate level of motivation. Under the Terms and Conditions of the MIP, the Committee has the discretion to adjust the reported financial results for incentive plan purposes to correct for any unusual circumstances, both positive and negative, that might affect ROIC or sales growth. For 2017, the Compensation Committee adjusted ROIC for the impact of certain items that the Company believes are not indicative of ongoing operations relating to (1) corporate restructuring efforts in the U.S., Canada and Other Business segments; (2) closure of operations in Colombia; (3) decreasing the Company's pre-tax reserve for resolving tax, freight, and miscellaneous billing issues relating to government contracts with the General Services Administration; and (4) accounting adjustments related to customer unclaimed property to reflect the Company's operating performance during the year. A more detailed discussion of these items is included in Part II, Item 6 to the Consolidate Financial Statements, of the Company's most recent Annual Report on Form 10-K. The net effect of these adjustments increased the Company MIP payout from 81% to 94% of target.

Incentive amounts paid to Messrs. Ryan, Macpherson, Jadin, Howard, High, and Ms. Robbins were based on the performance targets established for the 2017 MIP and were made under a separate



annual incentive program described in the 2015 Incentive Plan. This program is intended to qualify annual incentives for tax deductibility under Section 162(m) of the Internal Revenue Code (Section 162(m)). Under the program, the Committee allocates a portion of an incentive pool to each participant. The pool is funded with 5% of the Company's net earnings and the independent members of the Board have the authority to make specific awards. The sum of the individual participants' percentages may not be greater than 100% of the pool. The independent members of the Board may use their discretion to reduce these amounts but may not increase them. Consistent with prior years, the independent members of the Board used their discretion to reduce the amounts to yield payments equal to those that would have made using the same financial target and measures as the 2017 MIP.

Consistent with current practice, the 2018 MIP will continue to utilize daily sales growth along with ROIC as performance measures and all NEOs will be aligned to the Company MIP.

### **Long-Term Incentives**

*The Company annually provides long-term incentives to NEOs and other key managers in order to align with the following elements of the Company's strategy to improve shareholder value:*

*achieve long-term business goals and objectives that increase shareholder value (including achieving financial performance that balances growth, profitability, and asset management);*

*reward management for taking prudent action and achieving results that create shareholder value;*

*attract qualified leaders to join the Company; and*

*retain management through business cycles.*

The Company's long-term incentives for NEOs consist of stock options and performance shares and are provided under shareholder-approved incentive plans. In 2017, in response to market practice, the Company changed the long term incentive mix from 70% stock options and 30% performance shares to 50% stock options and 50% performance shares. Providing a mix of different types of equity awards is consistent with market practice for senior executives. Using both stock options and performance shares provides incentives to drive shareholder value creation and the three year vesting schedule aids in executive retention.

The target number of shares provided for stock options and performance share awards is designed to approximate an economic value that targets the median of the compensation comparator group for comparable jobs. The Compensation Committee annually establishes the target value of the award based on the executive's position. The actual award may be adjusted up or down to reflect individual performance. The value is converted to shares using the 200-day average stock price as of January 31 in the year of grant. The use of the 200-day average to calculate the number of shares is intended to smooth stock price volatility that can distort the number of shares awarded.

**NEO Long-Term Incentives**

Award	Weight	Vesting & Term	Performance Measure
Stock Options	50%	3-year cliff vesting; 10 year term	Grant allocated based on individual performance; long-term value based on appreciation in stock price.
Performance Shares	50%	3-year cliff vesting contingent on performance	Sales growth measured in year 3 of the performance cycle, with 3-year average ROIC.

**Stock Options**

The Company's stock options provide the right to purchase Company stock at a specified price over a ten-year term with three-year cliff vesting. They are intended to directly link management's and shareholders' interests by tying a substantial portion of long-term incentives to stock price appreciation. The ten-year term is designed to focus the NEOs on long-term value creation. Three-year cliff vesting encourages meaningful retention before an executive can realize any value created by stock price appreciation. Stock option repricing is not permitted under any of the Company's equity incentive plans. Stock options are awarded at an exercise price equal to the closing price of the Company's common stock reported on the business day of the grant.

**Performance Shares**

The Company's performance share program provides the NEOs and other executives with a potential share payout depending on sales growth and ROIC achievement over a three-year cycle. The actual number of shares paid to an NEO can range from 0% to 200% of the target number of performance shares awarded. The Compensation Committee (with the assistance of its independent compensation consultant) and management perform a thorough analysis in setting the financial measures and goals for a three-year performance cycle that begins January 1 of the first year. The sales growth component is measured at the end of the cycle's third year and the ROIC component is measured at the end of the third year based on the three-year average. These measurement dates reinforce a long term focus. Dividend equivalents are not paid on performance shares. Due to the three-year cycle that each award covers, the Company has three performance share cycles ongoing at all times.

***2015-2017 Performance Share Cycle***

For the 2015-2017 performance share cycle, the 2017 sales target of \$12.2 billion was established when 2014 sales were \$10.0 billion. The Company's net sales in 2017 above a \$10.6 billion threshold would have determined the number of shares earned, while vesting remained dependent on meeting a three

year average ROIC hurdle of 18%. The payout of the target performance share awards for this program cycle would have been made according to the following table:

Total Company 2017 Sales	% Payout
<\$10.6B*	0%*
\$10.6B	50%
\$12.2B	100%
\$13.3B	200%

\* In 2017, sales were \$10.4 billion and the participants earned 0% of their target.

**2016-2018 Performance Share Cycle**

For the 2016-2018 performance share cycle, the program was designed to reward for achievement based on a three-year average ROIC and 2018 sales. The sales goal was established when 2015 sales were \$10.0 billion. The Company's average adjusted ROIC performance over the three-year period ending in 2018 and net sales in 2018 will determine the number of shares earned. The payout of the target performance share awards for this program cycle will be made according to the following table:

3-Year Average ROIC Performance (2016 - 2018)	% Payout*
≤21.6%	0%
23.8%	50%
≥26.0%	100%

Total Company 2018 Sales	% Payout*
≤\$11.2B	0%
\$11.7B	50%
≥\$12.2B	100%

\* Payouts are interpolated on a straight-line basis.

Three-year average ROIC at or above 26% or sales at or above \$12.2 billion in 2018 can independently achieve 100% of the target award. Achieving both will yield 200% of the target award. This award will remain at risk through 2018.

The Compensation Committee selected these performance measures because they balance sales growth with long-term profitability, expense management, and asset management and align with objectives established in the annual incentive program. The Committee may use different sales growth and ROIC objectives and targets from year to year to maximize alignment with then-current business objectives and to reflect economic conditions.

**2017-2019 Performance Share Cycle**

The structure of the 2017 Performance Share Program is similar to the 2016 program. It is driven by total Company sales achieved in 2019 and 3-year average ROIC. The payout will be made by adding the results of the following two tables:

3-Year Average ROIC Performance (2017 - 2019)	% Payout
≤19.1%	0%
21.6%	50%
≥24.0%	100%

Total Company 2019 Sales	% Payout
<\$11.4B	0%
\$11.9B	50%
≥\$12.4B	100%

Three-year average ROIC at or above 24% or sales at or above \$12.24 billion in 2019 can independently achieve 100% of the target award. Achieving both will yield 200% of the target award. This award will remain at risk through 2019.

**Changing Long-Term Incentive Vehicle for 2018**

In 2018, the Company changed the mix of long-term incentive equity vehicles used for the NEOs from 50% stock options and 50% performance shares to 50% stock options and 50% performance restricted stock units. The change is designed to be responsive to market practice while continuing to provide appropriate incentives to drive shareholder value creation.

**Stock Ownership Guidelines**

*As of December 31, 2017, all officers subject to stock ownership guidelines, including the NEOs, are in compliance with the guidelines.*

The Company continues to believe that requiring executive ownership of Company stock creates alignment between executives and shareholders and encourages executives to act to increase shareholder value. In 1996, the Company established stock ownership guidelines for its NEOs and other officers. In 2011, the Company increased the minimum ownership requirement for the CEO from

5x base salary to 6x and established a retention ratio for equity awards. The stock ownership guidelines for the NEOs are as follows:

NEO	Minimum Ownership Requirement as a Percentage of Base Salary	Currently in Compliance?
James T. Ryan*	6x	Yes
D.G. Macpherson	6x	Yes
Ronald L. Jadin	3x	Yes
John L. Howard	3x	Yes
Joseph C. High	3x	Yes
Paige K. Robbins	3x	Yes

\* Effective October 1, 2017, Mr. Ryan retired from the Board and Mr. Macpherson succeeded Mr. Ryan as Chairman while continuing in his position as CEO.

These stock ownership guidelines must be met within three years of being appointed an officer or assuming a new position and are reviewed annually by the Board. NEOs are required to hold exercised option shares and other stock awards until ownership requirements are met. Officers who fail to achieve these ownership levels will not receive future equity-based awards until they comply with the guidelines. Shares owned directly by the officer (including those held as a joint tenant or as tenant in common), RSUs, shares owned in a self-directed IRA, and certain shares owned or held for the benefit of a spouse or minor children are counted toward meeting the guidelines. Stock options (whether vested or unvested) and performance share awards are not counted toward meeting the ownership guidelines.

#### **25% Retention Ratio**

It is the Company's long-term goal for executives to also meet a second ownership requirement that is expressed in outright ownership (in actual shares and/or deferred vested shares). The Company has implemented a required 25% after-tax share retention ratio for NEOs. Upon receiving shares from the Company following the exercise or settlement of equity awards, if NEOs do not hold outright ownership of shares worth the required ownership multiple, they will be required to retain 25% of the shares received from all such equity awards (net of any shares used to satisfy tax withholding obligations and net of exercise price) until the stock ownership guidelines are met with shares owned outright.

#### **Hedging and Pledging Prohibition**

The Company's Business Conduct Guidelines (*which are available in the Governance section of Grainger's website at [www.grainger.com/investor](http://www.grainger.com/investor)*) prohibit employees and the Board of Directors from engaging in any financial arrangement (including, without limitation, put and call options and short sales) that establish a short position in Company stock and are designed to hedge or offset a decrease in market value. Effective January 1, 2013, by policy, Company officers and directors are also prohibited from pledging any Company stock at any amount as collateral for a loan or for a margin account.

## Other Benefits

The other components of the Company's compensation program for NEOs are substantially similar to those available for most of the Company's other employees. This includes the same health and welfare benefits and the same performance-based profit sharing contribution methodology that is applied to the U.S.-based employees who are profit sharing participants. The Company provides Supplemental Profit Sharing Plans solely to maintain an equal percentage of profit sharing compensation contribution to approximately 160 employees, including NEOs, who would be subject to contribution or compensation limitations imposed on qualified plans by the Internal Revenue Code. The Company does not provide any other supplemental retirement benefits to its NEOs or other employees based in the United States.

Profit sharing is the primary Company-sponsored retirement vehicle for U.S.-based employees. Profit sharing aligns the interests of the Company's employees, management, and shareholders as the Company's annual contribution to profit sharing is based on ROIC. The Company contributes a minimum of 8% of payroll to the plan and provides employees the opportunity to share in the success of the Company beyond this amount only if a threshold return on capital is achieved.

The Profit Sharing Plan includes a 401(k) feature for all U.S.-based employees, including the NEOs. The Company will contribute 3% of pay to the 401(k) feature and this amount is funded from the profit sharing pool. As mentioned above, the minimum Company contribution is 8% of pay with the first 3% going into the 401(k).

Effective April 2011, the Company requires that the NEOs and certain other Company officers have periodic physical examinations that are paid for by the Company. The Company believes that periodic physical exams are important to maintain the effectiveness of its executive talent. There are currently 12 participants in the program.

Effective December 31, 2009, the Company discontinued its executive death benefit program for executives hired or promoted after this date. The NEOs (except for Mr. High and Ms. Robbins) and certain other Company officers have grandfathered participation in the Company's former Executive Death Benefit Plan. The beneficiary of a participant who dies while employed by the Company is entitled to a taxable benefit of 120 monthly payments of 50% of the participant's monthly compensation, calculated on the basis of salary and target annual incentive. Unless offered to other Company employees, the Company will not make payments, grants, or awards following the death of an executive in the form of unearned salary or unearned bonuses, accelerated vesting or the continuation in force of unvested equity grants, awards or ungranted equity, perquisites, and other payments or awards made in lieu of compensation.

NEOs were eligible to be reimbursed for up to \$10,000 in financial services in 2017. Reimbursement for financial services was discontinued following the 2017 program. The financial service reimbursements were fully taxable and not grossed-up to cover taxes. Officers are allowed the business use of corporate aircraft and car and driver, while each of Messrs. Ryan and Macpherson is also allowed personal use of a car and driver, subject to reimbursement of the incremental cost of use. These benefits represent a cost-effective method of allowing the Company's top executives to more effectively use their time. All other benefits, including the profit sharing contribution percentages and various welfare benefits provided to U.S. NEOs and other executive officers, are comparable to those provided to the majority of salaried and hourly U.S.-based Company employees.

Compensation Discussion and Analysis

**Summary Compensation Table**

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (2)	Non-Equity Incentive Plan Comp. (3)	Change in Pension Value and NQDC Earnings	All Other Comp. (4)	Total
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
James T. Ryan Former Chairman of the Board	2017	\$697,986	\$0	\$0	\$4,900,261	\$620,400	\$0	\$165,998	\$6,384,645
	2016	\$1,183,263	\$0	\$2,100,137	\$3,512,151	\$1,162,143	\$0	\$187,006	\$8,144,700
	2015	\$1,150,169	\$0	\$2,266,070	\$3,063,077	\$715,165	\$0	\$333,106	\$7,527,587
D.G. Macpherson Chairman of the Board & Chief Executive Officer	2017	\$1,022,500	\$0	\$2,634,042	\$1,643,409	\$1,210,250	\$0	\$456,158	\$6,966,359
	2016	\$875,000	\$0	\$2,511,744	\$1,070,785	\$796,875	\$0	\$284,128	\$5,538,532
	2015	\$725,750	\$0	\$2,322,855	\$669,245	\$350,400	\$0	\$293,893	\$4,362,143
Ronald L. Jadin Sr. Vice President & Chief Financial Officer	2017	\$743,541	\$0	\$910,056	\$567,735	\$598,447	\$0	\$158,779	\$2,978,558
	2016	\$721,885	\$0	\$486,615	\$813,818	\$463,577	\$0	\$99,328	\$2,585,223
	2015	\$701,625	\$0	\$2,122,365	\$708,618	\$288,048	\$0	\$183,108	\$4,003,764
John. L. Howard Sr. Vice President & General Counsel	2017	\$694,042	\$0	\$622,544	\$388,434	\$492,889	\$0	\$261,308	\$2,459,217
	2016	\$673,828	\$0	\$332,937	\$556,807	\$381,808	\$0	\$93,599	\$2,038,979
	2015	\$654,900	\$0	\$1,368,565	\$452,741	\$237,240	\$0	\$133,159	\$2,846,605
Joseph C. High Sr. Vice President & Chief People Officer	2017	\$511,250	\$0	\$478,897	\$298,806	\$363,075	\$0	\$105,031	\$1,757,059
	2016	\$495,250	\$0	\$256,192	\$428,323	\$281,250	\$0	\$68,099	\$1,529,114
	2015	\$478,050	\$0	\$758,863	\$393,682	\$173,160	\$0	\$98,949	\$1,902,704
Paige K. Robbins Sr. Vice President, Grainger Chief Digital Officer	2017	\$484,185	\$0	\$203,537	\$126,996	\$268,464	\$0	\$94,921	\$1,178,103
	2016	\$441,769	\$0	\$202,621	\$171,356	\$191,813	\$0	\$51,835	\$1,059,394

1. Represents the grant date fair value of stock awards computed in accordance with FASB ASC Topic 718. Performance share grants are calculated at target achievement and may pay out up to 200% of the target award. The maximum value of the stock awards shown are \$0, \$5,268,083, \$1,820,112, \$1,245,089, \$957,794, and \$407,073 for

Messrs. Ryan, Macpherson, Jadin, Howard, High, and Ms. Robbins, respectively.

2. Represents the grant date fair value of option awards computed in accordance with FASB ASC Topic 718.
3. Represents amounts paid under a 162(m)-qualified, shareholder-approved annual cash incentive plan.
4. For 2017, includes contributions accrued under the Company's profit sharing plan, the related supplemental profit sharing plan, and for deferred compensation plan participants, Company contributions that would otherwise have been made to the supplemental profit sharing plan (\$153,314, \$218,190, \$144,754, \$129,008, \$95,031, and \$80,896 for Messrs. Ryan, Macpherson, Jadin, Howard, High, and Ms. Robbins, respectively). It includes reimbursement for financial services (\$8,734, \$10,000, \$10,000, \$10,000, \$10,000, and \$10,000 for Messrs. Ryan, Macpherson, Jadin, Howard, High, and Ms. Robbins, respectively).  
It also includes the incremental cost of the frozen Executive Death Benefit Program (\$0, \$223,943, \$0, and \$117,900 for Messrs. Ryan, Macpherson, Jadin, and Howard, respectively) and the cost of executive physicals (\$3,950, \$4,025, \$4,025, \$4,400, \$0, and \$4,025 for Messrs. Ryan, Macpherson, Jadin, Howard, High, and Ms. Robbins, respectively).  
Mr. Ryan retired from the Company effective October 1, 2017; therefore, he will receive a cash payment from the Executive Death Benefit Plan in the amount of \$1,246,680 six months following his retirement date.



Grants of Plan-Based Awards

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: No. of Shares of Stock or Units	All Other Option Awards: No. of Securities Underlying Options (3)	Exercise or Base Price of Option Awards (4)	Grant Date Fair Value of Stock and Option Awards (5)
		Threshold	Target	Maximum	Threshold	Target	Maximum				
		James T. Ryan	1/1/17 1/1/17 4/3/17	\$0	\$660,000	\$1,320,000	0				
D.G. Macpherson	1/1/17 1/1/17 4/3/17	\$0	\$1,287,500	\$2,575,000	0	12,139	24,278	36,415	\$231.20	\$1,643,409	
Ronald L. Jadin	1/1/17 1/1/17 4/3/17	\$0	\$636,646	\$1,273,292	0	4,194	8,388	12,580	\$231.20	\$910,056 \$567,735	
John. L. Howard	1/1/17 1/1/17 4/3/17	\$0	\$524,350	\$1,048,700	0	2,869	5,738	8,607	\$231.20	\$622,544 \$388,434	
Joseph C. High	1/1/17 1/1/17 4/3/17	\$0	\$386,250	\$772,500	0	2,207	4,414	6,621	\$231.20	\$478,897 \$298,806	
Paige K. Robbins	1/1/17 1/1/17 4/3/17	\$0	\$285,600	\$571,200	0	938	1,876	2,814	\$231.20	\$203,537 \$126,996	

1. Represents potential amounts under the annual cash incentive award in the 2015 Incentive Plan, a 162(m)-qualified, shareholder-approved plan. The plan establishes a pool equal to five percent (5%) of the Company's Net Earnings for the plan year. For 2017, the Board used its discretion to reduce amounts to yield payments equal to those that would have been made using the same financial measures as the MIP for the other employees.

2. The number of shares that may be earned for the 2017 grant of performance shares range from 0% to 200% of the target award and will be determined based on the Company's three-year average ROIC and sales performance in 2019.
3. Represents stock option awards with a ten-year term and three-year cliff vesting.
4. Awards were issued at fair market value, which is the closing stock price on the grant date.
5. Represents the full grant date fair value of awards as calculated under FASB ASC Topic 718 without allocating over the vesting period.

**Outstanding Equity Awards at Fiscal Year-End**

Name	Option Awards					Stock Awards			
	No. of Securities Underlying Unexercised Options Exercisable (1)	No. of Securities Underlying Unexercised Options Unexercisable (1)	Equity Incentive Plan Awards: No. of Securities Underlying Unexercised Options	Option Exercise Price (2)	Option Expiration Date (3)	No. of Shares or Units of Stock That Have Not Vested (4)	Market Value of Shares or Units of Stock That Have Not Vested (5)	Equity Incentive Plan Awards: No. of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout of Unearned Shares, Units or Other Rights That Have Not Vested (6)
James T. Ryan	96,400			\$149.02	4/26/21	0	\$0	0	\$0
	78,100			\$204.01	4/24/22				
	70,465			\$245.86	4/23/23				
	56,558			\$248.22	9/29/23				
	65,816			\$231.88	9/29/23				
	78,152			\$234.38	9/29/23				
	108,581			\$231.20	9/29/23				
D.G. Macpherson	24,876			\$149.02	4/26/21	0	\$0	35,001	\$8,268,986
	16,923			\$204.01	4/24/22				
	15,741			\$245.86	4/23/23				
	12,266			\$248.22	4/29/24				
		14,380		\$231.88	3/31/25				
		23,827		\$234.38	3/31/26				
	36,415		\$231.20	4/2/27					
Ronald L. Jadin	29,000			\$108.15	4/27/20	0	\$0	16,395	\$3,873,319
	25,336			\$149.02	4/26/21				
	19,527			\$204.01	4/24/22				
	16,790			\$245.86	4/23/23				
	13,084			\$248.22	4/29/24				
		15,226		\$231.88	3/31/25				
	18,109		\$234.38	3/31/26					

		12,580		\$231.20	4/2/27				
John. L. Howard	19,500			\$108.15	4/27/20	0	\$0	10,840	\$2,560,950
	14,990			\$149.02	4/26/21				
	11,716			\$204.01	4/24/22				
	11,543			\$245.86	4/23/23				
	7,360			\$248.22	4/29/24				
		9,728		\$231.88	3/31/25				
		12,390		\$234.38	3/31/26				
		8,607		\$231.20	4/2/27				
Joseph C. High	10,415			\$204.01	4/24/22	0	\$0	6,954	\$1,642,883
	8,920			\$245.86	4/23/23				
	7,360			\$248.22	4/29/24				
		8,459		\$231.88	3/31/25				
		9,531		\$234.38	3/31/26				
		6,621		\$231.20	4/2/27				
Paige K. Robbins	3,840			\$149.02	4/26/21	3,213	\$759,071	1,929	\$455,726
	2,790			\$204.01	4/24/22				
	2,330			\$245.86	4/23/23				
	2,127			\$248.22	4/29/24				
		3,122		\$231.88	3/31/25				
		3,813		\$234.38	3/31/26				
		2,814		\$231.20	4/2/27				

1. Represents stock option awards with a ten-year term and three-year cliff vesting. Upon retirement from the Company, unvested options automatically vest and may be exercised within the lesser of six years or the remaining term of the option. Messrs. Howard and High are currently retirement-eligible. Mr. Ryan retired as of October 1, 2017.

2. Awards were issued at fair market value, which is the closing stock price on the grant date.
3. Represents ten years after the award date.
4. Represents the aggregate unvested restricted stock units with three- and seven-year cliff vesting.
5. Represents the aggregate unvested restricted stock units outstanding multiplied by the year-end closing price (\$236.25).
6. Represents the aggregate performance shares outstanding multiplied by the year-end closing price (\$236.25).

**Option Exercises and Stock Vested**

Name	Option Awards Exercised		Stock Awards Vested	
	No. of Shares Acquired on Exercise (1)	Value Realized on Exercise (2)	No. of Shares Acquired on Vesting (3)	Value Realized on Vesting (4)
James T. Ryan	187,000	\$24,832,488	10,877	\$2,184,251
D.G. Macpherson	26,000	\$2,712,648	4,841	\$1,124,322
Ronald L. Jadin	30,000	\$5,027,238	1,789	\$415,495
John. L. Howard	21,000	\$2,920,447	1,348	\$313,073
Joseph C. High	0	\$0	1,348	\$313,073
Paige K. Robbins	0	\$0	5,665	\$1,122,536

1. Represents the number of stock options exercised.
2. Represents the difference between the exercise price and the market price of the common stock on the date of exercise.
3. For Messrs. Ryan, Macpherson, Jadin, Howard, High, and Ms. Robbins this includes 4,364, 4,841, 1,789, 1,348, 1,348, and 165 shares, respectively, vested on February 15, 2017, in settlement of performance share awards granted on January 1, 2014. For Ms. Robbins 5,500 shares of settled restricted stock units is included in the total of 5,665 shares.

4. Represents the value of the restricted stock units and performance share awards on the vesting date. Mr. Ryan retired from the Company effective October 1, 2017. Accordingly, for Mr. Ryan, the performance share award granted on January 1, 2016 is valued at \$1,170,712 assuming target performance; and, the number of shares (6,513) is pro-rated as 21/36th for the portion of the performance period completed and are valued based on the fair market value on his retirement date.

**Pension Benefits**

Name	Plan Name	No. of Years Credited Service	Present Value of Accumulated Benefit	Payouts During Last Fiscal Year
James T. Ryan	None	n/a	n/a	n/a
D.G. Macpherson	None	n/a	n/a	n/a
Ronald L. Jadin	None	n/a	n/a	n/a
John. L. Howard	None	n/a	n/a	n/a
Joseph C. High	None	n/a	n/a	n/a
Paige K. Robbins	None	n/a	n/a	n/a

**Nonqualified Deferred Compensation**

Name	Plan	Executive Contributions in Last FY (1)	Company Contributions in Last FY (2)	Aggregate Earnings in Last FY (3)	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last FYE (4)
James T. Ryan	SPSP & SPSP II	\$0	\$0	\$0	\$0	\$0
	Deferred RSUs	\$0	\$0	\$80,000	\$0	\$4,725,000
	<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$80,000</b>	<b>\$0</b>	<b>\$4,725,000</b>
D.G. Macpherson	SPSP & SPSP II	\$0	\$80,997	\$182,817	\$0	\$1,245,383
	<b>Total</b>	<b>\$0</b>	<b>\$80,997</b>	<b>\$182,817</b>	<b>\$0</b>	<b>\$1,245,383</b>
Ronald L. Jadin	Voluntary Salary & Incentive Deferral	\$436,931	\$44,178	\$764,242	\$0	\$5,590,725
	SPSP & SPSP II	\$0	\$20,366	\$139,161	\$0	\$1,012,787
	<b>Total</b>	<b>\$436,931</b>	<b>\$64,544</b>	<b>\$903,402</b>	<b>\$0</b>	<b>\$6,603,512</b>
John. L. Howard	Voluntary Salary & Incentive Deferral	\$110,084	\$15,071	\$345,050	\$0	\$3,026,297
	SPSP & SPSP II	\$0	\$40,225	\$204,129	\$0	\$1,894,449
	Deferred RSUs	\$0	\$0	\$80,000	\$0	\$4,725,000
	<b>Total</b>	<b>\$110,084</b>	<b>\$55,297</b>	<b>\$549,179</b>	<b>\$0</b>	<b>\$4,920,746</b>
Joseph C. High	SPSP & SPSP II	\$0	\$34,234	\$36,841	\$0	\$306,821
	<b>Total</b>	<b>\$0</b>	<b>\$34,234</b>	<b>\$36,841</b>	<b>\$0</b>	<b>\$306,821</b>
Paige K. Robbins	SPSP & SPSP II	\$0	\$24,310	\$31,256	\$0	\$201,807
	<b>Total</b>	<b>\$0</b>	<b>\$24,310</b>	<b>\$31,256</b>	<b>\$0</b>	<b>\$201,807</b>

1. Represents voluntary short term incentive deferrals for Messrs. Jadin and Howard. These contributions were included as part of salary or non-equity incentive plan compensation in the 2017 Summary Compensation Table.
2. The Company provides the supplemental profit sharing plans (SPSPs) solely to maintain an equal percentage of profit sharing contribution to employees who would be subject to contribution or compensation limits imposed on qualified plans by the Internal Revenue Code. For Messrs. Ryan, Macpherson, Jadin, Howard, High, and Ms. Robbins, this represents the Company SPSP contribution. These contributions were disclosed as part of "All Other Comp." in the 2017 Summary Compensation Table.  
For Messrs. Jadin and Howard, this represents make-whole contributions to the SPSPs that would otherwise have been made had they not voluntarily deferred salary in 2017.
3. Represents earnings on all nonqualified deferred compensation balances, including SPSP earnings, stock price appreciation and dividend equivalent payments for vested, deferred restricted stock units, and for Messrs. Jadin and Howard, earnings on voluntary deferrals. Investment choices for any officer, including an NEO, who elects to defer salary and/or bonus, may be made only from the same investment funds available to all employees under the Company's profit sharing plan. The rate of return on the individual accounts (positive or negative) is a function of the participant-selected investment funds.

Messrs. Jadin and Howard and other officers voluntarily participated in this plan in 2017. None of the amounts reported in this column are reported in the 2017 Summary Compensation Table.

4. Aggregate year-end balances for the SPSPs, vested deferred restricted stock units, and for Messrs. Jadin and Howard, year-end balances for their voluntary deferral accounts. Messrs. Ryan and Howard have 20,000 and 20,000 vested, deferred RSUs outstanding, respectively



## **EMPLOYMENT CONTRACTS, CHANGE IN CONTROL AGREEMENTS, AND TERMINATION OF EMPLOYMENT ARRANGEMENTS**

*The Company does not maintain any employment agreements with its Named Executive Officers.*

### **Change in Control–Equity Plans**

Under the terms of the 2015 Incentive Plan, which is the source for all equity awards granted after April 2015, "double trigger" vesting provisions apply to all equity awards (that is, both a change in control occurs and a participant is involuntarily terminated within one year of the change in control).

### **Change in Control Agreements**

The Company has 2x Change in Control Agreements (the CIC Agreements) with a number of executives, including the NEOs. These CIC Agreements are intended to ensure that in the event of a pending or threatened change in control, the Company retains its management and that their full attention is focused on the best interests of the Company and its shareholders and not on the uncertainty of their future employment prospects under those circumstances.

The Company's CIC Agreements have double-trigger arrangements. Under each CIC Agreement, the executive is entitled to certain benefits which include a lump-sum payment equal to 2x the sum of (i) the executive's annual salary, (ii) the executive's target annual incentive, and (iii) in connection with the Company's non-contributory profit sharing plans, a percentage of annual salary and annual incentive equal to the average percentage of covered compensation contributed by the Company under the plans for the last three fiscal years. The executive is also entitled to two years of continued health and dental benefits.

The Company has committed that no more than 10 positions will be eligible for CIC Agreements in the future. Existing agreements remain in place.

### **Deductibility of Executive Compensation; Accounting Considerations**

Section 162(m) of the Internal Revenue Code (Section 162(m)) generally disallows a federal income tax deduction to a public company for compensation over \$1 million per fiscal year paid to the Company's NEOs. Compensation that qualifies as "performance-based" compensation is not subject to the deductibility limit. A Company objective is to attempt to maximize the deductibility of compensation under Section 162(m) to the extent doing so is reasonable and consistent with Company strategies and goals. Awards under the annual incentive plan in which the NEOs participate, gains on exercises of stock options, and shares received as the result of performance share awards and PRSUs are considered to be "performance-based" compensation not subject to the Section 162(m) deductibility limit.

Awards of RSUs are not exempt from the Section 162(m) deductibility limit and all or a portion of these awards may be nondeductible when the awards vest. While the tax treatment applicable to the Company's compensation programs was taken into account in designing those programs, it was not a significant consideration.

Upon vesting, settlement, or maturity, equity awards under the 2015 Incentive Plan and predecessor plans are distributed in the form of shares of the Company's common stock. Under the Accounting Standards Codification (ASC) 718 (formerly Financial Accounting Standard (FAS) 123R), these types of awards are considered equity awards. As a result, the total amount of compensation expense to be recorded for the awards is based on the fair value of the awards on the grant date. This fair value is

## Compensation Discussion and Analysis

then recorded over the vesting period, usually three years, and is recorded to compensation expense and as an increase in paid-in capital. The amount of compensation expense is not subsequently adjusted for changes in the Company's share price, but it is adjusted for the estimated number of shares to be distributed. If an equity award is forfeited, all previously recorded compensation expensed is reversed. While the accounting treatment described above was considered in the development of the long-term incentive program, it was not a material consideration.

### **Compensation Recoupment Policy (Claw backs)**

In 2018, the Company expanded in its executive compensation recoupment agreements (or claw back) for equity and annual incentive payments made to officers. The Company may recover incentive compensation (cash or equity) that was awarded based on achievement of financial results that were the subject of a restatement if the officer engaged in criminal conduct or financial fraud. The Company also may recover all or a portion of any incentive compensation in the case of materially inaccurate financial statements whether or not they result in a restatement and whether or not the executive officer has engaged in wrongful conduct. In addition, should an executive violate his or her confidentiality or non-compete obligations, any award is automatically forfeited, and in certain circumstances, the executive must return vested shares and/or gains from disposition of shares to the Company. Recoveries under these provisions can extend back for three years. Finally, the Company may recoup all or a portion of any incentive compensation if the Company determines that the executive has committed fraud against the Company or has engaged in any criminal conduct that involves or is related to the Company, or any other conduct that violates Company policy.

This policy applies to any incentive compensation awarded or paid to an employee at a time when he or she is an officer. Subsequent changes in status, including retirement or termination of employment, do not impact the Company's rights to recover compensation under this policy.

### **Termination**

The Company does not have employment contracts and does not maintain severance programs for its NEOs. The executive's CIC Agreements provide the potential for a lump sum payment following a change in control. Except for a limited period of time following a change in control, the NEOs are not entitled to severance upon termination.

### **Retirement**

The definition of retirement eligibility is the same for all U.S. employees. Under this definition, an employee is retirement-eligible upon attaining any of the following:

age 60;

age 55 and 20 years of service; or

25 years of service.

Mr. Howard and Mr. High are retirement-eligible. Mr. Ryan retired as of October 1, 2017.

The Company provides the following upon retirement for all employees, including NEO's:

outstanding stock options become vested and executives have the right to exercise such stock options within six years from date of termination or for the remaining term of the stock option, whichever is less;

settlement of performance shares occurs after the end of the performance period in common stock equal to the number of the executive's outstanding performance shares earned for the performance period multiplied by the prorated portion of the performance period completed; and

cash payments equal to account balances under profit sharing, any supplemental profit sharing program, and the 2004 Voluntary Salary and Incentive Deferral Plan will be made in installment payments for up to 15 years or in a lump-sum payment based on the election made by the executive in accordance with the terms and conditions of those plans.

The following tables illustrate the potential incremental payments and benefits that could be received by the NEOs upon a termination or change in control of the Company. The amounts shown below assume that such termination or change in control was effective as of December 31, 2017 and thus only includes amounts earned through such date. However, the actual amounts that would be paid out under each circumstance can only be determined at the time of separation.

Compensation Discussion and Analysis

**Other Potential Post-Employment Payments**

**Macpherson, D.G.**

Type of Payment	Involuntary Termination without Cause or Voluntary Termination with Good Reason (\$)	Involuntary Termination for Cause or Voluntary Termination without Good Reason (\$)	Retirement (9) (\$)	Death (\$)	Disability (\$)	Change In Control Only (\$)	Change In Control and Termination without Cause or with Good Reason (\$)
Cash Compensation							
Cash Severance (1)	\$0	\$0	\$0	\$0	\$0	\$0	\$5,191,200
Management Incentive Program							
Prorated Annual Bonus Guarantee	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Long-Term Incentives							
Stock Options							
Unvested and Accelerated Awards (2)	\$0	\$0	\$0	\$291,293	\$291,293	\$291,293	\$291,293
Restricted Stock Units							
Unvested and Accelerated Awards (3)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Performance Shares							
Unvested and Accelerated Awards (4)	\$0	\$0	\$0	\$1,924,571	\$1,924,571	\$5,773,714	\$5,773,714
Retirement Benefits							
Profit Sharing							
Unvested and Accelerated Awards (5)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Deferred Compensation	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Benefits							
Continuation of Health & Welfare Benefits (6)	\$0	\$0	\$0	\$0	\$0	\$0	\$35,285
Life Insurance and Death Benefit Payout (7)	\$0	\$0	\$0	\$7,318,733	\$0	\$0	\$1,503,167
Disability Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Perquisites and Tax Payments							
Excise Tax & Gross-Up	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Outplacement (8)	\$0	\$0	\$0	\$0	\$0	\$0	\$154,500
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$9,534,597</b>	<b>\$2,215,864</b>	<b>\$6,065,007</b>	<b>\$12,949,159</b>

- The Company does not maintain any agreements with its named executive officers that guarantee the payment of cash severance upon termination, except in the event of a change in control followed by termination without cause or with good reason.

2. Unvested options become immediately exercisable in the event of death, disability, retirement, or a change in control.
3. Mr. Macpherson does not have any unvested restricted stock units as of December 31, 2017.
4. In the event of retirement, death or disability, Mr. Macpherson is entitled to receive in settlement of performance shares, a number of shares of common stock, equal to the number of performance shares that vest based upon the Company's average return on invested capital, as of the date of retirement, death or disability, multiplied by the prorated amount of time Mr. Macpherson was employed by the Company during the performance period. Mr. Macpherson is not retirement eligible as of December 31, 2017.
5. Mr. Macpherson does not have any unvested profit sharing amounts as of December 31, 2017.

6. The health and welfare benefits value upon change in control followed by termination without cause or with good reason is based upon two years of continuation of active health and welfare benefits using the Company's budget/insured rates projected forward throughout the two years using 9% health and 6% dental annual trends as well as a 5% annual discount factor.
7. Upon death, Mr. Macpherson's survivors shall receive, for 120 months, 50% of his monthly base salary and target bonus amount, under the frozen Executive Death Benefit Plan. The figure above reflects the present value lump-sum payment amount based upon the FAS discount rate of 7.50%.
8. In the event of a change in control followed by termination without cause or with good reason, the Company shall provide Mr. Macpherson with standard outplacement services provided that the cost of such services to the Company not exceed 15% of the Executive's annual base salary in effect on the date of termination. The amount above represents the maximum cost to the Company for providing such outplacement services.
9. Mr. Macpherson is not eligible for retirement under the Company's retirement plan as of December 31, 2017.

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Compensation Discussion and Analysis

**Jadin, Ronald**

Type of Payment	Involuntary Termination without Cause or Voluntary Termination with Good Reason (\$)	Involuntary Termination for Cause or Voluntary Termination without Good Reason (\$)	Retirement (9) (\$)	Death (\$)	Disability (\$)	Change In Control Only (\$)	Change In Control and Termination without Cause or with Good Reason (\$)
Cash Compensation							
Cash Severance (1)	\$0	\$0	\$0	\$0	\$0	\$0	\$3,103,836
Management Incentive Program							
Prorated Annual Bonus Guarantee	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Long-Term Incentives							
Stock Options							
Unvested and Accelerated Awards (2)	\$0	\$0	\$0	\$163,930	\$163,930	\$163,930	\$163,930
Restricted Stock Units							
Unvested and Accelerated Awards (3)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Performance Shares							
Unvested and Accelerated Awards (4)	\$0	\$0	\$0	\$534,004	\$534,004	\$1,602,011	\$1,602,011
Retirement Benefits							
Profit Sharing							
Unvested and Accelerated Awards (5)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Deferred Compensation	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Benefits							
Continuation of Health & Welfare Benefits (6)	\$0	\$0	\$0	\$0	\$0	\$0	\$35,285
Life Insurance and Death Benefit Payout (7)	\$0	\$0	\$0	\$4,773,706	\$0	\$0	\$1,066,939
Disability Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Perquisites and Tax Payments							
Excise Tax & Gross-Up	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Outplacement (8)	\$0	\$0	\$0	\$0	\$0	\$0	\$112,349
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$5,471,640</b>	<b>\$697,934</b>	<b>\$1,765,942</b>	<b>\$6,084,351</b>

- The Company does not maintain any agreements with its named executive officers that guarantee the payment of cash severance upon termination, except in the event of a change in control followed by termination without cause or with good reason.

2. Unvested options become immediately exercisable in the event of death, disability, retirement, or a change in control.
3. Mr. Jadin does not have any unvested restricted stock units as of December 31, 2017.
4. In the event of retirement, death or disability, Mr. Jadin is entitled to receive in settlement of performance shares, a number of shares of common stock, equal to the number of performance shares that vest based upon the Company's average return on invested capital, as of the date of retirement, death or disability, multiplied by the prorated amount of time Mr. Jadin was employed by the Company during the performance period. Mr. Jadin is not retirement eligible as of December 31, 2017.
5. Mr. Jadin does not have any unvested profit sharing amounts as of December 31, 2017.



6. The health and welfare benefits value upon change in control followed by termination without cause or with good reason is based upon two years of continuation of active health and welfare benefits using the Company's budget/insured rates projected forward throughout the two years using 9% health and 6% dental annual trends as well as a 5% annual discount factor.
7. Upon death, Mr. Jadin's survivors shall receive, for 120 months, 50% of his monthly base salary and target bonus amount, under the frozen Executive Death Benefit Plan. The figure above reflects the present value lump-sum payment amount based upon the FAS discount rate of 7.50%.
8. In the event of a change in control followed by termination without cause or with good reason, the Company shall provide Mr. Jadin with standard outplacement services provided that the cost of such services to the Company not exceed 15% of the Executive's annual base salary in effect on the date of termination. The amount above represents the maximum cost to the Company for providing such outplacement services.
9. Mr. Jadin is not eligible for retirement under the Company's retirement plan as of December 31, 2017.

Compensation Discussion and Analysis

**Howard, John**

Type of Payment	Involuntary Termination without Cause or Voluntary Termination with Good Reason (\$)	Involuntary Termination for Cause or Voluntary Termination without Good Reason (\$)	Retirement (9) (\$)	Death (\$)	Disability (\$)	Change In Control Only (\$)	Change In Control and Termination without Cause or with Good Reason (\$)
Cash Compensation							
Cash Severance (1)	\$0	\$0	\$0	\$0	\$0	\$0	\$2,740,602
Management Incentive Program							
Prorated Annual Bonus Guarantee	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Long-Term Incentives							
Stock Options							
Unvested and Accelerated Awards (2)	\$0	\$0	\$109,146	\$109,146	\$109,146	\$109,146	\$109,146
Restricted Stock Units							
Unvested and Accelerated Awards (3)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Performance Shares							
Unvested and Accelerated Awards (4)	\$0	\$0	\$365,321	\$365,321	\$365,321	\$1,095,964	\$1,095,964
Retirement Benefits							
Profit Sharing							
Unvested and Accelerated Awards (5)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Deferred Compensation	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Benefits							
Continuation of Health & Welfare Benefits (6)	\$0	\$0	\$450,772	\$0	\$0	\$0	\$35,285
Life Insurance and Death Benefit Payout (7)	\$0	\$0	\$399,954	\$4,215,051	\$0	\$0	\$1,029,797
Disability Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Perquisites and Tax Payments							
Excise Tax & Gross-Up	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Outplacement (8)	\$0	\$0	\$0	\$0	\$0	\$0	\$104,870
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,325,191</b>	<b>\$4,689,518</b>	<b>\$474,467</b>	<b>\$1,205,110</b>	<b>\$5,115,664</b>

- The Company does not maintain any agreements with its named executive officers that guarantee the payment of cash severance upon termination, except for in the event of a change in control termination without cause or with good reason.

2. Unvested options become immediately exercisable in the event of death, disability, retirement, and a change in control.
3. Mr. Howard does not have any unvested restricted stock units as of December 31, 2017.
4. In the event of retirement, death or disability, Mr. Howard is entitled to receive in settlement of performance shares, a number of common stock, equal to the number of performance shares that vest based upon the Company's average return on invested capital, as of the date of retirement, death or disability, multiplied by the prorated amount of time Mr. Howard was employed by the Company during the performance period. Mr. Howard is retirement eligible as of December 31, 2017.
5. Mr. Howard does not have any unvested profit sharing amounts as of December 31, 2017.
6. The health and welfare benefits value upon change in control and termination without cause or with good reason is based upon two years of continuation of active health and welfare benefits using the Company's

budget/insured rates projected forward throughout the two years using 9% health and 6% dental annual trends as well as a 5% annual discount factor.

7. Upon death, Mr. Howard's survivors shall receive, for 120 months, 50% of his monthly base salary and target bonus amount, under the frozen Executive Death Benefit Plan. The figure above reflects the present value lump-sum payment amount based upon the FAS discount rate of 7.50%. Upon retirement, he has elected to receive a present value cash settlement at retirement in lieu of the post-retirement death benefit under the frozen EDBP. The amount in the table is based on a 6.0% discount rate and assumed mortality of age 80. Upon a change in control, he would receive the present value, but based on the Applicable Federal Rate of 2.64%.
8. In the event of a change in control followed by termination without cause or with good reason, the Company shall provide Mr. Howard with standard outplacement services provided that the cost of such services to the Company not exceed 15% of the Executive's annual base salary in effect on the date of termination. The amount above represents the maximum cost to the Company for providing such outplacement services.
9. Mr. Howard has met the eligibility requirements for retirement under the Company's retirement plan as of December 31, 2017.

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Compensation Discussion and Analysis

**High, Joseph**

Type of Payment	Involuntary Termination without Cause or Voluntary Termination with Good Reason (\$)	Involuntary Termination for Cause or Voluntary Termination without Good Reason (\$)	Retirement (9) (\$)	Death (\$)	Disability (\$)	Change In Control Only (\$)	Change In Control and Termination without Cause or with Good Reason (\$)
Cash Compensation							
Cash Severance (1)	\$0	\$0	\$0	\$0	\$0	\$0	\$2,018,800
Management Incentive Program							
Prorated Annual Bonus Guarantee	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Long-Term Incentives							
Stock Options							
Unvested and Accelerated Awards (2)	\$0	\$0	\$88,225	\$88,225	\$88,225	\$88,225	\$88,225
Restricted Stock Units							
Unvested and Accelerated Awards (3)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Performance Shares							
Unvested and Accelerated Awards (4)	\$0	\$0	\$281,059	\$281,059	\$281,059	\$843,176	\$843,176
Retirement Benefits							
Profit Sharing							
Unvested and Accelerated Awards (5)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Deferred Compensation	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Benefits							
Continuation of Health & Welfare Benefits (6)	\$0	\$0	\$0	\$0	\$0	\$0	\$35,258
Life Insurance and Death Benefit Payout (7)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Disability Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Perquisites and Tax Payments							
Excise Tax & Gross-Up	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Outplacement (8)	\$0	\$0	\$0	\$0	\$0	\$0	\$77,250
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$369,284</b>	<b>\$369,284</b>	<b>\$369,284</b>	<b>\$931,401</b>	<b>\$3,062,736</b>

- The Company does not maintain any agreements with its named executive officers that guarantee the payment of cash severance upon termination, except in the event of a change in control followed by termination without cause or with good reason.

2. Unvested options become immediately exercisable in the event of death, disability, retirement, or a change in control.
3. Mr. High does not have any unvested restricted stock units as of December 31, 2017.
4. In the event of retirement, death or disability, Mr. High is entitled to receive in settlement of performance shares, a number of shares of common stock, equal to the number of performance shares that vest based upon the Company's average return on invested capital, as of the date of retirement, death or disability, multiplied by the prorated amount of time Mr. High was employed by the Company during the performance period.
5. Mr. High does not have any unvested profit sharing amounts as of December 31, 2017.
6. The health and welfare benefits value upon change in control and termination without cause or with good reason is based upon two years of continuation of active health and welfare benefits using the Company's budget/insured rates projected forward throughout the two years using 9% health and 6% dental annual trends as well as a 5% annual discount factor.
7. Mr. High is not eligible for the frozen Executive Death Benefit Plan.

8. In the event of a change in control followed by termination without cause or with good reason, the Company shall provide Mr. High with standard outplacement services provided that the cost of such services to the Company not exceed 15% of the Executive's annual base salary in effect on the date of termination. The amount above represents the maximum cost to the Company for providing such outplacement services.
  
9. Mr. High has met the eligibility requirements for retirement under the Company's retirement plan as of December 31, 2017.

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Compensation Discussion and Analysis

**Robbins, Paige**

Type of Payment	Involuntary Termination without Cause or Voluntary Termination with Good Reason (\$)	Involuntary Termination for Cause or Voluntary Termination without Good Reason (\$)	Retirement (9) (\$)	Death (\$)	Disability (\$)	Change In Control Only (\$)	Change In Control and Termination without Cause or with Good Reason (\$)
Cash Compensation							
Cash Severance (1)	\$0	\$0	\$0	\$0	\$0	\$0	\$1,768,704
Management Incentive Program							
Prorated Annual Bonus Guarantee	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Long-Term Incentives							
Stock Options							
Unvested and Accelerated Awards (2)	\$0	\$0	\$0	\$34,984	\$34,984	\$34,984	\$34,984
Restricted Stock Units							
Unvested and Accelerated Awards (3)	\$0	\$0	\$0	\$759,071	\$759,071	\$759,071	\$759,071
Performance Shares							
Unvested and Accelerated Awards (4)	\$0	\$0	\$0	\$116,786	\$116,786	\$350,359	\$350,359
Retirement Benefits							
Profit Sharing							
Unvested and Accelerated Awards (5)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Deferred Compensation	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Benefits							
Continuation of Health & Welfare Benefits (6)	\$0	\$0	\$0	\$0	\$0	\$0	\$35,285
Life Insurance and Death Benefit Payout (7)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Disability Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Perquisites and Tax Payments							
Excise Tax & Gross-Up	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Outplacement (8)	\$0	\$0	\$0	\$0	\$0	\$0	\$75,600
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$910,842</b>	<b>\$910,842</b>	<b>\$1,144,414</b>	<b>\$3,024,003</b>

- The Company does not maintain any agreements with its named executive officers that guarantee the payment of cash severance upon termination, except for in the event of a change in control termination without cause or with good reason.



2. Unvested options become immediately exercisable in the event of death, disability, retirement, and a change in control.
3. Ms. Robbins has four grants of unvested restricted stock units as of December 31, 2017.
4. In the event of retirement death or disability, Ms. Robbins is entitled to receive in settlement of performance shares, a number of common stock, equal to the number of performance shares that vest based upon the Company's average return on invested capital, as of the date of retirement, death or disability, multiplied by the prorated amount of time Ms. Robbins was employed by the Company during the performance period. Ms. Robbins is not retirement eligible as of December 31, 2017.
5. Ms. Robbins does not have any unvested profit sharing amounts as of December 31, 2017.
6. The health and welfare benefits value upon change in control and termination without cause or with good reason is based upon two years of continuation of active health and welfare benefits using the Company's

budget/insured rates projected forward throughout the two years using 9% health and 6% dental annual trends as well as a 5% annual discount factor.

7. Ms. Robbins is not eligible for the frozen Executive Death Benefit Plan.
  
8. In the event of a change in control followed by termination without cause or with good reason, the Company shall provide Ms. Robbins with standard outplacement services provided that the cost of such services to the Company not exceed 15% of the Executive's annual base salary in effect on the date of termination. The amount above represents the maximum cost to the Company for providing such outplacement services.
  
9. Ms. Robbins is not eligible for retirement under the Company's retirement plan as of December 31, 2017.

**Ryan, James**

Mr. Ryan retired from the Company effective October 1, 2017. The following outlines the payments Mr. Ryan will receive in connection with his retirement, which are consistent with what the Company provides upon retirement for all employees: (i) Frozen Executive Death Benefit Plan (EDBP) in the amount of \$1,246,680 to be paid six months after the retirement date. Upon retirement, he has elected to receive a present value cash settlement at retirement in lieu of the post-retirement death benefit under the frozen EDBP; and (ii) Continuation of health & welfare benefits in the amount of \$450,772. The performance share award granted on January 1, 2016 is valued at \$1,170,712 assuming target performance. The number of shares are pro-rated to reflect the portion of the performance period that Mr. Ryan completed (21/36th) and are valued based on the fair market value on his retirement date.

## CEO PAY RATIO DISCLOSURE

As permitted under the SEC rules, in order to identify our median team member, we used a consistently applied compensation measure of 'base pay' earned during the period from January 1, 2017 to September 30, 2017, rather than summary compensation table (SCT) total compensation for all of 2017. We annualized base pay for those team members who commenced work during 2017. Once we identified the median team member, we determined the median team member's full year compensation based on the compensation elements required for inclusion in the SCT, with the exception of incorporating healthcare benefits in Total Compensation as discussed later in this section.

We utilized the *de minimis* exemption to exclude approximately 4% of our global workforce, or 920 employees, as reflected below:

Included in calculation: Canada, China, Mexico, Netherlands, Panama, United Kingdom, United States (23,000 team members)

Excluded from calculation: Belgium, Costa Rica, Czech Republic, Dominican Republic, France, Germany, Hungary, India, Indonesia, Ireland, Japan, Malaysia, Peru, Poland, Portugal, Romania, Slovakia, South Africa, Spain, Thailand, United Arab Emirates (920 team members)

In calculating Total Compensation for our median team member and CEO, we included the estimated company cost of their respective Company-provided health and wellness benefits; therefore the CEO's Total Compensation for purposes of this calculation differs from the Total Compensation described in the SCT of this document by his health and wellness benefits amount.

The median team member's estimated Total Compensation for 2017 was \$63,577 (note that this definition includes compensation of \$53,139 and estimated benefits of \$10,438). The ratio of CEO pay to median team member pay is 113:1.

## SAY ON PAY

### What are you voting on?

A proposal to approve a non-binding advisory approval of the compensation of the Named Executive Officers

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF COMPENSATION OF THE NAMED EXECUTIVE OFFICERS.**

The Company is asking its shareholders for their non-binding advisory approval of the compensation of its Named Executive Officers (Say on Pay) as disclosed in the "Compensation Discussion and Analysis" section of this proxy statement in accordance with the SEC rules.

As described in detail under "Compensation Discussion and Analysis," the Company's compensation program is based upon a philosophy that is applied to all Company employees—to attract and retain the best people and provide appropriate performance-based incentives that encourage them to achieve results that create long-term shareholder value. The Company sets target compensation for the Named Executive Officers to approximate the market median of compensation at companies of similar size and complexity. Employees at all levels of the Company, including its executives, are provided clear incentives to grow the business (Sales Growth) while achieving investment returns (Return on Invested Capital or ROIC) for the Company's shareholders. The compensation program is structured to significantly reward long-term performance while not encouraging excessive risk taking. *Please read the Compensation Discussion and Analysis/ page 37 for additional details about the compensation of the Named Executive Officers.*

This Say on Pay vote is intended to address the compensation of the Named Executive Officers as disclosed in the "Compensation Discussion and Analysis" section of this proxy statement as a whole rather than any specific item or amount of executive compensation.

We are asking our shareholders to vote "FOR" the following advisory resolution at the Company's 2018 annual meeting:

"Resolved, that the compensation of the Company's Named Executive Officers, as disclosed in the "Compensation Discussion and Analysis" section of this proxy statement, including the related tables, notes and narrative is hereby approved by the Company's shareholders."

This advisory vote on the compensation of Grainger's Named Executive Officers is determined by the votes of a majority of the shares represented in person or by proxy at the meeting and entitled to vote. Abstentions will have the same effect as votes against the proposal. Broker non-votes will not affect the outcome of the vote.

This Say on Pay vote is advisory and non-binding on the Company, our Board of Directors and the Compensation Committee of the Board. However, the Board of Directors and the Compensation Committee of the Board, which is comprised of independent directors, expect to take into account the outcome of this Say on Pay vote when making future compensation decisions regarding Grainger's Named Executive Officers.

Approval of the proposal requires the affirmative votes of a majority of the shares of Grainger common stock represented in person or by proxy at the meeting and entitled to vote. Abstentions will have the same effect as votes against the proposal.

## EQUITY COMPENSATION PLANS

This table contains information as of December 31, 2017 about Grainger's equity compensation plans, all of which have been approved by Grainger's shareholders.

	Number of common shares to be issued upon exercise of outstanding stock options warrants, and rights	Weighted-average exercise price of outstanding stock options, warrants, and rights	Number of common shares available for future issuance under equity compensation plans (excluding common shares reflected in the first column)
Equity compensation plans approved by shareholders	2,536,492 (1)	\$207.10 (2)	2,707,024 (3)
Equity compensation plans not approved by shareholders	0	N/A	0
<b>Total</b>	<b>2,536,492</b>	<b>\$207.10</b>	<b>2,707,024</b>

- Includes an aggregate of 392,919 restricted stock units that are to be settled by the issuance of shares of common stock on a 1-for-1 basis. It also includes 125,728 director's stock units to be settled upon each director's retirement. Additionally, it includes 84,132 performance shares which will vest and settle between 2018 and 2023. The number of shares vested is dependent on the Company sales and/or the three-year average ROIC performance versus target.
- Weighted-average exercise price of outstanding stock options; excludes restricted stock units, performance shares, and director's stock units.
- Represents shares of common stock authorized for issuance under the 2015 Incentive Plan (2015 Plan) in connection with awards of stock options, stock appreciation rights, stock units, shares of common stock, restricted shares of common stock and other stock-based awards. Under the 2015 Plan, all shares issued pursuant to "Full Value Awards" (awards other than stock options or stock appreciation rights which are settled by the issuance of shares, e.g., restricted stock, restricted stock units, director's stock units, or other stock based awards) may be granted with the limit of no more than one million (1,000,000) shares of the Share Authorization.

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## **TRANSACTIONS WITH RELATED PERSONS**

Grainger's Business Conduct Guidelines require that conflicts of interest in any form be avoided. The Board has adopted written policies and procedures, to be applied by the Board Affairs and Nominating Committee, for the review, approval, or ratification of any transactions with related persons. Those policies and procedures apply to any proposed transaction in which Grainger is a participant, the amount involved exceeds \$120,000, and any director, executive officer, or significant shareholder or any immediate family member of such a person has a direct or material indirect interest. The policy requires that any such proposed transaction be reviewed by the Board Affairs and Nominating Committee to determine, among other things, the benefits of the transaction to Grainger, the availability of other sources of comparable products or services, and whether the terms of the proposed transaction are comparable to those provided to unrelated third parties. The Board Affairs and Nominating Committee determined that the Company did not engage in any related person transactions in 2017.

In the ordinary course of its operations during 2017, Grainger engaged in various types of transactions with organizations with which Grainger directors are associated in their principal business occupations or otherwise. Specifically, in the ordinary course of its business during 2017, Grainger bought products and/or services from, or sold products and/or services to, companies with which Ms. Perez, and Messrs. Santi, Slavik and Watson are or were associated as executive officers or otherwise as of December 31, 2017. In no instance did the total amount of the purchases from or sales to any such company during 2017 represent more than 0.087% of the consolidated gross revenues of that company for the year or more than 0.228% of the consolidated gross revenues of Grainger for the year.

In addition, as part of its overall 2017 charitable contributions program, Grainger made donations to tax-exempt organizations with which one or more directors serve as officers, directors or trustees. In no instance did the total amount of the contributions to any charitable organization exceed \$15,000 during 2017.

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## uestions and Answers

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### PROXY MATERIALS

#### What is the purpose of this proxy statement?

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This proxy statement relates to the 2018 annual meeting of shareholders of Grainger, to be held on April 25, 2018, and any adjournment of that meeting to a later date. It contains information intended to help you make your voting decisions. We are sending this proxy statement to you because Grainger's Board of Directors is soliciting your proxy to vote your shares at the meeting. This proxy statement and other proxy-soliciting materials were first sent or made available to shareholders on or about March 15, 2018.

#### What does it mean if I receive more than one set of proxy materials?

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Receiving multiple sets of proxy-soliciting materials generally means that your Grainger shares are held in different names or in different accounts. You must sign, date and return all proxy forms to ensure that all of your shares are voted.

#### May I revoke my proxy?

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Yes. You may revoke your proxy at any time before the voting at the meeting. You can do so in one of the following ways:

Deliver to Grainger's Corporate Secretary timely written notice that you are revoking your proxy; or

Provide to Grainger another proxy with a later date (which can be done by telephone, by Internet, or by signing, dating, and returning a proxy form); or

Vote in person at the meeting.

### VOTING INFORMATION

#### Who is entitled to vote?

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Holders of shares of common stock outstanding on Grainger's books at the close of business on March 5, 2018, the record date for the meeting, may vote. There were 56,057,105 shares of common stock outstanding on that date.

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## **What is the difference between holding shares as "shareholder of record" and as "beneficial owner"?**

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If your shares are registered directly in your name with Grainger's transfer agent, Computershare Trust Company, N.A., you are the shareholder of record with respect to those shares and you have the right to instruct us directly how to vote your shares or to vote in person at the meeting.

If your shares are held in street name by a brokerage firm, bank, or other nominee, you are the beneficial owner of the shares. Your nominee is required to vote your shares according to your direction. **If you do not instruct your nominee how you want your shares voted, your shares cannot be voted for the election of directors or on the advisory vote on the compensation of Grainger's Named Executive Officers.** Please contact your brokerage firm, bank, or other nominee with instructions to vote your shares for the election of directors and on the advisory vote on the compensation of Grainger's Named Executive Officers, and on other matters to be considered at the meeting.

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## **If my shares are held in "street name," can my broker vote for me?**

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Unless you have given specific voting instructions to your broker, your broker cannot vote your shares on the election of directors, on the advisory vote related to executive compensation, or on any non-routine matters.

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## **How many votes do I have?**

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You have the right to cumulative voting in the election of directors. This means that you have a number of votes in the election equal to the number of shares you own multiplied by the number of directors being elected. You can cast those votes for the nominees as you choose. For example, you may cast all your votes for one nominee or you may apportion your votes among two or more nominees. In any matter other than the election of directors, each of your shares is entitled to one vote.

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## **Does Grainger have majority voting for the election of directors with a resignation policy for directors failing to receive the required majority vote?**

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Yes. As required under Illinois law, directors are elected by the votes of a majority of the shares represented in person or by proxy at the meeting and entitled to vote. Moreover, in accordance with the Company's Criteria for Membership on the Board of Directors, any director standing for re-election (including the 11 nominees standing for election at the annual meeting) who fails to receive the required majority vote is expected to tender his or her resignation for consideration by the Board Affairs and Nominating Committee. The Board Affairs and Nominating Committee will consider the resignation and make a recommendation to the Board of Directors concerning the acceptance or rejection of the resignation. The Board will then take formal action on the Board Affairs and Nominating Committee's recommendation within 90 days after the results of the director election at the annual meeting are certified. Following the Board's decision on the Board Affairs and Nominating Committee's recommendation, the Company will publicly disclose the Board's decision.



### **What voting standard applies to the ratification of the appointment of the independent auditor?**

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Ratification of the appointment of the independent auditor requires the affirmative votes of a majority of the shares represented in person or by proxy at the meeting and entitled to vote.

### **What voting standard applies to the advisory vote on the compensation of the Named Executive Officers?**

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Although the shareholders' vote is advisory and therefore non-binding, the vote on the compensation of the Named Executive Officers—Grainger's six highest paid officers whose compensation is discussed in the Compensation Discussion and Analysis section of this proxy statement—is determined by the votes of a majority of the shares represented in person or by proxy at the meeting and entitled to vote.

### **How frequently does Grainger conduct an advisory vote on the compensation of its Named Executive Officers?**

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The Board of Directors has determined to hold an advisory vote on the compensation of the Named Executive Officers (Say on Pay) at every annual meeting of shareholders. Shareholders have the opportunity to cast an advisory vote on the frequency of Say on Pay votes at least every six years. At the 2017 annual meeting, the shareholders voted for one year as the frequency of the Say on Pay vote. The next advisory vote on the frequency of the Say on Pay vote will occur at Grainger's 2023 annual meeting.

### **What if I don't indicate my voting choices?**

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If Grainger receives your proxy in time to permit its use at the meeting, your shares will be voted in accordance with the instructions you indicate. If we have received your proxy and you have not indicated otherwise, your shares will be voted as recommended by Grainger's Board. Specifically, your shares will be voted, either individually or cumulatively:

FOR the election of the director nominees;

FOR the proposal to ratify the appointment of the independent auditor; and

FOR the approval of the advisory vote on the compensation of Grainger's Named Executive Officers.

If you are a beneficial owner and the shares you own are held in street name by a brokerage firm, bank, or other nominee **you must specifically instruct your nominee how you want your shares voted for the election of directors, on the advisory resolution on the compensation of Grainger's Named Executive Officers, and on the frequency of the shareholder advisory votes on the compensation of Grainger's Named Executive Officers; otherwise your nominee is not allowed to vote your shares.** Please contact your brokerage firm, bank, or other nominee with instructions to vote your shares for the election of directors and on other matters to be considered at the meeting.

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## **How does discretionary voting apply?**

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Grainger is not aware of any matter not described in this proxy statement that will be presented for consideration at the meeting. If another matter is properly presented, your shares will be voted on the matter in accordance with the judgment of the person or persons voting the proxy unless your proxy withholds discretionary authority.

## **What constitutes a quorum at the meeting?**

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A majority of the outstanding shares entitled to vote on a matter, whether present in person or by proxy, constitutes a quorum for consideration of that matter at the meeting. A quorum is necessary for valid action to be taken on the matter. Your shares will be present by proxy and count toward the quorum if you give us your proxy by telephone, by Internet, or by signing, dating, and returning a proxy form.

## **Where can I find the voting results?**

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We will report the voting results on a Form 8-K within four business days after the end of our annual meeting.

## **What is the deadline for receipt of shareholder proposals for inclusion in the 2019 annual meeting proxy statement?**

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A shareholder who intends to present a proposal at the next annual meeting of shareholders and who wishes the proposal to be included in our proxy materials for that meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended (Exchange Act), must submit the proposal in writing to the Corporate Secretary at the address on the notice of annual meeting accompanying this proxy statement. The proposal must be received by Grainger no later than November 15, 2018, and must comply with the applicable SEC rules and other requirements prescribed in our By-laws.

## **What is the procedure for nomination of directors at the 2019 annual meeting of shareholders using Grainger's proxy access By-laws?**

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A qualifying shareholder, or a group of up to 20 qualifying shareholders, owning 3% or more of the Company's outstanding shares of common stock continuously for at least the previous three years may nominate and include in Grainger's proxy statement and proxy card qualifying director nominees constituting up to the greater of two directors or 20% of the directors then serving on the Board, provided that the shareholder(s) and nominee(s) satisfy the requirements specified in our By-laws.

## **What is the procedure for other nominations of directors or proposals to transact business at the 2019 annual meeting of shareholders?**

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A shareholder entitled to vote for the election of directors at an annual meeting and who is a shareholder of record on:

the record date for that annual meeting,

the date the shareholder provides timely notice to Grainger, and

the date of the annual meeting

may directly nominate persons for director, or make proposals of other business to be brought before the annual meeting, by providing proper timely written notice to the Corporate Secretary at the address on the notice of annual meeting accompanying this proxy statement.

Our By-laws require that written notice of proposals intended to be presented by a shareholder at the next annual meeting, but that are not intended for inclusion in our proxy statement for that meeting pursuant to Rule 14a-8 of the Exchange Act, be delivered no earlier than December 26, 2018, and no later than January 25, 2019.

Our By-laws also require that written notice of nominees for the election of directors intended to be made by a shareholder at the next annual meeting be delivered by no later than the date with respect to submission of shareholder proposals under Rule 14a-8 of the Exchange Act as set forth in the proxy statement for the preceding annual meeting of shareholders, which in this case is November 15, 2018.

To be in proper written form, these notices must include certain information required by our By-laws, including information about the shareholder, any beneficial owner on whose behalf the nomination or proposal is being made, their respective affiliates or associates or others acting in concert with them, and any proposed director nominee.

*A copy of our By-laws is available in the Governance section of Grainger's website at <http://www.grainger.com/investor> or may be obtained free of charge on written request to the Corporate Secretary at the address on the notice of annual meeting accompanying this proxy statement.*

APPENDIX A

W.W. GRAINGER, INC.

**CATEGORICAL STANDARDS FOR DIRECTOR INDEPENDENCE**

**Business Transactions.** A director's independence will not be deemed to be impaired by reason of his or her service as an executive officer of another company that does business with Grainger if in each of the three most recent fiscal years the other company's annual sales to Grainger are less than one percent (1%) of that company's consolidated gross revenues and if in each of the three most recent fiscal years Grainger's sales to the other company are less than one percent (1%) of that company's consolidated gross revenues.

**Tax-Exempt Contributions.** A director's independence will not be deemed to be impaired by reason of his or her service as an officer, director or trustee of a tax-exempt organization that receives contributions from Grainger if Grainger's contributions to the organization are less than one percent (1%) of the organization's total annual contributions.





**IMPORTANT ANNUAL MEETING INFORMATION** 000004

ENDORSEMENT\_LINE \_\_\_\_\_ SACKPACK \_\_\_\_\_  
[Barcode]

MR A SAMPLE  
DESIGNATION (IF ANY)  
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ADD 3  
ADD 4  
ADD 5  
ADD 6



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**Electronic Voting Instructions**  
**Available 24 hours a day, 7 days a week!**  
Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.  
VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.  
**Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Central Daylight Time, on April 25, 2018.**

**Vote by Internet**  
• Go to [www.investorvote.com/GWW](http://www.investorvote.com/GWW)  
• Or scan the QR code with your smartphone  
• Follow the steps outlined on the secure website

**Vote by telephone**  
• Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada on a touch tone telephone  
• Follow the instructions provided by the recorded message

Using a **black ink** pen, mark your votes with an X as shown in this example. Please do not write outside the designated areas. X

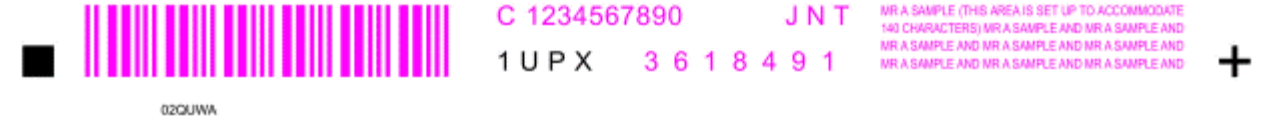
**Annual Meeting Proxy Card** 1234 5678 9012 345

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

**A Proposals — MANAGEMENT RECOMMENDS A VOTE "FOR" ITEMS 1, 2, AND 3.**  
1. Election of Directors: For Withhold  
01 - Rodney C. Adkins   02 - Brian P. Anderson   03 - V. Ann Hailey    
04 - Stuart L. Levenick   05 - D.G. Macpherson   06 - Neil S. Novich    
07 - Beatriz R. Perez   08 - Michael J. Roberts   09 - E. Scott Santi    
10 - James D. Slavik   11 - Lucas E. Watson    
2. Proposal to ratify the appointment of Ernst & Young LLP as independent auditor for the year ending December 31, 2018. For Against Abstain     
3. Say on Pay: advisory proposal to approve compensation of the Company's Named Executive Officers. For Against Abstain     
4. In their discretion upon such other matters as may properly come before the meeting.

**B Non-Voting Items**  
Change of Address — Please print new address below.  
[Address Field]  
Meeting Attendance  
Mark box to the right if you plan to attend the Annual Meeting.

**C Authorized Signatures — This section must be completed for your vote to be counted. — Date and Sign Below**  
Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.  
Date (mm/dd/yyyy) — Please print date below. Signature 1 — Please keep signature within the box. Signature 2 — Please keep signature within the box.  
[Date Field] [Signature 1 Box] [Signature 2 Box]



▼ IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. ▼



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**Proxy — W.W. GRAINGER, INC.**

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**Proxy for Annual Meeting of Shareholders, April 25, 2018**

**100 Grainger Parkway, Lake Forest, Illinois 60045-5201**

The undersigned hereby appoints D.G. Macpherson and John L. Howard, and each of them, proxies of the undersigned with full power of substitution to represent the undersigned and to vote all of the shares of the Common Stock of W.W. Grainger, Inc. which the undersigned is entitled to vote at the Annual Meeting of Shareholders of W.W. Grainger, Inc. to be held on April 25, 2018 at 10:00 a.m., CDT and at any and all adjournments thereof, with all the powers the undersigned would possess if personally present and voting.

A majority of proxies or substitutes who shall be present at the meeting may exercise all powers hereunder. All proxies will be voted as specified. **If no specification is made, the proxy will be voted FOR items 1, 2, and 3. The proxy holders reserve the right to cumulate votes and cast such votes in favor of the election of some or all of the applicable director nominees in their sole discretion.**

(Continued and to be voted, signed and dated on reverse side.)



W.W. GRAINGER, INC.  
 700 GRAINGER PARKWAY  
 LAKE FOREST, IL 60045

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 1:00 A.M. Central Time, on April 25, 2018. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 1:00 A.M. Central Time, on April 25, 2018. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

DETACH AND RETURN THIS PORTION ONLY

<p>The Board of Directors recommends you vote FOR the following:</p> <p>1. Election of Directors</p> <p><b>Nominees</b></p> <table border="0"> <tr> <td>01 Rodney C. Adkins</td> <td>02 Brian P. Anderson</td> <td>03 V. Ann Hailey</td> <td>04 Stuart L. Levenick</td> <td>05 D.G. Macpherson</td> </tr> <tr> <td>06 Neil S. Novich</td> <td>07 Beatriz R. Perez</td> <td>08 Michael J. Roberts</td> <td>09 E. Scott Santi</td> <td>10 James D. Slavik</td> </tr> <tr> <td>11 Lucas E. Watson</td> <td></td> <td></td> <td></td> <td></td> </tr> </table> <p>The Board of Directors recommends you vote FOR proposals 2 and 3.</p> <p>2. Proposal to ratify the appointment of Ernst &amp; Young LLP as independent auditor for the year ending December 31, 2018.</p> <p>3. Say on Pay: Advisory proposal to approve compensation of the Company's Named Executive Officers.</p> <p><b>NOTE:</b> In their discretion upon such other matters as may properly come before the meeting or any adjournment or postponement thereof.</p> <p>For address change/comments, mark here.        (see reverse for instructions)</p> <p>Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.</p>	01 Rodney C. Adkins	02 Brian P. Anderson	03 V. Ann Hailey	04 Stuart L. Levenick	05 D.G. Macpherson	06 Neil S. Novich	07 Beatriz R. Perez	08 Michael J. Roberts	09 E. Scott Santi	10 James D. Slavik	11 Lucas E. Watson					<p><b>For All</b></p> <p><input type="checkbox"/></p>	<p><b>Withhold All</b></p> <p><input type="checkbox"/></p>	<p><b>For All Except</b></p> <p><input type="checkbox"/></p>	<p>To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.</p> <p>_____</p>
01 Rodney C. Adkins	02 Brian P. Anderson	03 V. Ann Hailey	04 Stuart L. Levenick	05 D.G. Macpherson															
06 Neil S. Novich	07 Beatriz R. Perez	08 Michael J. Roberts	09 E. Scott Santi	10 James D. Slavik															
11 Lucas E. Watson																			
				<table border="0"> <tr> <td><b>For</b></td> <td><b>Against</b></td> <td><b>Abstain</b></td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table>	<b>For</b>	<b>Against</b>	<b>Abstain</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>						
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<table border="1" style="width: 100%;"> <tr> <td style="width: 50%; height: 20px;">Signature [PLEASE SIGN WITHIN BOX]</td> <td style="width: 50%; height: 20px;">Date</td> </tr> </table>	Signature [PLEASE SIGN WITHIN BOX]	Date	<table border="1" style="width: 100%;"> <tr> <td style="width: 50%; height: 20px;">Signature (Joint Owners)</td> <td style="width: 50%; height: 20px;">Date</td> </tr> </table>	Signature (Joint Owners)	Date														
Signature [PLEASE SIGN WITHIN BOX]	Date																		
Signature (Joint Owners)	Date																		

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**This material is being sent to you by reason of your participation in one or more of the following plans available to eligible employees of W.W. Grainger, Inc. and/or its subsidiaries:**

**W.W. Grainger, Inc. Employees' Profit Sharing Plan  
W.W. Grainger, Inc. 401(k) Plan  
Employee Stock Purchase Plan**

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:** The Notice & Proxy Statement, Annual Report is/ are available at [www.proxyvote.com](http://www.proxyvote.com)

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W.W. GRAINGER, INC.  
Annual Meeting of Shareholders  
April 25, 2018 10:00 AM  
This proxy is solicited by the Board of Directors

The undersigned hereby appoints D.G. Macpherson and John L. Howard, and each of them, proxies of the undersigned with full power of substitution to represent the undersigned and to vote all of the shares of the Common Stock of W.W. Grainger, Inc., which the undersigned is entitled to vote at the Annual Meeting of Shareholders of W.W. Grainger, Inc. to be held on April 25, 2018 and at any and all adjournments thereof, with all the powers the undersigned would possess if personally present and voting.

A majority of proxies or substitutes who shall be present at the meeting may exercise all powers hereunder. All proxies will be voted as specified. **If no specification is made, the proxy will be voted FOR items 1, 2 and 3. The proxy holders reserve the right to cumulate votes and cast such votes in favor of the election of some or all of the applicable director nominees in their sole discretion.**

Address change / comments:

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(If you noted any Address Changes and/or Comments above, please mark corresponding box on the reverse side.)

**Continued and to be voted, signed and dated on reverse side**

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