As a shareholder, it's important to move beyond the numbers and gain at least a basic understanding of the company you're investing in. So, before we delve into our results for 2012, we'd like to present Fastenal's core principles and business strategy.

Our organization is guided by a motto of *Growth Through Customer Service*, and we embrace a decentralized structure that encourages everyone in Fastenal to make decisions in pursuit of that goal. We start by hiring people who share our values of Ambition, Innovation, Integrity, and Teamwork. Then, after providing them with intensive training, we place these individuals in a role alongside veteran team members and give them an opportunity to make smart decisions for their customers and the company. By empowering every employee to make timely, local decisions, we've created an environment in which we respond with urgency and allow good ideas to emerge.

Our business has been built with local stores as the focal point. Some may feel this isn't the most efficient model in today's world, but we strongly believe the closer we are to our customer, the better we can understand their needs and help them improve their business. We also believe in vertical integration throughout our organization. Our teams work hard to develop solutions and systems 'in-house' whenever possible – from designing our own computer systems, to operating our own trucking fleet, to utilizing our own engineers to design our warehouse systems. We believe this approach not only makes us more profitable but also more responsive and flexible.

"By empowering every employee to make timely, local decisions, we've created an environment in which we respond with urgency and allow good ideas to emerge."

Now that you have a better sense of how we operate, let's focus on our results for 2012. The year started strong with 20% sales growth in the first quarter, but in the late-April/May timeframe we saw a slowdown in our growth. This slower environment occurred over a broad geographic area and in most customer segments, and continued throughout the remainder of the year. For the year, our sales were $3.13 billion, an increase of 13.3% over our sales of $2.77 billion in 2011.

Our net earnings in 2012 were $421 million, an increase of 17.5% compared to our earnings of $358 million in 2011. This increase allowed us to achieve pre-tax earnings as a percentage of sales of 21.5%, an increase of 70 basis points over the 20.8% we reported in 2011 and the highest reported pre-tax earnings in company history. This improvement was made possible entirely by good expense control – in fact, our gross margin decreased slightly, coming in at 51.5% for 2012 versus 51.8% in 2011. We worked hard on improving our gross margin throughout the year but found it difficult due to a lower percentage of sales coming from fasteners (our highest-margin product category) and due to better than average growth from larger customers (which typically receive volume-leveraged pricing terms).

Expense control has always been a part of our culture, and it's an area where we continually focus. This year was no exception as our operating and administrative expenses grew only 9.5% compared to the 13.3% sales growth number cited above. Employee and related expenses, our largest operating expense category, grew at 10.1%. This expense was pushed higher by: (1) a 44.0% increase in our employee profit sharing program (this is calculated based on our pre-tax earnings); (2) the introduction of our vending incentive (more on this below); and (3) our decision to implement a pay guarantee for store managers. The non-payroll category, which includes all general expenses, the largest being occupancy, grew at just 8.3% versus 13.3% sales growth.

We continue to make progress on our 'pathway to profit' strategic growth initiative. Introduced in 2007, this plan simply calls for us to slow down our store openings while adding sales people. Through this balanced approach, we originally projected we could increase our average monthly store sales from $72,000 to $125,000 over a five-year period from 2007 to 2012, in turn increasing our pre-tax earnings one percentage point a year, from 18 to 23% of sales. Because of the impact of the 2008-2009 recession on our revenue, we anticipated the timeline would be extended by 18 to 24 months. However, during the recession we became more efficient – lean, if you will – and we now believe our 23% pre-tax earnings goal can be achieved with average monthly store

Rolling Out CNG Vehicles

In November we introduced six compressed natural gas (CNG) fueled vehicles to our semi fleet. These vehicles produce fewer carbon emissions and run at roughly half the cost of diesel-fueled trucks based on current prices.

Investing in the Future

Our third automated picking system, located in Winona, MN, came online during the third quarter. This technology decreases our picking errors, picking time, and our cost per pick, providing better service to our customers at a lower cost.

sales of just $100,000 to $110,000. Based on this recalculation, and assuming normal economic conditions, we remain confident we can achieve our 23% pre-tax earnings goal in 2013.

One of the true highlights of the year was the strong growth of our FAST Solutions℠ (industrial vending) program. Why are we working so hard to grow this business? It's simply a better way to both buy and sell product. The benefits to our customers are numerous: reduced consumption, reduced inventory investment, reduced purchase orders, reduced product handling, and 24-hour product availability. The benefit to Fastenal is a much stronger relationship, which translates into more opportunities. We also save money on the service side of the business because, with our Internet-enabled machines, the orders automatically flow into our system. This saves labor, eliminates errors, and streamlines the supply chain.

Late in 2011 we introduced an employee incentive program designed to increase the number of vending agreements signed with new and existing customers. By all accounts, this incentive has been a tremendous success. We far exceeded our internal goal of signing 15,000 vending machines and ended the year with 20,162 signings – an increase of 157% compared to our signings in 2011.

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We will continue to work hard in all areas of industrial vending, with the goal of providing better and more cost-effective solutions for our customers. To that end, our team will work with our equipment supplier to continually improve the machines we have today, and to develop the systems we will need in the future.

This year proved to be a challenging one for our international business. The global economic slowdown affected nearly all of our international markets, but we were hit particularly hard in Asia and Europe. The majority of the decline can be attributed to our existing customers simply purchasing less in 2012 versus 2011. Our Canadian business was also impacted by factors out of our control, yet we were able to grow sales by 10.1% (in local currency, this growth was 11.6%). Our sales growth of 32.9% in Mexico represented a bright spot for our international operations – this was the one international market that remained strong throughout the year. As reported in last year's letter, we opened our first location in Brazil in 2011, and although it's still a relatively small operation, we're happy to report that it's growing and adding customers. In 2012, we opened in three additional countries – Colombia, Romania, and Thailand. Overall, our international business grew 14.9% in 2012 compared to 44.4% in 2011.

We continued to make investments in our sales specialists in 2012. These individuals cover larger geographical areas, and their job is to provide a high level of expertise when making end-user calls with our store personnel. Each person is trained in a specific area. The largest group is dedicated to national account business, but we also have teams focused on metalworking/manufacturing, government, safety products, industrial vending, and large fastener opportunities. In addition, there are smaller teams specializing in various other product and market opportunities. Overall, the results have been very positive, and we believe our specialists represent a good investment to help drive continued growth in our existing stores and markets.

More than 30 years ago, our founder Bob Kierlin recognized that in order to provide the best possible service to our customers, we needed to be able to manufacture hard-to-find parts. Back then it was one machinist, a couple of used pieces of equipment, and a lot of enthusiasm. This business has steadily grown over the years, and today it is a large producer of fasteners and specialty machined parts with approximately 569 employees and locations on four continents. As we've grown and expanded our manufacturing business, we've also increased our capabilities. Today we can produce anything from a standard screw or bolt to a highly machined replacement part. These capabilities have been implemented with one purpose in mind, and that is customer service. Many of our customers run their facilities 24 hours a day, seven days per week, so when something breaks they need their local store to respond immediately. With our large inventory of raw materials, our broad capabilities, and our locations around the globe, we can deliver.

FAST Solutions℠ – Revolutionizing Industrial Supply

We have more than 20,000 FAST Solutions (industrial vending) machines installed at customer sites – almost three times the number we had a year ago.

Exclusive Brands

Our exclusive brand product lines now represent approximately 10% of total company sales. In the year ahead, we'll work hard to integrate more of these high-quality products into our business, creating new solutions for our customers and sales people.

Our distribution team worked very hard in 2012 on developing new systems and ideas to make our systems not only more cost-effective, but also more accurate and efficient. The largest project was the construction of our automated warehouse in Winona, MN, which came online in the third quarter. In addition to giving us the storage capacity we need to support future growth, this system is allowing us to reduce labor costs, decrease shipping errors, and accelerate picking time so our trucks can get on the road earlier in the evening. Based on the success we're seeing with this system and similar systems previously implemented in our Dallas, TX and Indianapolis, IN facilities, we've made a decision to accelerate our investment in warehouse automation and have started projects in both our Atlanta, GA and Akron, OH facilities. In last year's letter, we reported that our distribution team was focused on providing better service at a lower price, and that's exactly what they accomplished – yet again – in 2012. Not only did our distribution costs grow far slower than sales, our accuracy also improved. This is a direct result of the talented distribution team we have at Fastenal.

"During the year, employees completed more than 247,000 online courses, nearly doubling the number of online courses completed in 2011."

In other distribution-related news, our transportation team purchased six compressed natural gas ('CNG') semi trucks. These vehicles arrived in the fourth quarter, and to date we've seen a nice cost savings compared to our diesel-powered fleet. Our team will continue to monitor the results of this program to determine how we expand it in the future. The introduction of CNG technology is part of the team's larger goal of increasing our transportation efficiency, and they made great progress during 2012. Although fuel costs were at record highs for the year, we moved our product at the lowest relative cost in company history.

Our information technology group not only keeps the computer systems running, they also continue to develop new and better ways to save time and improve our customer service. During the year they developed a new software system that allows us to automate the ordering and billing process for our vending machines. We've spoken with many store managers about this software, and everyone says it is saving them a tremendous amount of time while improving their accuracy. The IT group also developed a new inventory management application for our larger volume stores. This system is very similar to what we use in our distribution centers, and it allows the store to pick orders faster and more accurately. These are just two examples of the solutions this group is working on to improve our business. Most people probably don't realize how much time employees spend on the computer. Every time we develop ideas like these, we can potentially free up thousands of hours per month that can be better spent serving our customers and growing our business.

During the past year, our product development team focused much of their time on two areas. The first was our metalworking product expansion. In 2011 we made a strategic decision to increase our investment in this product line in order to create more customer opportunity. We chose this area for several reasons, but the major reason is that we have well-established relationships with customers in nearly every market that are large users of this product. Another reason is that we've been selling these products for years, albeit with a much less comprehensive offering than we have today. The product development team has done a very good job of first determining which parts were needed to fill in our offering, and then finding the best suppliers with which to partner. Our goal for 2012 was for metalworking product sales to exceed overall company growth by a minimum of ten percentage points, and we're pleased to announce that we've exceeded that goal. The team's second area of focus has been the continual development of Fastenal's lineup of private label brands. This is an important initiative because it allows us to provide our customers with high-quality products at a competitive price. Although we still have a tremendous amount of work ahead of us, we're making very good progress with this project.

To keep pace with the nonstop demand for new skills and knowledge in the field, the Fastenal School of Business, our corporate university, provided more training, to more employees, in more creative ways, than ever before. Overall, Fastenal employees completed more than 8,600 face-to-face courses. Online training isn't new at Fastenal, but 2012 saw a major increase in participation. During the year, employees completed more than 247,000 online courses, nearly doubling the number of online courses completed in 2011.

OEM & MRO Fasteners – Getting Back to Basics

With our industry-leading sourcing, manufacturing, engineering, quality-control, logistics, and local service capabilities, Fastenal offers a unique value proposition for both OEM & MRO fastener customers. One of our top initiatives for 2013 is to better leverage our competitive advantages to accelerate our share gain in this core area of our business.

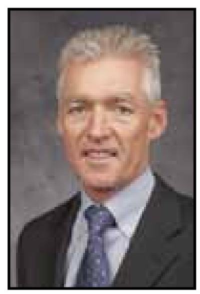
With over 11,000 sales personnel working in locations throughout North America and the world, it has become harder to communicate effectively with everyone, so we've been working on several ideas to improve communications. Our biggest effort in 2012 was to start a twice-monthly conference where we bring 40 to 45 store managers to our headquarters in Winona, MN. During this two-and-a-half-day conference, they get to spend one to two hours with each of our senior leaders to learn about what we're doing as a company, with an opportunity to provide feedback and voice concerns. On the second night we have a small banquet which is attended by several of our senior people, including Bob Kierlin, our founder – this is really just a chance to visit and enjoy the evening. During the year we were able to bring in nearly 700 managers for this program. Although this is a significant time commitment for our store leaders, it has proven to be time well spent, and we are going to increase the schedule for next year.

In closing, here are four key reasons why we're confident that we have a great opportunity to continue to grow our business in the future. First, we operate in a very large and fragmented market, and we believe there is plenty of market opportunity for us to capture. Second, because we have built a very profitable business, we've put ourselves in a position where we can generate the cash necessary to finance future growth. Third, we've invested in infrastructure and systems to support a much larger volume in all areas of the business: IT, distribution, sourcing, store locations, and many other areas. Fourth – and most important of all – is our great employees. As mentioned at the beginning of this letter, we've worked very hard to foster a decentralized culture, one that allows people at all levels of the organization to make decisions. We also strive to develop a sense of ownership by encouraging people to be creative and provide solutions. This is coupled with a reward system that benefits those who demonstrate they can perform at a high level. The end result: rather than limiting important decisions to a small group of managers, we have thousands of well-trained entrepreneurs contributing ideas, providing solutions, and making smart decisions to grow their business.

"Rather than limiting important decisions to a small group of managers, we have thousands of well-trained entrepreneurs contributing ideas, providing solutions, and making smart decisions to grow their business."

These are the people who developed the systems and achieved the success we've been discussing in this letter. And they are the ones who go the extra mile to service our customers. Today, as always, customer service is what sets us apart from our competitors, and for that we thank everyone on the Fastenal Blue Team for all you've done in 2012 to make our company better.

Thank you, also, to all of our loyal shareholders for the years of support. Although 2012 was not a great year by our standards, we certainly weren't held back by a lack of effort or desire – and we're already working hard on another year of *Growth Through Customer Service*.



Willard D. Oberton, CEO

Leland J. Hein, President

Southeast Asia

North America

South America

Europe

The Power of Fastenal People Across the Globe

Since our founding in 1967, Fastenal has grown from a small-town fastener shop into a multibillion-dollar global enterprise, creating opportunities every step of the way. The secret to our success? Hire great people, give them great support, and encourage them to reach their full potential in pursuit of our common goal: ***Growth Through Customer Service****.*