LETTER TO SHAREHOLDERS

Last year we opened this letter by defining our company culture, by explaining our market strategy, and by making a comparison with the strategy of our competitors. For this year's letter, we would like to start with an even simpler explanation of Fastenal: We are 17,277 people committed to *Growth Through Customer Service®* because we truly enjoy exceeding our customers' expectations.

To get close to our customers, we operate approximately 2,700 store locations worldwide. This includes stores in large metropolitan markets like Seattle, Chicago, Atlanta, and Dallas; but, it also includes stores in small communities like Sauk Rapids, Minnesota (population 12,965), Greenville, Alabama (population 7,896), and Wise, Virginia (population 3,260). Because we are where our customers are, we're able to respond proactively, consistently, and urgently to their needs. This is at the heart of our value proposition, and our plan is to continually hone our local service advantage to take market share and grow profitably.

With that as background, let's review our results for 2013. First off, it's been a difficult year. Our sales were $3.33 billion, an increase of 6.1% over sales of $3.13 billion in 2012. We started the year with daily sales growth of 6.5% in the first quarter, and this rate of growth weakened in the second and third quarters as the rate of growth in daily sales to customers engaged in heavy manufacturing declined. This group stabilized in the fourth quarter, and our rate of daily sales growth expanded to 7.5%.

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Our net earnings in 2013 were $449 million, an increase of 6.7% over net earnings of $421 million in 2012. These earnings represent pre-tax earnings, as a percentage of sales, of 21.5%, essentially unchanged from 2012.

We worked hard to improve our gross profit during the year, but faced some headwinds. One headwind was a lower percentage of sales from fasteners (our highest-margin product). Another headwind was our continued success in signing larger customers (these customers typically receive volume-leveraged pricing terms). Our gross profit increased slightly from 51.5% in 2012 to 51.7% in 2013; however, this gain was offset by increases to operating and administrative expenses related to our growth investments, which center on occupancy costs for our industrial vending operations and sales headcount additions – the latter primarily in the second half of the year. For the year, these expenses grew by 7.0% compared to the 6.1% sales growth number cited above.

As we head into 2014, we believe our 2013 investments will position our stores to gain market share – and as always, the focus is on our local people. Our store teams have many tasks and responsibilities to juggle on a daily basis, but it really boils down to two things: 1) provide excellent service for current customers, and 2) make sales calls to generate new business. As 2013 progressed, it became apparent that many of our stores simply didn't have enough hours in the day to accomplish both, and it was the more immediate need to service existing customers that won out.

Faced with the realization that we'd held back too much on store hiring over the previous 12 to 16 months, in May 2013 we challenged our district and regional leaders to add headcount and labor hours to their stores. From May 2013 to December 2013, we added 1,407 store personnel, and we will continue to hire additional store employees during 2014. By investing in store labor, we're essentially creating more hours in the day for our sales people to focus on service and selling. We have yet to see the full impact of this hiring initiative, as there is a learning curve for these new team members, but our historical data tells us that when we add local personnel, our sales increase more than proportionately.

With these additions, we felt it was important to also expand and intensify our district and regional sales leadership. So, in the latter half of 2013, we increased the number of regional leaders by 14% and the number of district leaders by 26%. Among other duties, our district leaders are responsible for developing their store personnel to provide excellent service, and for personally developing solid sales relationships with their largest customers and prospects. By reducing the average number of stores, personnel, and customers for each of our district leaders, we're creating more time for them to interact with their teams and customers.

The store is our focal point for serving our customers, but surrounding the store is a great 'machine' of resources, tools, and personnel. This includes our global sourcing operations, our quality and engineering teams, our manufacturing facilities, trained sales specialists in key areas of our business, and our administrative support of information technology, human resources, and accounting. But perhaps the most important store resource is distribution – the people, facilities, and vehicles that keep the product flowing efficiently.

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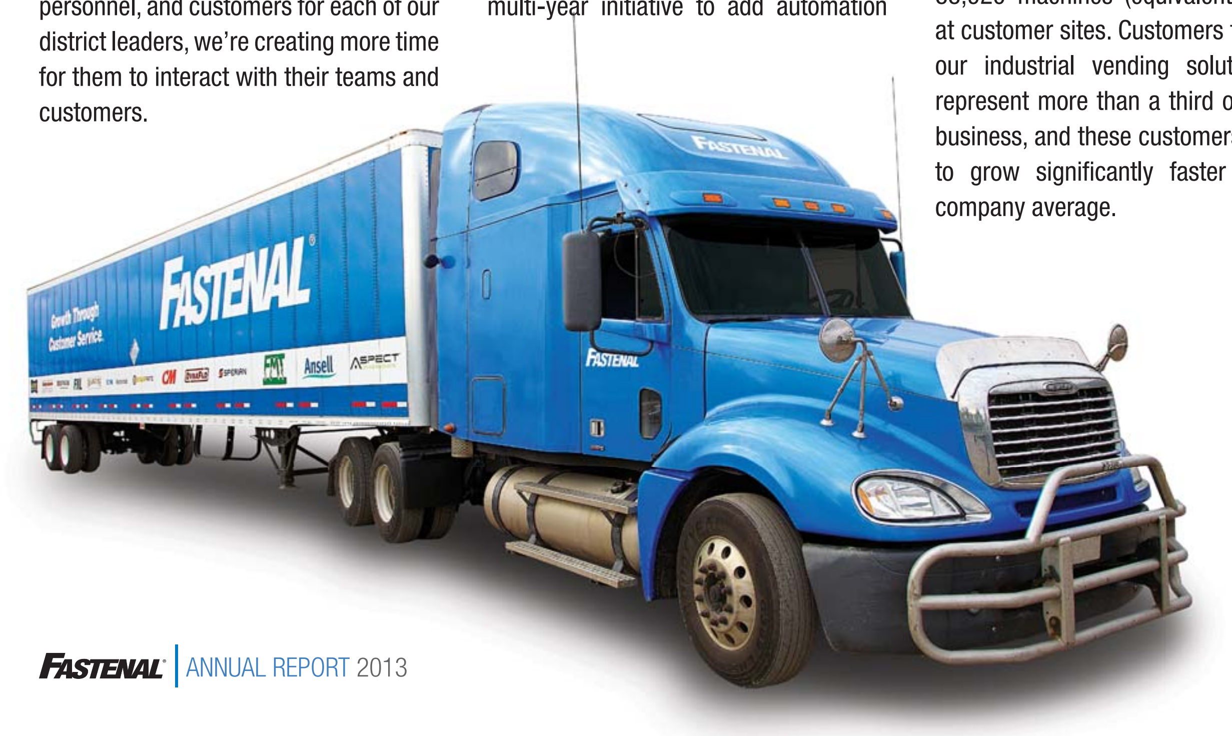
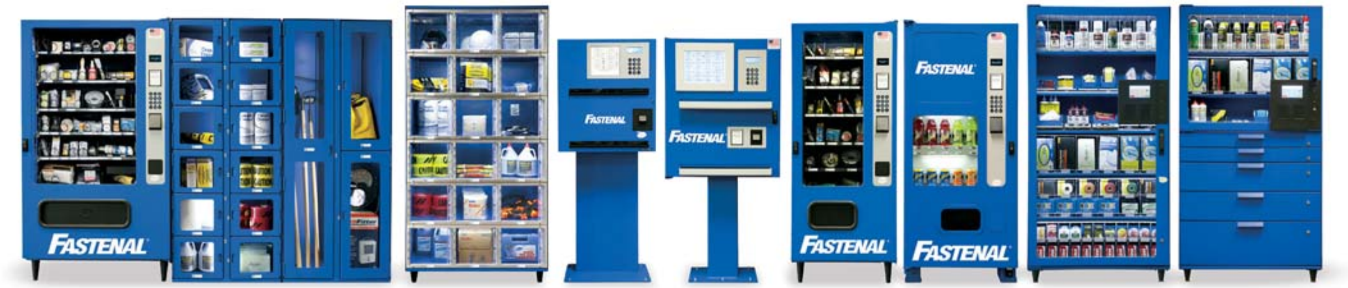
In the industrial world, when customers need supplies, they typically need them right away. Fastenal takes a unique approach to make that happen – monitoring local usage patterns, forecasting demand, and tailoring the inventory in our stores and regional distribution centers to anticipate customer needs. In an effort to make this distribution model even more efficient and proactive, we're continuing our multi-year initiative to add automation technology to our distribution centers, including robotic systems that store and retrieve product. In 2013, we finished installing this technology in our distribution centers in Atlanta, GA and Akron, OH; and two additional facilities (Modesto, CA and Scranton, PA) are under construction and expected to go online with automated systems in 2014. When these projects are completed, seven of our 14 primary distribution centers will feature automated technology, enabling us to fill orders more quickly, accurately, and efficiently. This provides better service at a lower cost.

In addition, we're adding capacity in all of our distribution centers, tailoring our truck routes to service more stores more often, and expanding the breadth and depth of key product lines in our stores (notably fasteners, construction supplies, and safety items). By moving more of these products closer to our customers, we're creating new opportunities for our stores to provide solutions, build relationships, and grow sales.

Another major area of investment is our FAST Solutions® (industrial vending) program. Thanks to the great work of our stores and industrial vending support teams, we finished 2013 with 33,920 machines (equivalent) installed at customer sites. Customers that utilize our industrial vending solutions now represent more than a third of our total business, and these customers continue to grow significantly faster than the company average.





We signed 19,305 machines (equivalent) in 2013 – a very positive number, but slightly fewer than the 20,162 machines (equivalent) signed in 2012. This reflects a conscious decision, beginning in the second quarter, to focus on quality installations (carefully investing in our industrial vending assets with customers) and machine performance (making sure each machine is filled with in-demand, high-moving product). As our vending program matures, we will endeavor to balance new signings, quality installations, and machine performance in an effort to maximize the return on our industrial vending investment.

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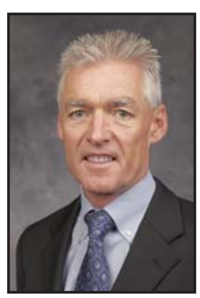
When we mentioned earlier that we'll soon have seven automated distribution centers, we didn't include one of our most exciting warehouse automation projects – our new dedicated industrial vending distribution center, known as 'T-Hub.' This facility, which is located adjacent to our master distribution center in Indianapolis, IN, supports thousands of high-moving, vend-ready products; and the really interesting part is that it communicates directly with our industrial vending machines in the field. When stock for an item runs low in a machine, an order is automatically sent to T-Hub, which then sends the store a container filled with all of the products required to 'top off' the inventory in that particular industrial vending machine. The store employee simply brings the container to the customer site on their next visit and refills the machine. Bottom line: our local teams can spend less time placing orders and handling product, and more time interacting with customers.

We believe there is tremendous opportunity ahead for Fastenal, and our investment in growth-driving areas of our business reflects this outlook. Store hiring, distribution, and industrial vending represent three of our largest current areas of investment, but there are many more improvements and initiatives being led by talented people throughout our company: innovative information technology solutions, product expansions, new manufacturing equipment, expanded global sourcing capabilities, new international locations, improved fastener programs, better pricing information for our stores – the list goes on. These projects are wide-ranging, but all share a common goal: to support *Growth Through Customer Service®* for many years to come.

In closing, we are optimistic as we head into 2014, and this is due to several factors:

- We have a small percentage of the industrial market worldwide.
- We continue to generate cash to support growth.
- We continue to make wise investments to support future growth.
- We feel strongly the highest level of service occurs when we are face to face with our customers.
- We believe in our people and their ability to make the best decisions for Fastenal and for their customers.

Thank you to every employee for making us a great company, and thank you to our shareholders for your continued support. We do not take it for granted.



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