

# Consolidated Statements of Earnings

<i>(In thousands of dollars, except for per share amounts)</i>	For the Years Ended December 31,		
	2006	2005	2004
Net sales	\$5,883,654	\$5,526,636	\$5,049,785
Cost of merchandise sold	3,529,504	3,365,095	3,143,133
Gross profit	2,354,150	2,161,541	1,906,652
Warehousing, marketing and administrative expenses	1,776,079	1,642,552	1,465,624
Restructuring charge	—	—	(226)
Total operating expenses	1,776,079	1,642,552	1,465,398
Operating earnings	578,071	518,989	441,254
Other income and (expense):			
Interest income	21,496	12,882	6,376
Interest expense	(1,926)	(1,863)	(4,388)
Equity in income of unconsolidated entities – net	2,960	2,809	996
Gains on sales of unconsolidated entities	2,291	—	750
Unclassified – net	131	(143)	151
Total other income and (expense)	24,952	13,685	3,885
Earnings before income taxes	603,023	532,674	445,139
Income taxes	219,624	186,350	158,216
Net earnings	\$ 383,399	\$ 346,324	\$ 286,923
Earnings per share:			
Basic	\$ 4.36	\$ 3.87	\$ 3.18
Diluted	\$ 4.24	\$ 3.78	\$ 3.13
Weighted average number of shares outstanding:			
Basic	87,838,723	89,568,746	90,206,773
Diluted	90,523,774	91,588,295	91,673,375

## Segment Information

<i>(In thousands of dollars)</i>	2006	2005	2004
Sales			
Grainger Branch-based	\$4,910,836	\$4,649,200	\$4,283,272
Acklands – Grainger	565,098	502,021	434,258
Lab Safety Supply	411,511	380,091	336,720
Intersegment sales	(3,791)	(4,676)	(4,465)
Net sales to external customers	\$5,883,654	\$5,526,636	\$5,049,785
Operating earnings			
Grainger Branch-based	\$ 593,455	\$ 522,635	\$ 444,574
Acklands – Grainger	15,242	14,003	20,967
Lab Safety Supply	52,283	52,712	45,467
Unallocated expense	(82,909)	(70,361)	(69,754)
Operating earnings	\$ 578,071	\$ 518,989	\$ 441,254

# Consolidated Balance Sheets

<i>(In thousands of dollars)</i>	As of December 31,		
	2006	2005	2004
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 348,471	\$ 544,894	\$ 429,246
Marketable securities at cost, which approximates market value	12,827	—	—
Accounts receivable (less allowances for doubtful accounts of \$18,801, \$18,401 and \$23,375, respectively)	566,607	518,625	480,893
Inventories	827,254	791,212	700,559
Prepaid expenses and other assets	58,804	54,334	47,086
Deferred income taxes	48,123	76,474	86,632
<b>Total current assets</b>	<b>1,862,086</b>	<b>1,985,539</b>	<b>1,744,416</b>
<b>Property, Buildings and Equipment</b>			
Land	167,218	162,123	154,673
Buildings, structures and improvements	890,380	841,031	804,317
Furniture, fixtures, machinery and equipment	769,506	716,497	679,141
	1,827,104	1,719,651	1,638,131
Less accumulated depreciation and amortization	1,034,169	949,026	876,558
Property, buildings and equipment – net	792,935	770,625	761,573
Deferred income taxes	48,793	16,702	29,168
Investments in unconsolidated entities	8,492	25,155	26,126
Goodwill	210,671	182,726	165,011
Other assets and intangibles – net	123,111	127,174	83,279
<b>Total Assets</b>	<b>\$3,046,088</b>	<b>\$3,107,921</b>	<b>\$2,809,573</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Current maturities of long-term debt	\$ 4,590	\$ 4,590	\$ 9,485
Trade accounts payable	334,820	319,254	289,388
Accrued compensation and benefits	140,141	152,543	127,994
Accrued contributions to employees' profit sharing plans	113,014	90,478	76,052
Accrued expenses	106,681	103,932	97,860
Income taxes	7,077	24,554	35,253
<b>Total current liabilities</b>	<b>706,323</b>	<b>695,351</b>	<b>636,032</b>
Long-term debt (less current maturities)	4,895	4,895	—
Deferred income taxes	6,235	7,019	4,482
Accrued employment-related benefits costs	151,020	111,680	101,089
<b>Shareholders' equity</b>			
Cumulative preferred stock – \$5 par value – 12,000,000 shares authorized; none issued nor outstanding	—	—	—
Common stock – \$0.50 par value – 300,000,000 shares authorized; issued, 109,657,938, 109,667,938 and 109,672,938 shares, respectively	54,829	54,834	54,836
Additional contributed capital	513,667	451,578	432,171
Retained earnings	3,007,606	2,722,103	2,458,442
Unearned restricted stock compensation	(35,213)	(17,280)	(14,463)
Accumulated other comprehensive earnings	3,431	27,082	18,052
Treasury stock, at cost – 25,590,311, 19,952,297 and 19,075,511 shares, respectively	(1,366,705)	(949,341)	(881,068)
<b>Total shareholders' equity</b>	<b>2,177,615</b>	<b>2,288,976</b>	<b>2,067,970</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$3,046,088</b>	<b>\$3,107,921</b>	<b>\$2,809,573</b>

# Consolidated Statements of Cash Flows

<i>(In thousands of dollars)</i>	For the Years Ended December 31,		
	2006	2005	2004
<b>Cash flows from operating activities:</b>			
Net earnings	\$ 383,399	\$ 346,324	\$ 286,923
Provision for losses on accounts receivable	6,057	1,326	5,159
Deferred income taxes	9,858	23,663	(4,450)
Depreciation and amortization:			
Property, buildings and equipment	100,975	98,087	85,566
Capitalized software and other intangibles	17,593	10,695	12,690
Stock-based compensation	33,754	9,015	8,226
Tax benefit of stock incentive plans	1,563	11,962	12,068
Net gains on sales of property, buildings and equipment	(11,035)	(7,337)	(1,725)
(Income) from unconsolidated entities	(2,960)	(2,809)	(996)
(Gains) on sales of unconsolidated entities	(2,291)	—	(750)
Change in operating assets and liabilities – net of business acquisitions and joint venture contributions:			
(Increase) decrease in accounts receivable	(53,056)	(36,378)	(49,935)
(Increase) decrease in inventories	(33,839)	(84,031)	(30,728)
(Increase) decrease in prepaid expenses	(3,918)	(6,251)	(9,087)
Increase (decrease) in trade accounts payable	10,888	27,121	29,302
Increase (decrease) in other current liabilities	(2,558)	43,056	64,372
Increase (decrease) in current income taxes payable	(17,395)	(10,632)	(4,268)
Increase (decrease) in accrued employment-related benefits costs	2,634	10,012	8,613
Other – net	(2,916)	(1,280)	(4,493)
<b>Net cash provided by operating activities</b>	<b>436,753</b>	<b>432,543</b>	<b>406,487</b>
<b>Cash flows from investing activities:</b>			
Additions to property, buildings and equipment	(127,814)	(112,297)	(128,276)
Proceeds from sales of property, buildings and equipment – net	17,314	15,037	17,616
Additions to capitalized software	(8,950)	(44,950)	(32,482)
Purchase of marketable securities	(13,187)	—	—
Proceeds from sale of unconsolidated entity	27,843	—	—
Net cash paid for business acquisitions	(34,390)	(24,817)	—
(Investments in) and loan repayment from unconsolidated entities	(3,988)	4,088	—
Other – net	3,426	(46)	750
<b>Net cash used in investing activities</b>	<b>(139,746)</b>	<b>(162,985)</b>	<b>(142,392)</b>

<i>(In thousands of dollars)</i>	For the Years Ended December 31,		
	2006	2005	2004
<b>Cash flows from financing activities:</b>			
Long-term debt payments	\$ —	\$ —	\$(140,800)
Stock options exercised	64,437	65,997	72,275
Excess tax benefits from stock-based compensation	13,373	—	—
Purchase of treasury stock	(472,787)	(137,473)	(100,872)
Cash dividends paid	(97,896)	(82,663)	(71,243)
Net cash used in financing activities	(492,873)	(154,139)	(240,640)
Exchange rate effect on cash and cash equivalents	(557)	229	2,967
Net (decrease) increase in cash and cash equivalents	(196,423)	115,648	26,422
Cash and cash equivalents at beginning of year	544,894	429,246	402,824
Cash and cash equivalents at end of year	\$ 348,471	\$ 544,894	\$ 429,246
<b>Supplemental cash flow information:</b>			
Cash payments for interest (net of amounts capitalized)	\$ 1,413	\$ 1,791	\$ 3,408
Cash payments for income taxes	212,350	162,030	154,589
<b>Noncash investing activities:</b>			
Fair value of noncash assets acquired in business acquisitions	\$ 38,430	\$ 26,811	\$ —
Liabilities assumed in business acquisitions	(4,040)	(1,994)	—

# Historical Financial Summary

		2006	2005	2004	
<b>Financial Summary (\$000)</b>	Net sales	\$5,883,654	\$5,526,636	\$5,049,785	
	Earnings before income taxes and cumulative effect of accounting change	603,023	532,674	445,139	
	Income taxes	219,624	186,350	158,216	
	Earnings before cumulative effect of accounting change	383,399	346,324	286,923	
	Cumulative effect of accounting change	—	—	—	
	Net earnings	383,399	346,324	286,923	
	Working capital	1,155,763	1,290,188	1,108,384	
	Additions to property, buildings and equipment – net	127,814	112,297	128,276	
	Depreciation and amortization of property, buildings and equipment	100,975	98,087	85,566	
	Current assets	1,862,086	1,985,539	1,744,416	
	Total assets	3,046,088	3,107,921	2,809,573	
	Shareholders' equity	2,177,615	2,288,976	2,067,970	
	Cash dividends paid	97,896	82,663	71,243	
	Long-term debt (less current maturities)	4,895	4,895	—	
	<b>Per Share (\$)</b>	Earnings – basic	4.36	3.87	3.18
		Earnings – diluted	4.24	3.78	3.13
Cash dividends paid		1.110	0.920	0.785	
Book value		25.90	25.51	22.83	
Year-end stock price		69.94	71.10	66.62	
<b>Ratios</b>	Percent of return on average shareholders' equity	17.2	15.9	14.7	
	Percent of return on average total capitalization	17.2	15.9	14.2	
	Earnings before income taxes and cumulative effect of accounting change as a percent of net sales	10.2	9.6	8.8	
	Earnings before cumulative effect of accounting change as a percent of net sales	6.5	6.3	5.7	
	Cash dividends paid as a percent of net earnings	25.5	23.9	24.8	
	Total debt as a percent of total capitalization	0.4	0.4	0.5	
	Current assets as a percent of total assets	61.1	63.9	62.1	
	Current assets to current liabilities	2.6	2.9	2.7	
Average inventory turnover	4.4	4.5	4.6		
<b>Other Data</b>	Average number of shares outstanding – basic	87,838,723	89,568,746	90,206,773	
	Average number of shares outstanding – diluted	90,523,774	91,588,295	91,673,375	
	Number of employees	17,074	16,732	15,523	
	Number of account managers	2,699	2,507	2,154	
	Number of branches	593	589	582	
	Number of products in the Grainger catalog	115,000	82,400	82,300	

Note: 2002 net earnings include a charge for the cumulative effect of accounting change of \$23,921,000, or \$0.26 per share, and special credits of \$4,458,000, or \$0.05 per share, for gains on sales of investment securities and \$1,183,000, or \$0.01 per diluted share, for the reduction of the reserves established in 2001.

2003	2002	2001	2000	1999	1998	1997	1996
\$4,667,014	\$4,643,898	\$4,754,317	\$4,977,044	\$4,636,275	\$4,438,975	\$4,226,941	\$3,616,640
381,090	397,837	297,280	331,595	303,750	400,847	389,636	348,888
154,119	162,349	122,750	138,692	123,019	162,343	157,803	140,362
226,971	235,488	174,530	192,903	180,731	238,504	231,833	208,526
—	(23,921)	—	—	—	—	—	—
226,971	211,567	174,530	192,903	180,731	238,504	231,833	208,526
926,773	898,681	838,800	735,678	600,611	541,872	649,107	704,175
74,064	133,978	100,451	65,507	111,900	132,857	105,756	62,051
74,583	75,226	77,737	81,898	72,446	58,256	63,257	61,585
1,633,413	1,484,947	1,392,611	1,483,002	1,471,145	1,206,429	1,185,283	1,320,243
2,624,678	2,437,448	2,331,246	2,459,601	2,564,826	2,103,966	2,000,116	2,119,021
1,845,135	1,667,698	1,603,189	1,537,386	1,480,529	1,278,741	1,294,661	1,462,662
67,281	66,467	65,445	62,863	58,817	56,683	53,934	50,035
4,895	119,693	118,219	125,258	124,928	122,883	131,201	6,152
2.50	2.30	1.87	2.07	1.95	2.48	2.30	2.04
2.46	2.24	1.84	2.05	1.92	2.44	2.27	2.02
0.735	0.715	0.695	0.670	0.630	0.585	0.530	0.490
20.27	18.21	17.17	16.37	15.85	13.68	13.25	13.82
47.39	51.55	48.00	36.50	47.81	41.63	48.59	40.13
12.9	12.9	11.1	12.8	13.1	18.5	16.8	15.8
12.3	13.6	10.2	11.2	11.0	16.3	15.2	14.6
8.2	8.6	6.3	6.7	6.6	9.0	9.2	9.6
4.9	5.1	3.7	3.9	3.9	5.4	5.5	5.8
29.6	31.4	37.5	32.6	32.5	23.8	23.3	24.0
7.5	7.2	7.8	17.3	23.3	15.5	10.9	10.2
62.2	60.9	59.7	60.3	57.4	57.3	59.3	62.3
2.3	2.5	2.5	2.0	1.7	1.8	2.2	2.1
4.4	4.5	4.7	4.6	4.1	4.4	4.1	3.5
90,731,013	91,982,430	93,189,132	93,003,813	92,836,696	96,231,829	100,604,518	102,295,506
92,394,085	94,303,497	94,727,868	94,223,815	94,315,479	97,846,658	102,178,952	103,272,408
14,701	15,236	15,385	16,192	16,730	15,270	15,154	14,601
1,741	1,650	1,641	1,708	1,879	1,887	1,947	1,906
575	576	579	572	562	532	522	527
88,400	98,700	99,900	85,200	81,100	78,400	78,100	67,600

Notes: 2001 net earnings include a special charge of \$36,650,000, or \$0.39 per share, to establish a reserve related to the shutdown of Material Logic.

2000 net earnings include gains on the sales of investment securities of \$17,860,000, or \$0.19 per share.