

Historical Financial Summary

		2005	2004	2003
Financial Summary (\$000)	Net sales	\$5,526,636	\$5,049,785	\$4,667,014
	Earnings before income taxes and cumulative effect of accounting change	532,674	445,139	381,090
	Income taxes	186,350	158,216	154,119
	Earnings before cumulative effect of accounting change	346,324	286,923	226,971
	Cumulative effect of accounting change	—	—	—
	Net earnings	346,324	286,923	226,971
	Working capital	1,270,904	1,092,279	926,773
	Additions to property, buildings and equipment – net	112,297	128,276	74,064
	Depreciation and amortization of property, buildings and equipment	98,087	85,566	74,583
	Current assets	1,997,868	1,754,713	1,633,413
	Total assets	3,107,921	2,809,573	2,624,678
	Shareholders' equity	2,288,976	2,067,970	1,845,135
	Cash dividends paid	82,663	71,243	67,281
	Long-term debt (less current maturities)	4,895	—	4,895
Per Share (\$)	Earnings – basic	3.87	3.18	2.50
	Earnings – diluted	3.78	3.13	2.46
	Cash dividends paid	0.920	0.785	0.735
	Book value	25.51	22.83	20.27
	Year-end stock price	71.10	66.62	47.39
Ratios	Percent of return on average shareholders' equity	15.9	14.7	12.9
	Percent of return on average total capitalization	15.9	14.2	12.3
	Earnings before income taxes and cumulative effect of accounting change as a percent of net sales	9.6	8.8	8.2
	Earnings before cumulative effect of accounting change as a percent of net sales	6.3	5.7	4.9
	Cash dividends paid as a percent of net earnings	23.9	24.8	29.6
	Total debt as a percent of total capitalization	0.4	0.5	7.5
	Current assets as a percent of total assets	64.3	62.5	62.2
	Current assets to current liabilities	2.7	2.6	2.3
Average inventory turnover	4.5	4.6	4.4	
Other Data	Average number of shares outstanding – basic	89,568,746	90,206,773	90,731,013
	Average number of shares outstanding – diluted	91,588,295	91,673,375	92,394,085
	Number of employees	16,732	15,523	14,701
	Number of account managers	2,507	2,154	1,741
	Number of branches	589	582	575
Number of products in the Grainger catalog	82,400	82,300	88,400	

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.

2002	2001	2000	1999	1998	1997	1996	1995
\$4,643,898	\$4,754,317	\$4,977,044	\$4,636,275	\$4,438,975	\$4,226,941	\$3,616,640	\$3,344,064
397,837	297,280	331,595	303,750	400,847	389,636	348,888	312,149
162,349	122,750	138,692	123,019	162,343	157,803	140,362	125,484
235,488	174,530	192,903	180,731	238,504	231,833	208,526	186,665
(23,921)	—	—	—	—	—	—	—
211,567	174,530	192,903	180,731	238,504	231,833	208,526	186,665
898,681	838,800	735,678	600,611	541,872	649,107	704,175	618,524
133,978	100,451	65,507	111,900	132,857	105,756	62,051	111,935
75,226	77,737	81,898	72,446	58,256	63,257	61,585	57,760
1,484,947	1,392,611	1,483,002	1,471,145	1,206,429	1,185,283	1,320,243	1,062,660
2,437,448	2,331,246	2,459,601	2,564,826	2,103,966	2,000,116	2,119,021	1,669,243
1,667,698	1,603,189	1,537,386	1,480,529	1,278,741	1,294,661	1,462,662	1,179,109
66,467	65,445	62,863	58,817	56,683	53,934	50,035	45,227
119,693	118,219	125,258	124,928	122,883	131,201	6,152	8,713
2.30	1.87	2.07	1.95	2.48	2.30	2.04	1.84
2.24	1.84	2.05	1.92	2.44	2.27	2.02	1.82
0.715	0.695	0.670	0.630	0.585	0.530	0.490	0.445
18.21	17.17	16.37	15.85	13.68	13.25	13.82	11.59
51.55	48.00	36.50	47.81	41.63	48.59	40.13	33.13
12.9	11.1	12.8	13.1	18.5	16.8	15.8	16.9
13.6	10.2	11.2	11.0	16.3	15.2	14.6	16.4
8.6	6.3	6.7	6.6	9.0	9.2	9.6	9.3
5.1	3.7	3.9	3.9	5.4	5.5	5.8	5.6
31.4	37.5	32.6	32.5	23.8	23.3	24.0	24.2
7.2	7.8	17.3	23.3	15.5	10.9	10.2	4.5
60.9	59.7	60.3	57.4	57.3	59.3	62.3	63.7
2.5	2.5	2.0	1.7	1.8	2.2	2.1	2.4
4.5	4.7	4.6	4.1	4.4	4.1	3.5	3.7
91,982,430	93,189,132	93,003,813	92,836,696	96,231,829	100,604,518	102,295,506	101,630,162
94,303,497	94,727,868	94,223,815	94,315,479	97,846,658	102,178,952	103,272,408	102,482,434
15,236	15,385	16,192	16,730	15,270	15,154	14,601	11,853
1,650	1,641	1,708	1,879	1,887	1,947	1,906	1,496
576	579	572	562	532	522	527	344
98,700	99,900	85,200	81,100	78,400	78,100	67,600	61,800

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.

Consolidated Statements of Earnings

<i>(In thousands of dollars, except for per share amounts)</i>	For the Years Ended December 31,		
	2005	2004	2003
Net sales	\$5,526,636	\$5,049,785	\$4,667,014
Cost of merchandise sold	3,365,095	3,143,133	2,975,513
Gross profit	2,161,541	1,906,652	1,691,501
Warehousing, marketing and administrative expenses	1,642,552	1,465,624	1,303,197
Restructuring charge	—	(226)	(564)
Total operating expenses	1,642,552	1,465,398	1,302,633
Operating earnings	518,989	441,254	388,868
Other income and (expense):			
Interest income	12,882	6,376	3,347
Interest expense	(1,863)	(4,388)	(6,015)
Equity in income (loss) of unconsolidated entities – net	2,809	996	(2,288)
Write-off of investments in unconsolidated entities	—	—	(1,921)
Gain on sale of unconsolidated entity	—	750	—
Unclassified – net	(143)	151	(901)
Total other income and (expense)	13,685	3,885	(7,778)
Earnings before income taxes	532,674	445,139	381,090
Income taxes	186,350	158,216	154,119
Net earnings	\$ 346,324	\$ 286,923	\$ 226,971
Earnings per share:			
Basic	\$ 3.87	\$ 3.18	\$ 2.50
Diluted	\$ 3.78	\$ 3.13	\$ 2.46
Weighted average number of shares outstanding:			
Basic	89,568,746	90,206,773	90,731,013
Diluted	91,588,295	91,673,375	92,394,085

Consolidated Balance Sheets

<i>(In thousands of dollars)</i>	As of December 31,		
	2005	2004	2003
Assets			
Current Assets			
Cash and cash equivalents	\$ 544,894	\$ 429,246	\$ 402,824
Accounts receivable (less allowances for doubtful accounts of \$18,401, \$23,375 and \$24,736, respectively)	518,625	480,893	431,896
Inventories	791,212	700,559	661,247
Prepaid expenses and other assets	54,334	47,086	37,947
Deferred income taxes	88,803	96,929	99,499
Total current assets	1,997,868	1,754,713	1,633,413
Property, Buildings and Equipment			
Land	162,123	154,673	153,357
Buildings, structures and improvements	841,031	804,317	785,890
Furniture, fixtures, machinery and equipment	716,497	679,141	605,903
	1,719,651	1,638,131	1,545,150
Less accumulated depreciation and amortization	949,026	876,558	813,158
Property, buildings and equipment – net	770,625	761,573	731,992
Deferred income taxes	4,373	18,871	20,296
Investments in unconsolidated entities	25,155	26,126	22,822
Goodwill	182,726	165,011	156,269
Other assets and intangibles – net	127,174	83,279	59,886
Total Assets	\$3,107,921	\$2,809,573	\$2,624,678
Liabilities and Shareholders' Equity			
Current Liabilities			
Current maturities of long-term debt	\$ 4,590	\$ 9,485	\$ 144,135
Trade accounts payable	319,254	289,388	257,806
Accrued compensation and benefits	164,574	138,143	121,550
Accrued contributions to employees' profit sharing plans	106,825	89,878	58,100
Accrued expenses	107,167	100,287	81,359
Income taxes	24,554	35,253	43,690
Total current liabilities	726,964	662,434	706,640
Long-term debt (less current maturities)	4,895	—	4,895
Deferred income taxes	7,019	4,482	—
Accrued employment-related benefits costs	80,067	74,687	68,008
Shareholders' equity			
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, 109,667,938, 109,672,938 and 109,377,216 shares, respectively	54,834	54,836	54,689
Additional contributed capital	451,578	432,171	394,409
Retained earnings	2,722,103	2,458,442	2,242,762
Unearned restricted stock compensation	(17,280)	(14,463)	(11,471)
Accumulated other comprehensive earnings	27,082	18,052	2,594
Treasury stock, at cost – 19,952,297, 19,075,511 and 18,356,227 shares, respectively	(949,341)	(881,068)	(837,848)
Total shareholders' equity	2,288,976	2,067,970	1,845,135
Total Liabilities and Shareholders' Equity	\$3,107,921	\$2,809,573	\$2,624,678

Consolidated Statements of Cash Flows

<i>(In thousands of dollars)</i>	For the Years Ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net earnings	\$ 346,324	\$ 286,923	\$ 226,971
Provision for losses on accounts receivable	1,326	5,159	9,263
Deferred income taxes	23,663	(4,450)	5,382
Depreciation and amortization:			
Property, buildings and equipment	98,087	85,566	74,583
Capitalized software and other intangibles	10,695	12,690	15,670
Tax benefit of stock incentive plans	11,962	12,068	2,091
Gains on sales of investment securities	—	(50)	(1,208)
Net gains on sales of property, buildings and equipment	(7,337)	(1,725)	(1,607)
(Income) losses and write-off of unconsolidated entities	(2,809)	(996)	4,209
Change in operating assets and liabilities –			
net of business acquisitions and joint venture contributions:			
(Increase) decrease in accounts receivable	(36,378)	(49,935)	(7,194)
(Increase) decrease in inventories	(84,031)	(30,728)	83,530
(Increase) decrease in prepaid expenses	(6,251)	(9,087)	(7)
Increase (decrease) in trade accounts payable	27,121	29,302	(37,420)
Increase (decrease) in other current liabilities	47,690	66,305	9,307
Increase (decrease) in current income taxes payable	(10,632)	(4,268)	3,333
Increase (decrease) in accrued employment-related benefits costs	5,380	6,679	4,217
Other – net	7,733	3,034	2,988
Net cash provided by operating activities	432,543	406,487	394,108
Cash flows from investing activities:			
Additions to property, buildings and equipment	(112,297)	(128,276)	(74,064)
Proceeds from sales of property, buildings and equipment – net	15,037	17,616	12,144
Additions to capitalized software	(44,950)	(32,482)	(6,422)
Proceeds from sales of investment securities	—	50	6,115
Net cash paid for business acquisitions	(24,817)	—	(36,713)
Loan repayment from (investments in and loans to) unconsolidated entities	4,088	—	(8,241)
Other – net	(46)	700	1,900
Net cash used in investing activities	(162,985)	(142,392)	(105,281)

<i>(In thousands of dollars)</i>	For the Years Ended December 31,		
	2005	2004	2003
Cash flows from financing activities:			
Net decrease in short-term debt	\$ —	\$ —	\$ (2,967)
Long-term debt payments	—	(140,800)	(1,915)
Long-term debt issuance	—	—	318
Stock options exercised	65,997	72,275	15,171
Purchase of treasury stock – net	(137,473)	(100,872)	(41,204)
Cash dividends paid	(82,663)	(71,243)	(67,281)
Net cash used in financing activities	(154,139)	(240,640)	(97,878)
Exchange rate effect on cash and cash equivalents	229	2,967	3,347
Net increase in cash and cash equivalents	115,648	26,422	194,296
Cash and cash equivalents at beginning of year	429,246	402,824	208,528
Cash and cash equivalents at end of year	\$ 544,894	\$ 429,246	\$ 402,824
Supplemental cash flow information:			
Cash payments for interest (net of amounts capitalized)	\$ 1,791	\$ 3,408	\$ 6,082
Cash payments for income taxes	162,030	154,589	144,025
Noncash investing activities:			
Fair value of noncash assets acquired in business acquisition	\$ 26,811	\$ —	\$ 37,381
Liabilities assumed in business acquisition	(1,994)	—	(668)
Increase in fair value of investment securities, net of tax	—	—	736